

FY 2001 PRESIDENT'S BUDGET BY PROGRAM

Market Surveillance, Analysis & Research

Total Budget:	\$7,974,000	86 FTEs
Total Increase:	\$1,317,000	9 FTEs

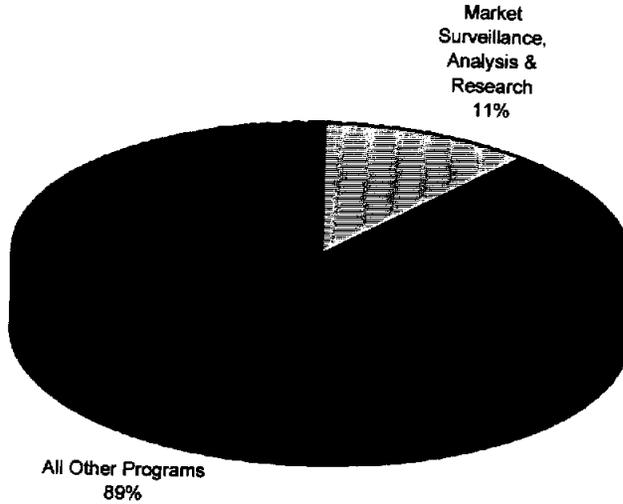


Figure 9: Market Surveillance, Analysis & Research Percentage of Total Budget Dollars

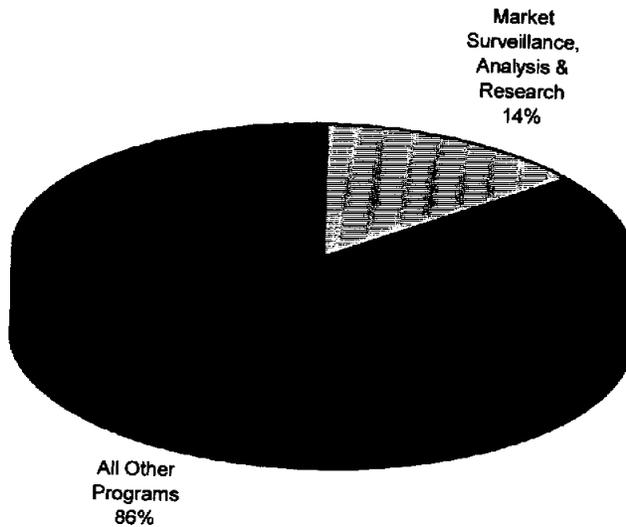


Figure 10: Market Surveillance, Analysis & Research Percentage of Total Budget FTEs

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Market Surveillance, Analysis & Research

Outcome Objectives

The Market Surveillance, Market Analysis, and Research programs are executed by the Division of Economic Analysis. The outcome objectives of the Division of Economic Analysis are:

- 1.1¹ Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
- 1.2 Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.
- 3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.
- 3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.
- 3.4 Promote markets free of trade practice abuses.

Justification of the FY 2001 President's Budget

The primary responsibility of the Market Surveillance, Analysis, and Research program is to foster markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity. By detecting and protecting against price manipulation, this program assists the markets in performing the vital economic functions of price discovery and risk transfer (hedging). In FY 2001, the Market Surveillance, Analysis, and Research program requests 86 full-time equivalents (FTEs), a net increase of nine FTEs over the FY 2000 budget. The three subprograms—Market Surveillance, Market Analysis, and Market Research—will have 66 FTEs, 12 FTEs, and eight FTEs respectively. Seven of the additional FTEs will be allocated to the Market Surveillance subprogram, one to the Market Analysis subprogram, and one to the Market Research subprogram.

Market Surveillance

Futures prices are generally quoted and disseminated throughout the US and abroad. Business, agricultural, and financial enterprises use the futures markets for pricing information and for hedging against price risk. The participants in commercial transactions rely extensively on prices established by the futures markets which affect trillions of dollars in commercial activity. Moreover, the prices established by the futures markets directly or indirectly affect all Ameri-

¹ 1.1 Denotes Goal One, Outcome Objective One, see page 9.

cans. They affect what we pay for our food, clothing, and shelter. Since futures and option prices are susceptible to manipulation and excessive volatility, and since producers and users of the underlying commodities can be harmed by manipulated prices, preventive measures are necessary to ensure that market prices accurately reflect supply and demand conditions.

Actions to detect and prevent price manipulation are taken by economists who monitor all active futures and option contracts for potential problems. Beginning in FY 2000, this surveillance activity will employ the reengineered computer systems that are being developed. Of the 66 FTEs allocated to the Market Surveillance subprogram, 64 FTEs will be employed to detect and prevent threats of price manipulation or other major market disruptions caused by abusive trading practices. This involves:

- Analyzing the activities of large traders, key price relationships, and relevant supply and demand conditions for an anticipated 319 futures and option contracts representing major agricultural commodities, metals, energy, financial instruments, equity indices, and foreign currencies; and
- Preparing reports on special market situations and weekly reports on market conditions for contracts approaching their critical expiration periods. Potential problems are discussed weekly with the Commissioners and senior staff. The Commission and the affected exchange, jointly in most cases, develop and administer any necessary responsive measures. The Commission shares pertinent information with other regulatory agencies.

Price manipulation prevention activities of the economists are enhanced by support personnel—futures trading specialists, futures trading assistants, and statisticians. Their activities include:

- Operating an extensive daily data-gathering and verification system and collecting reports from exchanges, futures industry firms, and traders. The reports provide current market information on the size of futures and option positions held by large traders as well as other background information that is necessary to enforce Commission and exchange speculative limits;
- Providing software development and statistical support to quantify and display important relationships between key economic variables; and
- Improving the effectiveness and efficiency of the large trader reporting system.

The seven additional FTEs requested for this subprogram are needed to conduct surveillance on the expanding number of diverse and innovative futures and option markets being developed by the exchanges, including the electronic exchanges that are emerging to compete with traditional exchanges.

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Market Analysis

Properly designed futures and option contracts serve the vital price discovery and hedging functions of those markets. Appropriate contract design also minimizes contracts' susceptibility to manipulation or price distortion. Oversight of contract design is a key element of the Commission's market oversight which complements the surveillance effort. The Market Analysis subprogram reviews new contract market designations as well as proposed rule changes of economic significance to existing contracts. The reviews seek to foster: 1) markets free of disruptions or price manipulations; and 2) commercially viable contract terms.

Deficiencies in the terms and conditions of futures and option contracts increase the likelihood of cash, futures, or option market disruptions and decrease the economic usefulness and efficiency contracts. To avoid these consequences, the Market Analysis subprogram analyzes the following issues for each contract application and proposed rule change:

- Conformity of contract terms and conditions to commercial practices;
- Adequacy of deliverable supplies or, if applicable, cash settlement procedures;
- Commercial utility of the contract; and
- Public interest and antitrust implications, as appropriate.

The Commission adopted fast-track procedures to streamline the approval process for new contracts to ensure that reviews are conducted in a timely manner. In addition, the Commission adopted procedures where new contracts can be listed one day after filing a notice with the Commission with a certification that the contract meets the Commission's requirements. These procedures ensure that the benefits of new contracts can be brought to the marketplace as soon as possible.

The Commission also has adopted fast-track procedures to streamline the approval process for changes to the terms and conditions of existing contracts. Moreover, the Commission has proposed alternative procedures whereby exchanges can implement changes to the terms and conditions upon a certification that the Commission's requirements are satisfied. These provisions help ensure that the benefits of amended contracts are made available to market participants in an expeditious manner.

The US exchanges continue to innovate by developing new futures and option contracts. In this regard, 75 applications for contract market designation are projected to be submitted under the approval or certification procedures in FY 2001. This projection is due largely to the exchanges' continuing interest and competitiveness in developing innovative futures and option contracts in both the financial and physical commodity sectors and their tendency to establish option contracts on futures that have traded successfully. In addition, 145 rule changes are projected to be submitted during FY 2001.

