COMMODITY FUTURES TRADING COMMISSION

AGENCY FINANCIAL REPORT

Fiscal Year 2016

COMMODITY FUTURES TRADING COMMISSION

Timothy G. Massad
Chairman

Anthony C. Thompson
Executive Director

Mary Jean Buhler
Chief Financial Officer

November 2016

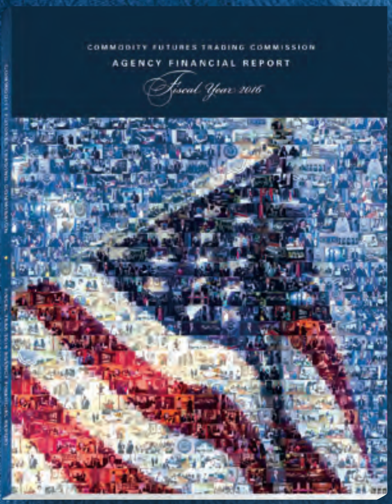
ABOUT THIS REPORT

This is our fifth Agency Financial Report on the Commission's accomplishments, audited financial statements, and operations management.

We welcome your views on all aspects of this report. Please send your feedback to *lmalone@cftc.gov*. You can view the FY 2016 Agency Financial Report website at *http://www.cftc.gov/About/CFTCReports/index.htm* .

ABOUT THE COVER

The cover is a photo mosaic that represents the work of Commission staff over the years ensuring market integrity and protecting market users in the commodity futures, options, and swaps markets.



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AGENCY FINANCIAL REPORT

FISCAL YEAR 2016

In the Tradition of Quality Reporting,

the Commodity Futures Trading Commission

Proudly Presents the FY 2016 Agency Financial Report

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CFTC Mission

To foster open, transparent, competitive, and financially sound markets to avoid systemic risk; and to protect market users and their funds, consumers, and the public from fraud, manipulation, abusive practices related to derivatives and other products that are subject to the Commodity Exchange Act.

A Message from the Chairman

I am pleased to present the Fiscal Year (FY) 2016 Agency Financial Report for the U.S. Commodity Futures Trading Commission (CFTC or Commission). The pages that follow will detail the agency's performance, accomplishments, and audited financial statements for this period.

The CFTC oversees the U.S. derivatives markets, which include commodity futures, options, and swaps. Although most Americans do not participate in these markets directly, their impact on our economy cannot be understated. They shape the prices we pay for food, energy, and a host of other goods and services. And these markets play a key role in the economic success of many farmers, ranchers, and commercial businesses in the United States, who rely on them for price discovery and to manage routine commercial risk.

Our mission is to ensure these markets function properly. We focus on fostering transparent, open, competitive, and financially sound markets. We work to safeguard customer funds and to protect market participants from fraud, manipulation, and abusive practices. We also seek to protect the public from the buildup of excessive risk, a buildup that contributed to making the 2008 financial crisis the worst since the Great Depression.

This year, the hardworking men and women of the CFTC continued making progress on behalf of the American people. We have continued our work to improve the safety and soundness of our financial system following the devastation of the financial crisis. But we're not just looking back to the crises of the past; we are equally focused on looking ahead, to the new opportunities and challenges facing our markets.

Financial markets are constantly evolving. Technological transformations are shaping much of that evolution, as are other forces. We must make sure our regulatory framework is adapting.

For example, this year we adopted measures to address the risks posed by cyber-attack and other technological failures in our markets. Cyber threats are probably the single greatest risk to financial stability today. Our rules focus on making sure that the critical market infrastructure that we oversee—the clearinghouses, exchanges, trading platforms and data repositories—are adequately protecting themselves against the threat of cyber-attack.

We are also working to address the challenges posed by automated trading, which has become the dominant form of trading in our markets. Automation has led to significant increases in speed and complexity. And while this technology has brought benefits, there is also a greater likelihood of disruption and other operational problems. As a result, we have we issued a proposal that seeks to minimize the risk of that disruption by requiring adequate risk controls, testing and monitoring of algorithms, and other measures. We hope to finalize this soon.

We have also put a strong focus on issues related to the regulation and resilience of clearinghouses. Futures have been cleared in the United States since at least 1891, and clearinghouses are one of the critical factors that propelled the growth of our markets. Since the financial crisis, clearinghouses have taken on even greater importance, due to the decision by the G20 leaders to require the clearing of over-the-counter (OTC) swaps. As a result, we have increased our efforts to ensure clearinghouses are strong and resilient.

First, we reached a landmark accord that resolves our differences with European regulators regarding their recognition of clearinghouses in the United States. This agreement is an important step in achieving cross-border harmonization of derivatives rules, bringing the United States and European regimes closer together and reducing the risk of regulatory arbitrage. And it will ensure that our global derivatives markets remain robust, while keeping our financial system as strong and resilient as possible.

We are also working on supervisory stress tests for the largest clearinghouses in our jurisdiction. These tests assess the impact of stressful market scenarios across multiple clearinghouses and clearing members on the same date. We are making sure our major clearinghouses have adequate recovery plans, and we are working with the Federal Deposit Insurance Corporation (FDIC) on resolution planning. Our work on these issues takes place internationally as well, and we are helping to lead important efforts among regulators from around the world on clearinghouse resilience, recovery and resolution.

Over the last year, CFTC has also continued implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), which directed us to bring transparency and oversight to the OTC swaps market. Today, a new framework for the regulation of the swaps market is in place. Clearing is mandated for most interest rate and credit default swaps, and this year the Commission expanded that requirement to interest rate swaps in several additional currencies. Registration and regulation of swap dealers is required. Trading on regulated platforms is a reality—and the volume is growing. Data repositories are collecting and publically reporting swap data, which gives us much more information regarding the marketplace. And we are making sure that these requirements focus on the areas of the greatest risk, and do not improperly burden commercial end-users who rely on these markets as part of their business activity.

To this end, we finalized strong, sensible rules setting margin requirements for uncleared swaps this past year. This is one of the most important reforms required by the Dodd-Frank Act, because it is the first line of defense in the event of a default, and protects against the buildup of excessive risk to the financial system. We worked with regulators in Europe, Japan and other countries to harmonize the substance of the rules, so that there is a strong global framework in place. This, as well as the approach we adopted for cross-border transactions, helps protect against the possibility that risks created outside of our borders will flow back into the United States.

The Commission has also worked to improve trading of swaps on regulated platforms. We have approved the registrations of 23 swap execution facilities (SEFs), and we have improved SEF trading through a number of actions. Our goal is to create a regulatory framework that not only brings this market out of the shadows, but which attracts participation and build liquidity. We are also working to harmonize our rules with those coming on-line globally. And we have taken several actions to improve swap data reporting.

This past year, we continued to focus on an aggressive enforcement program that protects customers and prevents fraud and manipulation. Enforcement is a core component to safeguarding the integrity of our markets, deterring bad behavior, and maintaining public confidence. The CFTC's enforcement responsibilities are more important than ever, due to its expanded mission, market complexity, and the advent of new, complicated forms of illegal behavior, such as spoofing. At the same time, the Commission is investigating more cases involving manipulation, false reporting of market information, and disruptive trading practices. And we are prosecuting wrongdoers for a wide range of fraudulent schemes, including Ponzi schemes that prey upon the retail public, precious metals frauds, and deceptive practices related to commodity pools. In FY 2016, the Commission filed 68 new enforcement actions and imposed nearly $1.3 billion in total monetary sanctions. This work will remain a vital element of our operations in the future.

Throughout this and all our work, we have also taken steps to ensure commercial end-users can continue to use the derivatives markets efficiently and effectively. These commercial businesses have traditionally relied on these markets to hedge routine commercial risk, and they did not cause the global financial crisis. Therefore, we are always looking to ensure that our rules do not create undue burdens on these businesses, and we have taken several actions over the past year to this effect. We will continue to make being responsive to the concerns of end-users a priority.

Our progress is a credit to the CFTC's hardworking and dedicated professional staff. Their significant contributions this year are highlighted in the pages that follow.

While our achievements this year are significant, there is much more to do. The CFTC's responsibilities were greatly expanded by the Dodd-Frank Act. The swaps market we are now tasked with overseeing is vast, global, and dramatically larger than the futures and options markets we also supervise. Moreover, all the markets we regulate are continuously evolving, driven by innovative new technologies, competition, and an interconnected marketplace. As a result, the Commission's work is constantly changing, increasingly complex, and always forward-looking.

Unfortunately, our budget has not kept pace with this complexity—or the expansion of our responsibilities. As a result, we cannot supervise our markets, protect our market participants, and achieve transparency and efficiency as fully as we believe the American people deserve.

The CFTC places a strong emphasis on being an effective steward of its operating funds. The Chief Financial Officer's message includes the results of the independent audit of our FY 2016 Financial Statements. I am pleased to report that the Commission has received an unmodified opinion on its financial statements.

I can also report that the CFTC had no material internal control weaknesses and that the financial and performance data in this report are reliable and complete under the Office of Management and Budget (OMB) guidance. You can read about the operation of our internal controls in the Management's Discussion and Analysis Section of this report, which also highlights key management assurances.

During FY 2016, the CFTC and its talented staff accomplished a great deal on behalf of the American public. As a result, the markets we oversee are stronger, more transparent, and more competitive. We look forward to continuing this progress in the months and years to come.

Timothy G. Massad
Chairman
November 14, 2016

The Commissioners

"I walked into this job concerned that Wall Street would be looking at our penalties for malfeasance as the cost of doing business, as opposed to a real culture change, and today, I still have that concern. …. [I]n regard to market risk in the derivatives markets, we have made strides. We are, without question, better protected today than we were prior to 2008. We have reporting where there was none, we have execution platforms where there were none, we have a lot more derivatives clearing than there was before. But we have so much more to do in order to give the American people the economy that they deserve – in order to "protect consumers" and "reform Wall Street." We need to bolster clearing, execution, reporting and risk mitigation of uncleared products. We also need robust rules on cybersecurity and high-frequency trading. And lastly, we need enforcement tools, as well as conduct standards, that will really ignite culture change on Wall Street and across finance. I will be working, and I hope you will join me in the effort, to accomplish these goals."

– Commissioner Sharon Y. Bowen

"The regulatory framework for swaps mandated by Congress is largely in place. This has strengthened our financial system and increased transparency and competition for participants. We must continue to improve these reforms and make sure that our markets work well, particularly for the commercial end-users that depend on them.

It is equally important to address the new challenges facing our markets, such as the risk of cyberattack, the single greatest threat to financial stability. We must work to ensure clearinghouses remain strong and resilient. And we must focus on the consequences of automated trading and the changing nature of liquidity. Only in this way can we continue to have the strongest derivatives markets in the world."

– Chairman Timothy G. Massad

"I believe that regulators have a responsibility to ensure that today's digital markets serve America's end-users, whether Michigan farmers, North Dakota oilmen or Illinois manufacturers. We must better address the concerns of our energy and agricultural producers so that they may be confident in the continued suitability of U.S. futures markets for the effective hedging of their production risks.

And beyond that, regulators must harness new emerging technologies in support of healthy U.S. capital and risk transfer markets. We must enhance our markets' competitiveness in attracting the world's capital. We must further enable investors, innovators and job creators to drive the U.S. economy back to strong growth and prosperity. We must ensure our markets remain the world's deepest, most durable and most vibrant risk transfer markets in the algorithmic, digital world of the 21st century. This is our challenge. It is in America's vital national interest that we succeed."

– Commissioner J. Christopher Giancarlo

FY 2016 Commissioners

Timothy G. Massad, Chairman

Timothy Massad was sworn-in as Chairman of the CFTC on June 5, 2014, after being confirmed by the U.S. Senate as Chairman and as a Commissioner of the CFTC.

Previously, Mr. Massad was nominated by President Obama and confirmed by the U.S. Senate as the Assistant Secretary for Financial Stability at the U.S. Department of the Treasury (Treasury). In that capacity, Mr. Massad oversaw the Troubled Asset Relief Program (TARP), the principal U.S. governmental response to the 2008 financial crisis designed to help stabilize the economy and provide help to homeowners. Under TARP, Treasury's investments in financial institutions, the credit markets and the auto industry prevented the economy from falling into a depression. Mr. Massad was responsible for the day-to-day management and recovery of TARP funds, and during his tenure, Treasury recovered more on all the crisis investments than was disbursed. Mr. Massad also served as Chief Counsel for the program prior to becoming Assistant Secretary.

Prior to joining Treasury, Mr. Massad served as a legal advisor to the Congressional Oversight Panel for TARP, under the leadership of (now Senator) Elizabeth Warren. Mr. Massad assisted the panel in its first report evaluating the investments made by Treasury under TARP.

Prior to his government service, Mr. Massad was a partner in the law firm of Cravath, Swaine & Moore, LLP. Mr. Massad had a broad corporate practice with a focus on corporate finance and financial markets. He helped to draft the original standardized agreements for swaps and helped many businesses negotiate and execute transactions to hedge exposures in the derivatives markets.

Mr. Massad earned his bachelor's and law degrees at Harvard. Mr. Massad was born in New Orleans, Louisiana, and also lived in Texas, Oklahoma and Connecticut as a child. He and his wife, Charlotte Hart, live in Washington with their two children.

Sharon Y. Bowen, Commissioner

Sharon Y. Bowen was sworn in as a Commissioner of the CFTC on June 9, 2014 for a five-year term.

Ms. Bowen was previously confirmed by the U.S. Senate and appointed by President Obama on February 12, 2010 to serve as Vice Chair of the Securities Investor Protection Corporation (SIPC). She assumed the role of Acting Chair in March 2012. Prior to her appointment to the CFTC, Ms. Bowen was a partner in the New York office of Latham & Watkins LLP. Ms. Bowen's broad and diverse corporate and transactional practice of almost 32 years began in 1982 when she started her career as an associate at Davis Polk & Wardwell. She joined Latham as a senior corporate associate in the summer of 1988 and became a partner January 1991.

Ms. Bowen's practice has included corporate, finance, and securities transactions for large global corporations and financial institutions, including mergers and acquisitions, private equity, securities offerings, strategic alliances, corporate restructurings, leveraged finance, securitizations, distressed debt and asset acquisitions, and venture capital financings.

Ms. Bowen served in several leadership positions in her firm, including co-chair of the Diversity Committee, co-chair of the Diversity Hiring Subcommittee and co-founder and head of Latham's Women Enriching Business (WEB) Task Force, whose mission is to create broader networks and productive business development relationships for women.

Ms. Bowen has been involved in numerous pro bono, educational, diversity and civic matters throughout her career and has received many awards in recognition of her contributions. She has served as a member of the Board (formerly Executive Committee and Chair) and Emeritus Board of New York Lawyers for the Public Interest, Inc., the Boards of New York City Economic Development Corporation (formerly Executive Committee), Northwestern University Law School (formerly Executive Member and Chair), and Public Education Needs Civil Involvement in Learning (PENCIL) (formerly Executive Committee).

Ms. Bowen is one of America's "Top Black Lawyers" according to Black Enterprise Magazine. She is a recipient of the 2011 Diversity Trailblazer Award of the New York State Bar Association, and was selected as the New York City Bar Association 2007 Diversity Champion and the Metropolitan Black Bar Association 2006 Lawyer of the Year.

Ms. Bowen was born in Chesapeake, Virginia. She received her B.A. in Economics from the University of Virginia, MBA from the Kellogg School of Management and J.D. from Northwestern University School of Law.

J. Christopher Giancarlo, Commissioner

J. Christopher "Chris" Giancarlo was nominated by President Obama on August 1, 2013, and confirmed by unanimous consent of the U.S. Senate on June 3, 2014. On June 16, 2014, Mr. Giancarlo was sworn in as a CFTC Commissioner for a term expiring in April 2019.

Before entering public service, Mr. Giancarlo served as the Executive Vice President of GFI Group Inc., a financial services firm. Prior to joining GFI, Mr. Giancarlo was Executive Vice President and U.S. Legal Counsel of Fenics Software and was a corporate partner in the New York law firm of Brown Raysman Millstein Felder & Steiner. Mr. Giancarlo joined Brown Raysman from Giancarlo & Gleiberman, a law practice founded by Mr. Giancarlo in 1992 following his return from several years in London with the international law firm of Curtis, Mallet-Prevost, Colt & Mosle.

Mr. Giancarlo was also a founding Co-Editor-in-Chief of eSecurities, Trading and Regulation on the Internet (Leader Publications). In addition, Mr. Giancarlo has testified three times before Congress regarding the implementation of the Dodd-Frank Act, and has written and spoken extensively on public policy, legal and other matters involving technology and the financial markets.

Mr. Giancarlo was born in Jersey City, New Jersey. He attended Skidmore College in Saratoga Springs, New York where he graduated Phi Beta Kappa with Government Department Honors. Mr. Giancarlo received his law degree from the Vanderbilt University School of Law where he was an associate research editor at the Vanderbilt Journal of Transnational Law and President of the Law School's International Law Society. Mr. Giancarlo has been a member of the Bar of the State of New York since 1985.

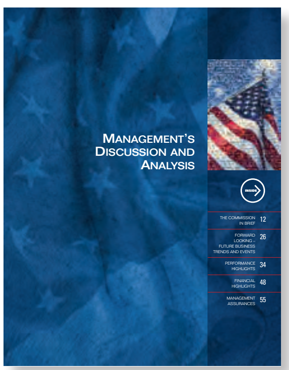
How This Report is Organized

The Reports Consolidation Act of 2000 authorizes Federal agencies, with OMB concurrence, to consolidate various reports in order to provide performance, financial, and related information in a more meaningful and useful format. The Commission has chosen an alternative to the consolidated Performance and Accountability Report and instead, produces an Agency Financial Report (AFR), Annual Performance Report, and a Summary of Performance and Financial Information, pursuant to OMB Circular A-136, *Financial Reporting Requirements*.

Information in this AFR is provided as of November 15, 2016, and covers the period October 1, 2015, to September 30, 2016, unless otherwise indicated.

In 2017, the CFTC's FY 2016 Annual Performance Report and FY 2016 Summary of Performance and Financial Information will be available at *http://www.cftc.gov/About/CFTCReports/index.htm*.

Three documents comprise the FY 2016 AFR, in addition to the Appendix.



The **Management's Discussion and Analysis** (MD&A) section is an overview of the entire report. The MD&A presents performance and financial highlights for FY 2016 and discusses compliance with legal and regulatory requirements, business trends and events, and management issues.

The **Financial Section** includes the Commission's financial statements and the Independent Auditors' report, and the Required Supplementary Information containing the unaudited Combined Statement of Budgetary Resources.

Other Information contains the Inspector General's assessment of management challenges, combined schedule of spending, and a summary of the results of the Commission's audit and management assurances. It also includes summaries pertaining to improper payments, freeze the footprint efforts, and civil monetary penalty adjustments for inflation.

The **Appendix** contains an overview of the CFTC Customer Protection Fund and consumer advisories on suspected fraud and market manipulation and the CFTC Whistleblower Program.

Glossary of Abbreviations and Acronyms

The CFTC Glossary

A Guide to the Language of the Futures and Swaps Industries

http://www.cftc.gov/ConsumerProtection/EducationCenter/CFTCGlossary/index.htm

Because the acronyms of many words and phrases used throughout the futures and swaps industries are not readily available in standard references, the Commission's Office of Public Affairs compiled a glossary to assist members of the public.

This glossary is not all-inclusive, nor are general definitions intended to state or suggest the views of the Commission concerning the legal significance, or meaning of any word or term. Moreover, no definition is intended to state or suggest the Commission's views concerning any trading strategy or economic theory.

Glossary of Acronyms

U.S. Federal Law

CEA	Commodity Exchange Act
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Farm Bill	Food, Conservation, and Energy Act
FECA	Federal Employees' Compensation Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
GPRA	Government Performance and Results Act

CFTC Divisions and Offices

DCR	Division of Clearing and Risk
DMO	Division of Market Oversight
DOE	Division of Enforcement
DSIO	Division of Swap Dealer and Intermediary Oversight
OCE	Office of the Chief Economist
ODT	Office of Data and Technology
OED	Office of the Executive Director
OGC	Office of the General Counsel
OIA	Office of International Affairs
OIG	Office of the Inspector General

U.S. Federal Departments and Agencies

CFTC	U.S. Commodity Futures Trading Commission
DHS	U.S. Department of Homeland Security
FDIC	Federal Deposit Insurance Corporation
GAO	U.S. Government Accountability Office
GPO	U.S. Government Publishing Office
GSA	U.S. General Services Administration
OMB	Office of Management and Budget
SEC	U.S. Securities and Exchange Commission
Treasury	U.S. Department of the Treasury

Other Abbreviations

AFR	Agency Financial Report
CME	Chicago Mercantile Exchange Inc.
CPF	CFTC Customer Protection Fund
CSRS	Civil Service Retirement System
DCM	Designated Contract Market
DCO	Derivatives Clearing Organization
EU	European Union
Euribor	Euro Interbank Offered Rate
FBOT	Foreign Board of Trade
FIXML	Financial Information Exchange Markup Language
FpML	Financial Products Markup Language
FS-ISAC	Financial Services—Information Sharing and Analysis Center
FTE	Full-time Equivalent
FX	Foreign Exchange
FY	Fiscal Year
GAAP	U.S. Generally Accepted Accounting Principles
IOSCO	International Organization of Securities Commissions
ISDA	International Swaps and Derivatives Association
ISDAFIX	International Swaps and Derivatives Association Fix
IT	Information Technology
LIBOR	London Interbank Offered Rate
MD&A	Management's Discussion and Analysis
NADAX	North American Derivatives Exchange, Inc.
NFA	National Futures Association
OCR	Ownership and Control Reporting
OPERA	Organizations, Products, Events, Rules and Actions Portal
OTC	Over-the-Counter
RFED	Retail Foreign Exchange Dealer
SDR	Swap Data Repository
SEF	Swap Execution Facility
SFFAS	Statement of Federal Financial Accounting Standards
US	United States

Management's Discussion and Analysis

INSIDE

The Commission in Brief

Organization and Location

The Commission consists of five Commissioners, with two positions currently vacant. The President appoints and the Senate confirms the CFTC Commissioners to serve staggered five-year terms. No more than three sitting Commissioners may be from the same political party. With the advice and consent of the Senate, the President designates one of the Commissioners to serve as Chairman.

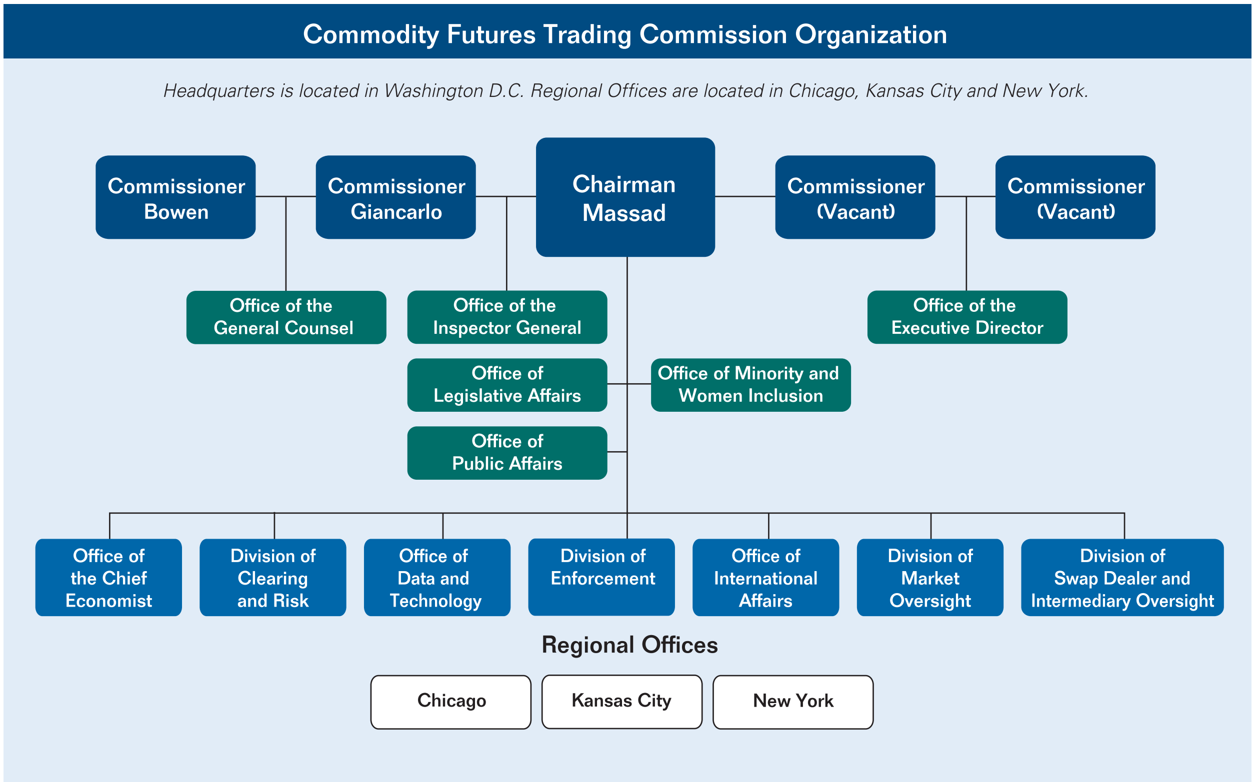
The Office of the Chairman oversees the Commission's principal divisions and offices that administer and enforce the Commodity Exchange Act (CEA) and the regulations, policies, and guidance thereunder.

The Commission is organized largely along programmatic and functional lines. The four programmatic divisions—the Division of Clearing and Risk (DCR), Division of Enforcement (DOE), Division of Market Oversight (DMO), and the Division of Swap Dealer and Intermediary Oversight (DSIO)—are partnered with, and supported by, a number of offices, including the Office of the Chief Economist (OCE), Office of Data and Technology (ODT), Office of the Executive Director (OED), Office of the General Counsel (OGC), and the Office of International Affairs (OIA). The Office of the Inspector General (OIG) is an independent office of the Commission.

The Dodd-Frank Act established the CFTC Customer Protection Fund for the payment of awards to whistleblowers, through the whistleblower program, and the funding of customer education initiatives designed to help customers protect themselves against fraud or other violations of the CEA or the rules or regulations thereunder.

CFTC Organization Structure, Locations and Facilities

The Commission is headquartered in Washington D.C. Regional offices are located in Chicago, Kansas City and New York. The CFTC organization chart is also located on the Commission's website at *http://www.cftc.gov/About/CFTCOrganization/index.htm*.



The CFTC Organization

Below are brief descriptions of the organizations:

The Commission

The Offices of the Chairman and the Commissioners provide executive direction and leadership to the Commission—specifically, as it develops and adopts agency policy that implements and enforces the CEA and amendments to the Act, and the Dodd-Frank Act. Commission policy is designed to foster the financial integrity and economic utility of derivatives markets for hedging and price discovery, to conduct market and financial surveillance, and to protect the public and market participants against manipulation, fraud, and other abuses.

Office of the General Counsel

The OGC provides legal services and support to the Commission and all of its programs. These services include: 1) engaging in defensive, appellate, and amicus curiae litigation; 2) assisting the Commission in the performance of its adjudicatory functions; 3) providing legal advice and support for Commission programs; 4) assisting other program areas in preparing and drafting Commission regulations; 5) interpreting the CEA; 6) overseeing the Commission's ethics program and compliance with laws of general applicability; and 7) providing advice on legislative and regulatory issues.

Office of the Inspector General

The OIG is an independent organizational unit at the CFTC. The mission of the OIG is to detect waste, fraud, and abuse and to promote integrity, economy, efficiency, and effectiveness in the CFTC's programs and operations. As such it has the ability to review all of the Commission's programs, activities, and records. In accordance with the Inspector General Act of 1978, as amended, the OIG issues semiannual reports detailing its activities, findings, and recommendations.

Office of the Executive Director

The OED, by delegation of the Chairman, directs the internal management of the Commission, ensuring the Commission's continued success, continuity of operations, and adaptation to the ever-changing markets it is charged with regulating; directing the effective and efficient allocation of CFTC resources; developing and implementing management and administrative policy; and ensuring program performance is measured and tracked Commission-wide. The OED includes the following programs: Business Management and Planning, Executive Secretariat (which includes Counsel to the Executive Director, Library, Records, and Privacy, and Proceedings), Financial Management, Human Resources, and Customer Outreach. The Office of Proceedings has a dual function to provide a cost-effective, impartial, and expeditious forum for handling customer complaints against persons or firms registered under the CEA, and to administer enforcement actions, including statutory disqualifications, and wage garnishment cases. The Office of Customer Education and Outreach administers the Commission's consumer anti-fraud and public education initiatives.

Office of the Chief Economist

The OCE provides economic analysis, advice and context to the Commission and to the public. The OCE provides perspectives on both current topic and long-term trends in derivatives markets. The extensive research and analytical backgrounds of staff ensure that analyses reflect the forefront of economic knowledge and econometric techniques. The OCE plays an integral role in the cost-benefit considerations of Commission regulations and collaborates with staff in other divisions to ensure that Commission rules are economically sound. The OCE and the research it provides also play a key role in transparency initiatives of the Commission.

Division of Clearing and Risk

The DCR oversees derivatives clearing organizations (DCOs) and other market participants that may pose risk to the clearing process including futures commission merchants, swap dealers, major swap participants, and large traders, and the clearing of futures, options on futures, and swaps by DCOs. The DCR staff: 1) prepare proposed regulations, orders, guidelines, and other regulatory work products on issues pertaining to DCOs; 2) review DCO applications and rule submissions and make recommendations to the Commission; 3) make recommendations to the Commission of which swaps should be required to be cleared; 4) make recommendations to the Commission as to the eligibility of a DCO seeking to clear swaps that it has not previously cleared; 5) assess compliance by DCOs with the CEA and Commission regulations, including examining systemically important DCOs at least once a year; and 6) conduct risk assessment and financial surveillance through the use of risk assessment tools, including automated systems to gather and analyze financial information, and to identify, quantify, and monitor the risks posed by DCOs, clearing members, and market participants and its financial impact.

Office of Data and Technology

The ODT is led by the Chief Information Officer and delivers services to CFTC through four components: Systems and Services, Data Management, Infrastructure and Operations, and Policy and Planning. Systems and Services focuses on several areas: 1) market and financial oversight and surveillance; 2) enforcement and legal support; 3) document, records, and knowledge management; 4) CFTC-wide enterprise services; and 5) management and administration. Systems and Services provide access to data and information, platforms for data analysis, and enterprise-focused automation services. Data Management focuses on data analysis activities that support data acquisition, utilization, management, reuse, transparency reporting, and data operations support. Data Management provides a standards-based, flexible data architecture; guidance to the industry on data reporting and recordkeeping; reference data that is correct; and market data that can be efficiently aggregated and correlated by staff. Infrastructure and Operations organizes delivery of services around network infrastructure and operations, telecommunications, and desktop and customer services.

Delivered services are highly available, flexible, reliable, and scalable, supporting the systems and platforms that empower staff to fulfill the CFTC mission. Policy and Planning focuses on information technology (IT) security, strategic and operational planning, IT policy and procedure development, configuration management, enterprise architecture, and internal business management. The four service delivery components are unified by an enterprise-wide approach that is driven by the Commission's strategic goals and objectives.

Division of Enforcement

The DOE investigates and prosecutes alleged violations of the CEA and Commission regulations. The Commission's enforcement efforts are necessary for public confidence and trust in the financial markets. DOE utilizes its authority to, among other things: 1) shut down fraudulent schemes and seek to immediately preserve customer assets through asset freezes and receivership orders; 2) uncover and stop manipulative and disruptive trading; 3) ensure that markets, firms, and participants subject to the Commission's oversight meet their obligations, including their financial integrity and reporting obligations, as applicable; 4) ban certain defendants from trading in its markets and being registered; and 5) obtain orders requiring defendants to pay restitution, disgorgement, and civil monetary penalties. DOE also engages in cooperative enforcement work with domestic, state and Federal, and international regulatory and criminal authorities. The Whistleblower Office within DOE receives tips, complaints and referrals of potential violations, which allows the staff to bring cases more quickly and with fewer agency resources, and guides the handling of whistleblower matters as needed during investigation, litigation, and award claim processes.

Office of International Affairs

The OIA advises the Commission regarding international regulatory initiatives; provides guidance regarding international issues raised in Commission matters and in matters pertaining to cooperation arrangements with foreign authorities; represents the Commission in international fora, such as International Organization of Securities Commissions (IOSCO), the OTC Derivatives Regulators Group, and various Financial Stability Board committees; participates in bilateral dialogues, such as the U.S.-EU Joint Financial Regulatory Forum and the U.S.-China Strategic and Economic Dialogue; coordinates Commission policy as it relates to policies and initiatives of major foreign jurisdictions, the G20, Financial Stability Board and the Treasury; and provides technical assistance to foreign market authorities.

Division of Market Oversight

The DMO fosters markets that accurately reflect the forces of supply and demand for the underlying commodities and are free of disruptive activity. To achieve this goal, DMO oversees trading organizations, performs market surveillance, reviews new applications for exchanges, SEFs, and data repositories, and examines existing trading organizations and data repositories to ensure their compliance with the applicable core principles. Other important work includes evaluating new products to ensure the products are not susceptible to manipulation, and reviewing entity rules to ensure compliance with the CEA and CFTC regulations.

Division of Swap Dealer and Intermediary Oversight

The DSIO oversees the registration and compliance activities of market intermediaries and the futures and swaps industry self-regulatory organizations, which includes the National Futures Association (NFA). DSIO develops and implements regulations concerning registration, fitness, financial adequacy, sales practices, risk management, business conduct, capital and margin requirements, protection of customer funds, cross-border transactions, and anti-money laundering programs, as well as policies for coordination with foreign market authorities and emergency procedures to address market-related events. DSIO provides guidance to the Commission, intermediary registrants, self-regulatory organizations and other market participants regarding these regulations and the CEA provisions that these regulations implement. DSIO also monitors the compliance of these registrants and provides oversight and guidance for complying with the system of registration and compliance established by the CEA and the Commission's regulations. DSIO further assesses registrant compliance with the CEA and CFTC regulations by conducting targeted reviews and examinations of registrants and performing oversight of the self-regulatory organization examination functions.

Our People

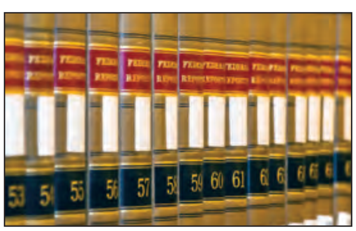
Collectively, the Commission employs 714 full-time permanent employees that compute to 716 full-time equivalents (FTE[1]) in FY 2016. CFTC staff are comprised of 74 percent direct mission staff (attorneys, economists, auditors, risk and trade analysts, and other financial specialists) and 26 percent management and support staff to accomplish four strategic goals and one management objective in the regulation of commodity futures, options, and swaps.

Full-Time Equivalents

Number of Employees

Attorneys across the CFTC's divisions and offices represent the Commission in administrative and civil proceedings, assist U.S. Attorneys in criminal proceedings related to CEA violations, assist other domestic and international criminal and regulatory authorities, develop regulations and policies governing clearinghouses, exchanges and intermediaries, and monitor compliance with applicable rules.

Auditors, Investigators, Risk Analysts, and Trade Practice Analysts examine records and operations of derivatives exchanges, clearinghouses, and intermediaries for compliance with the provisions of the CEA and the Commission's regulations.



Economists and Data Analysts monitor trading activities and price relationships in derivatives markets to detect and deter price manipulation and other potential market disruptions. Economists also analyze the economic effect of various Commission and industry actions and events, evaluate policy issues and advise the Commission accordingly.

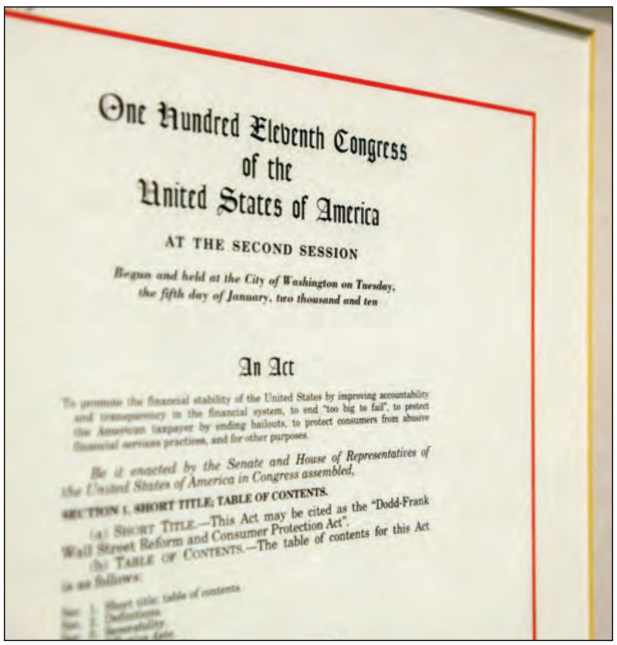
Management Professionals support the CFTC mission by performing strategic planning, information technology, human resources, staffing, training, accounting, budgeting, contracting, procurement, and other management operations.

[1] *In the U.S. Federal Government, "FTE" is defined by the U.S. Government Accountability Office, as the number of total hours worked divided by the maximum number of compensable hours in a full-time schedule as defined by law.*

CFTC Regulatory Landscape

CFTC Mission

To foster open, transparent, competitive, and financially sound markets to avoid systemic risk; and to protect market users and their funds, consumers, and the public from fraud, manipulation, and abusive practices related to derivatives and other products that are subject to the Commodity Exchange Act.



DERIVATIVE

is a financial instrument, traded on or off an exchange, the price of which is directly dependent upon (i.e., derived from) the value of one or more underlying securities, equity indices, debt instruments, commodities, other derivative instruments, or any agreed upon pricing index or arrangement (e.g., the movement over time of the Consumer Price Index or freight rates). Derivatives include futures, options, and swaps.

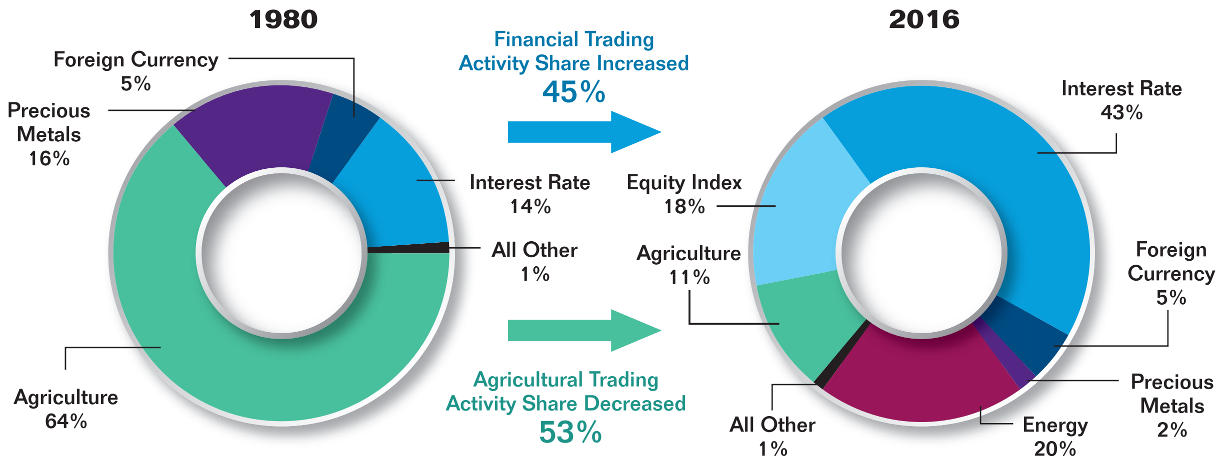
The Commission administers the CEA, 7 U.S.C. section 1, et seq. The 1974 Act brought under Federal regulation futures trading in all goods, articles, services, rights and interests; commodity options trading; leverage trading in gold and silver bullion and coins; and otherwise strengthened the regulation of the commodity futures trading industry. The Commission's mandate has been renewed and expanded several time since then, most recently by the 2010 Dodd-Frank Act.

In carrying out this mission and to promote market integrity, the Commission polices the derivatives markets for various abuses and works to ensure the protection of customer funds. Further, the agency seeks to lower the risk of the futures and swaps markets to the economy and the public.

Derivatives first began trading in the United States before the Civil War, when grain merchants came together and created this new marketplace. When the Commission was founded in 1974, the majority of derivatives trading consisted of futures trading in agricultural sector products. These contracts gave farmers, ranchers, distributors, and end-users of products ranging from corn to cattle an efficient and effective set of tools to hedge against price risk.

The Commission construes the definition of a futures contract broadly. Essentially, it is an agreement to purchase or sell a commodity for delivery in the future: 1) at a price that is determined at initiation of the contract; 2) that obligates each party to the contract to fulfill the contract at the specified price; 3) that is used to assume or shift price risk; and 4) that may be satisfied by delivery or offset. The CEA generally requires futures contracts to be traded on regulated exchanges, with futures trades cleared and settled through clearing-houses, referred to as DCOs. To that end, futures contracts are standardized to facilitate exchange trading and clearing.

Share of Futures and Options Trading Activity by Sector



Source: Futures Industry Association

Since 1980, the share of on-exchange commodity futures and option trading activity in the agricultural sector decreased from approximately two-thirds of trading activity to just over 10 percent of activity. The share of the financial futures and option contract activity increased from less than 20 percent of trading activity to approximately two-thirds of the trading activity. Among the other contracts, trading in energy contracts increased to approximately 20 percent of activity, from zero in 1980.

Although a futures contract agreement is set today, the person selling (for example, a farmer marketing bushels of wheat) will not receive payment and the buyer (in this case a bakery) will not receive goods purchased until the predetermined delivery date agreed to in the contract, which is November 1 in the following example. The farmer benefits from this agreement because he is certain as to the amount of money he will earn from the farming operation, even if the price of wheat changes between today and November 1. Similarly, the bakery buying the wheat also benefits by knowing how much the wheat will cost on November 1 and it will be better positioned to estimate its baking costs and set prices for its products. Finally, even though the actual price of wheat on November 1 (when the contract is fulfilled) may be greater or less than the pricing in the November 1 contract, the price is fixed and both the farmer and the bakery are bound by the price agreed to when they entered into the agreement. Most futures contracts are not settled with the actual physical delivery of the commodity, but by the purchase of opposite (offsetting) futures contracts, which serve to close out the original positions, with profits or losses dependent on the direction in which the price of the contracts have moved relative to those positions.

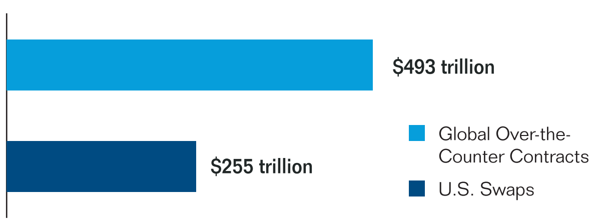
Speculators may also buy or sell such futures contracts. The speculator buying a futures contract for November wheat believes the value of the wheat in November will be higher than the price he is paying for the contract today. As time passes, and November draws closer, people may try to estimate whether the cost of November wheat will rise or fall, and may cause the value of that futures contract to fluctuate. For example, if people expect an especially bad harvest in November, then the price of November wheat will rise, and the speculator may sell that futures contract for November wheat for even more (or less) than he or she paid.

Over the years, the futures industry has become increasingly diversified. Futures based on other physicals, such as metals and energy products, were developed. Highly complex financial contracts based on interest rates, foreign currencies, Treasury bonds, security indexes, and other products have far outgrown the agricultural contracts in trading volume. *(See chart above)*

Electronic integration of cross-border markets and firms, as well as cross-border alliances, mergers and other business activities have transformed the futures markets and firms into a global industry. With the passage of the Dodd-Frank Act, the

Commission was tasked with bringing regulatory reform to the swaps marketplace. Swaps, which had not previously been regulated in the United States, formed a collective global trading market valued in the hundreds of trillions of dollars when measured by notional amount.

Notional Values of FY 2016 Swaps Market



Sources: Bank of International Settlements, Global OTC Contracts.
CFTC Weekly Swaps Report, U.S. Swaps

The notional value of the U.S. swaps markets, as reported in the August, 2016 CFTC weekly swaps report, is commensurate to over 50 percent of the global OTC market. Data for the OTC contracts reflect global OTC data reported by the Bank of International Settlements, which compiles reports from 13 countries on different categories of OTC contracts. U.S. Swaps market data currently includes data from four swap data repositories (SDRs) and reflect data relating to interest rates and credit default swaps. The Commission expects to include additional SDRs and asset classes in the future.

Generally speaking, a swap is an exchange of one asset or liability for a similar asset or liability for the purpose of, *inter alia*, shifting risks, where the value of those payments is determined in the future based on some previously agreed measure. With a swap, counterparties agree to exchange future cash flows at regular intervals, with each cash flow calculated on a different (previously agreed-upon) basis. Before the Dodd-Frank Act, swaps were, for the most part, traded OTC (also called bilaterally), which means that swaps were not traded on regulated derivatives exchanges and many were not cleared through DCOs. Swaps are tools for hedging risks associated with, among other things, interest rates, currency fluctuations, and the cost of energy products, such as oil and natural gas. The value of a swap is derived from the value of the underlying asset or rate that serves as the basis for each (or both) legs of the exchange.

For example, two people may agree to swap the cost of a fixed interest rate on a $100,000 mortgage for a variable interest rate on a $100,000 mortgage. Person A agrees to pay a fixed interest rate of five percent to Person B, every month for a year. In exchange, Person B agrees to pay Person A variable interest rate based on the prime rate (currently 3.25 percent) plus 1.75 percent. Because these two interest rates equal each other at the time the swap is agreed, neither person owes anything to the other. If, however, the prime rate rises, then Person B will owe more money to Person A. Thus, at the time the swap is agreed, Person A is assuming interest rates will rise, whereas Person B is hoping interest rates will fall.

In normal times, these markets create substantial, but largely unseen, benefits for American families. During the 2008 financial crisis, however, their effect was just the opposite. It was during the financial crisis that many Americans first heard the term "derivatives". That was because OTC swaps accelerated and intensified the crisis. The government was then required to take actions that today still stagger the imagination: for example, largely because of excessive swap risk, the government committed $182 billion to prevent the collapse of a single company—AIG—because its failure at that time, in those circumstances, could have caused our economy to fall into another Great Depression.

It is hard for most Americans to fathom how this could have happened. While derivatives were just one of many factors that caused or contributed to the crisis, the structure of some of these products created significant risk in an economic downturn. In addition, the extensive, bilateral transactions between the largest banks and other institutions meant that trouble at one institution could cascade quickly through the financial system. The opaque nature of this market meant that regulators did not know the level of exposure that any one institution or the financial system faced.

REGISTERED PROFESSIONALS AS OF SEPTEMBER 30, 2016

Type of Registered Professional	Number
Associated Persons (AP) (Sales People)	53,431
Commodity Pool Operators (CPOs)	1,710
Commodity Trading Advisors (CTAs)	2,298
Floor Brokers (FBs)	3,816
Floor Traders (FTs)	694
Futures Commission Merchants (FCMs)[2]	68
Introducing Brokers (IBs)	1,275
Major Swap Participant (MSP)	0
Retail Foreign Exchange Dealer (RFEDs)	3
Swap Dealer (SDs)	102
TOTAL	**63,397**

Source: National Futures Association

Companies and individuals who handle customer funds, solicit or accept orders, or give trained advice must apply for CFTC registration through the National Futures Association, a self-regulatory organization with delegated oversight authority from the Commission. The Commission regulates the activities of over 63,000 registrants.

Dodd-Frank Act: Enhanced Regulatory Environment

On July 21, 2010, the Dodd-Frank Act was enacted and the CEA was significantly amended to establish a comprehensive new regulatory framework to include swaps, as well as enhanced authority over historically regulated entities.

The purpose of the derivatives provisions of the Dodd-Frank Act was to implement the commitments made by the United States at the G20 summit in Pittsburgh in 2009. The members of the G20 made four commitments:

- Require **regulatory oversight** of the major market players;
- Require **clearing** of standardized transactions through regulated DCOs;
- Require more **transparent trading** of standardized transactions; and
- Require regular **data reporting** so that regulators and market participants would have an accurate picture of what is going on in the market.

Regulatory Oversight

Six years ago, swap dealers faced no specific oversight with regard to their swap dealing activity. The first of the major directives Congress gave to the CFTC was to create a framework for the registration and regulation of swap dealers and major swap participants. The Commission completed this requirement. As of September 30, 2016, 102 swap dealers are provisionally registered with the CFTC.

The Commission has continued to adopt rules requiring strong risk management. In FY 2016, the CFTC strengthened the Dodd-Frank framework by releasing final rules for initial and variation margin requirements for uncleared swaps. These rules setting collateral requirements serve as the first line of defense in the event of a default, and are critically important to minimizing risk that can come from OTC swaps. There will always be a large part of the swaps market that is not cleared, as many are not suitable for central clearing because of limited liquidity or other characteristics. Moreover, DCOs will be stronger if greater care is exercised in what is required to be cleared. These rules protect against such activity posing excessive risk to the system.

[2] *Includes futures commission merchants that are also registered as retail foreign exchange dealers.*

The margin rules supplement the CFTC's existing framework for OTC derivatives. This framework requires registered swap dealers and major swap participants to comply with various business conduct requirements, which include strong standards for documentation and confirmation of transactions, as well as dispute resolution processes. The regulations also include requirements to reduce risk of multiple transactions through what is known as portfolio reconciliation and portfolio compression. Further, they ensure that all counterparties are eligible to enter into swaps, and make appropriate disclosures to those counterparties of risks and conflicts of interest.

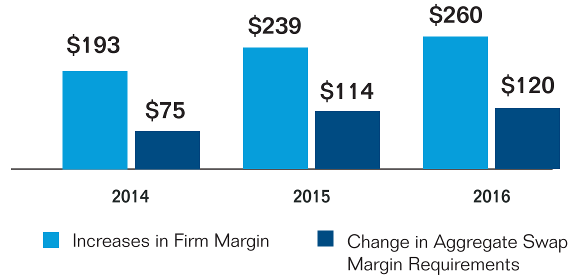
A dedicated swaps examination program is taking shape as well. Over the past two years, the CFTC has delegated additional responsibilities to and enhanced coordination efforts with the NFA, an industry funded, self-regulatory organization, to design and implement a direct examination process for swap dealers. By virtue of this, the Commission is now leveraging the significant resources of the NFA to meet cyclical exam workload demands for swap dealer registrants while preserving and focusing finite CFTC resources on NFA oversight, strategic horizontal and direct reviews, industry monitoring/surveillance and, when necessary, critical incident response.

As directed by Congress, the Commission has worked with the U.S. Securities and Exchange Commission (SEC), other U.S. regulators, and our international counterparts to establish this framework. The Commission will continue this coordination to achieve as much regulatory consistency as possible in ways that best meet mutual goals and objectives.

Clearing

A second directive of the Dodd-Frank Act requires clearing of swaps that the Commission has determined under a five-part statutory framework should be cleared at DCOs. DCOs reduce the risk that one market participant's failure could adversely impact other market participants or the public. DCOs accomplish this by standing in between the two original counterparties to a transaction—as the buyer to every seller and the seller to every buyer—and maintaining financial resources to cover potential defaults. DCOs value positions daily and require parties to post adequate margin on a regular basis. "Margin" is the collateral that holders of financial instruments have to deposit with DCOs to cover some or all of the risk of their positions. Collateral must be in the form of cash or highly liquid securities.

Margin Requirements
($ in billions)



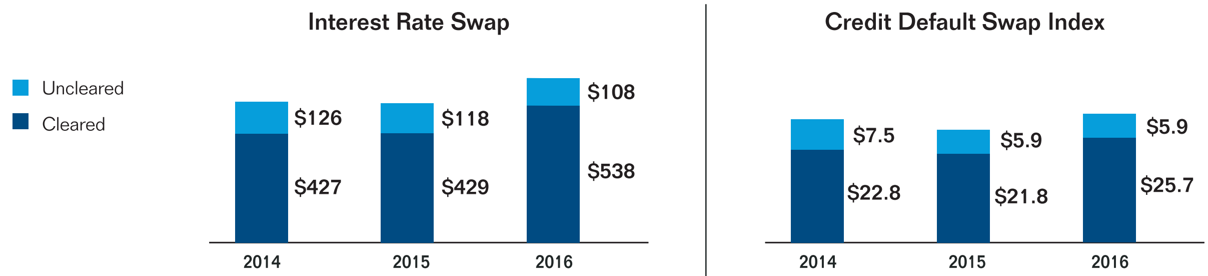
Source: Part 39 Data Filings Provided by DCOs

In the past year, total margin requirements have increased $45 billion, or 17 percent. Futures account for about 57 percent of total margins, interest rate swaps about 33 percent and credit default swaps about 10 percent. Changes in total margin requirements can be due to changes in the size of cleared positions, or changes in volatility and margin rates.

The use of DCOs in financial markets is commonplace and has existed for over 100 years. The idea is simple: if many participants trade standardized products on a regular basis, the tangled, hidden web created by thousands of private two-way trades can be replaced with a more transparent and orderly structure, like the spokes of a wheel, with the DCO at the center interacting with market participants. In addition to facilitating trades, DCOs are required to monitor the overall risk and positions of each participant.

The CFTC was the first of the G-20 nations' regulators to implement a regime for mandatory clearing of swaps. In 2013, the Commission required clearing for certain types of interest rate swaps denominated in U.S. dollars, Euros, Pounds and Yen, as well as credit default swaps on certain North American and European indices. In FY 2016, the CFTC expanded the interest rate swap clearing requirement to include those denominated in the Australian dollar, Canadian dollar, Hong Kong dollar, Singapore dollar, Mexican peso, Norwegian krone, Polish

Swap Volume, Cleared vs. Uncleared
Average Daily Notional Volume
($ in billions)



	2014	2015	2016	2014	2015	2016
Percent Cleared:	77%	78%	83%	75%	79%	81%

Source: International Swap Dealers Association

According to the International Swap Dealers Association, the data shows an increasing number of interest rate and credit default swap trades were cleared as of June 2016. Visit http://www.isda.org for more details on market trends.

zloty, Swedish krona, and Swiss franc. These currencies have, or are expected soon, to mandate central clearing for these products, and these requirements will be phased-in based on when the corresponding clearing requirements have taken effect in non-U.S. jurisdictions.

Based on data reported to SDRs, as of June 2016, 83 percent of all new interest rate swap transactions were cleared, as measured by notional value. This is compared to estimates by the International Swaps and Derivatives Association (ISDA) that only 16 percent by notional value, of outstanding interest rate swaps were cleared in December 2007. With regard to index credit default swaps, most new transactions are being cleared—81 percent of notional value, as of June 2016. *(See chart above)*

The Dodd-Frank Act's approach to encouraging the use of central clearing for swaps and the accompanying CFTC rules for clearing swaps were patterned after the successful regulatory framework used for many years in the futures market. The Commission requires that clearing occurs through CFTC-registered DCOs that meet certain standards—a comprehensive set of core principles and regulations that ensures each DCO is appropriately managing the risk of its members, and monitoring them for compliance with important rules. Non-U.S. DCOs can receive exemptions, when they are subject to comparable, comprehensive supervision and regulation by the appropriate government authorities in their respective home country.

Of course, central clearing by itself is not a panacea. DCOs do not eliminate the risks inherent in the swaps market. The Commission must therefore be vigilant. It must do all it can to ensure that DCOs have financial resources, vigorous risk management tools, systems that minimize operational risk, and all the necessary standards and safeguards consistent with the core principles to operate in a fair, transparent and efficient manner. DCOs must also have tools in place to address a wide range of situations that may arise if a clearing member defaults, and they must develop plans to deal with losses to the DCO in non-default situations. In addition, the Commission must make sure that DCO contingency planning to deal with operational events, such as cyber-attacks, is sufficient.

To that end, throughout FY 2016, the Commission was intently focused on the resiliency of DCOs, as well as planning for recovery and resolution. These remain high priorities for the CFTC, and there is significant work taking place domestically and internationally. Domestically, the CFTC's examination and risk surveillance programs focus on DCO resiliency on an ongoing basis. Commission staff is applying regulatory or supervisory stress tests for the largest DCOs, which assess the impact of stressful market scenarios across multiple DCOs and clearing members on the same date. Staff is also working with the major clearinghouses to make sure they have well-developed recovery plans in place. And staff has been actively engaged in working with the FDIC on resolution planning.

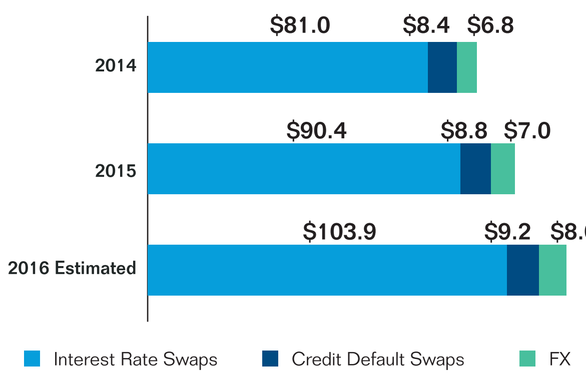
In addition, the CFTC has played a leadership role with regulators from around the world on issues related to the resilience, recovery, and resolution of clearinghouses. During FY 2016, CFTC staff continued its work with international regulators on a four-part international work plan on these issues. Indeed, all aspects of this plan, some of which are being led by CFTC staff, have contributed to the important progress made to create an international regulatory framework to ensure the strength and stability of these institutions.

Transparent Trading

The third area for reform under Dodd-Frank requires more transparent trading of standardized derivatives products. In the Dodd-Frank Act, Congress provided that certain swaps must be traded on a SEF or an exchange that is registered as a designated contract market (DCM). The Dodd-Frank Act defined a SEF as "a trading system or platform in which multiple participants have the ability to execute or trade swaps by accepting bids and offers made by multiple participants." The trading requirement was designed to facilitate a more open, transparent and competitive marketplace, benefiting, among others, commercial end-users seeking to lock in a price or hedge risk.

Annual Volume of Swaps Traded on U.S. Swap Execution Facilities

($ in trillions)



Source: Futures Industry Association

In 2014, the Futures Industry Association began collecting volume data from SEFs, a new type of CFTC-regulated platform for trading swaps that began operating on October 2, 2013. The Futures Industry Association publishes data on volume and market share trends for interest rate, credit and foreign exchange (FX) products traded on SEFs. Visit SEF Tracker In-Depth at https://www.fia.org for more details on market trends.

The CFTC finalized its rules for SEFs in June 2013. Twenty-three SEFs have been registered with the CFTC, and one application is pending. These SEFs are diverse, but each is required to operate in accordance with the same core principles. These core principles provide a framework that includes obligations to establish and enforce rules, as well as policies and procedures that enable transparent and efficient trading. SEFs must make trading information publicly available, put into place system safeguards, and maintain financial, operational and managerial resources to discharge their responsibilities.

Trading on SEFs began in October 2013. As of February 2014, specified interest rate swaps and credit default swaps were required to be traded on a SEF or other regulated exchange. For the 2016 year-to-date, as of August 26, 2016, 56 percent of trading by notional volume in rates and credit was executed on SEFs. During this same period, notional value executed on SEFs generally has been in excess of $8 trillion monthly. It is important to remember that trading of swaps on SEFs is still new. SEFs are still developing best practices under the new regulatory regime. The new technologies that SEF trading requires are likewise being refined. Additionally, other jurisdictions have not yet implemented trading mandates, which has slowed the development of cross-border platforms. There will be issues as SEF trading continues to mature. The Commission will need to work through these to fully achieve the goals of efficiency and transparency SEFs are meant to provide.

Data Reporting

The fourth G20 reform commitment implemented by the Dodd-Frank Act was to require ongoing reporting of swap activity. Having rules that require oversight, clearing, and transparent trading is not enough. The Commission must have an accurate, ongoing picture of what is going on in the marketplace to achieve greater transparency and to address potential systemic risk. Title VII of the Dodd-Frank Act assigns the responsibility for collecting and maintaining swap data to swap data repositories (SDRs), a new type of entity necessitated by these reforms. All swaps, whether cleared or uncleared, must be reported to SDRs. There are currently four SDRs that are provisionally registered with the CFTC.

The collection and public dissemination of swap data by SDRs helps regulators and the public. It provides regulators with information that can facilitate informed oversight and surveillance of the market and implementation of our statutory responsibilities. Dissemination, especially in real-time, also provides the public with information that can contribute to price discovery and market efficiency. While the Commission has accomplished a great deal in this area, much work remains. The task of collecting and analyzing data concerning this marketplace requires intensely collaborative and technical work by industry and the agency's staff. Going forward, it must continue to be one of the CFTC's chief priorities.

There are three general areas of activity, and the Commission has made progress in all of them. First, the CFTC is making sure its data reporting rules and standards are specific and clear, and harmonized as much as possible across jurisdictions. In FY 2016, the Commission adopted a rule to create a simple, consistent process for reporting cleared swaps. The rule streamlines the reporting so there are not duplicate records of a swap, which can lead to double counting that can distort the data. It makes sure that accurate valuations of swaps are provided on an ongoing basis. And it eliminates a number of needless reporting requirements for swap dealers and major swap participants.

CFTC staff has also made progress in standardizing reporting to SDRs. During the fiscal year, staff published draft technical specifications for the reporting of 120 priority data elements. These describe the form, manner and the allowable values that each data element can have. The CFTC also is leading the international effort in this area, both in the global harmonization of data standards and in building internationally accepted governance structures to maintain those data standards. The Commission will abstain from finalizing domestic standards until this international work is complete, to ensure harmonization—and to achieve consistency in reporting across-borders.

The Commission must also make sure the SDRs collect, maintain, and publicly disseminate data in the manner that supports effective market oversight and transparency. The SDRs must have the ability to make sure the data they receive is complete and conforms to required standards.

Finally, market participants must live up to their reporting obligations. Ultimately, the market participants bear the responsibility to make sure that the data is accurate and reported promptly. The primary goal is to bring firms into compliance. But where firms fail repeatedly to take these obligations seriously or invest sufficient resources to meet them, the Commission has taken, and will continue to take, enforcement action.

Forward Looking – Future Business Trends and Events

There are some core principles that motivate the Commission's work in implementing the Dodd-Frank Act. The first is that the CFTC must never forget the cost of the financial crisis to American families, and it must do all it can to address the causes of that crisis in a responsible way. The second is that the United States has the best financial markets in the world. They are the strongest, most dynamic, most innovative, most competitive and transparent. They have been a significant engine of U.S. economic growth and prosperity. The Commission's work should strengthen U.S. markets and enhance those qualities in a way that does not place unnecessary burdens on the dynamic and innovative capacity of the industry.

It has now been eight years since the global financial crisis, and the Commission has taken a number of steps to improve the safety and soundness of our financial system. However, the work of the Commission does not just involve looking to the causes of past crises. An equally important part of the CFTC's work is looking ahead, to the new opportunities and challenges facing these markets.

The financial markets are evolving and innovating at the speed of light. Transformations in technology are playing a large role in those changes, and from them come new opportunities as well as challenges. In turn, market participants are altering their activities—and strategies—in response. As the industry continues to evolve, the CFTC must also take steps—to ensure our regulatory framework is able to respond to the challenges ahead.

This understanding is critical to the Commission's ability to appropriately regulate the industry of today and tomorrow. What follows is a brief discussion of what the Commission expects in the years to come.

Instances of Cyber-Attack Warrant Increased Vigilance

There is heightened attention, both domestically and internationally, on cybersecurity and the risk of cyber-attacks. Indeed, this may be the most significant risk to financial stability we face today. The CFTC is very focused on this issue, especially with respect to the core infrastructure in the markets it regulates—the clearinghouses, exchanges, trading platforms and data repositories. The CFTC already conducts regular examinations of registered entities to monitor compliance with system safeguards core principles and CFTC regulations. And in FY 2016, the Commission finalized new rules to address the risk posed by cyber-attack or other technological failures. These rules require the private companies that operate the core market infrastructure to regularly evaluate cyber risks and test their cybersecurity and operational risk defenses. They add greater definition to the Commission's existing efforts—by setting principles-based standards and requiring specific types of testing, all rooted in industry best practices.

Recent cyber-attacks both inside and outside of the financial sector make clear the need for continued vigilance on this front. Through its participation in the Financial and Banking Information Infrastructure Committee, CFTC coordinates and cooperates with other financial regulators, the intelligence community, and Federal law enforcement agencies to ensure that Commission oversight is informed by current cyber threat information and trends. And the CFTC also continues to increase its own cybersecurity protections over the data collected from market participants for surveillance and enforcement.

The Opportunities and Challenges Posed by the Increased Use of Automated Trading

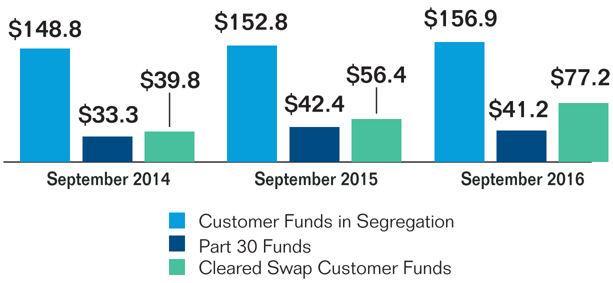
The Commission is also focused on the increased use of automated trading, which has become the dominant form of trading in the derivative markets. In recent years, there has been a fundamental change in this regard—approximately 70 percent of trading in the futures market is now automated. While there are positives that come from this technology, there is also a greater likelihood of disruption and other operational problems. The CFTC is taking steps to address these challenges. In FY 2016, the Commission issued a proposal that seeks to minimize the risk of that disruption caused by automated trading. The proposal relies on a principles-based approach that codifies many industry best practices. It requires pre-trade risk controls, such as message throttles and maximum order size limits. It requires other measures such as "kill switches," which facilitate emergency intervention in the case of a malfunctioning algorithm. But it does not prescribe the parameters or limits of such controls; it leaves those specifics to market participants.

Growth in Clearing Means Increased Focus on Clearinghouse Resilience and Additional Requirements for Uncleared Swaps

Central clearing of standardized transactions, as required by Dodd-Frank, reduces credit risk between counterparties. Following the 2013 implementation of the Commission's rules requiring that certain interest rate swaps and credit default swaps be cleared, a significant portion of the swaps market moved into central clearing. This shift in market behavior has significant risk mitigation benefits.