These will include a number of significant changes to existing rules to reflect changing conditions in the underlying cash markets.

The one additional FTE requested for this subprogram is needed to conduct market reviews on the expanding number of diverse and innovative futures and option markets being developed by the exchanges. Market analysis staffing at this level will permit the staff to: 1) provide adequate and timely analysis of proposed new contracts and rule changes; and 2) ensure commercially viable contract terms. If oversight in contract design is not commensurate with the growth in submissions by the existing exchanges plus additional filings by new exchanges as barriers to entry are reduced, the potential for price manipulation and abusive trading practices increases, causing harm to users of the underlying commodities and indirect harm to the economy as a whole since futures prices may not accurately reflect supply and demand conditions.

Market Research

As innovation in the futures and option markets continues, the ability of staff to conduct thorough market research is vital to achieving Commission goals. Innovations in technology and trading instruments and methods create significant challenges that require economic research in the form of:

- Participation in the development of flexible and effective regulatory responses to evolving market conditions;
- Review and analysis of new market structures and off-exchange derivative instruments over which the Commission may have jurisdictional authority;
- Review and analysis of trading in single share stock futures in overseas markets and the implications of allowing such trading in the US;
- Frequent support to the Enforcement program of the Commission in the form of economic and statistical analysis or expert testimony to promote compliance with and to deter violations of commodity laws;
- Development of educational material on futures and futures option trading for dissemination to producers, market users, and the general public; and
- Review and analysis of alternative derivative risk management models and risk-based capital requirement rules.

The one additional FTE requested for this subprogram is needed to conduct economic research on key regulatory issues related to the Commission's role in oversight of the futures and option markets. Issues requiring economic research include evaluation of alternative execution procedures in futures markets such as electronic trading systems versus open-cry trading systems in terms of market transparency, liquidity, price efficiency, and market volatility; and analy-

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sis of credit risk and major issues in implementing market risk margin systems.

Impact of Requested Funding Level on the Market

The requested level will allow the Market Surveillance, Analysis, and Research program to continue its current analysis activities while expanding market surveillance activities. Increased surveillance and related oversight involves closer monitoring of all futures and option contracts for potential problems including the detection and prevention of threats of price manipulation and other major market disruptions caused by abusive trading practices. Surveillance, Analysis, and Research staff will monitor a larger and more diverse array of markets, many of which are affected significantly by international market factors and participants. The staff also will monitor developments regarding electronic trading and evaluate the regulatory implications of such trading.

Consequence of Not Receiving Requested Level of Resources

The growth in the markets requires surveillance, data collection, analysis, and reporting. If market surveillance and contract design oversight is not commensurate with market growth, the potential for undetected price manipulation and abusive trading practices increases. The potential result is direct economic harm to producers and other users of the underlying commodities and indirect harm to the economy as a whole since market prices may not accurately reflect supply and demand conditions. Innovations in technology and derivative instruments and trading methods in futures markets create many challenging economic and regulatory issues. The performance of derivative markets has potential large impact on the stability of international and domestic financial markets. Additional research staff are required to analyze these economic and regulatory issues and to provide timely technical support to the senior management of the CFTC. Sound regulatory policies on derivative risk management and trading methods will reduce systemic risk in financial markets and protect the economic function of futures markets.

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Table 3: Market Surveillance, Analysis & Research Summary of Request by Subprogram

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Market Surveillance	\$4,781	61.00	\$5,770	70.00	\$989	9.00
Market Analysis	1,203	9.00	1,376	10.00	173	1.00
Market Research	673	7.00	828	6.00	155	-1.00
TOTAL	\$6,657	77.00	\$7,974	86.00	\$1,317	9.00

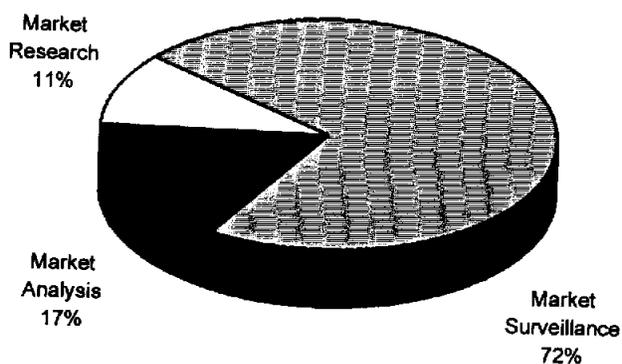


Figure 11: Market Surveillance, Analysis & Research FY 2001 Budget Dollars by Subprogram

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Table 4: Market Surveillance, Analysis & Research Summary of Request by Goal

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$5,447	63.00	\$6,479	70.00	\$1,032	7.00
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions and other firms for the purposes of price discovery and risk shifting.	760	9.00	1,010	11.00	250	2.00
Subtotal Goal One	\$6,207	72.00	\$7,489	81.00	\$1,282	9.00
GOAL TWO: Protect market users and the public.						
None						
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	\$162	2.00	\$175	2.00	\$13	0.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	192	2.00	207	2.00	15	0.00
3.4 Promote markets free of trade practice abuses.	96	1.00	103	1.00	7	0.00
Subtotal Goal Three	\$450	5.00	\$485	5.00	\$35	0.00
TOTAL	\$6,667	77.00	\$7,974	86.00	\$1,317	9.00

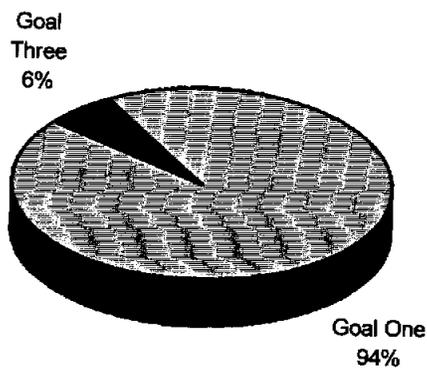


Figure 12: Market Surveillance, Analysis & Research FY2001 Budget Dollars by Goal

Trading & Markets

Total Budget: \$16,724,000 144 FTEs
Total Increase: \$ 2,353,000 17 FTEs

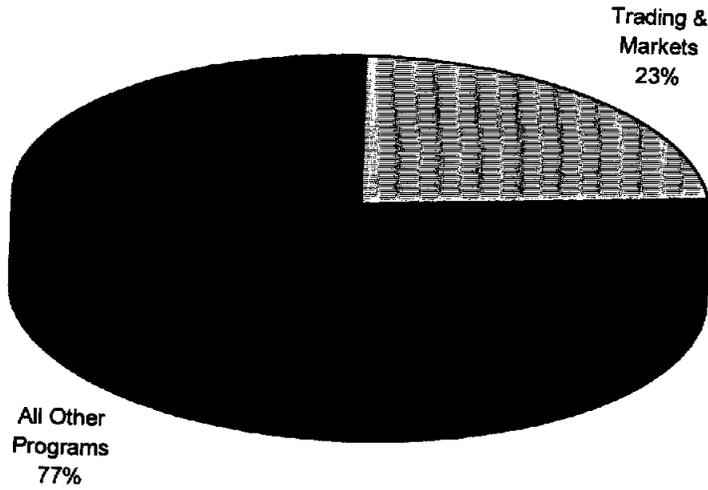


Figure 13: Trading & Markets Percentage of Total Budget Dollars

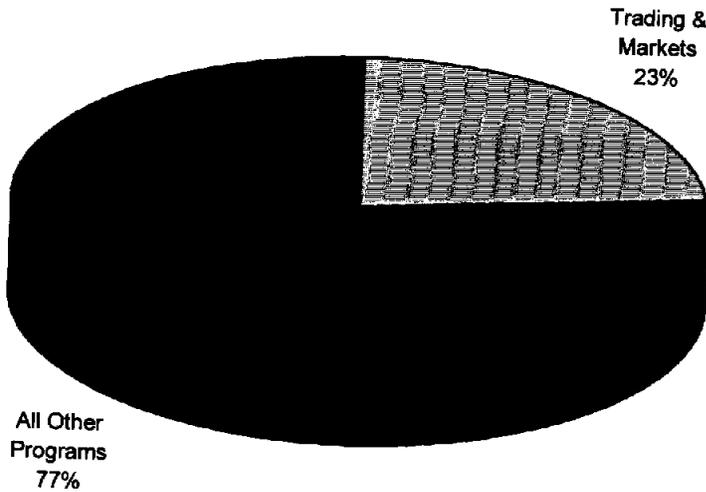


Figure 14: Trading & Markets Percentage of Total Budget FTEs

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Trading & Markets

Outcome Objectives

The outcome objectives of the Division of Trading and Markets are:

- 1.1² Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
- 1.2 Oversee markets that can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.
- 2.1 Promote compliance with and deter violations of federal commodities laws.
- 2.2 Require commodities professionals to meet high standards.
- 3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.
- 3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.
- 3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.
- 3.4 Promote markets free of trade practice abuses.