> The segregation of customer funds from a futures commission merchant's own proprietary funds for use is one of the **core foundations of customer protection** in the cleared swaps markets.

Amount of Customer Funds in Futures Commission Merchants Accounts
($ in billions)



Source: CFTC Monthly Futures Commission Merchants Financial Reporting

As a key component of the Commission's regulatory framework, all customer funds held by an futures commission merchants for trading on DCMs (exchanges) and SEFs must be segregated from the futures commission merchant's own funds—this includes cash deposits and any securities or other property deposited by such customers to margin or guarantees their futures and cleared swaps trading. In addition, Part 30 of the CFTC's regulations also requires futures commission merchants to hold apart from their own funds a "secured amount" for customers trading futures contracts on foreign boards of trade through futures commission merchants.

Swap customers and other market participants are required to post initial margin to cover the potential future exposure of their positions in the event of default. In addition, swap customers and other market participants are required to pay variation margin through futures commission merchants to avoid the accumulation of large gain and/or loss obligations. In FY 2016, the CFTC adopted margin requirements for uncleared swaps entered into by swap dealers and major swap participants subject to the CFTC's jurisdiction (i.e., non-bank swap dealers and major swap participants). The Commission also adopted a cross-border approach for the implementation of this rule—which helps protect against the possibility that risks created outside our borders will flow back into the United States. In addition to posting margin, the Commission is working to propose rules that will require non-bank swap dealers and major swap participants to hold minimum levels of capital. Completion of the rulemaking process is a top agency objective. Together, capital and margin requirements are intended to reduce swaps-related systemic risk in the global financial system and to encourage clearing. As DCOs offer new swaps for clearing, the CFTC will assess the ability of the DCO to properly manage the risk of clearing those swaps.

The movement of swaps to a cleared environment has mitigated systemic risk in the market but has also shifted significant new levels of counterparty risk to DCOs. As more swap activity migrates to clearing, DCOs are holding substantially more collateral that has been deposited by market participants. There is a need to perform examinations of DCOs to evaluate their resources and capabilities to monitor and control their financial and operational risks. There is a need for the CFTC to apply additional staffing resources to perform these large and complex examinations. And the CFTC is focused on doing so in the months and years ahead.

The Commission will continue its work on supervisory stress tests for the largest clearinghouses in our jurisdiction. These examinations assess the impact of stressful market scenarios across multiple DCOs and clearing members on the same date. The Commission will also continue to make sure the major DCOs have adequate recovery plans, and will continue its collaboration with the Federal Deposit Insurance Corporation on resolution planning.

Further, the CFTC has taken a leadership role on an international work plan related to clearinghouse strength and stability. This ongoing work has four major elements, and staff are involved in all of them. First, the CFTC is co-chairing a working group looking at clearinghouse resilience and recovery issues, including whether the international regulatory standards, known as the Principles for Financial Market Infrastructures (PFMIs), have sufficient granularity. A second working group has assessed the implementation of the PFMIs at ten representative clearinghouses. Third, a separate group is working on resolution planning for clearinghouses, including international coordination. A final group is examining the interdependencies among global clearinghouses and major clearing members.

Resilient clearinghouses also depend on having a robust clearing member industry. There are many factors that affect the health of clearing members. This is a key focus for CFTC staff in the years ahead, and the Commission is already engaging with a wide array of market participants on this issue.

Continuing to look at the Threshold for Registration as a Swap Dealer

The Commission recently acted to extend the phase-in of the de minimis threshold for swap dealing by one year. This threshold determines when an entity's swap dealing activity requires registration with the CFTC. In 2012, the CFTC set the threshold initially at $8 billion in notional amount of swap dealing activity over the course of a year, and provided that it would fall to $3 billion at the end of 2017. This would have meant that firms would have been required to start determining whether their activity exceeds that lower threshold in January 2017.

The Commission took this step for several reasons. First, the delay provides more time to study the issue. CFTC staff recently completed a study required by the rule on the threshold. The study estimated that lowering the threshold would not increase significantly the percentage of interest rate swaps and credit default swaps covered by swap dealer regulation, but would require many additional firms to register, including some smaller banks whose swap activity is related to their commercial lending business. However, the study also notes that the data has certain shortcomings, particularly when it comes to nonfinancial commodity swaps, a market that is very different than the interest rate swaps and credit default swaps markets. The delay will allow the Commission to consider these issues further. In addition, the Commission has made clear its intention to adopt a rule setting capital requirements for swap dealers before addressing the threshold. This rule, required by Dodd Frank, is one of the most important in our regulation of swap dealers. The Commission will be looking closely at this issue, as well as the data that informs it, in the year ahead.

Clearing Firms and Customers Trade the Same Asset Class at Multiple DCOs

Firms and customers often clear the same asset classes at multiple DCOs. Each DCO's view is limited to the position it clears, while the Commission has the unique perspective of being able to analyze positions and the risks that they pose across DCOs. The Commission has to ensure it has the data and tools necessary to evaluate the risk of these positions. The Commission should be able to ascertain if the positions at the multiple DCOs increase or offset risk. The Commission must further be able to determine if the firm or customer has the resources to cover the potential losses at each DCO and not require the gains at one DCO to pay the losses at the others.

Aggregating Cleared Swaps and Futures Risk

Many large swap accounts (firms and customers) also clear large futures positions. In many cases, the swaps and futures are cleared at the same firm. The Commission has to ensure it has the procedures in place to first identify these accounts. Secondly, the Commission has to ensure it has the software and information necessary to determine if the different asset classes increase or decrease risk. DCOs now and increasing in the future are offering cross-margin programs between asset classes. The Commission has to ensure it receives all position and account information for accounts in these programs. The Commission then has to have the software and expertise necessary to review and understand the risk and margin offsets present in the program.

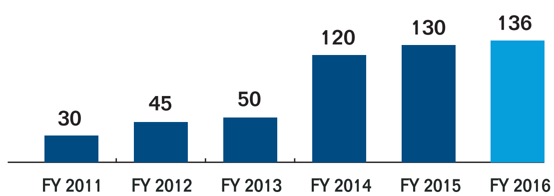
New Regulatory Environment Driving Innovations in Derivatives Markets

The Commission will also continue to oversee the activities of existing SEFs and DCMs to ensure compliance with Commission regulations and the CEA. The industry is responding quickly to the competitive opportunities engendered by the shifting regulatory landscape—the introduction of futures contracts by DCMs that are economically equivalent to standardized swaps is one such example. Innovation in the industry, which is likely to increase in pace with the addition of SEFs, will continue to add complexity in ways currently unanticipated. For example, the Commission is seeing new methods for executing transactions that were not proposed in previous years. While these changes will impact all of the CFTC mission activities, the near-term impact will fall most heavily on the mission activities of registration, product review, examinations, enforcement, and economic analysis.

Exponential Growth in Data Must be Acquired, Validated, Warehoused, and Analyzed to Fulfill the Commission's Regulatory Responsibilities

The Commission continues to enhance its software and automated tools to accommodate its enhanced surveillance responsibilities and access to data, including that generated by the swap data reporting rules, enhanced customer protection rules, other regulatory changes, increasing number of participants, and increasing number and complexity of data sources relevant to surveillance. The technology (data and processes) required for surveillance of swaps markets differs from that required for futures and options markets, and differs across asset classes. In addition, the ability to view risk across asset classes and in combination with futures is an overarching requirement that must also be automated and the Commission must continue to work closely with the SDRs, self-regulatory organizations and other Federal and international regulators (as appropriate) to harmonize how this data is recorded, organized, and stored. In response to the influx of new types of data from new and existing registrants, the CFTC must build its own information infrastructure and analytical capabilities to support its responsibilities as the primary regulator for the derivatives markets.

Growth in Number of Types of Data[3] Loaded into CFTC Systems



Source: Office of Data and Technology, CFTC

The CFTC receives data from many new entities, such as clearing members, swap dealers, DCO's, large banks and traders in futures and options markets, SDRs and SEFs, some of which did not provide data prior to the Dodd-Frank Act. The amount of data received and loaded onto CFTC systems over six years have more than quadrupled. CFTC currently has plans to receive automated data from up to 6,000 new reporting entities in the coming years. The 6,000 entities represent market participants that will be required to submit Form 40[4] reports electronically once the Ownership and Control Reporting (OCR) rule is fully implemented.

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[3] *Swaps data include Part 20 and Part 39 interim records reporting files, additional by-rule development, Part 45 swaps data reporting, OCR-ownership and control reporting, and Volcker data.*

[4] *CFTC Form 40, Statement of Reporting Trader, is a reporting requirement for every person that holds a reportable position in accordance to Section 1804 of the CEA. The information requested is used generally in the Commission's market surveillance activities to provide information concerning the size and composition of the commodity futures or option markets, and to permit the Commission to monitor and enforce the speculative position limits that have been established. The complete listing of routine uses, in accordance with the Privacy Act, 5 U.S.C. §522a, and the Commission's rules thereunder, 17 Code of Federal Regulations (CFR) Part 146, of the information contained in these records is found in the Commission's annual notice of its system of records.*

The CFTC is required to perform a comprehensive function that cannot be done by any single self-regulatory organization and needs to see data from all industry participants in the swaps and futures markets. In response to the influx of new types of data from new and existing registrants, the CFTC must continue to enhance and adjust its information infrastructure and analytical capabilities to support its responsibilities as a first line regulator. Only by providing advanced tools and enriched data for staff to connect, analyze, and aggregate data can the Commission apply its unique view of the derivatives market toward effective market and risk surveillance. With each additional set of data collected there are data, technology, and usage requirements:

- Defining data standards, such as financial information exchange markup language (FIXML) and financial products markup language (FpML), to collect data;
- Designing data repositories to facilitate data loading and integration;
- Developing software to load new data;
- Developing data validation mechanisms to report errors and metrics to submitters;
- Providing operations support to facilitate timely submission of data;
- Developing data profiles on data submissions, submitters, markets, etc. (not currently done); and
- Analyzing data in a wide variety of ways to support mission functions.

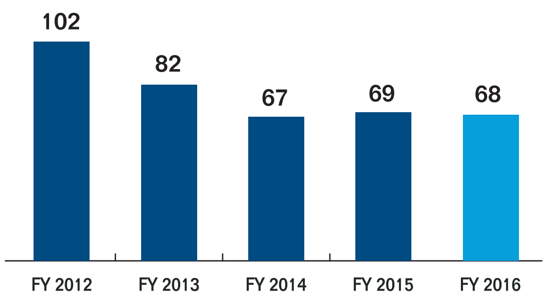
The Commission will continue to adapt its data architecture and data management practices to manage the exponential growth in the size and complexity of mission data and facilitate continuous improvements in data quality and the ability to isolate anomalous market activity and complex financial and systemic risk. It will also continue to bolster its own safeguards to protect this data from cyber-attack.

Growth and Complexity of the Markets the Commission Oversees

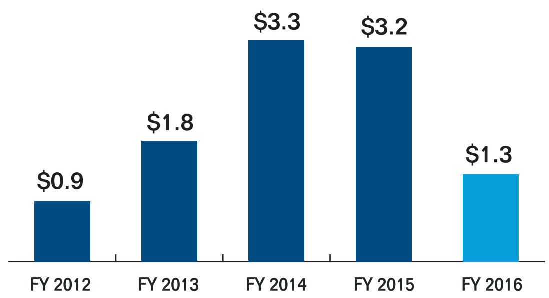
Enforcement remains critically important to maintain the integrity of our markets, deter bad behavior, and reinforce public confidence. The CFTC's expanded mission coupled with the increased complexity of the markets and new, complicated forms of illegal behavior make the Commission's enforcement responsibilities are more important than ever. The CFTC's enforcement capabilities must keep pace with the challenges that go along with the growth and sophistication of financial markets and instruments. These include identifying and meeting the challenges arising from proliferation of sophisticated instruments trading in multiple venues and the increased prevalence of algorithmic and high-frequency trading. The Commission will also need to commit enforcement resources to understanding and investigating potential unlawful conduct within the Commission's jurisdiction, including in evolving markets for derivatives and commodities, such as Bitcoin and other crypto-currencies or block chain technology. The Commission also foresees a continued increase in multi-jurisdictional and multi-national investigations given the global nature of the swaps marketplace and the challenges associated with substituted compliance. The Commission is also experiencing an increase in international enforcement investigations in its traditional markets. These cases are inherently more resource-intensive due to their cross-border nature and coordination with foreign authorities.

Specifically, the Commission is investigating more matters involving manipulation, false reporting of market information and disruptive trading practices, including spoofing. Often, these matters involve misconduct spanning many years and multiple markets and products, and require forensic economic analysis of trading data. In order to investigate and litigate market-wide violations, as well as those less complex but equally important retail fraud cases, the Commission has an increased need for specialized experts to work on enforcement cases. One example is the Commission's work addressing fraud in the precious metals space, where we use our anti-fraud enforcement authority. Others include the Commission's work prosecuting wrongdoers for fraudulent schemes like Ponzi schemes, deceptive practices related to commodity pools, and other efforts against those who try to perpetrate frauds against seniors and other retail investors.

Number of Enforcement Actions Filed



Sanctions Ordered[5]
($ in billions)



Source: Division of Enforcement, CFTC

The CFTC utilizes every tool at its disposal to detect and deter illegitimate market forces. Through enforcement action, the Commission preserves market integrity and protects market participants.

Maintaining Integrity of Benchmarks

The integrity of benchmarks used in the derivatives market, such as the London Interbank Offered Rate (LIBOR), FX, and International Swaps and Derivatives Association Fix (ISDAFIX) remains a priority for the Commission. Over the last five years, the CFTC has imposed over $5.08 billion in penalties in 17 actions against banks and brokers to address ISDAFIX, FX, and LIBOR benchmark abuses to ensure the integrity of global financial benchmarks. Of this, over $1.8 billion in penalties has been imposed on 6 banks for misconduct relating to FX benchmarks, while over $3.21 billion has been imposed on 21 banks, as well as brokers, for misconduct relating to ISDAFIX, LIBOR, Euro Interbank Offered Rate (Euribor), and other interest rate benchmarks. These benchmarks are an essential valuation tool for thousands upon thousands of derivatives across financial markets, including: options on interest rate swaps, or swaptions; cross-currency swaps; foreign exchange swaps; spot transactions; forwards; options; and futures. These investigations require a significant allocation of enforcement resources due to the fact that they are global in nature and mandate intensive reconstruction of communications and trades requiring substantial documents, emails, and chat room reviews; analysis of trading data and books; outside experts; and reconstructing timelines.

In addition to the various enforcement actions, since 2013, as a member of the Official Sector Steering Group established by the Financial Stability Board, CFTC has been working with regulators and central banks from around the world to review standards and principles for sound benchmarks. This includes an assessment of the major interest rate benchmarks against the internationally agreed and endorsed IOSCO Principles for Financial Benchmarks. This effort included a report laying out plans for reform of major reference rates such as the LIBOR, Euribor, and the Tokyo Interbank Offered Rate.

A key component of the reform plans includes the development of alternative, nearly risk-free reference rates. CFTC staff has been working with the market participant-led Alternative Reference Rate Committee convened by the Federal Reserve to develop alternatives to the U.S. Dollar LIBOR as well as a transition strategy.

Protecting Customers from Fraud

Anti-fraud enforcement remains a core commitment of the CFTC's enforcement program. During the past year, the Commission prosecuted wrongdoers for a wide range of fraudulent schemes, including Ponzi schemes that preyed upon the retail public's hopes to participate in forex trading, precious metals speculation, and commodity pools. The Commission's experience with fraudsters is that they gravitate towards, and flourish in, financial markets that are perceived to be subject to limited oversight. Therefore, the Commission must continue to devote significant resources to assure the integrity of the financial markets within its jurisdiction and to protect the retail public that wants to participate in them.

[5] *The sanctions ordered represent civil monetary penalties, disgorgement, and restitution.*

Ensuring that Markets, Firms and Participants Meet their Obligations

In protecting the markets and market participants, the Commission engages in investigations and takes enforcement action, when necessary, to make sure that firms maintain their financial integrity and that markets, firms and significant market participants fulfill their regulatory obligations. For example, the Commission conducts a comprehensive examination program to oversee compliance with the Dodd-Frank Act and Commission regulations. With the Dodd-Frank Act's expansion of the Commission's responsibility, CFTC staff is doing all it can with the available resources to ensure that the markets, firms and significant market participants uphold these essential obligations. The Commission also is making sure its registrants are meeting standards for their capitalization and handling of funds. These are intended to safeguard against market disruption and abuse from imprudent practices or intentional misconduct and to protect customers. Further, the Commission is focused on ensuring market participants are complying with reporting obligations. These requirements are essential to the CFTC's ability to conduct effective surveillance of the futures and derivatives markets that it regulates.

Necessity for Continued Engagement with International Regulators

The 2008 financial crisis demonstrated how risks taken abroad by a large financial institution can result in, or contribute to, substantial losses to U.S. persons and threaten the financial stability of the entire U.S. financial system. These failures and near failures revealed the vulnerability of the U.S. financial system and economy to systemic risk resulting from among other things, poor risk management practices of certain financial firms, the lack of supervisory oversight for certain financial institutions as a whole, and the overall interconnectedness of the global swap business. Given the global nature of the swaps market, international cooperation among regulators has been, and will continue to be, essential to regulate effectively the financial markets.

This past year, the Commission worked closely with regulators across the globe on a number of fronts. For example, CFTC staff worked successfully to ensure rules setting margin for uncleared swaps were as similar as possible among major jurisdictions, including the U.S., Europe and Japan. In addition, a major accomplishment toward harmonizing rules internationally took place in February, when the CFTC and European regulators reached an agreement that ensures European and U.S. clearinghouses can continue to provide clearing services to firms in each other's jurisdiction. The agreement ensures European market participants can carry on clearing derivatives trades on U.S. clearinghouses without incurring higher capital charges. That allows U.S. clearinghouses to remain competitive, and ensures that the global derivatives market can continue to efficiently serve the many businesses that use it. This agreement brought the U.S. and European regimes closer together and reduced the risk of regulatory arbitrage. It also makes sure clearinghouses on both sides of the Atlantic are held to high standards, which will enhance global financial stability and resilience. The Commission is already working to continue this progress, such as in the area of trading requirements, for example. Specifically, CFTC staff is working with their European colleagues on the process of recognizing of each other's trading platforms.

The Commission has taken additional steps to promote international cooperation and harmonization. It has approved the registration of six clearinghouses located outside the United States, and staff has issued exemptive orders to several foreign clearinghouses, which allow them to clear proprietary swap trades for their U.S. members and the members' affiliates without having to register with the CFTC. This includes orders for clearinghouses in Australia, Hong Kong, Japan, Korea, and temporary relief to others, such as in China. In addition, the Commission has formalized a process so foreign exchanges seeking to provide direct electronic access to U.S. citizens officially register as a foreign board of trade (FBOT). The CFTC has approved the registration of 14 exchanges as FBOTs and is currently reviewing additional applications.

The Commission will continue to be actively engaged with international regulators in IOSCO, where the CFTC is a member of the IOSCO Board and serves in leadership positions on various IOSCO committees. In addition, the Commission will continue its work with the Financial Stability Board, where it participates in several working groups. Similarly, Commission staff will continue to participate in, other international bodies and groups in order to develop international standards for DCOs, trading platforms, and various market activities. The Commission will continue to develop and maintain strong bilateral relationships with major foreign regulators, especially in emerging markets like China and India and developed markets like Europe, Japan, Singapore and Hong Kong.

Responding to the Needs of Commercial End-Users

In all the work of the Commission, staff is mindful of acting in the interest of commercial end-users, to ensure they can continue to use the derivatives markets efficiently and effectively. These commercial businesses have traditionally relied on these markets to hedge routine commercial risk, and they did not cause the global financial crisis.

Therefore, all the Commission's work is carried out with a focus on ensuring that its rules do not create undue burdens on these businesses, and we have taken several actions over the past year to this effect.

For example, the Commission finalized amendments to its rules on trade options that recognize these are different from the swaps that are the focus of the Dodd-Frank reforms. These changes will reduce the burdens on the commercial businesses that rely on them—and allow these companies to better address commercial risk. The Commission also reduced certain recordkeeping obligations related to end-users' commodity interest and related cash or forward transactions.

In addition, as part of the Commission's work to finalize its position limits rule, it unanimously proposed a supplemental rule that would ensure that commercial end-users can continue to engage in bona fide hedging efficiently for risk management and price discovery. It would permit the exchanges to recognize certain positions as bona fide hedges, subject to CFTC oversight.

This proposal is a critical piece of our effort to complete the position limits rule in the near future, as was the Commission's 2015 proposal to streamline the process for waiving aggregation requirements when one entity does not control another's trading, even if they are under common ownership. The Commission is also working to review exchange estimates of deliverable supply so that spot month limits may be set based on current data.

The Commission will continue to make being responsive to the concerns of end-users a priority in the years to come.

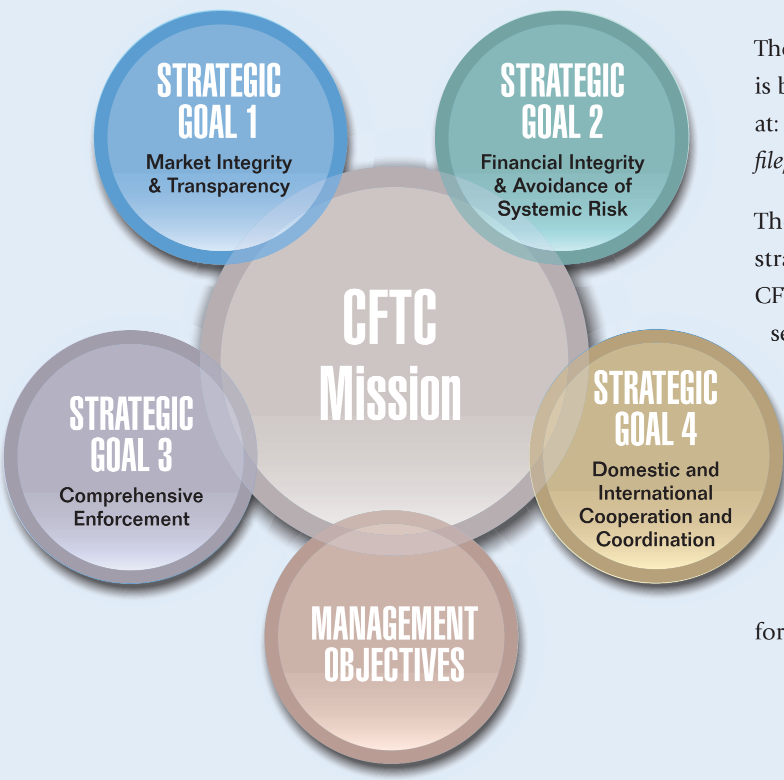
Performance Highlights

Introduction

This section outlines the CFTC's strategic and performance planning framework and summarizes progress toward CFTC's goals and objectives, as of the third quarter of FY 2016.

The FY 2016 Annual Performance Report will provide a complete discussion of all of the Commission's strategic goals, including a description of performance goals, objectives, data sources, verification and validation of all performance data, performance indicator results and trends, and information about internal reviews and evaluations. The FY 2016 Annual Performance Report will be published concurrently with the Commission's FY 2018 Congressional Budget Justification and will be available online at *http://www.cftc.gov/about/CFTCreports/index.htm*.

CFTC FY 2014 – 2018 Strategic Plan Matrix



Strategic and Performance Planning Framework

The CFTC's strategic and performance planning framework is based on the FY 2014 – FY 2018 Strategic Plan, available at: *http://www.cftc.gov/idc/groups/public/@aboutcftc/documents/file/2018strategicplan.pdf*.

The Strategic Plan outlines the Commission's mission, strategic goals, strategic objectives, and indicators. The CFTC's work is structured around four strategic goals and a set of management objectives. The goals and management objectives are supported by a set of strategic objectives whose achievement reflects progress toward meeting the strategic goals and the management objectives. The goals in CFTC's Strategic Plan are influenced by several environmental factors, including global, complex and constantly evolving securities markets. The Commission is building a robust planning process for the FY 2018 – FY 2022 Strategic Plan.

Summary of FY 2014 – 2018 Mission, Strategic Goals and Objectives

CFTC MISSION **To foster open, transparent, competitive, and financially sound markets to avoid systemic risk; and to protect market users and their funds, consumers, and the public from fraud, manipulation, abusive practices related to derivatives and other products that are subject to the Commodity Exchange Act.**	
STRATEGIC GOAL 1: *MARKET INTEGRITY AND TRANSPARENCY* **The focus of *Market Integrity and Transparency* is to recognize that derivatives markets provide a means for market users to offset price risks inherent in their businesses and to serve as a public price discovery mechanism.**	
Objective 1.1	Markets not readily susceptible to manipulation and other abusive practices.
Objective 1.2	Effective self-regulatory framework.
Objective 1.3	Availability of market information to the public and for use by authorities.
Objective 1.4	Integrate swaps data with futures and options on futures data.
STRATEGIC GOAL 2: *FINANCIAL INTEGRITY AND AVOIDANCE OF SYSTEMIC RISK* **The focus of *Financial Integrity and Avoidance of Systemic Risk* is to strive to ensure that Commission-registered DCOs, SDs, major swap participants, and futures commission merchants have the financial resources, risk management systems and procedures, internal controls, customer protection systems, and other controls necessary to meet their obligations so as to minimize the risk that the financial difficulty of any of these registrants, or any of their customers has systemic implications.**	
Objective 2.1	Reduce the risk of disruptions to the system for clearing and settlement of contract obligations.
Objective 2.2	Provide market participants with regulatory guidance.
Objective 2.3	Strong governance and oversight of Commission registrants.
Objective 2.4	Assess whether swap dealers, major swap participants and futures commission merchants maintain sufficient financial resources, risk management procedures, internal control, and customer protection practices.
STRATEGIC GOAL 3: *COMPREHENSIVE ENFORCEMENT* **Through the goal of *Comprehensive Enforcement*, the CFTC enforces the CEA and Commission regulations, and works to promote awareness of and compliance with these laws.**	
Objective 3.1	Strengthen capacity to receive and expeditiously handle high-impact tips, complaints, and referrals.
Objective 3.2	Execute rigorous and thorough investigations.
Objective 3.3	Effectively prosecute violations.
Objective 3.4	Remedy past violations, deter future violations and related consumer losses.
STRATEGIC GOAL 4: *DOMESTIC AND INTERNATIONAL COOPERATION AND COORDINATION* ***Domestic and International Cooperation and Coordination* focuses on how the Commission interacts with domestic and international regulatory authorities, market participants, and others affected by the Commission's regulatory policies and practices.**	
Objective 4.1	Broad outreach on regulatory concerns.
Objective 4.2	Sound international standards and practices.
Objective 4.3	Provide global technical assistance.
Objective 4.4	Robust domestic and international enforcement cooperation and coordination.
MANAGEMENT OBJECTIVES **To advance its mission goals and objectives, the CFTC will achieve Commission-wide excellence by empowering strong, enterprise-focused leaders, maintaining a high-performing and engaged workforce, and ensuring effective stewardship of resources.**	
Objective 5.1	A high-performing, diverse, and engaged workforce.
Objective 5.2	Effective stewardship of resources.
Objective 5.3	Robust and comprehensive consumer outreach program.

Verification and Validation of Performance Data

The Commission understands the importance of having appropriate controls in place to ensure the completeness and reliability of performance information. The CFTC views this process as an evolutionary one, with improvements developing as budget, time, and expertise will allow. At the end of 2014, the CFTC developed and put into place a new strategic plan, providing an opportunity to improve how the Commission approaches the verification and validation of the performance indicators.

The CFTC continues to build completeness and reliability into the Commission's performance management by refining performance indicators, providing detailed justifications of how the indicators gauge progress towards the strategic objectives, listing data source(s), etc. The following steps outline how the Commission is working to ensure that the performance information it reports is complete, reliable and accurate:

- Created a central repository for performance data entry, reporting and review. The electronic data tool reduces human error, increases transparency, and facilitates senior management review of the Commission's performance information.

- Developed written procedures to ensure timely reporting of complete, accurate, and reliable actual results relative to the key performance goals.

Located in the Office of the Executive Director, the Strategic and Operational Planning Office is responsible for providing direction and support on data collection methodology and analysis, ensuring that data quality checks are in place, and accurately reporting performance data.

Summary of Performance Results by Strategic Goal

The following table displays historical performance trends for all of the CFTC's performance indicators for the past five years.

		FY 2011-2015 Strategic Plan			FY 2014-2018 Strategic Plan	
		FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 as of June 30[6]
Strategic Goal 1 Market Integrity and Transparency	Target Met	4	2	4	3	6
	Target Not Met	8	8	6	1	0
	Data Not Available/Other[7]	1	2	0	4	2
Strategic Goal 2 Financial Integrity and Avoidance of Systemic Risk	Target Met	4	8	8	6	9
	Target Not Met	11	9	10	6	3
	Data Not Available/Other	3	1	0	2	0
Strategic Goal 3 Comprehensive Enforcement	Target Met	1	1	1	5	2
	Target Not Met	1	1	1	0	2
	Data Not Available/Other	1	1	0	0	0
Strategic Goal 4 Domestic and International Cooperation and Coordination	Target Met	3	2	2	2	1
	Target Not Met	0	1	1	0	0
	Data Not Available/Other	1	1	0	4	5
Management Objectives	Target Met	10	8	3	4	6
	Target Not Met	5	7	7	3	3
	Data Not Available/Other	0	0	0	4	0
Total Number of Indicators[8]		53	52	44	44	39[9]
Total Number of Indicators with Results		47	47	44	30	32
Percentage of Targets Met		46.8%	44.7%	40.9%	66.7%	75.0%

Results prior to FY 2015 are based on targets contained in the FY 2011-2015 Strategic Plan. The following in chronological order, are the results for the past five years:

- As of the end of the third quarter of FY 2016, 24 of 39 performance indicators are on track to meet their targets, 8 are not on track to meet their targets, 7 indicators did not have data available or the indicators did not have targets. In addition, 5 other indicators were discontinued or were completed as of the end of FY 2015 and are no longer being tracked.

- In FY 2015, 20 performance indicators out of 44 met their annual targets and 10 did not meet their targets. Eight performance indicators established a baseline in FY 2015 and 6 indicators either had no available data or had no set target.

- FY 2014 reporting was the last year under CFTC's FY 2011-15 Strategic Plan. Of the 44 total indicators in that strategic plan, 18 met their annual targets, while 26 did not meet targets that year.

- In FY 2013, the Commission was not provided with the commensurate increase in budget authority to oversee the markets and market participants. These constraints, which were exacerbated by the FY 2013 budget sequestration, limited the effectiveness of the Commission in carrying out its mission, leading to 21 targets met by year end.

- In FY 2012, results declined from the prior year to 22 targets being met. Progress was hampered in many areas by significant resource deficiencies and reallocations as the Commission focused on writing new rules required under the Dodd-Frank Act.

[6] *Data reflects FY 2016 third quarter results, which are the most recent data available. The total of eight results for which targets are 'Not Met' includes results for seven indicators, which may meet their targets by year end. Final FY 2016 results will be available in CFTC's Annual Performance Report.*

[7] *This category also includes indicators without results because it was the baseline year for data collection.*

[8] *Indicators from CFTC's FY 2011-2015 Strategic Plan included one indicator (Objective 0.1) to, "complete Dodd-Frank Act rule requirements within statutory deadlines," for which results are not included in this report.*

[9] *The total of 39 FY 2016 indicators are 5 less than FY 2015's 44 indicators, as 3 indicators were discontinued because the underlying effort was completed and 2 indicators were discontinued due to management discretion.*

Strategic Goals and Key Results

The selected accomplishments described below summarize CFTC's investment and performance results by highlighting key, representative indicators from each strategic goal.

Strategic Goal One

Strategic Goal One

Market Integrity and Transparency

FY 2016 INVESTMENT

Net Cost: $72.4 Million

Staffing: 186 FTE

Introduction to Strategic Goal One

Derivatives markets are designed to provide a means for market users to offset price risks inherent in their businesses and to act as a public price discovery platform from which prices are broadly disseminated for public use. For derivatives markets to fulfill their role in the national and global economy, they must operate efficiently and fairly, and serve the needs of market users. The markets best fulfill this role when they are open, competitive, and free from fraud, manipulation, and other abuses such that the prices discovered on the markets reflect the forces of supply and demand.

Strategic Goal One Key Indicator Performance Results

Objective 1.1: Markets are not readily susceptible to manipulation and other abusive practices

PERFORMANCE INDICATOR 1.1.a: Percentage of high impact contract and rule submissions received by the CFTC through the organizations, products, events, rules, and actions (OPERA) portal.

Description: This indicator captures the efficiency with which staff can receive and process exchange submissions related to contracts and rules. Through the portal, exchanges are able to electronically file submissions directly with the Commission. The portal will then automatically route submissions to relevant staff without the need for staff to input certain data elements into its systems.

FY 2014	FY 2015	FY 2016
N/A	Baseline Year	99%
Target 100%: Met		

Discussion: The OPERA portal is a multi-year project that allows exchanges to file contracts and rules electronically, improving upon the previous paper-based system. During FY 2015, the baseline year for this indicator, DCMs, SEFs, and SDRs made 2,140 product and rule amendment filings. Nearly 96 percent of those submissions were filed through the new OPERA portal. Through the end of third quarter FY 2016, submissions are consistently running at 99 percent (target is 100 percent).

The portal automatically fills various fields in the Commission Filings and Actions database that were previously input by Commission staff, thus freeing up time for analysis that was previously dedicated to data entry. The time saved allows CFTC staff more time to review product and rule amendment filings to ensure compliance with the CEA and the Commission's regulations.

Objective 1.2: Effective self-regulatory framework

PERFORMANCE INDICATOR 1.2.c: Examine compliance by exchanges and swap data repositories (SDRs) with the system safeguards and cybersecurity requirements of the CEA Core Principles and Commission regulations, prioritizing systematically important entities.

Description: Utilizing both risk-based and Core Principles-based approaches, the Commission conducts comprehensive examinations of system safeguards and cybersecurity programs at exchanges and SDRs, and prepares examinations reports when deficiencies are identified. Exchanges and SDRs are notified, and staff monitors their remediation efforts.

FY 2014	FY 2015	FY 2016
N/A	5 system safeguards (SSEs) examinations	On target as of Q3
Target 100%: Met		

Discussion: The Commission completed three of five system safeguard exams for systemically important entities during FY 2016. Two additional onsite reviews for system safeguard exams will be conducted in the fourth quarter. The division is on track to achieve the year-end target. Each year, the Commission plans and conducts comprehensive examinations of system safeguards and cybersecurity programs at exchanges and SDRs. The CFTC prepares reports when deficiencies are identified and notifies the examined entities. The CFTC then monitors their remediation efforts.

Strategic Goal Two

Strategic Goal Two

Financial Integrity and Avoidance of Systemic Risk

FY 2016 INVESTMENT

Net Cost: $85.6 Million

Staffing: 221 FTE

Introduction to Strategic Goal Two

In fostering financially sound markets, the Commission's main priorities are to avoid disruptions to the system for clearing and settling contract obligations and to protect the funds that customers entrust to futures commission merchants and other intermediaries. Effective regulatory oversight of clearing and intermediary entities is integral to the financial integrity of derivatives transactions, and by extension, the faith and confidence of market users. Key aspects of the CFTC's regulatory framework for achieving Goal Two are:

- Requiring that market participants post margin to secure their ability to fulfill financial obligations.
- Requiring participants on the losing side of trades to meet their obligations, in cash, through daily (sometimes intraday) margin calls.
- Requiring futures commission merchants and other intermediaries to maintain minimum levels of operating capital, and effective risk management procedures.
- Requiring futures commission merchants to segregate customer funds from their own funds.

Strategic Goal Two Key Indicator Performance Results

Objective 2.1: Avoid disruptions to the system for clearing and settlement of contract obligations

PERFORMANCE INDICATOR 2.1.a: Conduct back testing of DCOs' material product and portfolio initial margin requirements to assess their sufficiency.

Description: To measure the sufficiency of margin requirements, the Commission back tests the profit or loss of a given product or portfolio against the margin requirement for the applicable liquidation period. The defaulting firm's margin contributions are the first financial resource used to cover the financial impact of a clearing member default. To the extent margin can cover the financial impact of the default, the DCO will not have to use its own resources to cover the balance.

FY 2014	FY 2015	FY 2016
N/A	Conducted back-testing of products and portfolios of two DCOs	Conducted back-testing of products and portfolios of five DCOs
Target three DCOs: Met		

Discussion: The Commission was able to back-test five DCOs by the third quarter.

PERFORMANCE INDICATOR 2.1.c: Aggregate cleared swaps, futures, and options positions into a comprehensive risk surveillance process and conduct analysis for each material market participant.

Description: The Commission has a comprehensive program in place to aggregate and conduct risk surveillance of market participants' futures and options positions. The Commission is developing procedures to aggregate swap positions across multiple DCOs and the asset classes for which such DCOs offer clearing services. Upon the development of such procedures, the Commission will be in a position to aggregate the risk of market participants that trade futures, swaps, and options and conduct risk surveillance for that aggregate portfolio.

FY 2014	FY 2015	FY 2016
N/A	Aggregations completed for 25 market participants	Aggregations completed for 15 market participants
Target Number of market participants is TBD, based on beta testing: Met		

Discussion: Year-to-date, the Commission has completed aggregations of cleared swaps, futures and options positions for 15 market participants. These aggregations represent a baseline risk figure for each firm, allowing the Commission to monitor each firm's positions for increases in risk. Since the start of FY 2015, the Commission has completed 40 aggregations of market participants, which represents 20 percent completion of this 10-year program. Further, the Commission has developed a report that allows CFTC staff to see the directional position for each interest rate customer with a margin requirement in excess of $100 million. Data in the report will allow users to see interest rates and interest rate swaps together. The Commission is also aggregating risk of interest rate futures and interest rate swap accounts that have margin requirements in excess of $100 million and creating a house interest rate swap dashboard that will show interest rate futures and interest rate swap exposure. During the year, the CFTC began extensive work on a stress testing exercise involving house accounts across multiple DCOs and asset classes. House accounts are stressed using multiple scenarios.

Strategic Goal Three

Strategic Goal Three

Comprehensive Enforcement

FY 2016 INVESTMENT
Net Cost: $106.5 Million
Staffing: 274 FTE

Introduction to Strategic Goal Three

The Commission is committed to prosecuting violations of the CEA and Commission regulations to protect market participants and promote market and financial integrity. The Commission's Division of Enforcement investigation and litigation matters are broadly categorized into four areas: 1) manipulation, 2) trade practice,[10] 3) fraud, and 4) supervision and control.

[10] *Trade practice violations generally include disruptive trading, spoofing, wash sales, and other activities that interfere with the competitive trading of exchange-traded contracts.*

Strategic Goal Three Key Indicator Performance Results

Objective 3.1: Strengthen capacity to receive and expeditiously handle high-impact tips, complaints, and referrals

PERFORMANCE INDICATOR 3.1.b.2: Develop comprehensive communication strategy, geared for internal and external stakeholders, relating to role of whistleblowers and the function of the Whistleblower Office (WBO).

Description: The Commission will participate in five annual public forums and trade shows annually, including the national Futures Industry Association Conference. This measure reflects the need of the WBO to communicate effectively to external audiences. Outreach is an essential part of the program. The WBO will send the message that the program is in place and emphasize in its message the rewards and protections offered by Section 23 of the CEA and the Commission regulations. Whistleblowers provide the Commission with the opportunity to receive timely information relating to potential violations of the CEA that may not otherwise be available.

FY 2014	FY 2015	FY 2016
N/A	Participated in 12 public forums and trade shows	Participated in 16 annual public forums and trade shows
Target 100%: Met		

Discussion: The intent of these outreach efforts is to inform the public about the assistance and protections available under the CFTC's Whistleblower Program, which could translate into market participants coming forward with key information. The Whistleblower Office attended eight annual public forums and trade shows for the third quarter. The Whistleblower Office has met its annual target and currently has attended a total of 16 public forums and trade shows for FY 2016 by the third quarter.

Objective 3.2: Execute rigorous and thorough investigations

PERFORMANCE INDICATOR 3.2.a: Percentage of enforcement investigations completed within 18 months of opening, depending on the nature and scope of investigations.

Description: This indicator identifies the percentage of investigations that the Commission closes within 18 months of their opening, depending upon the nature and scope of the investigations and resources available. In conducting investigations, the enforcement program endeavors to complete effective and fair investigations in a timely manner.

FY 2014	FY 2015	FY 2016
N/A	75%	70%
Target 75%: Not Met (as of 3rd Quarter)		

Discussion: The investigation closeout indicator dipped slightly due to the increased workload from managing significant ongoing litigations, including MF Global, and Oystacher, as well as trying two cases to verdict. Moreover, significant filings against financial institutions have continued as part of the CFTC's investigation into the manipulation of global benchmarks such as LIBOR, FX, and ISDA. In fourth quarter, some of these litigations continued and there are additional large and complex litigations which may result in a similar, within 18 months, investigation closeout period.

Strategic Goal Four

Strategic Goal Four

Domestic and International Cooperation and Coordination

FY 2016 INVESTMENT

Net Cost: $13.5 Million

Staffing: 35 FTE

Introduction to Strategic Goal Four

The implementation of comprehensive regulations under the Dodd-Frank Act legislation marked a new era in the swaps marketplace by mandating, among other things, the regulation of SDs, clearing of swaps, transaction reporting, trade execution and transparency with respect to those transactions. Because the swaps market is a global market, international cooperation among regulators is necessary to regulate financial markets effectively.

Recognizing this risk, President Obama joined with other G-20 Leaders in 2009 to require that all major market jurisdictions bring swaps under regulation. Since that date, the Commission has been engaged in an unprecedented outreach to major market jurisdictions and expanded involvement in numerous international working groups to encourage the adoption of swaps regulations consistent with the G-20 Leaders' commitments.

Strategic Goal Four Key Indicator Performance Results

Objective 4.4: Robust Domestic and International Enforcement Cooperation and Coordination

PERFORMANCE INDICATOR 4.4.a: Leverage the impact of its enforcement program through coordination with self-regulatory organizations and active participation in domestic and international cooperative enforcement efforts.

Description: This indicator reflects the Commission's continued participation in regular meetings with the self-regulatory organizations and with domestic and international cooperative partners.

FY 2014	FY 2015	FY 2016
N/A	Participated in 11 domestic and international cooperative meetings, task forces, etc.	Participated in 43 domestic and international cooperative enforcement meetings, task forces, etc.
Target 7 Meetings: Met		

Discussion: The Division of Enforcement has far exceeded its annual target of seven engagements for FY 2016. For example, during the third quarter the DOE participated in 2 international enforcement committee/working group meetings and 15 meetings domestic cooperative enforcement regional and national enforcement working groups.

This indicator reflects the Commission's continued participation in regular meetings with the self-regulatory organizations and with domestic and international cooperative partners. The Commission's enforcement program regularly meets with the self-regulatory organizations to discuss matters of common interest; including investigations, enforcement actions, and the sanctioning of violative conduct. The Commission's enforcement program also works cooperatively with both domestic and international authorities to maximize its ability to detect, deter, and bring sanctions against wrongdoers involving U.S. markets, registrants, and customers.

Management Objectives

Management Objectives

FY 2016 INVESTMENT

The staffing and net cost associated with the management objectives are equally distributed among the four preceding strategic goals.

Introduction to Management Objectives

The Management Objectives section addresses those areas that enable the Commission to execute its mission of protecting market users and the public from fraud, manipulation, and abusive practices. Excellence in this area is reflected in strong and focused planning and governance, top notch IT and infrastructure, sufficient facilities, efficient use of resources, and an educated and productive workforce.

Management Objectives Key Indicator Performance Results

Objective 5.2: Effective Stewardship of Resources

PERFORMANCE INDICATOR 5.2.a: Improved CFTC customer satisfaction with management programs and services.

Description: Resource allocation, including financial, human, and information technology resources, is one of the primary services provided by mission support. Design and conduct a survey in FY 2014.

FY 2014	FY 2015	FY 2016
N/A	Baseline	Draft CFTC customer survey completed
Target Baseline: Baseline Year		

Discussion: Draft customer satisfaction surveys for ODT and OED have been approved by leadership and have been submitted for management review. After final review, the surveys will be implemented in early FY 2017 and repeated annually to benchmark customer satisfaction with management programs and services.

Objective 5.3: A Robust and Comprehensive Consumer Outreach Program

PERFORMANCE INDICATOR 5.3.b: Robust and Comprehensive Consumer Outreach Program.

Description: Reach: Level of people exposure to CFTC educational materials, messages or publications.

- Awareness: Knowledge of the CFTC, those who view it as a resource for submitting fraud complaints and tips, or those who have completed actions recommended by education initiatives.
- Engagement: Quality of relationships with customers and stakeholders who have an interest in and/or contribute to advancing the office's educational initiatives' educational goals; the quantity and length of interactions with customers online.

FY 2014	FY 2015	FY 2016
N/A	Baseline	Baseline
Target Baseline: Baseline Year		

Discussion: During FY 2016, the Commission developed a robust set of indicators that gauge the effectiveness of the CFTC's customer outreach program, three of which are described below. These indicators gauge the reach, awareness of and engagement with the program. An important indicator for Office of Customer Education and Outreach of the 'reach' of the program is the combination of paid and earned media impressions (515 million through August 15, 2016). This combined figure represents the number of opportunities for people to see Office of Customer Education and Outreach's ads or learn about the CFTC in the news. Office of Customer Education and Outreach gauges 'awareness' of its programs by measuring the number of SmartCheck.gov sessions (slightly more than 695,000 through August 15, 2016). Finally, the CFTC measures 'engagement' by measuring background check referrals (slightly more than 66,000 through August 15, 2016). This indicator is a gauge of those people who absorbed CFTC's message and took the intended action.

Financial Highlights

The table below presents trend information for each major component of the Commission's balance sheets and statements of net cost for FY 2012 through FY 2016. The table is immediately followed by a discussion and analysis of the Commission's major financial highlights for FY 2016.

5-Year Financial Summary

Highlights	2016	2015	2014	2013	2012
Condensed Balance Sheet Data					
Fund Balance with Treasury	$ 71,891,891	$ 67,246,060	$ 47,070,343	$ 36,467,970	$ 82,557,690
Investments	244,000,000	263,000,000	270,000,000	95,000,000	77,135,901
Accounts Receivable	13,120	18,614	11,112	13,252	20,976
Prepayments	2,847,772	2,473,459	1,712,871	1,541,681	1,803,497
Custodial Receivables, Net	15,089,568	4,696,176	4,218,788	69,744,626	4,140,347
General Property, Plant, and Equipment, Net	48,357,120	50,358,266	54,464,549	58,251,172	53,410,435
Deferred Costs	–	28,487	64,201	220,953	1,234,223
TOTAL ASSETS	**$382,199,471**	**$387,821,062**	**$377,541,864**	**$261,239,654**	**$220,303,069**
Accounts Payable	$ 10,589,674	$ 8,607,890	$ 5,483,221	$ 5,092,410	$ 7,217,772
FECA Liabilities	505,002	498,101	549,734	596,353	764,243
Accrued Payroll and Annual Leave	16,647,297	15,004,112	13,007,491	11,651,586	16,477,676
Custodial Liabilities	15,089,568	4,696,176	4,218,788	69,744,626	4,140,347
Deposit Fund Liabilities	265,828	179,806	134,683	83,997	77,098
Deferred Lease Liabilities	28,293,139	25,673,457	25,961,973	25,241,114	24,808,042
Contingent Liabilities	–	300,000	85,000	–	–
Other	–	22,397	11,699	19,600	19,050
TOTAL LIABILITIES	**$ 71,390,508**	**$ 54,981,939**	**$ 49,452,589**	**$112,429,686**	**$ 53,504,228**
Unexpended Appropriations – All Other Funds	53,836,721	50,997,602	35,420,980	25,006,039	46,349,473
Cumulative Results of Operations – Funds from Dedicated Collections	247,550,496	267,612,410	274,315,312	99,904,291	99,996,749
Cumulative Results of Operations – All Other Funds	9,421,746	14,229,111	18,352,983	23,899,638	20,452,619
Total Net Position	**310,808,963**	**332,839,123**	**328,089,275**	**148,809,968**	**166,798,841**
TOTAL LIABILITIES AND NET POSITION	**$382,199,471**	**$387,821,062**	**$377,541,864**	**$261,239,654**	**$220,303,069**
Condensed Statements of Net Cost					
Gross Costs	$ 278,141,094	$ 249,861,126	$ 217,450,008	$ 218,155,538	$ 207,618,265
Earned Revenue	(55,123)	(53,074)	(31,375)	(49,483)	(227,504)
TOTAL NET COST OF OPERATIONS	**$278,085,971**	**$249,808,052**	**$217,418,633**	**$218,106,055**	**$207,390,761**
Net Cost of Operations by Strategic Goal[11]					
Goal One – Market Integrity and Transparency	$ 72,413,587	$ 68,322,502	N/A	N/A	N/A
Goal Two – Financial Integrity and Avoidance of Systemic Risk	85,650,480	73,918,203	N/A	N/A	N/A
Goal Three – Comprehensive Enforcement	106,506,926	95,501,618	N/A	N/A	N/A
Goal Four – Domestic and International Cooperation and Coordination	13,514,978	12,065,729	N/A	N/A	N/A
Goal One – Market Integrity	N/A	N/A	$ 56,746,263	$ 62,225,658	$ 59,168,584
Goal Two – Clearing Integrity	N/A	N/A	51,963,054	57,470,946	54,647,465
Goal Three – Robust Enforcement	N/A	N/A	71,530,730	64,123,179	60,972,883
Goal Four – Cross-Border Cooperation	N/A	N/A	11,740,606	7,306,553	6,947,591
Goal Five – Organizational and Management Excellence	N/A	N/A	25,437,980	26,979,719	25,654,238
TOTAL NET COST OF OPERATIONS BY STRATEGIC GOAL	**$ 278,085,971**	**$ 249,808,052**	**$217,418,633**	**$218,106,055**	**$207,390,761**

[11] *In 2015, the CFTC issued its FY 2014-2018 Strategic Plan. With this plan, the Commission changed Strategic Goal 5, Organizational and Management Excellence, into Management Objectives*

Financial Discussion and Analysis

The CFTC prepares annual financial statements in accordance with GAAP for Federal government entities and subjects the statements to an independent audit.

Management recognizes the need for performance and accountability reporting, and regularly assesses risk factors that could have an impact on the Commission's ability to effectively report. Improved reporting enables managers to be accountable and supports the concepts of the Government Performance and Results Act (GPRA), which requires the Commission to: 1) establish a strategic plan with programmatic goals and objectives; 2) develop appropriate measurement indicators; and 3) measure performance in achieving those goals.

The financial summary as shown on the preceding page highlights changes in financial position between September 30, 2016, and September 30, 2015. This overview is supplemented with brief descriptions of the nature of each required financial statement and its relevance. Certain significant balances or conditions featured in the graphic presentation are explained in these sections to help clarify their relationship to Commission operations. Readers are encouraged to gain a deeper understanding by reviewing the Commission's financial statements and notes to the accompanying audit report presented in the Financial Section of this report.

Understanding the Financial Statements

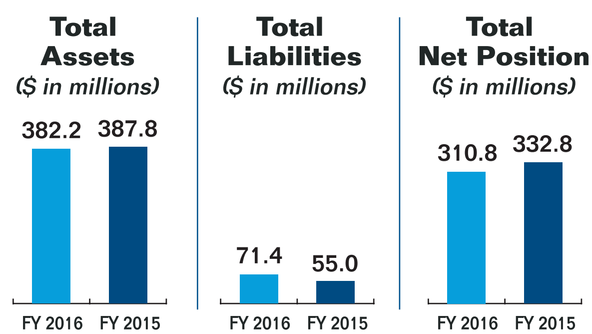
The CFTC presents financial statements and notes in accordance with accounting principles generally accepted in the United States of America and in the form and content requirements of OMB Circular A-136, *Financial Reporting Requirements*, which is revised annually by OMB in coordination with the U.S. Chief Financial Officers Council. The CFTC's current year and prior year financial statements and notes are presented in a comparative format.

The chart below presents changes in key financial statement line items, as of and for, the fiscal year ended September 30, 2016, compared to September 30, 2015.

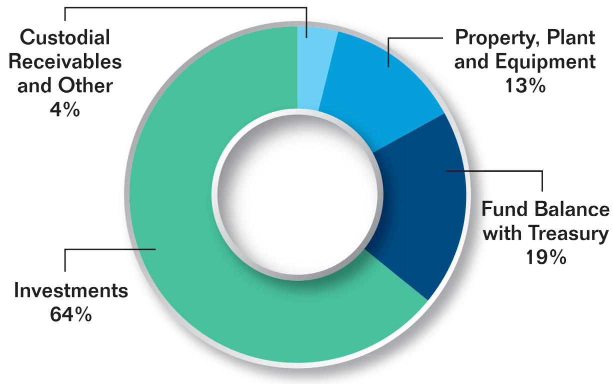
Key Financial Statement Line Items	2016	2015, as Restated	$ Change	% Change
Total Assets	$ 382,199,471	$ 387,821,062	$ (5,621,591)	(1.45%)
Total Liabilities	$ 71,390,508	$ 54,981,939	$ 16,408,569	29.84%
Total Net Position	$ 310,808,963	$ 332,839,123	$ (22,030,160)	(6.62%)
Total Net Cost of Operations	$ 278,085,971	$ 249,808,052	$ 28,277,919	11.32%
Total Budgetary Resources	$ 315,215,866	$ 298,325,883	$ 16,889,983	5.66%
Apportioned	$ 246,556,853	$ 270,359,908	$ (23,803,055)	(8.8%)
Unapportioned	$ (194,232,932)	$ (209,897,098)	$ 15,664,166	7.46%
Total Remaining Unfunded Lease Obligations	$ 194,378,658	$ 210,042,824	$ (15,664,166)	(7.46%)
New Obligations and Upward Adjustments	$ 270,891,918	$ 258,702,003	$ 12,189,915	4.71%
Gross Outlays	$ 265,476,500	$ 234,914,187	$ 30,562,313	13.01%
Custodial Receivables/Liabilities	$ 15,089,568	$ 4,696,176	$ 10,393,392	221.32%

Balance Sheet

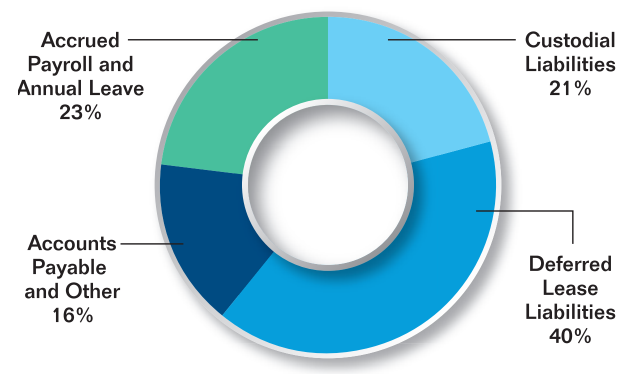
The Balance Sheet presents, as of a specific point in time, the assets and liabilities retained or managed by the Commission. The difference between assets and liabilities represents the net position of the Commission.



FY 2016 Total Assets (Composition)



FY 2016 Total Liabilities (Composition)



Total Assets: For the year ended September 30, 2016, the Balance Sheet reflects total assets of $382.2 million. This is a decrease of $5.6 million, or 1.5 percent, over FY 2015. The decrease is primarily due to a $19 million decrease in investments, offset by increases of $10.4 million in custodial receivables and $4.6 million in Fund Balance with Treasury.

The $19 million, or 7.2 percent, decrease in Investments was due to the redemption of investments to pay eligible expenses of the CFTC Customer Protection Fund (CPF) during the fiscal year, including $11.6 million in whistleblower awards.

The $10.4 million, or 221.3 percent, increase in Custodial Receivables is due to an increase in the number and amount of receivables for civil monetary sanctions that are estimated to be collectible as of September 30, 2016. The number and amount of civil monetary sanctions are driven by enforcement actions in any given fiscal year.

The $4.6 million, or 6.9 percent, increase in Fund Balance with Treasury was primarily due to appropriations of $250 million in excess of outlays from appropriated funds of $245.8 million due to the timing of cash payments.

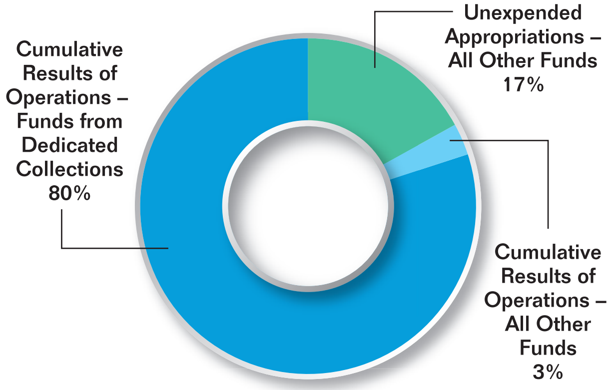
Total Liabilities: For the year ended September 30, 2016, the Balance Sheet reflects total liabilities of $71.4 million. This is an increase of $16.4 million, or 29.8 percent, over FY 2015. The increase is primarily due to increases in Custodial Liabilities, Deferred Lease Liabilities, and Accounts Payable of $10.4 million, $2.6 million, and $2.0 million, respectively.

The $10.4 million, or 221.3 percent, increase in Custodial Liabilities is directly related to the increase in Custodial Receivables discussed above. As custodial receivables are established, an offsetting custodial liability is also created to recognize the Commission's custodial responsibility for these receivables that are assets to be used by the Federal government, rather than the Commission.

The $2.6 million, or 10.2 percent, increase in Deferred Lease Liabilities is primarily the result of credits for rent taken in FY 2016 that were spread over the life of the lease.

Accounts payable, which represents the amount owed to Federal and non-Federal vendors for goods and services received but not yet paid for at the end of the reporting period, increased by $2.0 million, or 23 percent, primarily due to unbilled costs for paralegal, advisory, and other services received through September 30, 2016.

FY 2016 Total Net Position (Composition)



Total Net Position: For the year ended September 30, 2016, the Balance Sheet reflects a total net position of $310.8 million. This is a decrease of $22.0 million, or 6.6 percent, over FY 2015. The combined decrease in Total Net Position is the result of decreases of $20.1 million in Cumulative Results of Operations—Funds from Dedicated Collections and $4.8 million in Cumulative Results of Operations—All Other Funds, offset by an increase in Unexpended Appropriations—All Other Funds of $2.8 million.

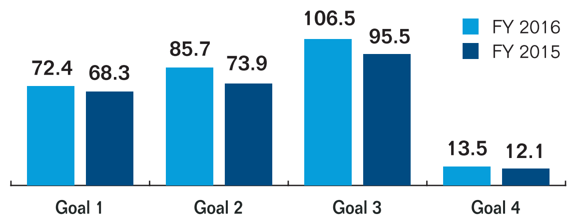
The $20.1 million, or 7.5 percent, decrease in Cumulative Results of Operations—Funds from Dedicated Collections is due to CPF expenses of $20.6 million offset by interest revenue of $490 thousand.

The $4.8 million, or 33.8 percent, decrease in Cumulative Results of Operations—All Other Funds is primarily due to an increase in unfunded liabilities of $189 thousand (e.g., accruals for annual leave and Federal Employees' Compensation Act (FECA) expenses and contingent liabilities), net loss on disposal of fixed assets of $552 thousand, and accumulated depreciation and amortization of fixed assets of $15.4 million in excess of fixed asset purchases of $11.3 million.

The $2.8 million, or 5.6 percent, increase in Unexpended Appropriations—All Other Funds is primarily due to FY 2016 appropriations received of $250 million in excess of appropriations used of $247.2 million due to the timing of actual cash payments.

Statement of Net Cost

Total Net Cost of Operations By Strategic Goal
($ in millions)



This statement is designed to present the components of the Commission's net cost of operations. Net cost is the gross cost incurred less any revenues earned from Commission activities. The Commission experienced a $28.3 million, or 11.3 percent, increase in the total net cost of operations during FY 2016.

This overall increase is made up of increases of $12.0 million in payroll, $11.2 million in Whistleblower awards, $7.9 million in technology and non-Federal service contracts, and $2.8 million in depreciation, offset by decreases of $5.0 million in leases and $684 thousand in travel. $3.3 million, or 11 percent, of the total increase in gross costs was intragovernmental, primarily for employee benefit payments.

The $12.0 million increase in total payroll costs is primarily the result of a two percent across-the-board increase and up to three percent merit increase that was implemented in the third quarter of FY 2015. These fourth quarter FY 2015 salary increases resulted in increased payroll costs for all of FY 2016, for salary and any benefit costs affected by salary increases, despite an approximate decrease in the number of employees by 11, or 1.5 percent.

The $16.3 million increase in non-payroll expenses is reasonable considering the $13.8 million increase in Whistleblower awards and CPF operating expenses, and that FY 2015 year-end undelivered orders were $15.6 million, or 47 percent, higher than FY 2014. This increase in undelivered orders in FY 2015 was primarily due to a 16 percent increase in appropriations received in FY 2015 over FY 2014, which resulted in increased FY 2016 outlays due to contract periods of performance extending beyond the end of the prior fiscal year and the timing of cash payments.

The Statement of Net Cost is categorized by the following four strategic goals:

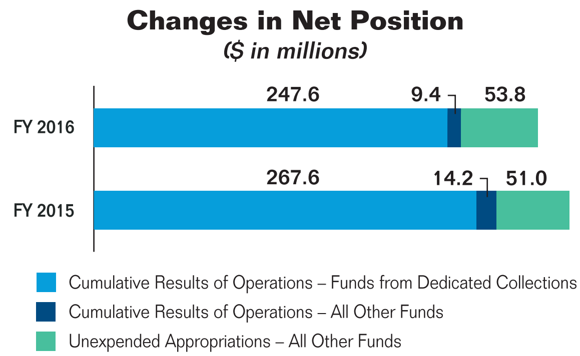
- The focus of **Strategic Goal One**, *Market Integrity and Transparency*, is to recognize that derivatives markets provide a means for market users to offset price risks inherent in their businesses and to serve as a public price discovery mechanism. In FY 2016, the net cost of operations for this goal was $72.4 million or 26.0 percent of total net cost of operations.

- The focus of **Strategic Goal Two**, *Financial Integrity and Avoidance of Systemic Risk*, is to strive to ensure that Commission-registered derivatives clearing organizations (DCOs), swap dealers (SDs), major swap participants (MSPs), and futures commission merchants (FCMs) have the financial resources, risk management systems and procedures, internal controls, customer protection systems, and other controls necessary to meet their obligations so as to minimize the risk that the financial difficulty of any of these registrants, or any of their customers has systemic implications. In FY 2016, the net cost of operations for this goal was $85.7 million or 30.8 percent of total net cost of operations.

- Through **Strategic Goal Three**, *Comprehensive Enforcement*, the CFTC enforces the CEA and Commission regulations, and works to promote awareness of and compliance with these laws. In FY 2016, the net cost of operations for this goal was $106.5 million or 38.3 percent of total net cost of operations.

- The focus of **Strategic Goal Four**, *Domestic and International Cooperation and Coordination*, is on how the Commission interacts with domestic and international regulatory authorities, market participants, and others affected by the Commission's regulatory policies and practices. In FY 2016, the net cost of operations for this goal was $13.5 million or 4.9 percent of total net cost of operations.

Statement of Changes in Net Position



The Statement of Changes in Net Position presents the Commission's cumulative net results of operations and unexpended appropriations for the fiscal year. The CFTC's Net Position decreased by $22.0 million, or 6.6 percent in FY 2016. As explained in the Total Net Position discussion in the Balance Sheet section above, this combined decrease in Total Net Position is the result of decreases of $20.1 million in Cumulative Results of Operations—Funds from Dedicated Collections and $4.8 million in Cumulative Results of Operations—All Other Funds, offset by an increase in Unexpended Appropriations—All Other Funds of $2.8 million.

The $20.1 million, or 7.5 percent, decrease in Cumulative Results of Operations—Funds from Dedicated Collections is due to CPF expenses of $20.6 million offset by interest revenue of $490 thousand.

The $4.8 million, or 33.8 percent, decrease in Cumulative Results of Operations – All Other Funds is primarily due to an increase in unfunded liabilities of $189 thousand (e.g., accruals for annual leave and FECA expenses and contingent liabilities), net loss on disposal of fixed assets of $552 thousand, and accumulated depreciation and amortization of fixed assets of $15.4 million in excess of fixed asset purchases of $11.3 million.

The $2.8 million, or 5.6 percent, increase in Unexpended Appropriations—All Other Funds is primarily due to FY 2016 appropriations received of $250 million in excess of appropriations used of $247.2 million due to the timing of actual cash payments.

Statement of Budgetary Resources

$250.0 MILLION
FY 2016 Appropriation

$265.5 MILLION
FY 2016 Gross Outlays

This statement provides information about the provision of budgetary resources and its status as of the end of the year. Information in this statement is consistent with budget execution information and the information reported in the *Budget of the U.S. Government*, FY 2016.

In order to fairly present the Commission's budgetary resources and the status of those resources, CFTC has restated its FY 2015 Statement of Budgetary Resources to record Unfunded Lease Obligations for the full amount of obligations remaining on CFTC's active leases for building space. These Unfunded Lease Obligations have resulted from the Commission's budgetary accounting for its active leases for building space. The CFTC was granted independent leasing authority in 1974, and received authority to expend appropriated funds on multiple-year leases in FY 1981. The CFTC's historical practice has been to obligate only the annual portion of lease payments due each fiscal year. On February 4, 2016, GAO issued Comptroller General Decision B-327242, *Commodity Futures Trading Commission—Recording of Obligations for Multiple-Year Leases* ("Decision"). This Decision concluded that CFTC's historical practice of recording multiple-year lease obligations on an annual basis violated the recording statute, 31 U.S.C. § 1501(a)(1). The Decision further indicated that the Commission needs to determine whether "the failure to properly record these obligations has resulted in the obligation of funds in excess of appropriations in violation of the Antideficiency Act."