Justification of the FY 2001 President's Budget

In FY 2001, the Trading and Markets program requests 144 FTEs, a net increase of 17 FTEs over the FY 2000 budget. Of the 17 FTEs, five will be allocated to the Regulatory Development and Registration subprogram, five will be allocated to the Contract Markets subprogram, and seven will be allocated to the Audit and Review subprogram.

The Trading and Markets program is responsible for:

- Oversight of compliance by US futures exchanges and the NFA;
- Development of rules to protect the economic functions of the commodity markets and foster open, competitive, and financially sound markets;
- Development of rules to protect market users and financial intermediaries, including requirements related to registration, fitness, financial adequacy, sales practice activities, trading practices, and the protection of customer funds;
- Development of an effective, flexible regulatory environment responsive to evolving market conditions;

² 1.1 Denotes Goal One, Outcome Objective One, see page 9.

- Development of rules and policies to address the cross-border transactions, systemic risk, and emergency procedures to address market events, such as firm defaults and the coordination of policy with foreign market authorities; and
- Encouragement of self-regulatory programs which seek to focus on regulatory areas of greatest risk, including off-exchange transactions, commodity pools trading as hedge funds, and traders with large speculative positions.

Regulatory Development and Registration

Five additional FTEs are needed to develop innovative regulatory approaches to address new product developments, market linkages, and trading mechanisms and to assure that clearing organizations, firms holding customer funds, and commodity professionals are able to compete in dynamically evolving markets without sacrificing customer protections. Rapid market and product evolution will require that existing rules be reviewed, refined, and applied in a manner that facilitates competitiveness while preserving core customer and market safeguards. The globalization of markets, the blurring of distinctions among financial institutions, and the explosive growth of technology have made it essential that the Commission adapt its rules continually and appropriately to market conditions.

As information technology increasingly frees markets from geographic and time-of-day constraints, additional resources must be devoted to reviewing and monitoring trading systems that originate both inside and outside the US and that are available electronically around the world and around the clock. Developing rules for and processing applications submitted by foreign boards of trade in connection with access to automated trading systems from within the US will require 2.5 FTEs. Further, as other sectors of the global economy are deregulated, such as electricity, there will be new risks and increasing competition in those sectors among producers and consumers and a concomitant need to develop innovative price discovery and hedging instruments. An additional 1.5 FTEs will be necessary to review and monitor systems developed to address these needs, particularly in an off-exchange environment. The evaluation of other off-exchange products and new types of trading mechanisms will require another additional FTE.

In addition, staff are examining current regulation and participated in the President's Working Group on Financial Markets study of the OTC markets, which was issued on November 9, 1999. The working group made recommendations regarding oversight of the OTC derivatives market. The subprogram will also be involved in supporting the Commission's coordinated efforts with other domestic and foreign financial regulators to achieve harmonized regulatory standards.

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Contract Markets

Five additional FTEs are needed for the Contract Markets subprogram to ensure that it remains responsive, in a timely manner, to changes in the futures industry. Additional staff are needed to respond to a dramatically changing market structure as well as a proliferation of exchanges and other markets that are subject to Commission oversight. Increased internationalization has, among other things, meant changes in the manner and immediacy of customer and member global access. Increased use of technology mandates different modes of regulatory review and different standards of conduct by exchange members, intermediaries, and customers. The Commission is currently entering into a cyclical reauthorization process and anticipates material, relevant changes will be made in its statutory framework. In addition, as the Commission evolves into an oversight agency there will be an increased need for this subprogram to review the performance of increasing number of exchanges and clearinghouses and their self-regulatory organizations.

Audit and Review

The requested increase of seven FTEs will allow the subprogram to support the financial integrity, disclosure, sales practice, auditing, individual registrants, and systematic public distribution of critical financial disclosures of registrants and financial risk policies relating to the markets. The continuing globalization of the markets requires the Commission to seek to oversee potential financial problems to US markets, registrants and customers from products traded overseas and from solicitation of US customers by foreign firms. The Commission continues to revise its regulatory approach to customer segregated funds deposited overseas. The Commission is also continuing to revise its regulatory approach to risk-based capital to insure that market risks are optimally accounted for and to insure that capital requirements for US registrants are consistent among self-regulators and with foreign regulatory programs. Consistent with these efforts, the Commission is working with self-regulators to develop audit and financial surveillance procedures on areas which pose greatest financial risk to individual registrants and systemic risks to the markets generally. Areas of concern include customers of US registrants with large positions in off-exchange products and customers of US registrants with positions in overseas markets.

Recent threats to financial markets resulting from unprecedented losses by a major hedge fund and the potential systemic risks posed by such funds operated by registered CPOs required the Commission to devote significant resources to this critical area. In particular, the President's Working Group on Financial Markets' report on *Hedge Funds, Leverage, and the Lessons of Long Term Capital Management* requires the Commission to undertake new regulatory programs to respond to potential financial problems posed by hedge funds. These programs include the routine publication of collected financial data and risk containment policies of hedge funds to assist in risk

assessment of such funds by the public and other regulators and increased frequency of reporting by hedge fund operators.

The increase in FTEs will enable the Commission to enhance its risk assessment program to address the concerns described. Regulatory enhancements for FCMs will include reviewing current risk assessment rules to better define risks to registrants. Regulatory enhancements for commodity pools will include review of current reporting requirements to comply with the recommendations of the President's Working Group and the implementation of a risk and financial reporting system to assist in providing greater transparency to pools operating as hedge funds in response to such recommendations.

Impact of Requested Funding Level on the Market

The requested funding level will allow the Trading and Markets program to manage the increases in volume and complexity of trading activity while improving responsiveness by:

- Reviewing Commission rules to determine if they should be streamlined and modernized in light of technological and market developments;
- Providing guidance to foster innovative transactions and electronic trading systems;
- Monitoring closely the risks to regulated industry participants by unregulated derivatives activities and the risks posed to registrants by their unregistered affiliates;
- Providing guidance to the public and to industry professionals concerning compliance with the CEA and rules promulgated thereunder;
- Maintaining US leadership in setting internationally accepted standards for the regulation of markets and trading;
- Encouraging technological improvements and market innovation; and
- Developing rules to facilitate use of electronic media by industry professionals as well as other market participants.

Consequence of Not Receiving Requested Level of Resources

Without the additional resources requested, the Commission cannot keep pace with the rapid growth in volume and the profound changes resulting from new trading systems, advances in technology, the globalization of the markets, novel types of transactions, and new market practices. The Commission remains committed to maintaining an effective regulatory system responsive to technological developments, business changes, and market evolution. Failure to respond would hamper innovation and financial market growth and the international competitiveness of US-based exchanges and

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intermediaries with regulatory inefficiencies and outmoded regulatory structures. Without these additional resources, the program will not be suitably equipped to be responsive to these critical challenges. Failure to provide these additional resources would also hinder the ability of the Commission's staff to respond promptly to oral and written inquiries from industry professionals, customers, and other market users seeking guidance regarding how to comply with an increasingly changing business and regulatory environment. Finally, the staff would be less able to fulfill responsibilities pursuant to reauthorization of the Commission.