After considering GAO's decision, the Commission concluded that it should report a budgetary obligation for the full amount of the lease agreements in its statements of budgetary resources retrospectively. This error has been corrected in the financial statements with an increase in obligations as of September 30, 2016, and 2015, of $194,378,658 and $210,042,824, which represents the full amount of obligations remaining on CFTC's active leases at the end of FY 2016 and 2015, respectively. The recording of these previously unrecorded obligations resulted in negative unapportioned balances for both FY 2016 and 2015 because budgetary resources have not been made available to the Commission to fund these multi-year leases. This correcting entry reduced the beginning unobligated balance by the amount of the unfunded lease obligations that remained unliquidated at the beginning of FY 2016 and FY 2015 of $210,042,824 and 230,177,054, respectively. The change (decrease) in unfunded lease obligations during FY 2016 and FY 2015 was $15,664,166 and $20,134,230, respectively. This decrease reflects the amount of lease payments paid through current year appropriations each year and the Unfunded Lease Obligations balance will be fully liquidated once all active leases for building space have ended on September 30, 2025.

The Commission's Total Budgetary Resources prior to recording its Unfunded Lease Obligations were $525.3 million and $528.5 million, as of September 30, 2016, and 2015, respectively. After recording the Commission's full Unfunded Lease Obligations and restating the FY 2015 Statement of Budgetary Resources, the Commission's Total Budgetary Resources decreased by $194,378,658 and $210,042,824, as of September 30, 2016, and 2015, respectively. The adjusted change in Total Budgetary Resources reflects an increase of $16.9 million, or 5.7 percent, from $298.3 million to $315.2 million primarily due to the $20.1 million reduction in Unfunded Lease Obligations discussed above, offset by a $5.8 million reduction in CPF available authority.

Gross Outlays increased by $30.6 million, or 13.0 percent, due to more funds expended in FY 2016 then in FY 2015, primarily due to the increase in FY 2015 year-end undelivered orders discussed above, which affects FY 2016 outlays due to contract periods of performance extending beyond the end of the prior fiscal year and the timing of cash payments. Gross Outlays are not affected by the Unfunded Lease Obligations correcting entry discussed above.

Statement of Custodial Activity

Total Cash Collections
($ in millions)

Registration and Filing Fees	$	1.4
Fines, Penalties, and Forfeitures	$	479.9
General Proprietary Receipts	$	–*
	$	**481.3**

* *Total cash collections include $2.4 thousand, or < $0.1 million, in general proprietary receipts.*

Total Disposition of Collections
($ in millions)

This statement provides information about the sources and disposition of collections. CFTC transfers eligible funds from dedicated collections to the Customer Protection Fund when the balance falls below $100 million and other non-exchange revenue to the Treasury general fund. Collections primarily consist of fines, penalties, and forfeitures assessed and levied against businesses and individuals for violations of the CEA or Commission regulations. They also include non-exchange revenues such as registration, filing, appeal fees, and general receipts. The Statement of Custodial Activity reflects total cash collections for FY 2016 in the amount of $481.3 million, a decrease of $2.4 billion, or 83.1 percent, over FY 2015. This decrease in collections was expected due to nine large collections in FY 2015 ranging in amounts from $35 million to $800 million that resulted from the Commission's enforcement cases related to attempted manipulation of global foreign exchange and LIBOR benchmark rates. Of the $481.3 million in FY 2016 cash collections, all $481.3 million was transferred to the Treasury because the CPF fund balance exceeded $100 million so no collections were eligible to be transferred to it.

An allowance for uncollectible accounts has been established and included in the accounts receivable on the Balance Sheet. Although historical experience has indicated that a high percentage of custodial receivables prove uncollectible, the Commission determines the collectability of each individual judgment based on knowledge of the financial profile of the debtor obtained through the course of the investigation and litigation of each case, including efforts to identify and freeze assets at the beginning of cases, when any remaining assets are most likely to be recoverable. Accounts are re-estimated quarterly based on account reviews and the agency's determination that changes to the net realizable value are needed.

Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the CFTC for FY 2016 and FY 2015 pursuant to the requirements of Title 31 of the U.S. Code, section 3515 (b).

While these statements have been prepared from the books and records of the Commission in accordance with GAAP for Federal entities and the formats prescribed by OMB Circular A-136, *Financial Reporting Requirements*, these 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 represent a component of the U.S. government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.

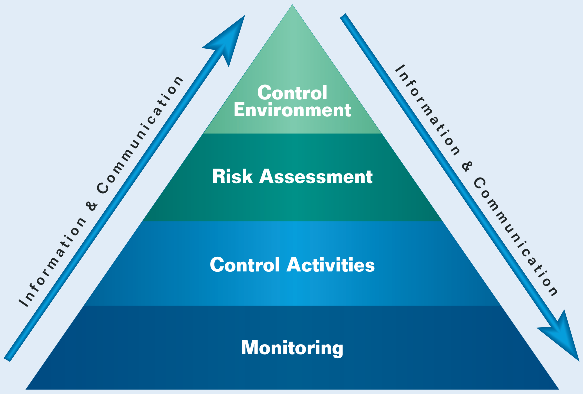
Management Assurances

Management Overview

The CFTC is committed to management excellence and recognizes the importance of strong financial systems and internal controls to ensure accountability, integrity, and reliability. This operating philosophy has permitted the Commission to make significant progress in documenting and testing its internal controls over reporting, as prescribed in OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The graph below depicts all five components of the internal control process that must be present in an organization to ensure an effective internal control process.

- **Control Environment** is the foundation for an internal control system. It represents management's commitment to encourage the highest level of integrity, personal/professional standards, and promotes internal control through our leadership philosophy and operational style.
- **Risk Assessment** is the identification and analysis of risks associated with business processes, financial reporting, financial systems, controls and legal compliance in the pursuit of agency goals and objectives.
- **Control Activities** are the actions supported by management policies and procedures to address risk, e.g., performance reviews, status of funds reporting, and asset management reviews.
- **Information and Communication** ensure the agency's control environment, risks, control activities, and performance results are communicated throughout the agency.
- **Monitoring** is the assessment of internal control performance to ensure the internal control processes are properly executed and operating effectively in compliance with agency policies and procedures.

Internal Control Process



The Commission relies on its performance management and internal control framework to:

- Ensure that its divisions and mission support offices achieve the intended strategic objectives and performance goals efficiently and effectively;
- Ensure the maintenance and use of reliable, complete, and timely data for decision-making at all levels; and
- Ensure compliance with applicable laws and regulations.

Statement of Assurance

The Statement of Assurance is required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The assurance is for internal controls over operational effectiveness (we do the right things to accomplish our mission) and operational efficiency (we do things right).

Statement of Assurance

"CFTC management is responsible for establishing and maintaining effective internal controls and that the financial management systems meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The CFTC conducted an assessment of its internal controls for effectiveness and efficiency of operations and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of this evaluation, the CFTC can provide reasonable assurance that its internal controls as of September 30, 2016 were operating effectively and no materials weaknesses or significant deficiencies were found in the design or operation of the internal controls.

In addition, the CFTC conducts management and internal control reviews which serve as a means of assessing the effectiveness of internal controls over reporting. These reviews include an assessment of CFTC's safeguarding of assets, the use of budget authority and other laws and regulations that could have a material effect on the financial statements, in accordance with the requirements of Appendix A to OMB Circular A-123, Internal Control Over Reporting. Based on the results of this evaluation, the CFTC provides reasonable assurance that its internal controls over reporting as of September 30, 2016 were operating effectively and no material weaknesses or significant deficiencies were found in the design or operation of the internal controls over reporting.

The CFTC also reviews the United States Department of Transportation Quality Control Review of Controls Over the Enterprise Services Center Report conducted in accordance with the American Institute of Certified Public Accountants (AICPA) Statements on Standards for Attestation Engagements (SSAE 16) provided by the shared service provider maintaining our financial management system. The report addresses requirements outlined in Appendix D of OMB Circular A-123, Compliance with the Federal Financial Management Improvement Act of 1996. Based on the results of these reviews, the CFTC provides reasonable assurance that its financial management systems are in compliance with applicable provisions of the Federal Financial Management Improvement Act of 1996 as of September 30, 2016."

Timothy G. Massad
Chairman
November 14, 2016

During FY 2016, in accordance with the FMFIA, and using the guidelines of the OMB, the Commission reviewed key components of its management and internal control system.

The objectives of the Commission's internal controls are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable laws;
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures applicable to Commission operations are properly recorded and accounted for to permit the preparation of accounts and reliable to financial and statistical reports and to maintain accountability over assets; and
- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the Commission's operations is evaluated using information obtained from reviews conducted by the U.S. Government Accountability Office (GAO) and the Office of the Inspector General (OIG). The reviews are the result of either a specifically requested study or observations of daily operations at the Commission.

These reviews ensure that the Commission's systems and controls comply with the standards established by FMFIA. Moreover, managers throughout the Commission are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual assurance statements from division and office heads serve as a primary basis for the Chairman's assurance that management controls are adequate. The assurance statements are based upon each office's evaluation of progress made in correcting any previously reported problems, as well as new problems identified by the OIG, GAO, other management reports, and the management environment within each office. CFTC has worked vigorously to continually improve its controls program and assess its effectiveness at accomplishing the FMFIA requirements. Below are examples of some of the FY 2016 work performed to confirm compliance with FMFIA:

- Pay and benefits assessment based on the authority of Section 10702 of the Public Law 107-171, Farm Security and Rural Investment Act of 2002;
- Management and internal control reviews conducted with the express purpose of assessing internal controls;
- Management control reviews conducted with the express purpose of assessing compliance with applicable laws, regulations, government-wide policies, and laws identified by OMB in Bulletin 15-02, *Audit Requirements for Federal Financial Statements*; and
- Information security compliance as required by the Federal Information Security Management Act (FISMA).

FMFIA Section 2, Management Control

The Commission has no declared material weaknesses or significant deficiencies under FMFIA for FY 2016 in the area of reporting that hinders preparation of timely and accurate financial statements.

During FY 2016, the Commission remediated a material weakness in the area of financial reporting that limited preparation of accurate FY 2015 financial statements. The CFTC's historical practice had been to obligate only the annual portion of lease payments due each fiscal year. On February 4, 2016, GAO issued Comptroller General Decision B-327242, Commodity Futures Trading Commission – Recording of Obligations for Multiple-Year Leases. GAO determined that while the CFTC had the authority to enter into multiple year leases, the agency violated the recording statute, 31 U.S.C. § 1501(a)(1), because it did not record the total lease liability for each of its leases when it entered into its leasing contracts. In FY 2016, the Commission reported as an obligation the full amount of future lease rental and operating costs in its comparative financial statements and the accompanying notes and will report related Antideficiency Act violations to the President and Congress in FY 2017. The CFTC believes this is an isolated issue, and the results of this issue do not impact the overall internal controls posture. Corrective action plans have been implemented to address any respective deficiencies.

FMFIA Section 4, Financial Management Systems

The Commission declared no nonconformance within our financial systems under FMFIA during FY 2016 and FY 2015. The independent auditors' reports for FY 2016 and 2015 disclosed no instances of noncompliance or other matters within our financial systems that were required to be reported under Generally Accepted Government Auditing Standards (GAGAS) and OMB Bulletin 14-02, Audit Requirements for Federal Financial Statements.

Financial Section

INSIDE

A Message from the Chief Financial Officer

I am honored to join Chairman Massad in presenting the FY 2016 Agency Financial Report (AFR) for the Commodity Futures Trading Commission (CFTC or Commission). This report provides financial and high-level performance information to the American taxpayer and the Commission's stakeholders to enable them to understand and evaluate how the Commission accomplishes its mission. The CFTC takes pride in providing timely, reliable and meaningful information to its many stakeholders. Although we face many challenges, including resource constraints, we are committed to achieving our mission as efficiently and effectively as possible.

I am pleased to report that our independent auditor has issued an unmodified opinion on our financial statements for FY 2016. This means that the Commission's financial statements are presented fairly, in all material respects and are in conformity with U.S. generally accepted accounting principles (GAAP). I am also pleased to report that the Commission has resolved a material weakness in internal controls related to the recording of lease obligations, and had no reportable control issues that would affect the fair presentation of the financial statements.

The Commission is committed to improving and maintaining strong internal controls over operations. We will remain focused on sound financial management techniques, will continue to focus efforts to improve the efficiency and effectiveness of agency operations and strive to ensure that the Commission will be well-positioned to respond to additional challenges as they arise.

Since FY 2007, the CFTC has leveraged a financial management systems platform operated by the U.S. Department of Transportation's Enterprise Services Center, an Office of Management and Budget designated financial management service provider. As a result, the CFTC is able to accumulate, analyze, and present reliable financial information, and provide reliable, timely information for managing current operations and timely reporting of financial information to central agencies. The Commission's financial management systems strategy for FY 2017 includes continued monitoring and oversight of the financial management system operated by its shared service provider and preparation for the implementation of an end to end procurement management system in FY 2018.

As always, it is our dedicated staff and their commitment to financial reporting excellence, transparency and accountability that ensures we are good stewards of the funds entrusted to us by the American taxpayer. Without their efforts, CFTC could not have achieved its unmodified opinion or cleared its material weakness this past year.

Mary Jean Buhler
Chief Financial Officer
November 14, 2016

Principal Financial Statements

Commodity Futures Trading Commission

Balance Sheets

As of September 30, 2016 and 2015

	2016	2015
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 71,891,891	$ 67,246,060
Investments (Note 3)	244,000,000	263,000,000
Accounts Receivable, Net (Note 4)	2,000	–
Prepayments (Note 1J)	1,241,933	263,851
Total Intragovernmental	**317,135,824**	**330,509,911**
Custodial Receivables, Net (Note 4)	15,089,568	4,696,176
Accounts Receivable, Net (Note 4)	11,120	18,614
General Property, Plant and Equipment, Net (Note 5)	48,357,120	50,358,266
Deferred Costs (Note 6)	–	28,487
Prepayments (Note 1J)	1,605,839	2,209,608
TOTAL ASSETS	**$ 382,199,471**	**$ 387,821,062**
LIABILITIES		
Intragovernmental		
Accounts Payable	$ 1,314,250	$ 387,666
Custodial Liabilities	15,089,568	4,696,176
Employer Contributions and Payroll Taxes Payable	1,110,434	–
FECA Liabilities (Note 9)	83,713	82,531
Total Intragovernmental	**17,597,965**	**5,166,373**
Accounts Payable	9,275,424	8,220,224
Actuarial FECA Liabilities (Note 9)	421,289	415,570
Accrued Payroll	5,479,736	5,215,273
Annual Leave	10,057,127	9,788,839
Deposit Fund Liabilities	265,828	179,806
Deferred Lease Liabilities (Note 10)	28,293,139	25,673,457
Contingent Liabilities (Note 11)	–	300,000
Other	–	22,397
Total Liabilities	**$ 71,390,508**	**$ 54,981,939**
NET POSITION		
Unexpended Appropriations – All Other Funds	$ 53,836,721	$ 50,997,602
Cumulative Results of Operations – Funds from Dedicated Collections	247,550,496	267,612,410
Cumulative Results of Operations – All Other Funds	9,421,746	14,229,111
Total Net Position	**310,808,963**	**332,839,123**
TOTAL LIABILITIES AND NET POSITION	**$ 382,199,471**	**$ 387,821,062**

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

Commodity Futures Trading Commission

Statements of Net Cost

For the Years Ended September 30, 2016 and 2015

	2016	2015
NET COST BY GOAL (NOTE 13)		
GOAL 1: MARKET INTEGRITY AND TRANSPARENCY		
Gross Costs	$ 72,427,941	$ 68,337,018
Less: Earned Revenue	(14,354)	(14,516)
NET COST OF OPERATIONS – GOAL ONE	**$ 72,413,587**	**$ 68,322,502**
GOAL 2: FINANCIAL INTEGRITY AND AVOIDANCE OF SYSTEMIC RISK		
Gross Costs	$ 85,667,457	$ 73,933,907
Less: Earned Revenue	(16,977)	(15,704)
NET COST OF OPERATIONS – GOAL TWO	**$ 85,650,480**	**$ 73,918,203**
GOAL 3: COMPREHENSIVE ENFORCEMENT		
Gross Costs	$106,528,039	$ 95,521,909
Less: Earned Revenue	(21,113)	(20,291)
NET COST OF OPERATIONS – GOAL THREE	**$106,506,926**	**$ 95,501,618**
GOAL 4: DOMESTIC AND INTERNATIONAL COOPERATION AND COORDINATION		
Gross Costs	$ 13,517,657	$ 12,068,292
Less: Earned Revenue	(2,679)	(2,563)
NET COST OF OPERATIONS – GOAL FOUR	**$ 13,514,978**	**$ 12,065,729**
GRAND TOTAL		
Gross Costs	$278,141,094	$249,861,126
Less: Earned Revenue	(55,123)	(53,074)
TOTAL NET COST OF OPERATIONS	**$278,085,971**	**$249,808,052**

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

Commodity Futures Trading Commission

Statements of Changes in Net Position

For the Years Ended September 30, 2016 and 2015

2016			
CUMULATIVE RESULTS OF OPERATIONS	DEDICATED COLLECTIONS	ALL OTHER FUNDS	CONSOLIDATED TOTAL
Beginning Balances, October 1	$ 267,612,410	$ 14,229,111	$ 281,841,521
Budgetary Financing Sources			
Appropriations Used	–	247,160,881	247,160,881
Nonexchange Interest Revenue (Note 3)	489,668	–	489,668
Other Financing Sources			
Imputed Financing Sources (Note 8)	–	5,566,143	5,566,143
Total Financing Sources	489,668	252,727,024	253,216,692
Net Cost of Operations	**(20,551,582)**	**(257,534,389)**	**(278,085,971)**
Net Change	**(20,061,914)**	**(4,807,365)**	**(24,869,279)**
TOTAL CUMULATIVE RESULTS OF OPERATIONS, SEPTEMBER 30	**$ 247,550,496**	**$ 9,421,746**	**$ 256,972,242**
UNEXPENDED APPROPRIATIONS			
Beginning Balances, October 1	**$ –**	**$ 50,997,602**	**$ 50,997,602**
Budgetary Financing Sources			
Appropriations Received	–	250,000,000	250,000,000
Less: Other Adjustments (Rescissions, etc.)	–	–	–
Appropriations Used	–	(247,160,881)	(247,160,881)
Total Budgetary Financing Sources	–	2,839,119	2,839,119
Total Unexpended Appropriations, September 30	**$ –**	**$ 53,836,721**	**$ 53,836,721**
NET POSITION	**$ 247,550,496**	**$ 63,258,467**	**$ 310,808,963**

2015			
CUMULATIVE RESULTS OF OPERATIONS	DEDICATED COLLECTIONS	ALL OTHER FUNDS	CONSOLIDATED TOTAL
Beginning Balances, October 1	$ 274,315,312	$ 18,352,983	$ 292,668,295
Budgetary Financing Sources			
Appropriations Used	–	232,255,603	232,255,603
Nonexchange Interest Revenue (Note 3)	58,152	–	58,152
Other Financing Sources			
Imputed Financing Sources (Note 8)	–	6,667,523	6,667,523
Total Financing Sources	58,152	238,923,126	238,981,278
Net Cost of Operations	**(6,761,054)**	**(243,046,998)**	**(249,808,052)**
Net Change	**(6,702,902)**	**(4,123,872)**	**(10,826,774)**
TOTAL CUMULATIVE RESULTS OF OPERATIONS, SEPTEMBER 30	**$ 267,612,410**	**$ 14,229,111**	**$ 281,841,521**
UNEXPENDED APPROPRIATIONS			
Beginning Balances, October 1	**$ –**	**$ 35,420,980**	**$ 35,420,980**
Budgetary Financing Sources			
Appropriations Received	–	250,000,000	250,000,000
Less: Other Adjustments (Rescissions, etc.)	–	(2,167,775)	(2,167,775)
Appropriations Used	–	(232,255,603)	(232,255,603)
Total Budgetary Financing Sources	–	15,576,622	15,576,622
Total Unexpended Appropriations, September 30	**$ –**	**$ 50,997,602**	**$ 50,997,602**
NET POSITION	**$ 267,612,410**	**$ 65,226,713**	**$ 332,839,123**

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

Commodity Futures Trading Commission

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2016 and 2015

	2016	2015, Restated (Note 16)
BUDGETARY RESOURCES		
Unobligated Balance Brought Forward, October 1	$ 59,758,110	$ 45,372,067
Adjustment to Unobligated Balance Brought Forward, October 1	–	829,170
Unobligated Balance Brought Forward, October 1, as Adjusted	59,758,110	46,201,237
Recoveries of Prior Year Unpaid Obligations	4,448,160	4,061,675
Other Changes in Unobligated Balance	507,747	(2,070,976)
Unobligated Balance from Prior Year Budget Authority, Net	64,714,017	48,191,936
Appropriations	250,000,000	250,000,000
Spending Authority from Offsetting Collections	501,849	133,947
TOTAL BUDGETARY RESOURCES	**$ 315,215,866**	**$ 298,325,883**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Note 12A)	$ 270,891,918	$ 258,702,003
Change in Unfunded Lease Obligations (Notes 10 and 16)	(15,664,166)	(20,134,230)
Unobligated Balance, End of Year		
Apportioned, Unexpired Accounts	246,556,853	270,359,908
Unapportioned, Unexpired Accounts	(194,232,932)	(209,897,098)
Unexpired Unobligated Balance, End of Year	52,323,921	60,462,810
Expired Unobligated Balance, End of Year	7,664,193	(704,700)
Unobligated Balance, End of Year (Total)	59,988,114	59,758,110
TOTAL BUDGETARY RESOURCES	**$ 315,215,866**	**$ 298,325,883**
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 60,290,903	$ 40,564,762
Unfunded Lease Obligations Brought Forward, October 1 (Notes 10 and 16)	210,042,824	230,177,054
Change in Unfunded Lease Obligations (Notes 10 and 16)	(15,664,166)	(20,134,230)
Total Remaining Unfunded Lease Obligations	194,378,658	210,042,824
New Obligations and Upward Adjustments	270,891,918	258,702,003
Outlays (Gross)	(265,476,500)	(234,914,187)
Recoveries of Prior Year Unpaid Obligations	(4,448,160)	(4,061,675)
Unpaid Obligations, End of Year	255,636,819	270,333,727
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	(76,660)	(54,225)
Change in Uncollected Payments, Federal Sources	(6,585)	(22,435)
Uncollected Payments, Federal Sources, End of Year	(83,245)	(76,660)
Memorandum Entries:		
Obligated Balance, Start of Year	**$ 270,257,067**	**$ 270,687,591**
Obligated Balance, End of Year	**$ 255,553,574**	**$ 270,257,067**

continued on next page

Statements of Budgetary Resources continued from previous page

Commodity Futures Trading Commission

Combined Statements of Budgetary Resources *(continued)*

For the Years Ended September 30, 2016 and 2015

	2016	2015, Restated (Note 16)
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross	$ 250,501,849	$ 250,133,947
Actual Offsetting Collections	(1,036,307)	(212,554)
Change in Uncollected Customer Payments from Federal Sources	(6,585)	(22,435)
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	507,747	96,799
BUDGET AUTHORITY, NET	**$ 249,966,704**	**$ 249,995,757**
Outlays, Gross	$ 265,476,500	$ 234,914,187
Actual Offsetting Collections	(1,036,307)	(212,554)
Outlays, Net	264,440,193	234,701,633
Distributed Offsetting Receipts	(2,387)	(6,767)
AGENCY OUTLAYS, NET	**$ 264,437,806**	**$ 234,694,866**

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

Commodity Futures Trading Commission

Statements of Custodial Activity

For the Years Ended September 30, 2016 and 2015

	2016	2015
REVENUE ACTIVITY		
Sources of Cash Collections:		
Registration and Filing Fees	$ 1,444,842	$ 1,575,300
Fines, Penalties, and Forfeitures	479,905,668	2,841,186,640
General Proprietary Receipts	2,387	6,767
Total Cash Collections	**481,352,897**	**2,842,768,707**
Change in Custodial Receivables	**10,393,392**	**477,388**
TOTAL CUSTODIAL REVENUE	**$ 491,746,289**	**$ 2,843,246,095**
DISPOSITION OF COLLECTIONS		
Amounts Transferred to:		
Department of the Treasury	(481,352,897)	(2,842,768,707)
Total Disposition of Collections	**(481,352,897)**	**(2,842,768,707)**
Change in Custodial Liabilities	(10,393,392)	(477,388)
NET CUSTODIAL ACTIVITY	$ –	$ –

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Commodity Futures Trading Commission (CFTC) is an independent agency of the executive branch of the Federal Government. Congress created the CFTC in 1974 under the authorization of the Commodity Exchange Act (CEA) with the mandate to regulate commodity futures and option markets in the United States. The agency's mandate was renewed and expanded under the Futures Trading Acts of 1978, 1982, and 1986; under the Futures Trading Practices Act of 1992; under the CFTC Reauthorization Act of 1995; under the Commodity Futures Modernization Act of 2000; and under the Dodd-Frank Act of 2010. Congress passed the Food, Conservation, and Energy Act of 2008 (Farm Bill), which reauthorized the Commission through FY 2013. In the absence of formal reauthorization, CFTC has continued to operate through annual appropriations.

The CFTC is responsible for ensuring the economic utility of futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trade practices, and fraud.

On July 21, 2010, the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the Dodd-Frank Act, or the Act) was signed into law, significantly expanding the powers and responsibilities of the CFTC. According to Section 748 of the Act, there is established in the Treasury of the United States a revolving fund known as the "Commodity Futures Trading Commission Customer Protection Fund" (the Fund). The Fund shall be available to the Commission, without further appropriation or fiscal year limitation, for a) the payment of awards to whistleblowers; and b) the funding of customer education initiatives designed to help customers protect themselves against fraud or other violations of this Act or the rules and regulations thereunder.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations for the CFTC, as required by the Accountability of Tax Dollars Act of 2002. They are presented in accordance with the form and content requirements contained in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended.

The principal financial statements have been prepared in all material respects from the agency's books and records in conformity with U.S. generally accepted accounting principles (GAAP), as prescribed for the Federal government by the Federal Accounting Standards Advisory Board (FASAB). The application and methods for applying these principles are appropriate for presenting fairly the entity's assets, liabilities, financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities.

The books and records of the agency served as the source of information for preparing the financial statements in the prescribed formats. All agency financial statements and reports used to monitor and control budgetary resources 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.

The Balance Sheets present the financial position of the agency. The Statements of Net Cost present the agency's operating results; the Statements of Changes in Net Position display the changes in the agency's equity accounts. The Statements of Budgetary Resources present the sources, status, and uses of the agency's resources and follow the rules for the Budget of the United States Government. The Statements of Custodial Activity present the sources and disposition of collections for which the CFTC is the fiscal agent, or custodian, for the Treasury General Fund Miscellaneous Receipt accounts.

Throughout these financial statements, assets, liabilities, revenues and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other Federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other Federal entities, and intragovernmental costs are payments or accruals to other Federal entities. The CFTC does not transact business among its own operating units, and therefore, intra-entity eliminations were not needed.

C. Budgetary Resources and Status

The CFTC is funded through congressionally approved appropriations. The CFTC is responsible for administering the salaries and expenses of the agency through the execution of these appropriations.

Congress annually enacts appropriations that provide the CFTC with the authority to obligate funds within the respective fiscal year for necessary expenses to carry out mandated program activities. All appropriations are subject to quarterly apportionment as well as Congressional restrictions.

The CFTC's budgetary resources for FY 2016 consist of:

- Unobligated balances of resources brought forward from the prior year,
- Recoveries of obligations made in prior years, and
- New resources in the form of appropriations and spending authority from offsetting collections.

Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for upward adjustments of prior year obligations, after which they are canceled and may not be used. All unused monies related to canceled appropriations are returned to Treasury and the canceled authority is reported on the Statements of Budgetary Resources and the Statements of Changes in Net Position.

D. Entity and Non-Entity Assets

Assets consist of entity and non-entity assets. Entity assets are those assets that the CFTC has authority to use for its operations. Non-entity assets are those held by the CFTC that are not available for use in its operations. Non-entity assets held by the CFTC include deposit fund balances, custodial fines, interest, penalties, and administrative fees receivable.

E. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the CFTC's funds with Treasury in general, receipt, revolving, and deposit fund accounts. Appropriated funds recorded in general fund expenditure accounts are available to pay current liabilities and finance authorized purchases. Revolving fund custodial collections recorded in the deposit fund and miscellaneous receipts accounts of the Treasury are not available for agency use. At fiscal year-end, receipt account balances are returned to Treasury or transferred to the Customer Protection Fund.

The CFTC does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the agency on demand. Spending authority from offsetting collections is recorded in the agency's expenditure account and is available for agency use subject to certain limitations.

F. Investments

The CFTC has the authority to invest amounts deposited in the Customer Protection Fund in short-term market-based 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. Investments are carried at their historical cost basis which approximates fair value due to their short-term nature.

Interest earned on the investments is a component of the Fund and is available to be used for expenses of the Customer Protection Fund. Additional details regarding Customer Protection Fund investments are provided in Note 3.

G. Accounts Receivable, Net

Accounts receivable consists of amounts owed by other federal agencies and the public to the CFTC and is valued net of an allowance for uncollectible amounts. The allowance is based on past experience in the collection of receivables and analysis of the outstanding balances. Accounts receivable arise from reimbursable operations, earned refunds or the Civil Monetary Sanctions program.

H. General Property, Plant and Equipment, Net

Furniture, fixtures, equipment, information technology hardware and software, and leasehold improvements are capitalized and depreciated or amortized over their useful lives.

The CFTC capitalizes assets annually if they have useful lives of at least two years and an individual value of $25,000 or more. Bulk or aggregate purchases are capitalized when the individual useful lives are at least two years and the purchase is a value of $25,000 or more. Property, plant and equipment that do not meet the capitalization criteria are expensed when acquired. Depreciation for equipment and amortization for software is computed on a straight-line basis using a 5-year life. Leasehold improvements are amortized over the remaining life of the lease. The Commission's assets are valued net of accumulated depreciation or amortization.

I. Deferred Costs

The Commission has received lease incentives, Tenant Improvement Allowances (TIA), from the landlords on its operating leases. These allowances can be used for construction, asset purchases, or rent expense, and are classified as deferred costs on the balance sheets. These costs are reallocated either to leasehold improvements, equipment, or if used for rent, expensed. The TIA is also amortized with the deferred lease liability over the life of the lease. As of September 30, 2016, all of the TIA that was received through FY 2012 has been used.

J. Prepayments

Payments to federal and non-federal sources in advance of the receipt of goods and services are recorded as prepayments and recognized as expenses when the related goods and services are received. Intragovernmental prepayments reported on the Balance Sheet were made primarily to the Department of Transportation (DOT) for implementation of a new integrated acquisition system. Prepayments to the public were primarily for software maintenance and subscription services.

K. Liabilities

The CFTC's liabilities consist of actual and estimated amounts that are likely to be paid as a result of transactions covered by budgetary resources for which Congress has appropriated funds or funding, or are otherwise available from reimbursable transactions to pay amounts due.

Liabilities include those covered by budgetary resources in existing legislation and those not yet covered by budgetary resources. The CFTC liabilities not covered by budgetary resources include:

- Intragovernmental Federal Employees' Compensation Act (FECA) liabilities,
- Intragovernmental custodial liabilities for custodial revenue deemed collectible but not yet collected at fiscal year-end,
- Annual leave benefits that will be funded by annual appropriations as leave is taken,
- Actuarial FECA liabilities,
- Contingent liabilities,
- Deposit funds,
- Deferred lease liabilities, and
- Advances received for reimbursable services yet to be provided.

L. Accounts Payable

Accounts payable consists primarily of contracts for goods or services, such as operating leases, leasehold improvements, software development, information technology, telecommunications, and consulting and support services.

M. Accrued Payroll and Benefits and Annual Leave Liability

The accrued payroll liability represents amounts for salaries and benefits owed for the time since the payroll was last paid through the end of the reporting period. Total accrued payroll is composed of amounts to be paid to CFTC employees as well as the related intragovernmental payable for employer contributions and payroll taxes. The annual leave liability is the amount owed to employees for unused annual leave as of the end of the reporting period. At the end of each quarter, the balance in the accrued annual leave account is adjusted to reflect current balances and pay rates. Sick leave and other types of non-vested leave are expensed as taken.

The agency's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by

FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

For employees under FERS, the CFTC contributes an amount equal to one percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four percent of pay. FERS and CSRS employees can contribute a portion of their gross earnings to the plan up to Internal Revenue Service (IRS) limits; however, CSRS employees receive no matching agency contribution.

N. Leases

The CFTC does not have any capital lease liabilities. The operating leases consist of commercial property for the CFTC's headquarters and regional offices. Lease expenses are recognized on a straight-line basis.

O. Deposit Funds

Deposit funds are expenditure accounts used to record monies that do not belong to the Federal government. They are held awaiting distribution based on a legal determination or investigation. The CFTC Deposit Fund is used to collect and later distribute collections of monetary awards to the appropriate victims as restitution. The cash collections recorded in this fund are offset by a Deposit Fund liability. Activities in this fund are not fiduciary in nature because they are not legally enforceable against the government.

P. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations are appropriations that have not yet been used to acquire goods and services or provide benefits. Appropriations are considered expended, or used, when goods and services have been acquired by the CFTC or benefits have been provided using the appropriation authority, regardless of whether monies have been paid or payables for the goods, services, or benefits have been established.

Cumulative results of operations represent the excess of budgetary or other financing sources over expenses since inception. Cumulative results of operations are derived from the net effect of capitalized assets, expenses, exchange revenue, and unfunded liabilities.

Q. Revenues

The CFTC receives reimbursement and earns revenue for the following activities:

- Reimbursement for travel, subsistence, and related expenses from non-federal sources for attendance at meetings or similar functions that an employee has been authorized to attend in an official capacity on behalf of the Commission.
- Reimbursement for Intergovernmental Personnel Act Mobility Program assignments from state and local governments, institutions of higher education, and other eligible organizations for basic pay, supplemental pay, fringe benefits, and travel and relocation expenses.
- Reimbursement from non-federal sources for registration fees to cover the cost of expenses related to the CFTC's annual International Regulators Conference.

R. Net Cost of Operations

Net cost of operations is the difference between the CFTC's expenses and its earned revenue. The presentation of program results by strategic goals is based on the CFTC's current Strategic Plan established pursuant to the Government Performance and Results Act of 1993.

The mission statement of the CFTC is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive, and financially sound futures and option markets. For FY 2016, the mission was accomplished through the following four strategic goals, each focusing on a vital area of regulatory responsibility:

- **Goal 1: Market Integrity and Transparency.** The focus of Market Integrity and Transparency is to recognize that derivatives markets provide a means for market users to offset price risks inherent in their businesses and to serve as a public price discovery mechanism.
- **Goal 2: Financial Integrity and Avoidance of Systemic Risk.** The focus of Financial Integrity and Avoidance of Systemic Risk is to strive to ensure that Commission-registered derivatives clearing organizations (DCOs), swap dealers (SDs), major swap participants (MSPs), and

futures commission merchants (FCMs) have the financial resources, risk management systems and procedures, internal controls, customer protection systems, and other controls necessary to meet their obligations so as to minimize the risk that the financial difficulty of any of these registrants, or any of their customers has systemic implications.

- **Goal 3: Comprehensive Enforcement.** Through the goal of Comprehensive Enforcement, the CFTC enforces the CEA and Commission regulations, and works to promote awareness of and compliance with these laws.

- **Goal 4: Domestic and International Cooperation and Coordination.** Domestic and International Cooperation and Coordination focuses on how the Commission interacts with domestic and international regulatory authorities, market participants, and others affected by the Commission's regulatory policies and practices.

To advance its mission goals and objectives, the CFTC will achieve Commission-wide excellence by empowering strong, enterprise-focused leaders, maintaining a high-performing and engaged workforce, and ensuring effective stewardship of resources.

S. Custodial Activity

The CFTC collects penalties and fines levied against firms for violation of laws as described in the Commodity Exchange Act as codified at 7 U.S.C. § 1, *et seq*, and the Commodities Futures Modernization Act of 2000, Appendix E of P.L. 106-554, 114 Stat. 2763. Unpaid fines, penalties and accrued interest are reported as custodial receivables, with an associated custodial liability. The receivables and the liability are reduced by amounts determined to be uncollectible. Revenues earned and the losses from bad debts are reported to Treasury.

Collections made by the CFTC during the year are deposited and reported into designated Treasury miscellaneous receipt accounts for:

- Registration and filing fees,
- Fines, penalties and forfeitures, and
- General proprietary receipts.

At fiscal year-end, custodial collections made by the CFTC are either returned to Treasury or when determined eligible, transferred to the Customer Protection Fund. The CFTC does not retain any amount for custodial activities including reimbursement of the cost of collection.

T. Use of Management Estimates

The preparation of the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenues, expenses, and custodial activities. Actual results could differ from these estimates.

U. Reconciliation of Net Obligations and Net Cost of Operations

In accordance with OMB Circular A-136, the Commission reconciles its change in budgetary obligations with its net cost of operations.

V. Funds from Dedicated Collections

The Commission's Customer Protection Fund (CPF) was established to operate a whistleblower program and support customer education initiatives. See Note 1A for a description of the purpose of the CPF and its authority to use revenues and other financing sources. Deposits into the CPF are credited from monetary sanctions collected by the Commission in a covered judicial or administrative action where the full judgment is in excess of $1,000,000 and the collection is not otherwise distributed to victims of a violation of the Dodd-Frank Act or the underlying rules and regulations, unless the balance of the CPF at the time the monetary judgment is collected exceeds $100 million. No new legislation was enacted as of September 30, 2016, that significantly changed the purpose of the fund or redirected a material portion of the accumulated balance.

W. Reclassifications

To conform to OMB Circular A-136, activity and balances reported on the FY 2015 Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year.

Note 2. Fund Balance with Treasury

A. Reconciliation to Treasury

There are no differences between the fund balances reflected in the CFTC Balance Sheets and the balances in the Treasury accounts.

B. Fund Balance with Treasury

Fund Balance with Treasury consists of entity assets such as appropriations, reimbursements for services rendered, and collections of fines and penalties. Obligation of these funds is controlled by quarterly apportionments made by OMB. Work performed under reimbursable agreements is initially financed by the annual appropriation and is subsequently reimbursed. Collections of fines and penalties are distributed to harmed investors, returned to Treasury, or when eligible, transferred to the Customer Protection Fund.

Fund Balance with Treasury at September 30, 2016, and 2015, consisted of the following:

	2016	2015
Appropriated Funds	$ 66,140,651	$ 61,472,593
Customer Protection Fund	5,485,412	5,593,661
Deposit Fund	265,828	179,806
TOTAL FUND BALANCE WITH TREASURY	**$ 71,891,891**	**$ 67,246,060**

C. Status of Fund Balance with Treasury

Status of Fund Balance with Treasury at September 30, 2016, and 2015, consisted of the following:

	2016	2015
Appropriated Funds		
Unobligated Fund Balance		
Available	$ 1,395,955	$ 937,162
Unavailable	7,726,675	4,535,734
Obligated Balance Not Yet Disbursed	57,018,021	55,999,697
Total Appropriated Funds	**66,140,651**	**61,472,593**
Customer Protection Fund		
Unobligated Fund Balance		
Available	$ 1,245,271	$ 1,302,454
Obligated Balance Not Yet Disbursed	4,240,141	4,291,207
Total Customer Protection Fund	**5,485,412**	**5,593,661**
Deposit Fund	**265,828**	**179,806**
TOTAL FUND BALANCE WITH TREASURY	**$ 71,891,891**	**$ 67,246,060**

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 Customer Protection Fund investments, uncollected payments from Federal sources, and unfunded lease obligations.

Note 3. Investments

The CFTC invests amounts deposited in the Customer Protection Funds in overnight short-term Treasury securities. Treasury overnight certificates of indebtedness are issued with a stated rate of interest to be applied to their par amount, mature on the business day immediately following their issue date, are redeemed at their par amount at maturity, and have interest payable at maturity.

The overnight certificates are Treasury securities whose interest rates or prices are determined based on the interest rates or prices of Treasury-related financial instruments issued or trading in the market, rather than on the interest rates or prices of outstanding marketable Treasury securities. The Commission may invest in other short-term or long-term Treasury securities at management's discretion.

The Commission's investments as of September 30, 2016, and 2015, were $244 million and $263 million, respectively. Related non-exchange interest revenue for the years ended September 30, 2016, and 2015, was $489,668 and $58,152, respectively.

Intragovernmental Investments in Treasury Securities

The Federal Government does not set aside assets to pay future claims or other expenditures associated with funds from dedicated collections deposited into the Customer Protection Fund. The dedicated cash receipts collected by the Commission as a result of monetary sanctions are deposited in the U.S. Treasury, which uses the cash for general Government purposes. As discussed above and in Note 1F, the Commission invests the majority of these funds in Treasury securities. These Treasury securities are an asset of the Commission and a liability of the U.S. Treasury. Because the Commission 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 Commission do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the Commission with authority to draw upon the U.S. Treasury to pay future claims or other expenditures. When the Commission 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. Accounts Receivable, Net

Accounts receivable consist of amounts owed the CFTC by other Federal agencies and the public. Accounts receivable are valued at their net collectible values. Non-custodial accounts receivable are primarily for overpayments of expenses to other agencies, or vendors, and repayment of employee benefits. Historical experience has indicated that most of the non-custodial receivables are collectible and that there are no material uncollectible amounts.

Custodial receivables (non-entity assets) are those for which fines and penalties have been assessed and levied against businesses or individuals for violations of the CEA or Commission regulations. Violators may be subject to a variety of sanctions including fines, injunctive orders, bars or suspensions, rescissions of illegal contracts, and disgorgements.

An allowance for uncollectible accounts has been established and included in accounts receivable on the balance sheets. Although historical experience has indicated that a high percentage of custodial receivables prove uncollectible, the Commission determines the collectability of each individual judgment based on knowledge of the financial profile of the debtor obtained through the course of the investigation and litigation of each case, including efforts to identify and freeze assets at the beginning of cases, when any remaining assets are most likely to be recoverable. Accounts are re-estimated quarterly based on account reviews and the agency's determination that changes to the net realizable value are needed.

continued on next page

Note 4 continued from previous page

Accounts receivable, net consisted of the following as of September 30, 2016, and 2015:

	2016	2015
Custodial Receivables, Net:		
Civil Monetary Penalty Interest	$ 1,275,201	$ 1,037,104
Civil Monetary Penalties, Fines, and Administrative Fees	626,255,325	1,452,575,210
Less: Allowance for Loss on Interest	(1,273,722)	(1,037,065)
Less: Allowance for Loss on Penalties, Fines, and Administrative Fees	(615,436,261)	(1,449,320,093)
Registration and Filing Fees	1,269,025	1,441,020
NET CUSTODIAL RECEIVABLES	**$ 15,089,568**	**$ 4,696,176**
OTHER ACCOUNTS RECEIVABLE	**13,120**	**18,614**
TOTAL ACCOUNTS RECEIVABLE, NET	**$ 15,102,688**	**$ 4,714,790**

Note 5. General Property, Plant and Equipment, Net

Property, Plant and Equipment as of September 30, 2016, and 2015, consisted of the following:

2016 Major Class	Service Life and Method	Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	5 Years/Straight Line	$ 41,429,895	$ (26,911,976)	$ 14,517,919
IT Software	5 Years/Straight Line	30,019,734	(19,967,855)	10,051,879
Software in Development	Not Applicable	4,933,548	–	4,933,548
Leasehold Improvements	Remaining Life of Lease/Straight Line	30,647,193	(11,793,419)	18,853,774
		$107,030,370	**$ (58,673,250)**	**$ 48,357,120**

2015 Major Class	Service Life and Method	Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	5 Years/Straight Line	$ 40,993,436	$ (28,242,099)	$ 12,751,337
IT Software	5 Years/Straight Line	29,074,565	(15,159,696)	13,914,869
Software in Development	Not Applicable	2,575,619	–	2,575,619
Leasehold Improvements	Remaining Life of Lease/Straight Line	30,627,318	(9,510,877)	21,116,441
		$103,270,938	**$ (52,912,672)**	**$ 50,358,266**

Depreciation and amortization expense for the years ended September 30, 2016, and 2015, totaled $15,439,945 and $12,679,373, respectively.

Note 6. Deferred Costs

The Commission receives Tenant Improvement Allowances (TIA) from its landlords. These allowances are used to cover the costs of building renovations, asset purchases, or rent expenses. The TIA is initially recorded as deferred costs on the balance sheet and is amortized with the deferred lease liability over the life of the lease.

The Commission received $16,199,394 in TIA between FY 2010 and 2012, of which $14,391,636 was used to fund leasehold improvements, and $1,807,758 was applied to rental payments. As of September 30, 2016, all $16,199,394 of the TIA that was received through FY 2012 has been used.

Deferred Costs (TIA)	2016	2015
Beginning Balance, October 1	$ 28,487	$ 64,201
TIA received	–	–
TIA used	(28,487)	(35,714)
BALANCE AS OF SEPTEMBER 30	**$ –**	**$ 28,487**

Note 7. Liabilities Not Covered by Budgetary Resources

As of September 30, 2016, and 2015, the following liabilities were not covered by budgetary resources:

	2016	2015
Intragovernmental – FECA Liabilities	$ 83,713	$ 82,531
Intragovernmental – Custodial Liabilities	15,089,568	4,696,176
Annual Leave	10,057,127	9,788,839
Actuarial FECA Liabilities	421,289	415,570
Contingent Liabilities	–	300,000
Deposit Fund Liabilities	265,828	179,806
Deferred Lease Liabilities	28,293,139	25,673,457
Other	–	22,397
TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES	**$ 54,210,664**	**$ 41,158,776**

Liabilities not covered by budgetary resources of $54,210,664 and $41,158,776 represented 75.94 and 74.86 percent of the Commission's total liabilities of $71,390,508 and $54,981,939 as of September 30, 2016, and 2015, respectively.

Note 8. Retirement Plans and Other Employee Benefits

The CFTC imputes costs and the related financing sources for its share of retirement benefits accruing to its past and present employees that are in excess of the amount of contributions from the CFTC and its employees, which are mandated by law. The Office of Personnel Management (OPM), which administers federal civilian retirement programs, provides the cost information to the CFTC. The CFTC recognizes the full cost of providing future pension and Other Retirement Benefits (ORB) for current employees as required by Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Full costs include pension and ORB contributions paid out of the CFTC's appropriations and costs financed by OPM. The amount financed by OPM is recognized as an imputed financing source. This amount was $5,566,143 for the year ended September 30, 2016, and $6,667,523 for the year ended September 30, 2015. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of OPM.

Liabilities for future pension payments and other future payments for retired employees who participate in the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program are reported by OPM rather than CFTC.

Note 9. FECA Liabilities

FECA provides income and medical cost protections to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims against the CFTC and subsequently seeks reimbursement from the CFTC for these paid claims. Accrued FECA liabilities represent amounts due to DOL for claims paid on behalf of the agency. Accrued FECA liabilities at September 30, 2016, and 2015, were $83,713 and $82,531, respectively.

In addition, the Commission's actuarial FECA liability represents the liability for future workers compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The Commission 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 Commission for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid ratio for the whole FECA program. Actuarial FECA liabilities at September 30, 2016, and 2015, were $421,289 and $415,570, respectively.

Note 10. Leases

The CFTC has operating leases in privately-owned buildings for its locations in Washington D.C., Chicago, New York, and Kansas City. The CFTC has no real property. Future estimated minimum lease payments are not accrued as liabilities and are expensed on a straight-line basis.

As of September 30, 2016, future estimated minimum lease payments continue through FY 2025 and are as follows:

Fiscal Year	Dollars
2017	$ 19,958,881
2018	20,352,643
2019	20,715,734
2020	21,087,399
2021	21,419,962
Thereafter	74,811,311
Total Future Scheduled Rent Payments	$178,345,930
Future Lease-Related Operating Costs (Estimated)	16,032,728
TOTAL FUTURE MINIMUM LEASE PAYMENTS	**$194,378,658**

CFTC recognizes leases expenses on a straight-line basis because the Commission's lease payment amounts vary at negotiated times and reflect increases in rental costs, and in some cases, allowances or credits from landlords. Consistent with the utility of its office space, the Commission records deferred lease liabilities representing expense amounts in excess of payments to date. The deferred lease liabilities at September 30, 2016, and September 30, 2015, were $28,293,139 and $25,673,457, respectively.

CFTC's historical practice has been to obligate only the annual portion of lease payments due each year. This practice is not in accordance with OMB Circular A-11, *Preparation, Submission and Execution of the Budget*; 31 U.S.C. § 1501(a)(1) (the recording statute); and previous GAO decisions. This error has been corrected in the financial statements with an increase in obligations as of September 30, 2016, and 2015 of $194,378,658 and $210,042,824, which represents the full amount of obligations remaining on CFTC's active leases at the end of FY 2016 and 2015, respectively (see note 16—Restatements). The failure to properly record these obligations has resulted in the obligation of funds in excess of appropriations in violation of the Anti-deficiency Act. CFTC will report all violations in accordance with the law.

The following table describes the Commission's existing lease arrangements for buildings and multifunction devices, including major asset categories by location and associated lease terms.

Buildings	
LOCATION	**LEASE TERMS**
Washington, D.C.	Lease of office space from October 5, 1995, through September 30, 2025, subject to annual escalation amounts[12] and including allowances for leasehold improvements and rent offsets.
New York	Lease of office space from November 16, 2001, through April 30, 2022, with no escalation clauses or option to renew.
Kansas City	Lease of office space from April 1, 2011, through April 14, 2021, including allowances for leasehold improvements and rent offsets.
Chicago	Lease of office space from March 10, 2002, through June 30, 2022, including proportionate share of operating expenses and taxes for premises and allowances for leasehold improvements and rent offsets.
Multifunction Devices	
LOCATION	**LEASE TERMS**
Washington, D.C., New York, and Kansas City	Two-year rental of multifunction printers through the Government Publishing Office with three one-year options to renew.

[12] *If market rent were $100 per square foot with a 10 percent annual escalation and a $10 operating expense base, then 98 percent of the applicable market rent would be $98 per square foot with a 10 percent escalation and a $10 operating base.*

Note 11. Contingent Liabilities

The CFTC records contingent liabilities for legal cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, including judgments that have been issued against the agency and which have been appealed. Additionally, the Commission discloses legal matters in which an unfavorable outcome is reasonably possible. In FY 2016, the Commission was involved in one case where an unfavorable outcome is reasonably possible. The potential loss in this case is estimated to be $50,000.

Note 12. Statements of Budgetary Resources

As discussed in Note 10—Leases above, during FY 2016, the Commission corrected a violation of the recording statute by recording its obligations for all future building lease payments in accordance with OMB Circular A-11. The recording of these previously unrecorded obligations resulted in negative unobligated balances in its salaries and expenses general expenditure funds for both FY 2016 and 2015 because budgetary resources have not been made available to the Commission to fund these multi-year leases (see the Combining Statements of Budgetary Resources in the Required Supplementary Information (RSI) section immediately following the notes). As discussed in Note 16—Restatements, the Commission restated its prior year Statement of Budgetary Resources and affected notes to recognize the additional obligations for these unfunded lease obligations. The effect on the status of the Commission's budgetary resources and reconciliation to the U.S. Budget is highlighted in each of the note disclosures below.

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 for a particular quarter. Category B funds represent budgetary resources distributed by a specified time period, activity, project, object, or a combination of these categories. The Commission's Category B funds represent amounts apportioned at the beginning of the fiscal year for the Commission's Customer Protection Fund and reimbursable activities (beginning in FY 2016). For the years ended September 30, 2016, and 2015, the Commission incurred obligations against Category A and Category B funds as follows:

	2016	2015, as Restated
Direct Obligations		
Category A	$ 250,934,938	$ 252,012,036
Category B – Customer Protection Fund	19,899,491	6,622,259
Total Direct Obligations	270,834,429	258,634,295
Reimbursable Obligations		
Category A	–	67,708
Category B	57,489	–
Total Reimbursable Obligations	57,489	67,708
Total New Obligations and Upward Adjustments	**$ 270,891,918**	**$ 258,702,003**
Category A – Change in Unfunded Lease Obligations (Notes 10 and 16)	(15,664,166)	(20,134,230)
TOTAL NEW OBLIGATIONS, UPWARD ADJUSTMENTS, AND CHANGE IN UNFUNDED LEASE OBLIGATIONS	**$ 255,227,752**	**$ 238,567,773**

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B. Undelivered Orders

The amount of budgetary resources obligated for undelivered orders as of September 30, 2016, and 2015, consisted of the following:

	2016	2015, as Restated
Undelivered Orders	$ 241,304,749	$ 258,984,024

The amount of undelivered orders represents the value of unpaid and paid obligations recorded during the fiscal year, and upward and downward adjustments of obligations that were originally recorded in a prior fiscal year, including obligations for the Commission's future lease payments totaling $194,378,658 and $210,042,824 as of September 30, 2016, and 2015, respectively.

C. Explanations of Differences between the Statement of Budgetary Resources and Budget of the United States Government

The CFTC had material differences between the amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the U.S. Government for FY 2015 related to unrecorded obligations for operating leases (see table below). Recording the obligation on the Statements of Budgetary Resources results in negative amounts reported for the "Unobligated Balance Brought Forward, Oct 1" and "Obligations Incurred, Expired Accounts" line items. The negative balance reported as "Unobligated Balance Brought Forward, October 1" will decrease each year until the Commission's active lease obligations are fully liquidated in FY 2025. The negative activity reported as "Obligations Incurred, Expired Accounts" will also continue through FY 2025, as long as the Commission receives appropriations language that permits it to use current year funding to pay its annual lease costs. While negative obligations incurred is abnormal activity, the Commission concluded that it was more appropriate to offset the obligations recorded in its unexpired account with the related decrease in unfunded lease obligations than to report the amount of the liquidation of the prior year lease obligation as a recovery.

	Unobligated Balance Brought Forward October 1	Unpaid Obligations Brought Forward October 1	Obligations Incurred, Expired Accounts
CFTC FY 2015 Statement of Budgetary Resources, as restated	**$ (224,529,288)**	**$ 267,070,924**	**$ (18,169,649)**
Less Unfunded Lease Obligations Brought Forward, October 1	(230,177,054)	230,177,054	–
Less Change in Unfunded Lease Obligations	–	–	(20,134,230)
Less Amount in Expired Accounts	179,604	–	–
Plus Rounding to Nearest Million (+/-)	(468,162)	106,130	35,419
BUDGET OF THE U.S. GOVERNMENT	**$ 5,000,000**	**$ 37,000,000**	**$ 2,000,000**

The Budget of the U.S. Government with actual numbers for FY 2016 has not yet been published. The expected publish date is February 2017. A copy of the Budget can be obtained from OMB's website.

Note 13. Intragovernmental Cost and Exchange Revenue by Goal

As required by the Government Performance and Results Act of 1993, the agency's reporting has been aligned with the major goals presented in CFTC's Strategic Plan as reported in Note 1R. The Net Cost of Operations is derived from transactions between the Commission and public entities, as well as with other Federal agencies. The details of the intragovernmental costs and revenues, as well as those with the public, are as follows:

	2016	2015
GOAL 1: MARKET INTEGRITY AND TRANSPARENCY		
Intragovernmental Gross Costs	$ 10,817,024	$ 10,446,726
Less: Earned Revenue	(380)	–
Intragovernmental Net Cost of Operations	**$ 10,816,644**	**$ 10,446,726**
Gross Costs with the Public	$ 61,610,917	$ 57,890,292
Less: Earned Revenue	(13,974)	(14,516)
Net Cost of Operations with the Public	**$ 61,596,943**	**$ 57,875,776**
TOTAL NET COST OF OPERATIONS – GOAL ONE	**$ 72,413,587**	**$ 68,322,502**
GOAL 2: FINANCIAL INTEGRITY AND AVOIDANCE OF SYSTEMIC RISK		
Intragovernmental Gross Costs	$ 12,794,329	$ 11,302,327
Less: Earned Revenue	(449)	–
Intragovernmental Net Cost of Operations	**$ 12,793,880**	**$ 11,302,327**
Gross Costs with the Public	$ 72,873,128	$ 62,631,580
Less: Earned Revenue	(16,528)	(15,704)
Net Cost of Operations with the Public	**$ 72,856,600**	**$ 62,615,876**
TOTAL NET COST OF OPERATIONS – GOAL TWO	**$ 85,650,480**	**$ 73,918,203**
GOAL 3: COMPREHENSIVE ENFORCEMENT		
Intragovernmental Gross Costs	$ 15,909,831	$ 14,602,499
Less: Earned Revenue	(559)	–
Intragovernmental Net Cost of Operations	**$ 15,909,272**	**$ 14,602,499**
Gross Costs with the Public	$ 90,618,208	$ 80,919,410
Less: Earned Revenue	(20,554)	(20,291)
Net Cost of Operations with the Public	**$ 90,597,654**	**$ 80,899,119**
TOTAL NET COST OF OPERATIONS – GOAL THREE	**$ 106,506,926**	**$ 95,501,618**
GOAL 4: DOMESTIC AND INTERNATIONAL COOPERATION AND COORDINATION		
Intragovernmental Gross Costs	$ 2,018,845	$ 1,844,888
Less: Earned Revenue	(71)	–
Intragovernmental Net Cost of Operations	**$ 2,018,774**	**$ 1,844,888**
Gross Costs with the Public	$ 11,498,812	$ 10,223,404
Less: Earned Revenue	(2,608)	(2,563)
Net Cost of Operations with the Public	**$ 11,496,204**	**$ 10,220,841**
TOTAL NET COST OF OPERATIONS – GOAL FOUR	**$ 13,514,978**	**$ 12,065,729**
GRAND TOTAL		
Intragovernmental Gross Costs	$ 41,540,029	$ 38,196,440
Less: Earned Revenue	(1,459)	–
Intragovernmental Net Cost of Operations	**$ 41,538,570**	**$ 38,196,440**
Gross Costs with the Public	$ 236,601,065	$ 211,664,686
Less: Earned Revenue	(53,664)	(53,074)
Net Cost of Operations with the Public	**$ 236,547,401**	**$ 211,611,612**
TOTAL NET COST OF OPERATIONS	**$ 278,085,971**	**$ 249,808,052**

Note 14. Reconciliation of Net Obligations and Net Cost of Operations

The schedule presented in this footnote reconciles the net obligations with the Net Cost of Operations. Resources Used to Finance Activities reflects the budgetary resources obligated and other resources used to finance the activities of the agency. Resources Used to Finance Items Not Part of the Net Cost of Operations adjusts total resources used to finance the activities of the entity to account for items that were included in net obligations and other resources but were not part of the Net Cost of Operations. Components Requiring or Generating Resources in Future Periods identifies items that are recognized as a component of the net cost of operations for the period but the budgetary resources (and related obligation) will not be provided (or incurred) until a subsequent period. Components Not Requiring or Generating Resources includes items recognized as part of the net cost of operations for the period but will not generate or require the use of resources. The Net Cost of Operations in the schedule presented in this note agrees with the Net Cost of Operations as reported on the Statements of Net Cost.

	2016	2015, as Restated
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments	$ 270,891,918	$ 258,702,003
Change in Unfunded Lease Obligations	(15,664,166)	(20,134,230)
Less: Spending Authority from Offsetting Collections and Recoveries	(5,491,053)	(4,296,665)
Obligations Net of Offsetting Collections and Recoveries	$ 249,736,699	$ 234,271,108
Less: Offsetting Receipts	(2,387)	(6,767)
Net Obligations After Offsetting Receipts	$ 249,734,312	$ 234,264,341
Other Resources		
Imputed Financing from Costs Absorbed by Others	$ 5,566,143	$ 6,667,523
Total Resources Used to Finance Activities	**$ 255,300,455**	**$ 240,931,864**
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 before Adjustments	$ 2,005,466	$ (15,537,141)
Change in Unfunded Lease Obligations	15,664,166	20,134,230
Resources that Fund Expenses Recognized in Prior Periods	(300,000)	(51,633)
Offsetting Receipts	2,387	6,767
Nonexchange Interest Revenue	489,668	58,152
Resources that Fund the Acquisition of Fixed Assets	(11,371,444)	(9,489,542)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ 6,490,243**	**$ (4,879,167)**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL REQUIRE OR GENERATE RESOURCES IN FUTURE PERIODS		
Increase in Unfunded Liabilities	$ 275,190	$ 413,667
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	**$ 275,190**	**$ 413,667**
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES		
Depreciation and Amortization	$ 15,439,945	$ 12,679,373
(Gain)/Loss on Disposal	552,325	663,649
Other	27,813	(1,334)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**$ 16,020,083**	**$ 13,341,688**
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Year	**$ 16,295,273**	**$ 13,755,355**
TOTAL NET COST OF OPERATIONS	**$ 278,085,971**	**$ 249,808,052**

Note 15. Funds from Dedicated Collections

Funds from dedicated collections arise from disgorgement and penalty collections and are transferred to the Customer Protection Fund (CPF), established by the Dodd-Frank Act. The collections are transferred from the custodial receipt account if they are found to be eligible before the end of each fiscal year. In cases where the collection has been returned to the Treasury Department, the Commission can recover the funds directly from Treasury. The collections will fund the Commission's whistleblower awards program and customer education initiatives.

The Dodd-Frank Act provides that whistleblower awards shall be paid under regulations prescribed by the Commission. An important prerequisite to implementation of the whistleblower awards program is the issuance of rules and regulations describing its scope and procedures. The Commission issued final rules implementing the Act on August 25, 2011. These rules became effective on October 24, 2011. The Commission established the Whistleblower Office in FY 2012.

No eligible collections were transferred during FY 2016 or FY 2015 because the fund reached its legislative maximum during FY 2014. The following chart presents the Fund's balance sheets, statements of net costs, and statements of changes in net position as of and for the years ended September 30, 2016, and 2015:

	2016	2015
BALANCE SHEETS		
Fund Balance with Treasury	$ 5,485,412	$ 5,593,661
Investments	244,000,000	263,000,000
Prepayments	4,369	–
General Property, Plant, and Equipment, Net	179,020	215,859
TOTAL ASSETS	**$ 249,668,801**	**$ 268,809,520**
Accounts Payable	1,932,814	835,464
Accrued Payroll	99,697	55,478
Accrued Annual Leave	85,794	–
Contingent Liabilities	–	300,000
Other	–	6,168
TOTAL LIABILITIES	**$ 2,118,305**	**$ 1,197,110**
Cumulative Results of Operations – Funds from Dedicated Collections	247,550,496	267,612,410
TOTAL NET POSITION	**$ 247,550,496**	**$ 267,612,410**
TOTAL LIABILITIES AND NET POSITION	**$ 249,668,801**	**$ 268,809,520**
STATEMENTS OF NET COST		
Gross Costs	$ 20,551,582	$ 6,761,054
TOTAL NET COST OF OPERATIONS	**$ 20,551,582**	**$ 6,761,054**
STATEMENTS OF CHANGES IN NET POSITION		
Beginning Cumulative Results of Operations, October 1	$ 267,612,410	$ 274,315,312
Nonexchange Interest Revenue	489,668	58,152
Net Cost of Operations	(20,551,582)	(6,761,054)
Net Change	(20,061,914)	(6,702,902)
TOTAL NET POSITION, SEPTEMBER 30	**$ 247,550,496**	**$ 267,612,410**

Note 16. Restatements

The CFTC was granted independent leasing authority in 1974, and received authority to expend appropriated funds on multiple year leases in FY 1981. The CFTC's historical practice has been to obligate only the annual portion of lease payments due each fiscal year. On February 4, 2016, GAO issued Comptroller General Decision B-327242, *Commodity Futures Trading Commission—Recording of Obligations for Multiple-Year Leases* ("Decision"). This Decision concluded that CFTC's historical practice of recording multiple-year lease obligations on an annual basis violated the recording statute, 31 U.S.C. § 1501(a)(1). The Decision further indicated that the Commission needs to determine whether "the failure to properly record these obligations has resulted in the obligation of funds in excess of appropriations in violation of the Anti-deficiency Act" (ADA). After considering GAO's decision, the Commission concluded that it should report a budgetary obligation for the full amount of the lease agreements in its statements of budgetary resources retrospectively. A summary of the effect of the restatement is shown below:

	2015, as Previously Reported	Change	2015, as Restated
BUDGETARY RESOURCES			
Unobligated Balance Brought Forward, October 1	$ 275,549,121	$ (230,177,054)	$ 45,372,067
Adjustments to Unobligated Balance Brought Forward, October 1	829,170	–	829,170
Unobligated Balance Brought Forward, October 1, as Adjusted	276,378,291	(230,177,054)	46,201,237
Recoveries of Prior Year Unpaid Obligations	4,061,675	–	4,061,675
Other Changes in Unobligated Balance	(2,167,775)	96,799	(2,070,976)
Unobligated Balance from Prior Year Budget Authority, Net	278,272,191	(230,080,255)	48,191,936
Appropriations	250,000,000	–	250,000,000
Spending Authority from Offsetting Collections	230,746	(96,799)	133,947
TOTAL BUDGETARY RESOURCES	**$ 528,502,937**	**$ (230,177,054)**	**$ 298,325,883**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Note 12A)	$ 258,702,003	$ –	$ 258,702,003
Change in Unfunded Lease Obligations (Notes 10 and 16)	–	(20,134,230)	(20,134,230)
Unobligated Balance, End of Year			
Apportioned, Unexpired Accounts	270,359,908	–	270,359,908
Unapportioned, Unexpired Accounts	145,726	(210,042,824)	(209,897,098)
Unexpired Unobligated Balance, End of Year	270,505,634	(210,042,824)	60,462,810
Expired Unobligated Balance, End of Year	(704,700)	–	(704,700)
Unobligated Balance, End of Year (Total)	$ 269,800,934	$ (210,042,824)	$ 59,758,110
TOTAL BUDGETARY RESOURCES	**$ 528,502,937**	**$ (230,177,054)**	**$ 298,325,883**

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Note 16 continued from previous page

	2015, as Previously Reported	Change	2015, as Restated
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	$ 40,564,762	$ –	$ 40,564,762
Unfunded Lease Obligations Brought Forward, October 1 (Notes 10 and 16)	–	230,177,054	230,177,054
Change in Unfunded Lease Obligations (Notes 10 and 16)	–	(20,134,230)	(20,134,230)
Total Remaining Unfunded Lease Obligations	–	210,042,824	210,042,824
New Obligations and Upward Adjustments	258,702,003	–	258,702,003
Outlays (Gross)	(234,914,187)	–	(234,914,187)
Recoveries of Prior-Year Unpaid Obligations	(4,061,675)	–	(4,061,675)
Unpaid Obligations, End of Year	60,290,903	210,042,824	270,333,727
Uncollected Payments:			
Uncollected Payments, Federal Sources, Brought Forward, October 1	(54,225)	–	(54,225)
Change in Uncollected Payments, Federal Sources	(22,435)	–	(22,435)
Uncollected Payments, Federal Sources, End of Year	(76,660)	–	(76,660)
Memorandum Entries:			
Obligated Balance, Start of Year	**$ 40,510,537**	**$ 230,177,054**	**$ 270,687,591**
Obligated Balance, End of Year	**$ 60,214,243**	**$ 210,042,824**	**$ 270,257,067**

The FY 2015 Statement of Budgetary Resources has been restated to reflect the unfunded lease obligations shown above and discussed in Note 10. This restatement does not affect the Commission's net position or the auditor's opinion on the financial statements. See Note 10—Leases for additional information on the Commission's leases. In addition, $96,799 in refunds collected were reclassified from Spending Authority from Offsetting Collections to Other Changes in Unobligated Balance to conform to the presentation in the current year, as disclosed in Note 1W.