Table 5: Trading & Markets Summary of Request by Subprogram

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Contract Markets	\$5,645	53.00	\$6,463	59.00	\$818	6.00
Reg. Dev. & Regis.	2,298	21.00	2,882	25.00	584	4.00
Audit and Review	6,428	53.00	7,379	60.00	951	7.00
TOTAL	\$14,371	127.00	\$16,724	144.00	\$2,353	17.00

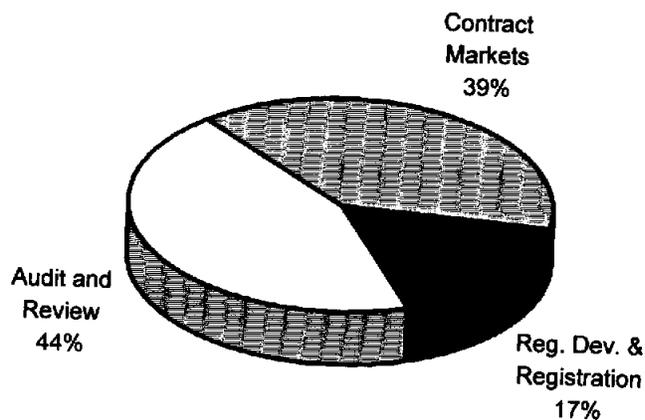


Figure 15: Trading & Markets FY 2001 Budget Dollars by Subprogram

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Table 6: Trading & Markets Summary of Request by Goal

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$959	8.50	\$1,098	9.50	\$139	1.00
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.	170	1.50	295	2.50	\$125	1.00
Subtotal Goal One	1,129	10.00	1,393	12.00	\$264	2.00
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	\$988	8.50	1,133	9.50	\$145	1.00
2.2 Require commodities professionals to meet high standards.	\$1,048	9.00	1,253	10.50	205	1.50
Subtotal Goal Two	\$2,036	17.50	\$2,386	20.00	\$360	2.50
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds	\$929	8.00	1,074	9.00	\$145	1.00
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	\$7,404	66.00	7,926	69.00	523	3.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	2,005	17.50	2,608	22.00	603	4.50
3.4 Promote markets free of trade practice abuses.	868	8.00	1,337	12.00	469	4.00
Subtotal Goal Three	\$11,206	99.50	\$12,945	112.00	\$1,739	12.50
TOTAL	\$14,371	127.00	\$16,724	144.00	\$2,353	17.00

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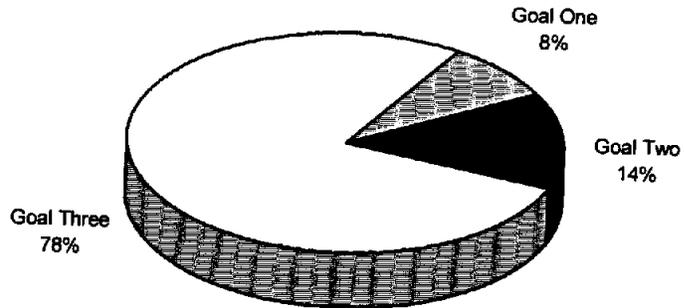


Figure 16: Trading & Markets FY 2001 Budget Dollars by Goal

Enforcement

Total Budget:	\$21,825,000	182 FTEs
Total Increase:	\$ 3,142,000	24 FTEs

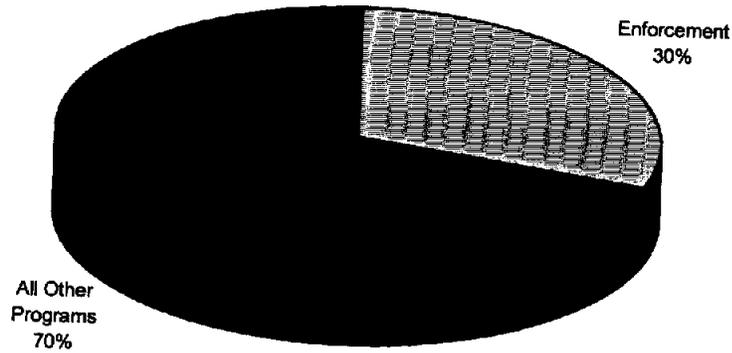


Figure 17: Enforcement Percentage of Total Budget Dollars

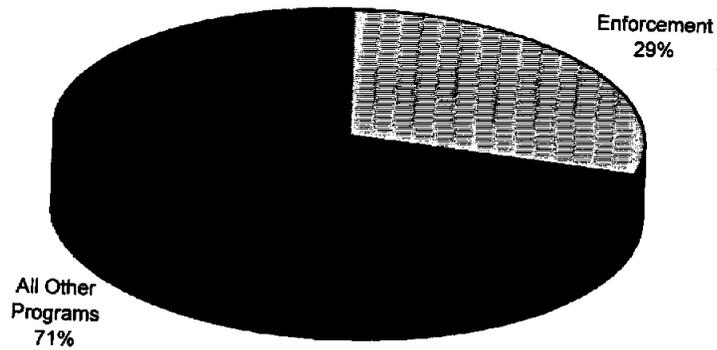


Figure 18: Enforcement Percentage of Total Budget FTEs

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Enforcement

Outcome Objectives

The outcome objectives of the Division of Enforcement are:

- 1.1³ Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
- 2.1 Promote compliance with and deter violations of federal commodities laws.
- 2.2 Require commodities professionals to meet high standards.
- 3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.
- 3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.
- 3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.
- 3.4 Promote markets free of trade practice abuses.

Justification of the FY 2001 President's Budget

The primary responsibility of the Enforcement program is to police futures markets for conduct which violates the CEA and Commission regulations. Such conduct undermines the integrity of the markets and the confidence of market participants.

In FY 2001, the Enforcement program requests 182 FTEs, an increase of 24 FTEs over the FY 2000 budget. While 24 FTEs represents a significant increase in capacity, this increase is necessary for the Enforcement program to adequately meet the current and anticipated future growing demands made upon it. The Enforcement program's allocation of FTEs over the past five years has remained relatively static and does not accurately reflect its increased responsibilities due to growth of the futures and options markets. This responsibility will increase not only as a consequence of continued industry growth, but also in response to changes anticipated by the Commission's change from a regulatory to an oversight agency.

As a result of this change, it is anticipated that the Enforcement program's responsibility for safeguarding the integrity of the markets and ensuring that market professionals meet the highest possible standards will grow. The additional 24 FTEs will largely be devoted

³ 1.1 Denotes Goal One, Outcome Objective One, see page 9.

to investigation and prosecution of matters involving fraud, quick-strike cases, supervision and compliance issues and large, complex market abuse cases as the need arises. The Enforcement program's FY 2001 FTE request combined with its flexible organizational structure will allow the Enforcement program to continue to respond appropriately wherever challenges arise without detracting from the need to have a strong presence across the industry. The additional FTEs will also allow the Division to target particular problem areas, such as Internet fraud, and to maintain its cooperative enforcement activities.

Additional FTEs are also needed to continue the improvements to the Enforcement program obtained by the Enforcement Modernization Project. (See *Improving Efficiency & Effectiveness* section, page 83.) In addition, resources will be needed to ensure that the Division's on-line procedures manual remains up-to-date and that comprehensive training is continued.

Responding to Violative Conduct

When enforcement investigations indicate that violative conduct has occurred, the Commission files either administrative or civil injunctive enforcement actions against alleged wrongdoers. In administrative actions, wrongdoers found to have violated the CEA or Commission regulations or orders can be prohibited from trading and, if registered, have their registrations suspended or revoked. Violators also can be ordered to cease and desist from further violations, to pay civil monetary penalties of up to \$110,000 per violation or triple their monetary gain, and to pay restitution to those persons harmed by the misconduct. In civil injunctive actions, defendants can be enjoined from further violations, their assets can be frozen, and their books and records can be impounded. Defendants also can be ordered to disgorge all illegally obtained funds, make full restitution to customers, and pay civil penalties.