Commodity Futures Trading Commission

Combining Statements of Budgetary Resources by Major Account

For the Years Ended September 30, 2016 and 2015

	2016			
	CUSTOMER PROTECTION FUND	SALARIES AND EXPENSES	INFORMATION TECHNOLOGY	COMBINED
BUDGETARY RESOURCES				
Unobligated Balance Brought Forward, October 1	$ 264,251,379	$(210,105,977)	$ 5,612,708	$ 59,758,110
Adjustment to Unobligated Balance Brought Forward, October 1	–	–	–	–
Unobligated Balance Brought Forward, October 1, as Adjusted	264,251,379	(210,105,977)	5,612,708	59,758,110
Recoveries of Prior Year Unpaid Obligations	235,289	3,397,185	815,686	4,448,160
Other Changes in Unobligated Balance	117,351	390,396	–	507,747
Unobligated Balance from Prior Year Budget Authority, Net	264,604,019	(206,318,396)	6,428,394	64,714,017
Appropriations	–	200,000,000	50,000,000	250,000,000
Spending Authority from Offsetting Collections	456,371	45,478	–	501,849
TOTAL BUDGETARY RESOURCES	**$ 265,060,390**	**$ (6,272,918)**	**$ 56,428,394**	**$ 315,215,866**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Note 12A)	$ 19,899,491	$ 200,605,688	$ 50,386,739	$ 270,891,918
Change in Unfunded Lease Obligations (Note 10)	–	(15,664,166)	–	(15,664,166)
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	245,160,899	711,192	684,762	246,556,853
Unapportioned, Unexpired Accounts	–	(194,232,932)	–	(194,232,932)
Unexpired Unobligated Balance, End of Year	245,160,899	(193,521,740)	684,762	52,323,921
Expired Unobligated Balance, End of Year	–	2,307,300	5,356,893	7,664,193
Unobligated Balance, End of Year (Total)	245,160,899	(191,214,440)	6,041,655	59,988,114
TOTAL BUDGETARY RESOURCES	**$ 265,060,390**	**$ (6,272,918)**	**$ 56,428,394**	**$ 315,215,866**
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 4,291,207	$ 34,765,102	$ 21,234,594	$ 60,290,903
Unfunded Lease Obligations Brought Forward, October 1 (Note 10)	–	210,042,824	–	210,042,824
Change in Unfunded Lease Obligations (Note 10)	–	(15,664,166)	–	(15,664,166)
Total Remaining Unfunded Lease Obligations	–	194,378,658	–	194,378,658
New Obligations and Upward Adjustments	19,899,491	200,605,688	50,386,739	270,891,918
Outlays (Gross)	(19,715,268)	(200,984,798)	(44,776,434)	(265,476,500)
Recoveries of Prior-Year Unpaid Obligations	(235,289)	(3,397,185)	(815,686)	(4,448,160)
Unpaid Obligations, End of Year	4,240,141	225,367,465	26,029,213	255,636,819
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	–	(76,660)	–	(76,660)
Change in Uncollected Payments, Federal Sources	–	(6,585)	–	(6,585)
Uncollected Payments, Federal Sources, End of Year	–	(83,245)	–	(83,245)
Memorandum Entries:				
Obligated Balance, Start of Year	**$ 4,291,207**	**$ 244,731,266**	**$ 21,234,594**	**$ 270,257,067**
Obligated Balance, End of Year	**$ 4,240,141**	**$ 225,284,220**	**$ 26,029,213**	**$ 255,553,574**

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Combining Statements of Budgetary Resources by Major Account continued from previous page

Commodity Futures Trading Commission

Combining Statements of Budgetary Resources by Major Account *(continued)*

For the Years Ended September 30, 2016 and 2015

2016	Customer Protection Fund	Salaries and Expenses	Information Technology	Combined
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget Authority, Gross	$ 456,371	$ 200,045,478	$ 50,000,000	$ 250,501,849
Actual Offsetting Collections	(607,019)	(429,288)	–	(1,036,307)
Change in Uncollected Customer Payments from Federal Sources	–	(6,585)	–	(6,585)
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	117,351	390,396	–	507,747
BUDGET AUTHORITY, NET	**$ (33,297)**	**$ 200,000,001**	**$ 50,000,000**	**$ 249,966,704**
Outlays, Gross	$ 19,715,268	$ 200,984,798	$ 44,776,434	$ 265,476,500
Actual Offsetting Collections	(607,019)	(429,288)	–	(1,036,307)
Outlays, Net	19,108,249	200,555,510	44,776,434	264,440,193
Distributed Offsetting Receipts	–	(2,387)	–	(2,387)
AGENCY OUTLAYS, NET	**$ 19,108,249**	**$ 200,553,123**	**$ 44,776,434**	**$ 264,437,806**

2015, as Restated	Customer Protection Fund	Salaries and Expenses	Information Technology	Combined
BUDGETARY RESOURCES				
Unobligated Balance Brought Forward, October 1	$ 269,901,355	$(229,911,328)	$ 5,382,040	$ 45,372,067
Adjustment to Unobligated Balance Brought Forward, October 1	829,170	–	–	829,170
Unobligated Balance Brought Forward, October 1, as Adjusted	270,730,525	(229,911,328)	5,382,040	46,201,237
Recoveries of Prior Year Unpaid Obligations	89,205	3,128,287	844,183	4,061,675
Other Changes in Unobligated Balance	–	(2,078,591)	7,615	(2,070,976)
Unobligated Balance from Prior Year Budget Authority, Net	270,819,730	(228,861,632)	6,233,838	48,191,936
Appropriations	–	200,000,000	50,000,000	250,000,000
Spending Authority from Offsetting Collections	53,908	80,039	–	133,947
TOTAL BUDGETARY RESOURCES	**$ 270,873,638**	**$ (28,781,593)**	**$ 56,233,838**	**$ 298,325,883**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Note 12A)	$ 6,622,259	$ 201,458,614	$ 50,621,130	$ 258,702,003
Change in Unfunded Lease Obligations (Notes 10 and 16)	–	(20,134,230)	–	(20,134,230)
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	264,251,379	560,577	5,547,952	270,359,908
Unapportioned, Unexpired Accounts	–	(209,897,098)	–	(209,897,098)
Unexpired Unobligated Balance, End of Year	264,251,379	(209,336,521)	5,547,952	60,462,810
Expired Unobligated Balance, End of Year	–	(769,456)	64,756	(704,700)
Unobligated Balance, End of Year (Total)	264,251,379	(210,105,977)	5,612,708	59,758,110
TOTAL BUDGETARY RESOURCES	**$ 270,873,638**	**$ (28,781,593)**	**$ 56,233,838**	**$ 298,325,883**

continued on next page

Combining Statements of Budgetary Resources by Major Account continued from previous page

Commodity Futures Trading Commission

Combining Statements of Budgetary Resources by Major Account *(continued)*

For the Years Ended September 30, 2016 and 2015

	2015, as Restated			
	CUSTOMER PROTECTION FUND	SALARIES AND EXPENSES	INFORMATION TECHNOLOGY	COMBINED
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 3,670,892	$ 25,243,753	$ 11,650,117	$ 40,564,762
Unfunded Lease Obligations Brought Forward, October 1 (Notes 10 and 16)	–	230,177,054	–	230,177,054
Change in Unfunded Lease Obligations (Notes 10 and 16)	–	(20,134,230)	–	(20,134,230)
Total Remaining Unfunded Lease Obligations	–	210,042,824	–	210,042,824
New Obligations and Upward Adjustments	6,622,259	201,458,614	50,621,130	258,702,003
Outlays (Gross)	(5,912,739)	(188,808,978)	(40,192,470)	(234,914,187)
Recoveries of Prior-Year Unpaid Obligations	(89,205)	(3,128,287)	(844,183)	(4,061,675)
Unpaid Obligations, End of Year	4,291,207	244,807,926	21,234,594	270,333,727
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	–	(54,225)	–	(54,225)
Change in Uncollected Payments, Federal Sources	–	(22,435)	–	(22,435)
Uncollected Payments, Federal Sources, End of Year	–	(76,660)	–	(76,660)
Memorandum Entries:				
Obligated Balance, Start of Year	**$ 3,670,892**	**$ 255,366,582**	**$ 11,650,117**	**$ 270,687,591**
Obligated Balance, End of Year	**$ 4,291,207**	**$ 244,731,266**	**$ 21,234,594**	**$ 270,257,067**
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget Authority, Gross	$ 53,908	$ 200,080,039	$ 50,000,000	$ 250,133,947
Actual Offsetting Collections	(58,152)	(146,787)	(7,615)	(212,554)
Change in Uncollected Customer Payments from Federal Sources	–	(22,435)	–	(22,435)
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	–	89,184	7,615	96,799
BUDGET AUTHORITY, NET	**$ (4,244)**	**$ 200,000,001**	**$ 50,000,000**	**$ 249,995,757**
Outlays, Gross	$ 5,912,739	$ 188,808,978	$ 40,192,470	$ 234,914,187
Actual Offsetting Collections	(58,152)	(146,787)	(7,615)	(212,554)
Outlays, Net	5,854,587	188,662,191	40,184,855	234,701,633
Distributed Offsetting Receipts	–	(6,767)	–	(6,767)
AGENCY OUTLAYS, NET	**$ 5,854,587**	**$ 188,655,424**	**$ 40,184,855**	**$ 234,694,866**

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Independent Auditors' Report

Chairman and Inspector General of
U.S. Commodity Futures Trading Commission:

Report on the Financial Statements

We have audited the accompanying financial statements of the U. S. Commodity Futures Trading Commission (CFTC), which comprise the balance sheet as of September 30, 2016 and the related statements of net cost, changes in net position, custodial activity and combined statements of budgetary resources for the year ended, and the related notes to the financial statements (hereinafter referred to as the financial statements). The financial statements of CFTC as of September 30, 2015 were audited by other auditors whose report, dated January 15, 2016, expressed a qualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fiscal year 2016 financial statements of CFTC based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the 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, but not for the purpose of expressing an opinion on the effectiveness of the entity' s internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Commodity Futures Trading Commission as of September 30, 2016, and its net costs, changes in net position, custodial activity and budgetary resources for the year then ended in conformity with generally accepted accounting principles in the United States of America

Emphasis of Matter

The CFTC's historical practice had been to obligate only the annual portion of lease payments due each fiscal year. On February 4, 2016, GAO issued Comptroller General Decision B-327242, Commodity Futures Trading Commission – Recording of Obligations for Multiple-Year Leases. GAO determined that while the CFTC had the authority to enter into multiple year leases, the agency violated the recording statute, 31 U.S.C. 1501(a) (1), because it did not record the total lease liability for each of its leases when it entered into its leasing contracts.

As stated in Note 16 to the financial statements, CFTC restated the FY 2015 Statement of Budgetary Resources to reflect the unfunded lease obligations to account for the full amount of obligations remaining on its active leases for building space in accordance with generally accepted accounting principles. The restatement does not change the opinion of the predecessor auditor on the FY 2015 financial statements.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statement as a whole. The information contained within the introductory sections (presented before the Management's Discussion and Analysis section), the *Message from the Chief Financial Officer*, *Other Information*, and *Appendix* sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2016, we considered CFTC's internal control over financial reporting by obtaining an understanding of CFTC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of control to determine auditing procedures for the purpose of expressing our opinion on the financial statements, but not to provide an opinion on the effectiveness of CFTC's internal control over financial reporting. Accordingly, we do not express an opinion on CFTC's internal controls over financial reporting. We limited internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 15-02. We did not test all internal control relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control over financial reporting was for the limited purpose as described in the paragraph above and was not designed to identify all deficiencies in internal control over financial reporting that might be a control deficiency, significant deficiency, or material weakness.

A control 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. A significant deficiency is a control deficiency or a combination of control deficiencies, that adversely affects CFTC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the CFTC's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

In our fiscal year 2016 audit, we did not identify any deficiencies in internal control over financial reporting that we considered to be a material weakness or significant deficiency, as defined above.

However, we noted an additional matter that we will report to CFTC's management in a separate letter. Exhibit II presents the status of prior year findings and recommendations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CFTC's fiscal year 2016 financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws and regulations, with which noncompliance could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws specified in OMB Bulletin No.15-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Independent Auditors' Report

The results of our tests of compliance as described in the preceding paragraph, disclosed an instance of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 15-02 and which are described in Exhibit I.

This report is intended solely for the information of CFTC's management, OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

Allmond & Company, LLC

November 14, 2016

Independent Auditors' Report

Exhibit II
Status of Prior Year Findings and Recommendations

CONDITION

Potential Anti-deficiency Act (ADA) Violation:

CFTC continues to investigate a matter that may potentially represent a violation of the ADA related to the CFTC's historical policy of entering into lease contracts and recording related obligations. A final determination has not yet been made and therefore the outcome of this matter is not presently known.

CRITERIA

Title 31 U.S. Code (U.S.C.) Section 1517 *Prohibited Obligations and Expenditures* states:

(a) An officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding –

(1) An apportionment; or
(2) The amount permitted by regulations prescribed under section 1514(a) of this title.

(b) If an officer or employee of an executive agency or of the District of Columbia government violates subsection (a) of this section, the head of the executive agency or the Mayor of the District of Columbia, as the case may be, shall report immediately to the President and Congress all relevant facts and a statement of actions taken. A copy of each report shall also be transmitted to the Comptroller General on the same date the report is transmitted to the President and Congress.

CAUSE

CFTC did not record its multi-year leases in accordance with applicable laws and regulations.

EFFECT

CFTC may not be in compliance with the ADA related to the potential instance noted.

RECOMMENDATION

We recommend that CFTC's management complete the investigation into the potential ADA violation noted and report to the appropriate parties, as necessary.

MANAGEMENT'S RESPONSE

Management concurs with the recommendation.

Independent Auditors' Report

Exhibit II
Status of Prior Year Findings and Recommendations

The following table provides the fiscal year (FY) 2016 status of all recommendations included in the Independent Auditors' Report on the Commodity Futures Trading Commissions FY 2015 Financial Statements (January 15, 2016).

FY 2015 Finding	FY 2015 Recommendation	FY 2016 Status
Internal Controls over Financial Reporting	**Recommendation:**	
	(a) Improve its internal controls over financial reporting and compliance. Specifically, we recommend that management perform a more detailed review of all information in the annual financial report including financial statements, notes, and supplementary information and prepare the GAO accounting and financial reporting checklist. The review performed should ensure all transactions and classes of transactions are recorded and reported in the financial statements in accordance with U.S. generally accepted accounting standards. Such review should be documented and maintained.	Closed
	(b) Develop written accounting policies and procedures that document the basis for all accounting positions that are significant to the financial statements.	Closed
	(c) Develop and implement adequate control to ensure lease obligations are recorded in compliance with OMB A-11, Appendix B requirements.	Closed
	(d) Update its accounting policy on the accounting for the lease obligation to be consistent with the guidance in OMB A-11, Appendix B.	Closed
	(e) Investigate the potential violation of ADA to make a final determination and report it, as applicable	Closed
Potential Anti-Deficiency Act Violation	**Recommendation:**	
	(a) Complete the investigation into the potential ADA violation noted.	Open
	(b) Develop and implement sufficient policies and procedures to prevent future ADA violations.	Closed

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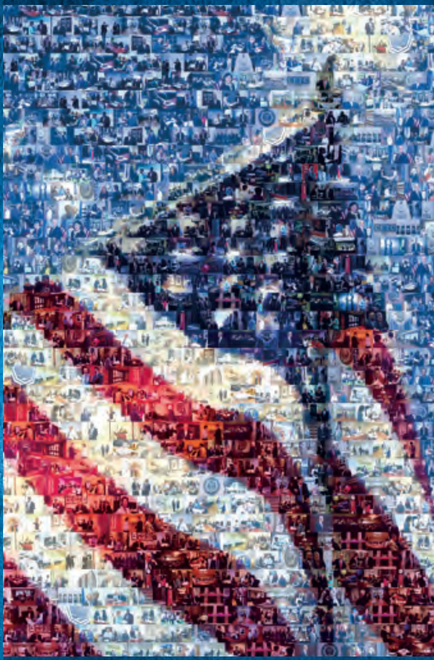
OTHER INFORMATION



INSIDE

U.S. COMMODITY FUTURES TRADING COMMISSION
OFFICE OF INSPECTOR GENERAL
Three Lafayette Centre
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Telephone: (202) 418-5110

TO: Timothy G. Massad, Chairman
Sharon Y. Bowen, Commissioner
J. Christopher Giancarlo, Commissioner

FROM: A. Roy Lavik, Inspector General

DATE: September 20, 2016

SUBJECT: Inspector General's Assessment of the Most Serious Management Challenges Facing the Commodity Futures Trading Commission

Summary

The Reports Consolidation Act of 2000 (RCA)[1] authorizes the CFTC to provide financial and performance information in a meaningful and useful format for Congress, the President, and the public. The RCA requires the Inspector General to summarize the "most serious" management and performance challenges facing the Agency and to assess the Agency's progress in addressing those challenges.[2] This memorandum fulfills our duties under the RCA.

To complete our assessment we relied on data contained in the CFTC financial statement audit and Annual Financial Report, representations by agency management, and our knowledge of industry trends and CFTC operations. Since Congress left the determination of what constitutes a most serious challenge to the discretion of the Inspector General, we applied the following definition in preparing this statement:

> *Serious management challenges are mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact Agency operations or strategic goals.*

[1] Public Law 106-531, sec 3, 114 STAT. 2537 (Nov. 22, 2000), codified at 31 USC § 3516(a).
[2] Id.

CFTC's Progress on Last Year's Challenges

For FY2016 the OIG identified three management challenges, they were:

1. *Stimulate registrants towards enhancing their cyber security controls over vital client information so as to reduce the impact of any future information technology breach.*

Management's public comments[3] indicate awareness of the disruptive impact of cyber security breaches of registrant networks. CFTC is uniquely positioned to share cyber risk intelligence and mitigation best practices among its registrants. The OIG's recently issued audit of CFTC's approach to reducing cybersecurity risks at registrants identified several testing and intelligence sharing opportunities to enhance the current approach to this threat. We look forward to evaluating additional management actions to reduce cyber security risk among registrants.

2. *Minimize information security vulnerabilities in its network with particular attention to the exfiltration of sensitive data.*

Results of OIG information systems reviews revealed that management is addressing information security vulnerabilities. This increase in competency is demonstrated by the Office of Data and Technology's (ODT) approach of reallocating staff, increasing the frequency of network scans, and patching vulnerabilities accordingly. During the coming year, we will scan sensitive databases to identify vulnerabilities for data loss.

3. *Effectively Triage Oversight Tasks In Order To Execute Its Strategic Plan with Limited Budgetary Resources.*

For the second year (FY2015 and FY2016) in a row CFTC budget's was flat at $250 million while certain operational costs increased. Therefore, the agency must effectively triage its budgetary resources to meet its oversight responsibilities stated in its Strategic Plan.

[3] Statement of Chairman Timothy Massad on the System Safeguards Testing Final Rules September 8, 2016 available at http://www.cftc.gov/PressRoom/SpeechesTestimony/massadstatement090816b

Fiscal Year 2017 Management Challenges

Due to the complexity, persistence, and ongoing nature of the management challenges identified in FY 2016, we restate their importance for FY2017. Enterprise wide IT security, cybersecurity at registrants, and budget constraints remain significant for FY2017. To the aforementioned group we identify another major management challenge for FY2017 as:

4. *Management's Effort to Address Findings From its FY2015 Financial Statement Audit Report*

As background, the OIG contracts an independent public accounting (IPA) firm to audit CFTC's financial statements. For FY2015, the IPA issued a qualified opinion on CFTC's financial statements and alerted users that previously issued audit opinions were unreliable. The IPA identified a material weakness in internal controls over financial reporting related to the recording of lease obligations that materially affected the Statement of Budgetary Resources. Currently, the Government Accountability Office (GAO) and the CFTC are developing a suitable framework for disclosing future lease financial commitments.

My office will continue to undertake audits, reviews, and investigations that illuminate aspects of these challenges.

Cc: Anthony Thompson, Executive Director
Judith Ringle, Deputy Inspector General and Chief Counsel
Miguel Castillo, Assistant Inspector General, Auditing

Management's Response to Inspector General's Assessment

In 2016, the CFTC Office of Inspector General identified what it believed are the most serious management challenges facing the Commission. These were stimulating registrants to enhance cybersecurity protections, minimizing information security vulnerabilities in its network, dealing with limited budgetary constraints, and addressing financial recording of lease obligations that led to a qualified audit opinion in FY 2015. The Commission has taken and will continue to take many actions in response to the Office of Inspector General's findings and recommendations. Highlights are summarized below.

Challenge Summary	Stimulate registrants towards enhancing their cybersecurity controls over vital client information so as to reduce the impact of any future information technology breach.
Actions Taken in FY 2016	The Commission has taken many actions to stimulate registrants to enhance cybersecurity protections and otherwise address cybersecurity issues in its markets. On September 8, 2016, the Commission issued two parallel final rules regarding system safeguards cybersecurity testing by DCMs, SEFs, SDRs, and DCOs. These final rules require all these critical infrastructures to conduct five important types of cybersecurity and system safeguards testing, including: 1) vulnerability testing; 2) penetration testing (both external and internal); 3) controls testing; 4) security incident response plan testing; and 5) enterprise technology risk assessment. The rules require all such testing to be conducted as in light of the regulated entity's appropriate risk analysis and threat analysis and penetration testing at a frequency determined by appropriate risk analysis. In FY 2016, the Commission also took the following key actions: ■ Participated in various cybersecurity exercises with organizations like ChicagoFirst; ■ Participated in Financial and Banking Information and Infrastructure Committee (FBIIC) meetings; ■ Completed three examinations where information security processes and procedures were part of the scope of the examination; ■ Completed a risk-based, comprehensive review of over 100 futures commission merchant and swap dealer registrants concerning their cybersecurity activities. The review analyzed registrants' policies and procedures related to key aspects of cybersecurity. As a result of this review, the Commission identified specific areas of improvement that were applicable to a number of firms, namely third party vendor guidance and training, and risks associated with remote customer or counterparty Access and funds transfer access; and ■ Reviewed and advanced for Commission approval the NFA Interpretation on Cybersecurity, which became effective on March 1, 2016 and requires each registrant to have a cybersecurity program. NFA also reviews the cybersecurity programs of registrants. The NFA (which the Commission oversees) held three cybersecurity workshops for registrants, which included cybersecurity experts.

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Actions Remaining	The Commission will continue to monitor the reports that regulated entities are required to make promptly to the Commission concerning all electronic trading halts and significant system malfunctions, and of all cybersecurity incidents or targeted threats that actually or potentially jeopardize automated system operation, reliability, security or capacity. This also includes software and hardware malfunctions, cybersecurity incidents or targeted threats that actually or potentially jeopardize automated system operation, reliability, security, or capacity at clearing houses. The Commission will continue to participate in cybersecurity exercises with the industry and coordination concerning critical infrastructure protection and cybersecurity threat information sharing with federal financial regulators, intelligence agencies, and law enforcement agencies, through the FBIIC. The Commission will also continue to promote information sharing among regulated entities concerning cybersecurity threats. Through FBIIC, the Commission also regularly receives Financial Sector Cyber Intelligence Group Circulars containing urgent cybersecurity intelligence and threat information and shares these circulars with DCMs, SEFs, SDRs, and DCOs located in the U.S. The Commission also arranges technical assistance and intelligence and information-sharing between these registered entities and the intelligence community and federal law enforcement agencies through the FBIIC Request for Technical Assistance (RTA) process. In addition, DCMs, SEFs, SDRs, and DCOs engage in information-sharing through the Clearing House and Exchange Forum of the Financial Services Sector Coordinating Council, FBIIC's private sector counterpart and partner regarding critical infrastructure protection. The Commission encourages registered entities to participate in anonymized cybersecurity threat signature information-sharing through the Financial Sector Information Sharing and Analysis Center (FS-ISAC). FS-ISAC is a group of private sector organizations with over 10,000 members. FS-ISAC sends alerts to all of its members regarding threats, holds conference calls with members to discuss cybersecurity vulnerabilities, and maintains a database of threats and vulnerabilities that its members can access to assist in their threat analysis.

Challenge Summary	**Minimize information security vulnerabilities in its network with particular attention to the exfiltration of sensitive data.**
Actions Taken in FY 2016	The Commission has further enhanced its Vulnerability Management Program (VMP). The following have been made to the VMP as well as address exfiltration of sensitive data: ■ Continued to engage and participate in the U.S. Department of Homeland Security's (DHS) Continuous Diagnostics and Mitigation (CDM) program to provide ongoing awareness of the Commission's information technology security posture. ■ Continued to improve the Information Security Continuous Monitoring (ISCM) program by ensuring the vulnerability assessment tool provides the Commission insight into the vulnerability, patch and configuration compliance of our endpoints. This critical information is made available to management via a Vulnerability Management Dashboard. ■ Performed an annual exercise to guard against advanced persistent threats (APTs) through the Microsoft Persistent Adversary Detection Service (PADS). This recurring assessment will detect cyber-attacks that may be used to gain unauthorized access or steal sensitive data from the Commission. ■ Continued to perform security risk assessments (penetration testing) on the Commission's systems based on the exploitable vulnerabilities discovered in our regular vulnerability scans. ■ Conducted annual Commission-wide Computer Security Awareness and Privacy Training to educate users, and emphasize the Rules of Behavior while using the Commission's network resources. ■ Continued to engage with DHS to fully participate with the Einstein 3 Accelerated (E3A) program to provide the Commission with intrusion prevention services to detect attacks and prevent potential compromises on our network.

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Actions Remaining	The Commission will: ■ Finalize a Computer Incident Response Plan defining procedures for detecting, reporting and responding to security incidents; ■ Transition legacy systems to take advantage of modern technologies to improve security integration and data sharing; ■ Procure a database assessment tool to protect sensitive information stored in the Commission's databases by identifying specific database vulnerabilities, misconfigurations, rogue installations, and access control issues; ■ Finalize the governance rules and business protocols to enable the Data Loss Prevention (DLP) technology to detect data exfiltration, and block sensitive data from leaving the network, and; ■ Establish an insider threat program to detect malicious insider activity.

Challenge Summary	Effectively triage oversight tasks in order to execute its strategic plan with limited budgetary resources.
Actions Taken in FY 2016	The Commission continued to triage oversight responsibilities in light of budgetary constraints to carry out its responsibility to promote open competitive markets that are free from fraud, manipulation, and other abuses. Divisions performed examinations jointly to efficiently use staff resources. For example, the Division of Clearing and Risk and Division of Market Oversight performed systems exams jointly at Chicago Mercantile Exchange (CME) and North American Derivatives Exchange, Inc. (NADAX), which allowed the Commission to complete its mission activities with respect to different registrants (DCOs and DCMs). In addition, the Commission concentrated its resources to complete the registration of 23 SEFs and multiple rule filings, rule enforcement reviews, and system safe guard examinations were completed. Mindful of its budget constraints facing the agency, the Commission continued to work closely with the designated self-regulatory organizations to best leverage and direct its collective oversight resources. In order to exercise the Commission's regulatory responsibilities across the thousands of registered intermediaries operating in today's markets, the CFTC delegated routine direct examination functions to designated self-regulatory organizations. The CFTC is responsible for overseeing self-regulatory organization activities, and ensures and validates regulatory compliance. CFTC also assists with legal interpretations, guidance and policy support to address new regulations or emerging issues. In addition, the Commission continued its efforts in FY 2016 enhancing coordination with the designated self-regulatory organizations, transferring additional non-critical examination functions, developing more efficient tools and strategies for conducting horizontal reviews, and enhancing productivity through technology.
Actions Remaining	Moving forward, the Commission will continue to streamline its operations by promoting knowledge-sharing, cross-training and collaboration activities to ensure we are fully utilizing our current resources. The Commission's efforts to coordinate and better integrate the designated self-regulatory organizations into the compliance regime will continue. The Commission will also maintain efforts to develop and refine its risk management and profiling activities to more efficiently and effectively perform its mission. Emphasis will be placed on perpetual review of budget priorities, expected strategic outcomes, and emerging trends to ensure all aspects of its oversight responsibilities are executed using the most advantageous methods. The Commission will work closely with its Offices of Data and Technology and Human Resources to strategize ways to develop new technologies, hiring practices, recruitment tools and retention incentives to find the elasticity within its limited resources.

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Challenge Summary	Management's effort to address findings from its FY 2015 Financial Statement Audit Report.
Actions Taken in FY 2016	The CFTC has taken appropriate steps to improve the Commission's management of its lease obligations and is recognizing the effects of specific lease transactions in its annual financial statements. In addition, CFTC has entered into a Memorandum of Understanding (MOU) with the General Services Administration (GSA) for administration and management of the Commission's real property leases going forward.
Actions Remaining	Moving forward, the CFTC will continue to implement best practices and enhance its financial management for all lease related transactions. The Commission will: ■ Continue to coordinate with OMB and GAO on the proper recording of lease transactions and report violations of the Anti-deficiency Act as appropriate. ■ Continue to review and evaluate all lease related processes and procedures to ensure proper recognition of the government's obligations.

Summary of Audit and Management Assurances

Summary of FY 2016 Financial Statement Audit

Audit Opinion:	Unmodified				
Restatement:	Yes				
MATERIAL WEAKNESS	**BEGINNING BALANCE**	**NEW**	**RESOLVED**	**CONSOLIDATED**	**ENDING BALANCE**
	1		1		0

Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance:	Unmodified					
MATERIAL WEAKNESS	**BEGINNING BALANCE**	**NEW**	**RESOLVED**	**CONSOLIDATED**	**REASSESSED**	**ENDING BALANCE**
	1		1			0
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	Unmodified					
MATERIAL WEAKNESS	**BEGINNING BALANCE**	**NEW**	**RESOLVED**	**CONSOLIDATED**	**REASSESSED**	**ENDING BALANCE**
	0	0				0
CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	Federal systems conform to financial management system requirements					
NON-CONFORMANCE	**BEGINNING BALANCE**	**NEW**	**RESOLVED**	**CONSOLIDATED**	**REASSESSED**	**ENDING BALANCE**
	0	0				0

COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	Compliance noted	
2. Applicable Federal Accounting Standards	Compliance noted	
3. USSGL at Transaction Level	Compliance noted	

DEFINITION OF TERMS

Beginning Balance: The beginning balance will agree with the ending balance of material weaknesses from the prior year.

New: The total number of material weaknesses that have been identified during the current year.

Resolved: The total number of material weaknesses that have dropped below the level of materiality in the current year.

Consolidation: The combining of two or more findings.

Reassessed: The removal of any finding not attributable to corrective action (e.g., management has re-evaluated and determined a finding does not meet the criteria for materiality or is redefined as more correctly classified under another heading (e.g., Section 2 to a Section 4 and vice versa).

Ending Balance: The agency's year-end balance of material weaknesses.