The types of violations prosecuted by the Enforcement program may arise from commodity futures or option trading on US exchanges or from the sale of illegal futures or option contracts not traded on a Commission-designated contract market. Enforcement actions can be brought against individuals and firms registered or required to be registered with the Commission, persons or firms engaged in unlawful commodity futures and option trading on exchanges, and anyone involved in the sale of illegal futures and option contracts.

The Enforcement program addresses various types of violative conduct which threaten the economic functions of the commodity futures and option markets. For example, one function of the futures markets is to provide an accurate reflection of commodity prices based on legitimate supply and demand forces—in other words, to provide a price discovery mechanism. Therefore, the markets must remain free of manipulation and abusive trade practices which un-

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dermine this price discovery function. As a result, one aspect of the responsibility of the Enforcement program is to investigate and bring enforcement actions against possible manipulation and illegal trade practices by market participants. Through these actions, the Commission can remove threats to the market by imposing trading prohibitions and registration revocations on abusive traders. These cases are often highly complex and labor intensive because they require staff to reconstruct transactions and analyze complex trading strategies.

Protecting Market Users

The Enforcement program also works to protect market users and the public by promoting compliance with and deterring violations of the CEA and Commission regulations. The bulk of the work in this area involves investigating and bringing enforcement actions in matters involving fraud and imposing sanctions against wrongdoers. These actions send a message to industry professionals about the kinds of conduct that will not be tolerated. These actions also seek to protect the funds of market participants, both large and small.

The Enforcement program pursues actions involving various types of fraudulent conduct. For example, it pursues fraud cases against unregistered CPOs and CTAs—often the small investor's first avenue into the markets. It also pursues actions involving false or misleading advertising. Over the past several years, there has been substantial false and deceptive advertising of commodity-related investment products, often by unregistered persons and entities, through various forms of mass media such as cable television, radio, and the Internet. The Enforcement program has worked aggressively to detect and put a stop to such advertising by filing enforcement actions. Similarly, the Enforcement program pursues cases involving illegal futures and options. Such cases frequently involve unregistered "boiler rooms" selling illegal futures contracts and options to the general public. Again, the most likely victims are individual retail investors.

Quick-Strike Capability

The Enforcement program uses its quick-strike capability effectively to prosecute those engaged in ongoing fraud where customer funds are at risk. In quick-strike cases, the Enforcement program prosecutes injunctive actions against wrongdoers as soon as possible after violative conduct is detected. The goal is to obtain injunctive relief rapidly, thereby preserving customer funds and preventing the destruction of records that may prove wrongdoing and/or identify customer funds. When possible, cases are brought to obtain injunctive relief within days or weeks of the time the wrongdoing is detected.

Supervision and Compliance Failures

The Enforcement program also investigates and prosecutes cases involving supervision and compliance failures by registrants hand-

ling customer business. Such violations can threaten the financial integrity of registered firms holding customer funds and can, in certain circumstances, threaten the financial integrity of clearing organizations. In addition, without adequate supervision and compliance systems in place, customers remain vulnerable to fraud, including misallocation of trades and unauthorized trading. Diligent supervision of registered firms also protects markets from abusive trading practices, including manipulation and wash sales. Cases alleging supervision and compliance failures can result in substantial remedial changes in the supervisory structures and systems of large FCMs. These cases have had a significant impact on the way particular firms are required to do business and are an important part of the responsibility of the Commission to ensure sound practices by registered firms.

Cooperative Enforcement Efforts

The Enforcement program works cooperatively with both domestic and foreign authorities to maximize its ability to detect, deter, and bring sanctions against wrongdoers involving US markets, registrants, and customers. The benefits of cooperative enforcement include:

- Use of resources available from other authorities to support Commission enforcement actions;
- Coordination of the filing of actions with other authorities to further the impact of enforcement efforts; and
- Enhancement of the consistency and clarity of governmental responses to misconduct and avoidance of duplication of efforts by authorities.

On the domestic level, this includes sharing information with state regulators and other federal agencies such as the US Department of Justice (DOJ), the Federal Bureau of Investigation (FBI), and the SEC and with federal banking regulators. On occasion, the Commission will file an injunctive action jointly with a state authority with concurrent jurisdiction over the alleged wrongdoing. These cooperative efforts bolster the effectiveness of the Enforcement program by allowing it to investigate and litigate more efficiently. Similarly, in the international realm, the Commission has entered into more than a dozen formal information-sharing arrangements and numerous other informal arrangements with foreign authorities. These arrangements permit information sharing and cooperative assistance among regulators. Such arrangements benefit all nations involved and greatly enhance the ability of the Enforcement program to investigate matters that involve foreign entities or individuals. (See page 97 for a fuller discussion of cooperative enforcement efforts.)

Impact of Requested Funding Level on the Market

The markets continue to grow in volume and complexity as increasingly sophisticated instruments are being employed. An increasingly large segment of the population has money at risk in the futures markets, either directly or indirectly through pension funds or ownership of shares in publicly held companies that participate in the markets. Additionally, the growing globalization of futures markets presents new challenges for the Enforcement program and new demands on its resources. The ability of the Enforcement program to institute enforcement cases serves as a powerful deterrent, discouraging wrongdoers and engendering confidence in the markets.

The 24 additional FTEs requested for FY 2001 will allow the Enforcement program to continue to build and maintain a strong presence in the industry. These FTEs will allow the Division to target certain program areas, for example: 1) Internet fraud by, among others, unregistered trading advisors selling systems to facilitate day trading; 2) sales practices by registered firms featuring fraudulent seasonality claims; and 3) cooperative enforcement with other authorities where the Commission's jurisdiction is limited by case law. The added personnel will significantly contribute to the ability of the program to fulfill its mission. Moreover, the additional staff will provide litigation support across the program in areas such as the handling of bankruptcy issues and the enforcement of orders.

As stated, the requested level will allow the Enforcement program to continue its commitment to cooperative enforcement efforts. Domestically, these efforts greatly enhance its ability to detect and investigate potential wrongdoing. Internationally, information-sharing arrangements ensure that critical evidence can be obtained from abroad. As futures markets become increasingly international, the Enforcement program must maintain the ability to process requests for assistance to and from foreign authorities. Indeed, in recent years, the Enforcement program has begun to conduct joint investigations with foreign authorities. These investigations involve cross-border and cross-market issues, tend to present complicated logistical challenges, and are resource intensive. Nevertheless, by working closely and cooperatively with foreign authorities, the Enforcement program is able to pursue far-ranging investigations more efficiently and effectively, and develop relationships with foreign authorities that continue to pay dividends in future investigations. Such cooperation also advances the enforcement efforts of the foreign counterparts of the Commission. The additional staff will enable the program to respond to foreign requests quickly and expand its ability to conduct joint investigations, thus enhancing the ability of the Enforcement program to obtain reciprocal assistance.

Consequence of Not Receiving Requested Level of Resources

Just as additional staff will further the overall enforcement mission, inadequate staffing levels will have a negative impact on the program. One of the cornerstones of effective enforcement is the program's ability to pursue significant violations of all types, whether they result in large, complex investigations and cases, or smaller, relatively discrete matters. Adequate staffing levels give the Enforcement program the flexibility to address conduct that gives rise to complex investigation and litigation as well as conduct which, though equally serious, may not require the same resources to address effectively.

Without adequate staffing, the Enforcement program must be more selective in the matters it investigates, potentially leaving serious wrongdoing unaddressed. In addition, investigations will take longer to complete, particularly when priority litigation needs draw resources away from investigations. Emergency enforcement actions to address ongoing fraud may be delayed or may draw staff from other ongoing matters, thereby interfering with the timely completion of complex investigations and cases. Domestic and international cooperative enforcement activities may be undermined, adversely affecting not only the mission of the Commission, but also that of its domestic and international counterparts. Without additional staff, the Enforcement program's ability to target certain problem areas, like Internet fraud, will be limited. The Division also will be unable to maintain the training required of a nationwide enforcement program and certain of the improvements achieved by the Division in its document and case management.

If the Enforcement program is unable to bring actions because of insufficient resources, often no other authority is available to step in to fill the void. SROs can take action only against their own members, and their sanctions cannot affect conduct outside their jurisdiction or markets. In addition, other federal regulators and state regulators have limited jurisdiction and expertise handling futures-related misconduct. Finally, while criminal prosecutions by the DOJ are an important adjunct to effective enforcement of the CEA, the criminal justice system is not an adequate substitute for civil regulatory enforcement.

President's Budget

Table 7: Enforcement Summary of Request by Program

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Enforcement	\$18,683	158.00	\$21,825	182.00	\$3,142	24.00
TOTAL	\$18,683	158.00	\$21,825	182.00	\$3,142	24.00

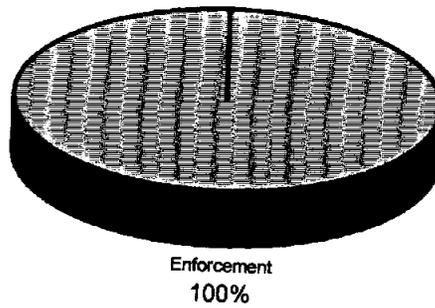


Figure 19: Enforcement FY 2001 Budget Dollars by Program

President's Budget

Table 8: Enforcement Summary of Request by Goal

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$2,899	24.52	\$3,387	28.24	\$488	3.72
Subtotal Goal One	\$2,899	24.52	\$3,387	28.24	\$488	3.72
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	\$12,725	107.64	\$14,822	123.59	\$2,097	15.95
2.2 Require commodities professionals to meet high standards.	\$221	1.87	234	1.95	13	0.08
Subtotal Goal Two	\$12,946	109.51	\$15,056	125.54	\$2,110	16.03
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.	\$1,246	10.53	\$1,551	12.93	\$305	2.40
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	21	0.17	23	0.20	2	0.03
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	155	1.30	178	1.50	23	0.20
3.4 Promote markets free of trade practice abuses.	1,416	11.97	1,630	13.59	214	1.62
Subtotal Goal Three	\$2,838	23.97	\$3,382	28.22	\$544	4.25
TOTAL	\$18,683	158.00	\$21,825	182.00	\$3,142	24.00

President's Budget

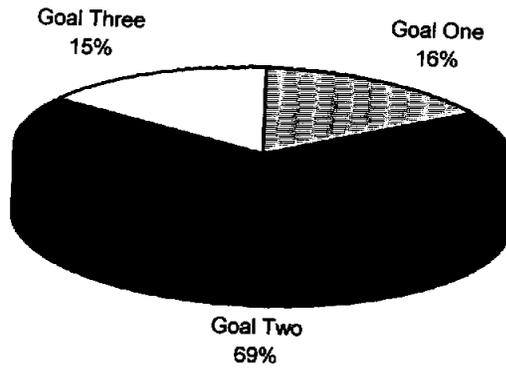


Figure 20: Enforcement FY 2001 Budget Dollars by Goal

Office of Proceedings

Total Budget: \$ 2,351,000 21 FTEs
Total Increase: \$197,000 1 FTE

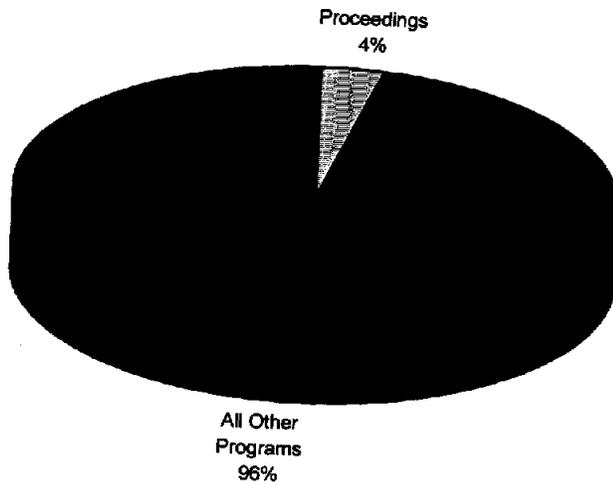


Figure 21: Proceedings Percentage of Total Budget Dollars

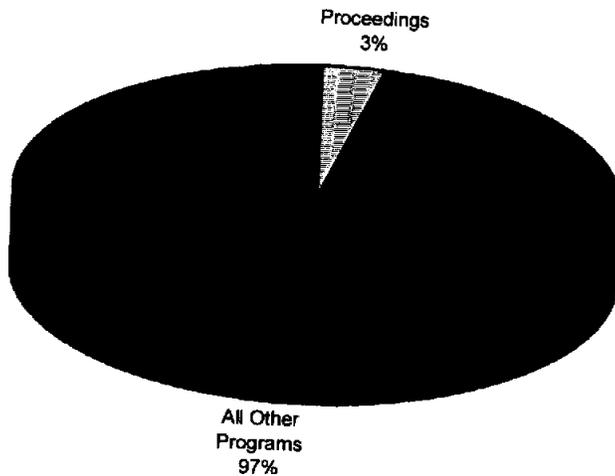


Figure 22: Proceedings Percentage of Total Budget FTEs

President's Budget

Office of Proceedings

Outcome Objectives

The outcome objectives of the Office of Proceedings are:

- 2.1⁴ Promote compliance with and deter violations of federal commodities laws.
- 2.2 Require commodities professionals to meet high standards.
- 2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.
- 3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.
- 3.4 Promote markets free of trade practice abuses.

Justification of the FY 2001 President's Budget

The Office of Proceedings is responsible for providing an inexpensive, impartial, and expeditious forum for handling customer complaints against persons or firms registered under the CEA. In FY 2001, the Office of Proceedings is requesting 21 FTEs, an increase of one additional FTE over the FY 2000 budget. The additional FTE is a Docket Clerk position required to assist in the control and service of public records of all administrative law proceedings conducted under the Act. The incumbent will also respond to questions from the public regarding the status of cases.

The Complaints Section of the Office of Proceedings receives and prepares customer claims for action by appropriate officials, dismissing those that are outside the jurisdiction of the Commission or are pending in another forum. Judgment Officers (JOs) decide reparations complaints in voluntary and summary proceedings, and administrative law judges (ALJs) conduct formal proceedings. The Office of Proceedings expects to carryover 26 administrative enforcement cases into FY 2001. The Office also anticipates that 26 cases will be filed and to dispose of 26 cases, with an ending balance of 26 cases. The ALJs also decide administrative enforcement cases brought by the Commission against persons or firms responsible for violating the CEA or Commission regulations. The Office of Proceedings expects to carryover 116 cases reparations cases into FY 2001. The Office also anticipates that 210 cases will be filed and to dispose of 210, with an ending balance of 116 cases.

⁴ 2.1 Denotes Goal Two, Outcome Objective One, see page 9.

In response to over 14,000 telephone inquiries each year, the Office of Proceedings also provides information about the complaints process and the number of complaints filed against specific firms. Many inquiries are from members of the public who are considering investing with these firms. The Office of Proceedings maintains a case-tracking system that tracks the progress of each case from receipt of complaint through disposition including any appeal to the Commission or to federal court. The case-tracking system not only assists with case management within the agency, but it also enables the Office of Proceedings to provide current information on the status of cases in response to public inquiries.

The Office of Proceedings maintains the *Reparations Sanctions in Effect List* publication, a record of individuals and firms that have not paid reparations awards. This document is published annually and updated twice a month. The office also maintains the *Administrative Sanctions in Effect List* publication, a record of individuals and firms that have enforcement sanctions, such as trading prohibitions, outstanding against them. This document is published annually and updated quarterly. These lists are made available to the public and are distributed to the exchanges, the NFA, the FIA, the National Association of Securities Dealers, and the SEC for use in their compliance efforts.