Combined Schedule of Spending

Commodity Futures Trading Commission

Combined Schedule of Spending

For the Years Ended September 30, 2016 and 2015 *($ in thousands)*

	2016	2015
WHAT MONEY IS AVAILABLE TO SPEND?		
Total Resources (prior to reduction for unfunded lease obligations)	$ 525,259	$ 528,503[13]
Less Amount Available but Not Agreed to be Spent	246,557	270,360
Less Amount Not Available to be Spent	7,810	(559)[14]
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 270,892**	**$ 258,702**
HOW WAS THE MONEY SPENT/ISSUED?		
Salaries & Expenses Funds		
Personnel Compensation and Benefits	$ 153,798	$ 141,160
Contractual Services and Supplies	26,174	32,640
Rent, Communications, and Utilities	18,002	22,760
Travel and Transportation	1,754	2,338
Acquisition of Assets	186	1,856
Printing and Reproduction	692	619
Other	–	85
Total Salaries and Expenses Funds	**$ 200,606**	**$ 201,458**
Information Technology Funds		
Contractual Services and Supplies	$ 38,283	$ 41,234
Rent, Communications and Utilities	2,602	2,998
Acquisition of Assets	9,502	6,389
Total Information Technology Funds	**$ 50,387**	**$ 50,621**
Customer Protection Fund		
Whistleblower Awards to Individuals	$ 11,851	$ –[15]
Personnel Compensation and Benefits	2,467	1,625
Contractual Services and Supplies	5,323	4,641
Rent, Communications, and Utilities	116	237
Travel and Transportation	125	81
Printing and Reproduction	17	39
Total Customer Protection Fund	**$ 19,899**	**$ 6,623**
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 270,892**	**$ 258,702**

[13] *The amount reported as "Resources" on this schedule is prior to the reduction for unfunded lease obligations. After the reduction for unfunded lease obligations, the amount of the Commission's budgetary resources reported on the Statements of Budgetary Resources is $315.2 million and $298.3 million as of September 30, 2016, and 2015, respectively.*

[14] *The FY 2015 "Amount Not Available to be Spent" is negative due to a deficiency in the 2013 annual salaries and expenses fund as the result of a transfer from its multi-year information technology fund that was subsequently reversed.*

[15] *At the end of FY 2015, a $300 thousand Whistleblower award was recorded as a contingent liability but not spent until FY 2016; the $300 thousand award accrued to FY 2015 is included in the $11.9 million spent in FY 2016.*

Required Improper Payment Reporting

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires agencies review all programs and activities they administer and identify those which may be susceptible to significant improper payments. The Office of Management and Budget (OMB) guidance provided in Circular A-136, *Financial Reporting Requirements*, and Appendix C of Circular A-123, *Management's Responsibility for Internal Control*, require agencies to report detailed information related to the Commission's efforts to eliminate improper payments, which is outlined below.

I. Risk Assessment

The Commission does not administer grant, benefit or loan programs. CFTC's most significant expenses are payroll and benefits for its employees, which are administered by the U.S. Department of Agriculture's National Finance Center and the Office of Personnel Management. CFTC's most significant non-payroll expenses are its payments to vendors for goods and services used during the course of normal operations and monetary awards to eligible whistleblowers who voluntarily provide the CFTC with original information about violations of the CEA that leads the CFTC to bring enforcement actions that result in monetary sanctions exceeding $1 million.

Based on the results of transaction testing applied to a sample of FY 2016 vendor payments, consideration of risk factors, and reliance on the internal controls in place over the payment and disbursement processes, the Commission has determined that none of its programs and activities carried out in the normal course of business are susceptible to significant improper payments at or above the threshold levels set by OMB. In addition, while the Commission disbursed a total of $11,851,320 to three whistleblowers during FY 2016, the review of each individual award by the Commission's Whistleblower Award Determination Panel limits the likelihood that the whistleblower award program would be susceptible to significant improper payments.

Significant erroneous payments are defined as annual erroneous payments in the program exceeding both $10 million and 1.5 percent, or $100 million of total annual program payments. In accordance with Appendix C of Circular A-123, the Commission 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.

II. Sampling and Estimation

The results of the Commission's risk assessment did not identify any programs that were susceptible to making significant improper payments. Therefore, no sampling or estimation methodologies were required.

III. Improper Payment Reporting

The Commission has not identified any programs that are susceptible to making significant improper payments. Therefore, there are no improper payments that exceed the statutory thresholds to report or to develop reduction goals.

Table 1. Improper Payment Reduction Outlook
($ in Thousands)

Program or Activity	PY Outlays	PY IP %	PY IP $	CY Outlays	CY IP %	CY IP $	CY Overpayment $	CY Underpayment $	CY + 1 Est. Outlays	CY + 1 Est. IP %	CY + 1 Est. IP $	CY + 2 Est. Outlays	CY + 2 Est. IP %	CY + 2 Est. IP $	CY + 3 Est. Outlays	CY + 3 Est. IP %	CY + 3 Est. IP $
Program A	N/A																
Program B																	
Program C																	
TOTAL																	

IV. Improper Payment Root Cause Categories

Since the Commission has not identified any improper payments that exceed the statutory thresholds to report, the Commission has not conducted any root cause analysis.

Table 2. Improper Payment Root Cause Category Matrix
($ in Thousands)

Reasons for Improper Payment		Program A		Program B		Program C	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue		N/A					
Inability to Authenticate Eligibility							
Failure to Verify:	Death Data						
	Financial Data						
	Excluded Party Data						
	Prisoner Data						
	Other Eligibility Data (explain)						
Administrative or Process Error Made by:	Federal Agency						
	State or Local Agency						
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)						
Medical Necessity							
Insufficient Documentation to Determine							
Other Reason (a) (explain)							
Other Reason (b) (explain)							
TOTAL							

V. Improper Payment Corrective Actions

The Commission has not developed improper payment corrective actions because no programs have been identified that are susceptible to making significant improper payments.

VI. Internal Control Over Payments

The Commission has sufficient controls in place for payments and has not identified any programs that are susceptible to making significant improper payments. Therefore, no improper payments have been identified that exceed the statutory thresholds to report on the status of internal controls over payments. In addition, internal controls related to payments are tested heavily as part of the Commission's FMFIA assurance process.

Table 3. Example of the Status of Internal Controls

Internal Control Standards	Program A	Program B	Program C	Program D	Program E
Control Environment					
Risk Assessment					
Control Activities			N/A		
Information and Communication					
Monitoring					

Legend

4 = Sufficient controls are in place to prevent IPs
3 = Controls are in place to prevent IPs but there is room for improvement
2 = Minimal controls are in place to prevent IPs
1 = Controls are not in place to prevent IPs

VII. Accountability

No specific accountability plans have been developed because the Commission has not identified any programs that are susceptible to making significant improper payments.

VIII. Agency Information Systems and Other Infrastructure

The Commission has sufficient internal controls, human capital, and information systems in place for payments. The Commission has not identified any programs that are susceptible to making significant improper payments.

IX. Barriers

The Commission is not aware of any statutory, regulatory, or other barriers that limit its ability to properly administer and control payments.

X. Recapture of Improper Payments Reporting

As noted above, the Commission does not administer grant, benefit or loan programs. Implementation of recapture auditing, if determined to be cost-effective, would apply to the Commission's contract payments because payments to vendors total more than $1 million annually. The Commission determined that implementing a payment recapture audit program for contract payments is not cost-effective and notified OMB of this determination in September 2015. In making this determination, the Commission considered its low improper payment rate based on testing conducted over the previous three years and determined that benefits or recaptured amounts associated with implementing and overseeing the program would not exceed the costs of a payment recapture audit program, including staff time and payments to contractors.

The Commission utilizes cost-efficient matching techniques to review all vendor payments to identify significant overpayments at a low cost per overpayment. For the three years prior to FY 2016, the Commission identified one improper vendor payment in the amount of $38 that was paid and recaptured in FY 2014. In FY 2016, the Commission identified one improper vendor payment in the amount of $1,337 that was paid and recaptured in FY 2016. This FY 2016 improper payment was the result of a processing error by a new invoice technician. The Commission's shared services provider has provided additional training to the technician to prevent a similar error in the future.

In addition to contract payments, recapture auditing may also be considered for the Commission's monetary awards to whistleblowers, if determined to be cost-effective, when payments to whistleblowers total more than $1 million annually. The amount of whistleblower awards will vary depending on the number and amount of covered enforcement actions in a given year, as well as the extent of original information provided by whistleblowers that led to the actions. However, the Commission has determined that implementing a payment recapture audit program for monetary awards to whistleblowers would not be cost-effective due to the effective design and operation of the internal controls in place for the program. As noted above, the review of each individual award by the Commission's Whistleblower Award Determination Panel limits the likelihood that the whistleblower award program would be susceptible to significant improper payments or that payment recapture audits would be beneficial.

In June 2015, the Commission transitioned to a new travel system through its shared services provider. Shortly after implementation of the new system, the Commission identified an inherent limitation in the electronic preparation of travel vouchers through the travel voucher post-audit process. This limitation allowed some travelers to receive reimbursement for airfare that had already been paid by the centrally billed travel account, resulting in 29 overpayments to employees for airfare totaling $12,375, of which $12,172 has been recaptured to date. While the Commission has identified these travel-related improper payments, these types of payments are not susceptible to significant improper payments because total travel costs are only $1,738,701 and $2,422,344 as of September 30, 2016, and 2015, respectively. In addition, travel vouchers undergo post-audits that are specifically designed to detect improper payments.

The Commission will continue to monitor the potential for improper payments across all programs and activities it administers and assess whether implementing payment recapture audits for each program would be cost-effective.

Table 4. Overpayment Payment Recaptures with and without Recapture Audit Programs (*$ in Thousands*)

Overpayments Recaptured through Payment Recapture Audits			Overpayments Recaptured Outside of Payment Recapture Audits	
Contracts	Other	Total	Amount Identified	Amount Recaptured
N/A[16]	N/A	N/A	$13.71	$13.51

Table 5. Disposition of Funds Recaptured Through Payment Recapture Audit Programs (*$ in Thousands*)

Program or Activity	Amount Recpatured *(This Amount Will be Identical to the "Amount Recaptured through Payment Recapture Audits" in Table 4)*	Type of Payment *(Contract, Grant, Benefit, Loan, or Other)*	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other *(Please Explain in Footnote or Narrative)*
Program A	N/A								
Program B									
Program C									
TOTAL									

[16] *As noted, the Commission has determined that recapture audits would not be cost-effective for its programs at this time.*

Table 6. Aging of Outstanding Overpayments Identified in the Payment Recapture Audits
(*$ in Thousands*)

Program or Activity	Type of Payment *(contract, grant, benefit, loan, or other)*	Amount Outstanding (0 - 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount Determined to not be Collectible *(include justification in Payment Recapture Narrative above)*
Program A	N/A				
Program B					
Program C					
TOTAL					

XI. Additional Comments

The Commission is pleased to report that its controls over payments is designed and operating effectively, resulting in an immaterial amount of improper payments over the last four fiscal years, and has no additional comments.

XII. Agency Reduction of Improper Payments with the Do Not Pay Initiative

The Do Not Pay (DNP) solution is a government-wide initiative mandated by the IPERIA to screen payment recipients before a contract award or payment is made in order to eliminate payment errors before they occur. An important part of the Commission's efforts designed to prevent, identify, and reduce improper payments is integrating the Treasury Department's DNP Business Center into its existing processes. The Commission's shared services provider utilizes the DNP Business Center, on the Commission's behalf, to perform online searches and screen payments against the DNP databases to augment data analytics capabilities.

The Commission follows established pre-enrollment, pre-award, and pre-payment processes for all acquisition awards. Pre-enrollment procedures include referencing applicants against General Services Administration's (GSA) System for Award Management (SAM) exclusion records. It also reviews federal and commercial databases to verify past performance, federal government debt, integrity, and business ethics. For pre-payment processes, the Commission verifies an entity against both SAM and the Internal Revenue Service's Taxpayer Identification Number (TIN) Match Program before establishing them as a vendor in the core financial accounting system.

In FY 2015, the Commission engaged the DNP Analytics Services to match its vendor records with the Death Master File (DMF). The review identified high-risk vendor records possibly associated with deceased individuals and enabled the Commission to classify the vendor records into risk-based categories for further evaluation. The Commission deactivated the highest risk vendor records, thereby decreasing the likelihood of improper payments to deceased individuals.

The Commission performs post-payment reviews to adjudicate conclusive matches identified by the DNP Business Center. The monthly adjudication process involves verifying payee information against internal sources, reviewing databases within the DNP Business Center, and confirming whether the Commission applied appropriate business rules when the payments was made.

In November 2014, the DNP Business Center upgraded its capabilities by automating the adjudication process through the DNP portal and providing better matching against SAM. While this upgrade significantly improved the process, differences between CFTC and Treasury Department payment file formats prevented the DNP Business Center from matching CFTC payments made from November 2014 through July 2015. The file format differences were resolved in August 2015 and the Commission, in coordination with its shared services provider, engaged the DNP Analytics Service to review the unmatched payment backlog. During FY 2016, the Commission, in coordination with its shared services provider, completed the post-payment review and found all were proper payments.

Table 7. Results of the Do Not Pay Initiative in Preventing Improper Payments ($ *in Thousands*)						
	Number (#) of Payments Reviewed for Possible Improper Payments	**Dollars ($) of Payments Reviewed for Possible Improper Payments**	**Number (#) of Payments Stopped**	**Dollars ($) of Payments Stopped**	**Number (#) of Potential Improper Payments Reviewed and Determined Accurate**	**Dollars ($) of Potential Improper Payments Reviewed and Determined Accurate**
Reviews with the Do Not Pay databases	3,960	$ 99,726	0	$ –	0	$ –
Reviews with databases not listed in IPERIA as Do Not Pay databases	N/A	N/A	N/A	N/A	N/A	N/A

Freeze the Footprint

There are no plans for expanding CFTC space in the near term, and efforts are currently underway to increase utilization of existing space with an emphasis on disposing of any excess space. The CFTC is engaging with the landlords of the Kansas City, Missouri and New York, New York regional office locations to return excess space and decrease CFTC's lease costs. Additionally, the CFTC has entered into a memorandum of understanding with the U.S. General Services Administration (GSA) to provide real estate support and recommended space utilization solutions. The CFTC is committed to complying with Federal guidance on the efficient use of space and property as a new space utilization plan is implemented.

Space Lease Cost (Including Pass-Through and Utilities Where Applicable)

$ in thousands

Facility	FY 2012 Actual	FY 2013[17] Est. Actual	FY 2014[17] Est. Actual	FY 2015[17] Est. Actual	FY 2016[17] Est. Actual
Washington, DC	$ 14,107	$ 14,588	$ 14,569	$ 15,319	$ 9,610[18]
Chicago	2,058	2,096	2,246	2,370	2,389
New York	197	1,892	2,258	2,300	2,478
Kansas City	718	451	443	578	581
COOP Site	84	89	92	93	94
TOTAL	**$ 17,164**	**$ 19,116**	**$ 19,608**	**$ 20,660**	**$ 15,152**

Rentable Square Feet

in square feet

Facility	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual
Washington, DC	288,395	288,395	289,295	289,295	289,295
Chicago	60,412	60,412	60,412	60,412	60,412
New York	46,347	61,510	61,510	61,510	61,510
Kansas City	24,362	24,362	24,362	24,362	24,362
TOTAL	**419,516**	**434,679**	**435,579**	**435,579**	**435,579**

[17] *In addition to the base rent, the tenant also pays a proportionate share of building operating costs incurred by the landlord, which may not be billed for two years past the fiscal year reported.*

[18] *Actual rent for FY 2016 is estimated at $15,966,288. Three rental credits totaling $6,355,815 were applied resulting in a one-time reduction in costs.*

Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act of 1990 (FCPIA) requires agencies to periodically adjust civil penalties for inflation if either the amount of the penalty or the maximum penalty is set by law. The Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 amended the FCPIA and requires the Commission to: 1) in FY 2016, adjust the level of civil monetary penalties with an initial "catch-up" adjustment through an interim final rulemaking; and 2) in subsequent years, make adjustments for inflation as directed by the Office of Management and Budget, potentially on an annual basis.

The Commission administers the following sections of the CEA that provide for civil monetary penalties:

- 7 U.S.C. 9—*Prohibition regarding manipulation and false information*, particularly section 9a—*Assessment of money penalties*; and,
- 7 U.S.C. 13—*Violations generally; punishment*; costs of prosecution, particularly sections 13a—*Non-enforcement of rules of government or other violations; cease and desist orders; fines and penalties; imprisonment; misdemeanor; separate offenses*; 13a-1— *Enjoining or restraining violations*, and 13b—*Manipulations or other violations; cease and desist orders against persons other than registered entities; punishment*.

Details about the current penalty level and the date of the most recent inflationary adjustment for each type of penalty administered by the Commission are reflected in the table below.

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($ Amount)
		MANIPULATION OR ATTEMPTED MANIPULATION VIOLATIONS		
For a civil penalty against any person (other than a registered entity)	Section 6(c) of the Commodity Exchange Act (7 U.S.C. 9)	10/25/2012	08/01/2016	For Commission administrative or civil injunctive enforcement proceedings that are initiated on or after August 1, 2016, not more than the greater of $1,098,190 or triple the monetary gain to such person for each such violation.
For a civil monetary penalty against any registered entity or any director, officer, agent, or employee of any registered entity	Section 6b of the Commodity Exchange Act (7 U.S.C. 13a)	10/25/2012	08/01/2016	For Commission administrative or civil injunctive enforcement proceedings that are initiated on or after August 1, 2016, not more than the greater of $1,098,190 or triple the monetary gain to such person for each such violation.
For a civil monetary penalty assessed against any registered entity or other person	Section 6c of the Commodity Exchange Act (7 U.S.C. 13a-1)	10/25/2012	08/01/2016	For Commission administrative or civil injunctive enforcement proceedings that are initiated on or after August 1, 2016, not more than the greater of $1,098,190 or triple the monetary gain to such person for each such violation.
		ALL OTHER VIOLATIONS		
For a civil penalty against any person (other than a registered entity)	Section 6(c) of the Commodity Exchange Act (7 U.S.C. 9)	10/25/2012	08/01/2016	For Commission administrative or civil injunctive enforcement proceedings that are initiated on or after August 1, 2016, not more than the greater of $152,243 or triple the monetary gain to such person for each such violation.
For a civil monetary penalty against any registered entity or any director, officer, agent, or employee of any registered entity	Section 6b of the Commodity Exchange Act (7 U.S.C. 13a)	10/25/2012	08/01/2016	For Commission administrative or civil injunctive enforcement proceedings that are initiated on or after August 1, 2016, not more than $838,640 for each such violation.
For a civil monetary penalty assessed against any registered entity or other person	Section 6c of the Commodity Exchange Act (7 U.S.C. 13a-1)	10/25/2012	08/01/2016	For Commission administrative or civil injunctive enforcement proceedings that are initiated on or after August 1, 2016, not more than the greater of $67,728 or triple the monetary gain to such person for each such violation.
For a civil penalty against any person (other than a registered entity)	Section 6(d) of the Commodity Exchange Act (7 U.S.C. 13b)	10/25/2012	08/01/2016	For Commission administrative or civil injunctive enforcement proceedings that are initiated on or after August 1, 2016, not more than the greater of $152,243 or triple the monetary gain to such person for each such violation.

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Appendix

INSIDE

CFTC Customer Protection Fund

Section 748 of the Dodd-Frank Act established the CFTC Customer Protection Fund (Fund), a revolving fund, for payment of awards to whistleblowers, through the Whistleblower Program, and the funding of customer education initiatives designed to help customers protect themselves against fraud or other violations of the CEA or the rules or regulations thereunder. In 2012, the Commission established the Whistleblower Office and the Office of Customer Education and Outreach to administer the whistleblower and customer education programs.

The Fund is financed by civil monetary penalties, disgorgements, and interest the Commission collects in covered administrative or judicial enforcement actions whenever the balance in the Fund at the time of the collection is less than or equal to $100 million.

The current balance in the Fund is $265 million in FY 2016. The Commission obligated $19.9 million in FY 2016. A detailed description of the Fund is presented in the Management's Discussion and Analysis, Financial Highlights, section of this report.

FY 2016 Highlights of the Customer Education and Outreach and Whistleblower Programs

FY 2016 was a year of growth of the CFTC's customer outreach program. The Office of Customer Education and Outreach reviewed the performance of the SmartCheck initiative, which launched in FY 2015, and enhanced its media outreach efforts. As a result, SmartCheck.gov experienced record levels of traffic, earned media attention and customer engagement.

The Commission also chose to expand the office in FY 2015. A director and deputy director were hired in the third quarter of FY 2016 and tasked with growing the office to tackle multiple initiatives and address the educational needs of both retail individual commodity futures and derivatives customers as well as nonretail hedgers—farmers, ranchers, producers, and commercial end users—who rely on the markets to mitigate risk and for fair and stable prices. The office has since established strategies, internal controls and policies to grow the staff at a reasonable rate to address these challenges while maintaining and growing SmartCheck and its other outreach efforts.

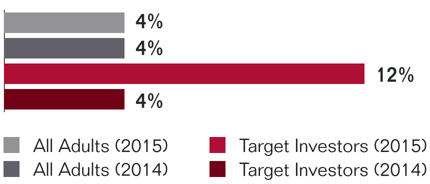
SmartCheck Awareness

The primary goal of the initiative is to encourage investors commonly targeted by fraud to check the registrations of investment advisors. Many investment frauds are conducted by unregistered actors, and the majority of commonly targeted victims fail to check registrations and backgrounds of financial professionals before investing.[19] One year after launching the website and conducting limited online advertising, a survey was launched to identify the effectiveness of the messages.

When compared to the baseline survey conducted before the initiative began, a significant number of investors in the targeted demographic recognized the campaign:

SmartCheck Awareness Survey

In the past 12 months, have you read, seen or heard anything about SmartCheck:



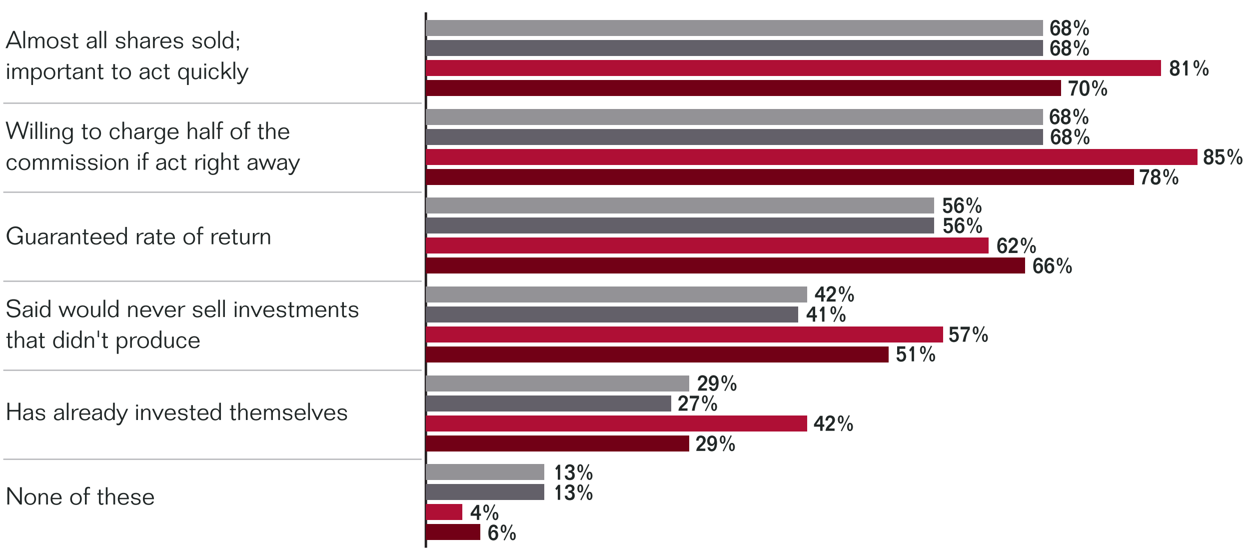
Other goals of the campaign included educating investors about how to report commodities related fraud and to recognize the common red flags of fraud. And again, the survey indicated that the messages were getting through:

Encouraged by these results, the Commission increased its direct-to-consumer outreach in 2016, purchasing advertising online and on television, and actively engaging with investors at events in several states.

Overall, there were nearly 858,000 sessions on SmartCheck.gov in FY 2016. Seventy-one percent of the website sessions were driven by viewers of the CFTC SmartCheck digital advertising campaign and the majority of the remaining traffic is a likely reflection of the limited television advertising that ran in the spring and late summer. During both rounds of television advertising, traffic to the site increased substantially. The SmartCheck Challenge commercial ran nearly 700 times on networks commonly viewed by our pre-retiree target audience (Bloomberg, CNBC, CNN, Golf, History, HLN, and MSNBC) and netted nearly 165 million impressions.

Investment Fraud Survey

Which, if any, of the following do you think are potential signs of investment fraud? If the person selling the investment said ...



[19] *A review of investment fraud research indicated that common victims of investment fraud tend to be men and women over 50 with higher household incomes, higher levels of financial literacy, and a willingness to accept investment risks. The 2007 FINRA (Financial Industry Regulatory Authority) Foundation Senior Fraud Risk Survey, which is located at https://www.saveandinvest.org/sites/default/files/Senior-Fraud-Risk-Survey.pdf, indicated that 79 percent of all respondents ages 50-64 didn't check their brokers for previous law violations, and 65 percent didn't check their brokers' registrations.*

Outreach to the news media about the CFTC's anti-fraud efforts through SmartCheck generated another 276 million impressions, with placements in prominent publications such as the *Washington Post*, the *Chicago Tribune*, and a special edition of *AARP The Magazine*.

Improving SmartCheck.gov Engagement

The number of online sessions rose from nearly 278,000 during 2015 to nearly 858,000 in 2016, a 209 percent increase. Visitors were also reading more pages and engaging with the site. This is demonstrated by the more than 2,500 percent increase in the number of pages viewed—from about 44,000 page views in 2015 to more than 1.16 million page views in 2016.

The number of clicks to check broker registrations—using FINRA's BrokerCheck, the National Future Association's Background Affiliation Status Information Center (BASIC) database, and other background resources—also increased by more than 1,400 checks. Since launch, there have been nearly 71,000 goal completions to background checking resources—a 6.1 percent conversion rate.

Launched Social Media Presence

The SmartCheck social media Facebook and Twitter profiles went live on February 29, 2016. Since that date, the campaign has earned nearly 2 million impressions on Twitter and nearly 5,000 Facebook likes. To further bolster site affinity and repeat traffic to the website, staff launched a monthly electronic newsletter supported by sign-up actions on SmartCheck.gov on July 19. Nearly 4,500 new recipients have signed up as a result.

Event and Stakeholder Outreach

Throughout the year, the CFTC Education and Outreach team participated in several events where it could reach key stakeholders or at-risk investors.

Investor Trade Shows. The Office of Customer Education and Outreach exhibited at four investor trade shows in 2016 to promote the SmartCheck program and customer protection resources of the CFTC. Staff used these opportunities to distribute educational materials, conduct background checks on financial professionals, and educate attendees about how to spot and report fraud to the Commission. These efforts reached approximately 16,500 event attendees. Trade shows included:

- *American Association of Individual Investors (AAII) Annual Conference*, Las Vegas, November 2016, 1,500 attendees reached.
- *New York Traders Expo*, February 2016, 5,000 traders and investors participating.
- *Orlando World MoneyShow*, March 2016, reached 7,000 investors with educational materials and messages.
- *FinCon*, San Diego, Calif., September 2015, the leading conference for more than 3,000 financial bloggers, writers and content developers.

Colorado Securities and Public Library Association (PLA). On April 3 and April 8, 2016, the OCEO and the Colorado Department of Regulatory Agencies Division of Securities (DORA) hosted two investor fraud prevention events for 100 seniors and library patrons at local libraries in Denver, Colorado. In addition, on April 6-8, 2016, in Denver, Colorado, the Office of Customer Education and Outreach and DORA exhibited together at the Public Library Association's 2016 Conference to provide 5,000 conference attendees with educational resources they could distribute to their library patrons.

World Elder Abuse Awareness Day (WEAAD). June 15, 2016, marked the 10th annual celebration of World Elder Abuse Awareness Day, a day dedicated to provide an opportunity for communities around the world to promote a better understanding of abuse and neglect of older persons by raising awareness of the cultural, social, economic and demographic processes affecting elder abuse and neglect. For the first time, the Office of Customer Education and Outreach joined several other financial regulators as a partner of WEAAD signaling the CFTC's commitment to preventing elder financial exploitation.

Multi Agency Mass Mailing Fraud Campaign Targeting the Elderly. Reflecting the government's unified effort to combat elder financial exploitation, Office of Customer Education

and Outreach teamed with the U.S. Department of Justice in a multi-agency education campaign to inform the public about mass mailing fraud and how it can be avoided. Agency partners include the U.S. Postal Inspector Service, the U.S. Federal Trade Commission, the U.S. Consumer Financial Protection Bureau, the U.S. Social Security Administration, the SEC, the CFTC, and USA.gov. Each agency pushed messaging to its public to share information about the prevalence of mass mailing fraud. The outreach included messages to caregivers—such as friends, relatives, social workers and others in contact with older individuals—about the need to be vigilant against prize or psychic letters being sent to those under their care.

Whistleblower Award

On July 26, 2016, the CFTC announced its fourth award of approximately $50,000 to a whistleblower who voluntarily provided key original information that led to a successful CFTC enforcement action. The last award announced by the CFTC was in April 2016, in the amount of more than $10 million, which is the largest award the CFTC has issued to date. Since the inception of the Whistleblower Program, the CFTC has issued four whistleblower awards to date totaling more than $12 million.

All whistleblower awards are paid from the CFTC Customer Protection Fund established by Congress and financed entirely through monetary sanctions paid to the CFTC by violators of the CEA. No money is taken or withheld from harmed investors to fund the program. To learn more about the CFTC's Whistleblower Program and to find out how to provide a tip or apply for an award, visit the program's new website at *http://www.whistleblower.gov*.

CONSUMER ADVISORY AND PUBLIC SERVICE ANNOUNCEMENT

SUSPECT FRAUD OR MANIPULATION? CALL CFTC

Fraud and market manipulation are illegal. Wrongdoers steal from everyday investors, farmers, ranchers, and companies. They not only hurt the victims, they drain retirement accounts, make goods more expensive, and raise doubts about the markets.

We're the **Commodity Futures Trading Commission**. It's our job to regulate the commodity futures and derivatives markets. We have the authority to investigate and stop fraud or suspicious market activities.

Too often, people don't report fraud or market manipulation. But, that leaves the wrongdoers free to continue their schemes until someone else becomes a victim.

If you suspect a fraud or market manipulation, tell us:

- Call **866.FON.CFTC**
(866.366.2383)
- Blow the whistle, visit:
http://www.whistleblower.gov
- Write to:
CFTC, Office of Cooperative Enforcement.
Washington DC

Common Fraud Areas

Historically, we have seen that the vast majority of fraud schemes involve:

- **Gold**, silver, and other precious metals
- Foreign currency trading, or **FOREX**
- Unregistered **commodity pools**
    - Pooled investment products similar to mutual funds
- Off-exchange **binary options**

Futures and derivatives trading isn't for everyone

Futures contracts and derivatives were designed for hedgers and speculators, not long-term investors. Prices are volatile, the products are complex, and when accounts are leveraged small price dips can cause big losses.

Successful traders have large amounts of capital and only risk money they can afford to lose.

Before considering futures or derivatives trading, be sure you understand the products and know the risks.

Always Check Registrations

Visit CFTC's SmartCheck.gov to make sure your broker or firm is registered and has a clean disciplinary history.

CONSUMER ADVISORY AND PUBLIC SERVICE ANNOUNCEMENT

CFTC WHISTLEBLOWER PROGRAM

The CFTC Whistleblower Program—created by the Dodd-Frank Act—allows for payment of monetary awards to eligible whistleblowers, and provides anti-retaliation protections for whistleblowers, who share information with or assist the CFTC.

How does the Whistleblower Program work?

- The CFTC will pay monetary awards to eligible whistleblowers who voluntarily provide the CFTC with original information about violations of the CEA that leads the CFTC to bring enforcement actions that result in more than $1 million in monetary sanctions.
- The CFTC can also pay whistleblower awards based on monetary sanctions collected by other authorities in actions that are related to a successful CFTC enforcement action, and are based on information provided by a CFTC whistleblower.
- The total amount of a whistleblower award will be between 10 and 30 percent of the monetary sanctions collected in either the CFTC action or the related action.

Who can be a whistleblower?

- Subject to certain statutory exceptions, a whistleblower can be any individual who voluntarily provides the CFTC original information, from a corporate officer or insider, to a trader or market observer, to an investor or fraud victim.

How can I become a whistleblower?

To become a whistleblower, you must complete and submit a Form TCR either electronically, by mail or by facsimile.

To submit a Form TCR electronically, visit *http://www.cftc.gov*, and click on the "File a Tip or Complaint" button on the right-hand side of the page. Use the first link under the description of the Whistleblower Program.

To submit a Form TCR by mail or facsimile, print a Form TCR from the "Whistleblower Program" webpage on *http://www.cftc.gov*, and use the following address or number:

Commodity Futures Trading Commission
Whistleblower Office
1155 21st Street, NW, Washington, DC 20581
Fax: 202.418.5975

Am I protected against retaliation?

The Dodd-Frank Act prohibits retaliation by employers against individuals who are whistleblowers who provide the CFTC with information about possible violations of the CEA, or who assist the CFTC in any investigation or proceeding based on such information.

Learn more about the anti-retaliation provisions by reading Appendix A to the Whistleblower Rules.

How can I learn more?

Visit the "Whistleblower Program" webpage at *https://www.whistleblower.gov*, which has copies of the Whistleblower Rules, filing forms, notices, orders on award applications, and frequently asked questions.

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Financial Management Branch
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