Consequence of Not Receiving Requested Level of Resources

The Office of Proceedings' ability to perform its activities in a timely fashion depends on this level of resources. If the requested level is not received, the Office of Proceedings may experience time delays in the performance of its activities. For example, there may be time delays in:

- Reviewing and processing reparations complaints;
- Responding to requests for information from the public, etc.;
- Processing orders and decisions of the Commission in administrative, enforcement, and reparation cases; and
- Processing incoming documents and serving orders and decisions issued by the ALJs and JOs in reparation cases.

In addition, a reduction in the requested level may affect the high quality service that the Office of Proceedings provides on a daily basis.

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Table 9: Proceedings Summary of Request by Subprogram

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Enforcement	\$821	7.62	\$896	8.00	\$75	0.38
Reparations	1,333	12.38	1,455	13.00	122	0.62
TOTAL	\$2,154	20.00	\$2,351	21.00	\$197	1.00

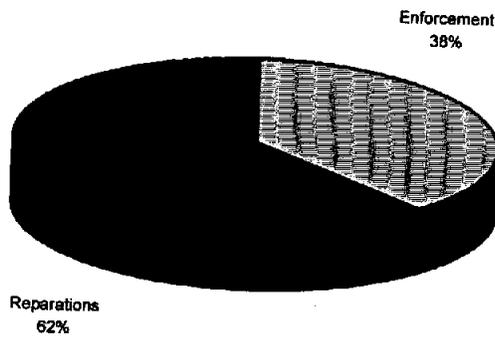


Figure 23: Proceedings FY 2001 Budget Dollars by Subprogram

President's Budget

Table 10: Proceedings Summary of Request by Goal

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
None						
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	\$974	9.04	\$1,064	9.50	\$90	0.46
2.2 Require commodities professionals to meet high standards.	102	0.95	112	1.00	10	0.05
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	872	8.10	951	8.50	79	0.40
Subtotal Goal Two	\$1,948	18.09	\$2,127	19.00	\$ 179	0.91
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds	\$78	0.72	\$84	0.75	\$6	0.03
3.4 Promote markets free of trade practice abuses.	128	1.19	140	1.25	12	0.06
Subtotal Goal Three	\$206	1.91	\$224	2.00	\$18	0.09
TOTAL	\$2,154	20.00	\$2,351	21.00	\$197	1.00

Figure 24: Proceedings FY 2001 Budget Dollars by Goal

President's Budget

Office of the General Counsel

Total Budget: \$ 5,105,000 38 FTEs
Total Increase: \$ 790,000 5 FTEs

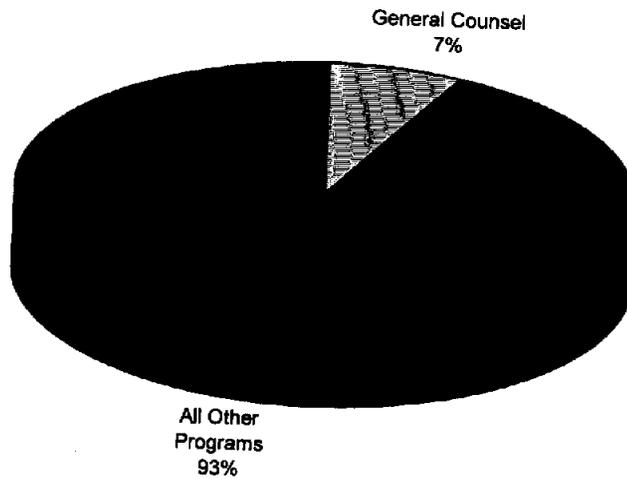


Figure 25: General Counsel Percentage of Total Budget Dollars

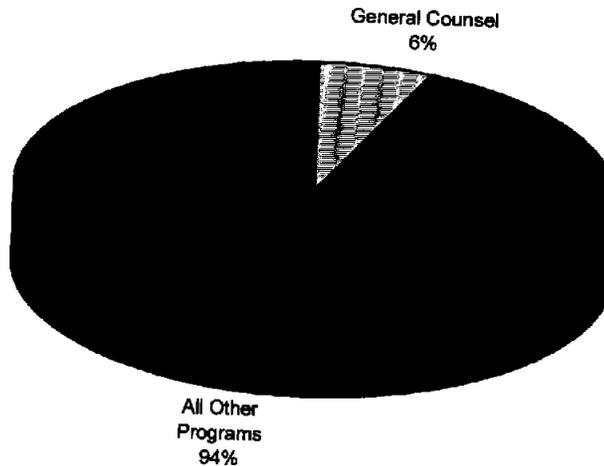


Figure 26: General Counsel Percentage of Total Budget FTEs

Office of the General Counsel

Outcome Objectives

The outcome objectives of the Office of the General Counsel are to:

- 1.1⁵ Foster futures and options markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.
- 1.2 Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for purposes of price discovery and risk shifting.
- 2.1 Promote compliance with and deter violations of federal commodities laws.
- 2.2 Require commodities professionals to meet high standards.
- 2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.
- 3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.
- 3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.
- 3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.
- 3.4 Promote markets free of trade practice abuses.

Justification of the FY 2001 President's Budget

The Office of the General Counsel provides legal services and support to the Commission and its programs. These services include engaging in defensive, appellate, and *amicus curiae* litigation; assisting the Commission in the performance of its adjudicatory functions; providing legal advice and support for Commission programs; drafting regulations; interpreting the CEA; and providing exemptive, interpretive, and no-action letters and opinions to the public. The Office of the General Counsel requests 38 FTEs for FY 2001, an increase of five over the FY 2000 budget.

The Office of the General Counsel is the legal advisor to the Commission, and a large portion of its workload is reactive in nature. The Office:

⁵ 1.1 Denotes Goal One, Outcome Objective One, see page 9.

President's Budget

- Reviews all substantive regulatory, legislative, and administrative matters presented to the Commission and advises it on the application and interpretation of the CEA and other pertinent administrative statutes;
- Assists the Commission in performing its adjudicatory functions through its Opinions Program;
- Represents the Commission in appellate litigation and certain trial-level cases, including bankruptcy cases involving futures industry professionals;
- Provides legal support to agency administrative programs, such as compliance with the Freedom of Information, Privacy, Government in the Sunshine, Regulatory Flexibility, Paperwork Reduction, and Federal Advisory Committee Acts;
- Monitors proposed legislation affecting the Commission;
- Provides Commission support to the President's Working Group on Financial Markets;
- Counsels other agency staff on legal aspects of various issues arising during the course of Commission business;
- Provides written interpretations of Commission statutory and regulatory authority to members of the public and provides, where appropriate, exemptive, interpretive, or no-action letters to regulatees and potential regulatees of the Commission;
- Advises the Commission on personnel, labor, and employment law matters, including cases arising under Title VII of the Civil Rights Act of 1964 and Merit Protection Board cases arising under the Civil Service Reform Act of 1978; and
- Advises the Commission with respect to all matters related to the Commission's ethics standards and compliance with its Code of Conduct as well as with government-wide ethics regulations promulgated by the Office of Government Ethics, including the requirement of annual ethics training for Commission employees.

During FY 2001, a number of issues will contribute to an increased workload for the Office of the General Counsel, notably the continued development of innovative financial instruments and products and the ongoing global expansion of futures trading, particularly in the areas of after hours and electronic trading and the placement of foreign trading terminals in the US.

In addition, the responsibilities of the Office of the General Counsel are likely to expand in FY 2001 owing to increased staffing levels throughout the Commission. For example, an increase in staffing in the Division of Enforcement may result in more proposed enforcement actions for review by the Office of the General Counsel, an increase in the adjudicatory caseload, and an increase in the amount of appellate litigation to which the Commission is a party. And, as

the industry continues its rapid development of electronic and other innovative trading systems and novel products, the Office of the General Counsel expects to be called upon to address a myriad of legal issues presented under the Act and to participate in amending the Commission's regulatory scheme as appropriate.

On an ongoing basis, the Office of the General Counsel devotes resources to legislative activities, administrative programs, and agency support. Legislative activities in FY 2001 may include ongoing proceedings conducted by Congress to reauthorize the Commission for the sixth time. The current authorization for the Commission's appropriations extends through the end of FY 2000. Past experience has shown that the proceedings to reauthorize the Commission may extend beyond the expiration date of the legislation. The reauthorization process requires a comprehensive review of the Act, including its underlying purposes and objectives, and of the regulatory structure implementing the Act. It also requires analysis of proposals to amend the Act and the regulations advanced by the exchanges and other industry participants as well as analysis of legislation proposed by members of Congress.

The Commission's sixth reauthorization comes at a time when particularly complex issues have been raised including: 1) the near collapse of the hedge fund, Long Term Capital Management; and 2) two reports issued to Congress by the President's Working Group on Financial Markets—one on hedge funds issued on April 19, 1999 and the other on over-the-counter derivatives issued on November 9, 1999. The Office of the General Counsel will continue to monitor legislative activity and to advise the Commission on the programmatic and policy implications of any legislative proposals. The Office of the General Counsel will also continue to assist the Commission in preparing testimony and legislative proposals it may present or submit to Congress. FY 2001 legislative activities also may include issues arising out of Congress' recent passage of the Gramm-Leach-Bliley Act (GLBA), which will facilitate the modernization of financial services. Among other things, the GLBA: 1) repeals Depression-era restrictions on affiliations among banks, securities firms, and insurance companies; 2) establishes parameters for conducting non-banking business within banks; and 3) reinforces the obligation of each financial institution to respect the privacy of its customers. Issues arising under the GLBA may include the expansion of futures and options activities by bank holding companies and the implementation of a system of functional regulation designed to utilize the strengths of the various federal and state financial supervisors, including the Commission. As with reauthorization, the Office of the General Counsel will monitor these and other issues arising out of the GLBA and will advise the Commission with respect to any developments affecting Commission activities.

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The Office of the General Counsel will also continue to advise the Commissioners who chair the Commission's three advisory committees—the Agricultural Advisory Committee, the Global Markets Advisory Committee, and the recently chartered Technology Advisory Committee. It is expected that the activities of these committees will increase due to an increased number of proposed regulatory reforms and the globalization of and technological innovations in the financial services and commodities markets.

The Office of the General Counsel's activities, programs, and support contribute to all of the outcome objectives and activities of the Commission and have a direct and significant impact on the ability of the Commission to perform its mission.

Consequence of Not Receiving Requested Level of Resources

The ability of the Office of the General Counsel to perform its activities in a timely fashion depends on the requested level of resources. If the requested level is not received, the Office of the General Counsel may experience time delays in performing its activities. For example, there may be time delays in:

- Performing its critical review function with respect to contract market designation applications and rule changes;
- Reviewing proposed enforcement actions;
- Assisting the Commission in the performance of its adjudicatory functions;
- Analyzing legislation and proposed legislation affecting the Commission;
- Carrying out its responsibilities to defend the Commission in appellate and other litigation; and
- Assisting the Commission in personnel, labor, and employment law matters.

Moreover, a reduction in the requested level of resources would have an adverse impact on the ability of the Office of the General Counsel to provide general legal advice and assistance to the Commission. The Office of the General Counsel may also experience difficulty in fulfilling its advisory role to the Commission in connection with international cooperative efforts and in the provision of exemptive, interpretive, or no-action relief. Such an outcome would have a direct and negative impact on the development of effective and timely responses to evolving market conditions.

The contribution of the Office of the General Counsel to the goals and outcome objectives of the Commission is comprehensive in scope. If the requested level of resources is not received in FY 2001, the impact would be felt broadly. For example:

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- the ability of the Commission to enforce the high standards for futures industry professionals mandated by Congress could be impaired;
- the ability of the Commission to keep abreast of the rapid changes in the futures markets would be diminished and could result in regulatory impediments to private sector innovation;
- the longstanding commitment of the Commission to enforce vigorously its consumer protection programs could be negatively affected;
- the ability of the Commission to respond quickly to innovative off-exchange activities could be affected; and
- the ability of the Commission to deal effectively with market emergencies could be impaired.

Specific effects of a reduced level of resources might include a developing backlog of Commission adjudicatory cases; a curtailment of the *amicus curiae* program; a reduction in assistance to foreign governments as well as in cooperative efforts between the Commission and other government agencies; and time delays in performing review functions in all areas.

If the Office of the General Counsel receives the requested level of resources, it will be able to fulfill its role as legal advisor to the Commission in a timely fashion and to support the goals and outcome objectives of the Commission effectively.

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Table 11: General Counsel Summary of Request by Subprogram

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
General Counsel	\$4,315	33.00	\$5,105	38.00	\$790	5.00
TOTAL	\$4,315	33.00	\$5,105	38.00	\$790	5.00

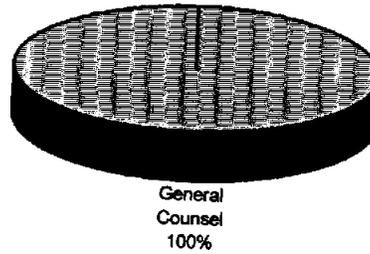


Figure 27: General Counsel FY 2001 Budget Dollars

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Table 12: General Counsel Summary of Request by Goal

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$824	6.30	\$974	7.25	\$150	0.95
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.	85	0.65	101	0.75	16	0.10
Subtotal Goal One	\$909	6.95	\$1,075	8.00	\$166	1.05
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	\$1,279	9.78	\$1,511	11.25	\$232	1.47
2.2 Require commodities professionals to meet high standards.	255	1.95	302	2.25	47	0.30
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	625	4.78	739	5.50	114	0.72
Subtotal Goal Two	\$2,159	16.61	\$2,552	19.00	\$393	2.49
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds.	\$226	1.73	\$267	2.00	\$41	0.27
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	112	0.86	134	1.00	22	0.14
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	228	1.74	269	2.00	41	0.26
3.4 Promote markets free of trade practice abuses.	228	1.74	269	2.00	41	0.26
Subtotal Goal Three	\$794	6.07	\$939	7.00	\$145	0.93
Unallocated						
Unallocated & Prorated	453	3.47	539	4.00	86	0.53
Subtotal Unallocated	\$453	3.47	\$539	4.00	\$86	0.53
TOTAL	\$4,315	33.00	\$5,105	38.00	\$790	5.00

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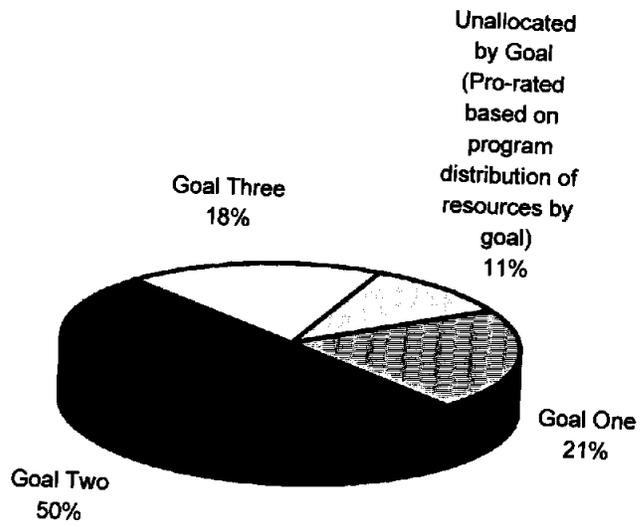


Figure 28: General Counsel FY 2001 Budget Dollars by Goal

Executive Direction & Support

Total Budget:	\$18,021,000	150 FTEs
Total Increase:	\$ 1,440,000	4 FTEs

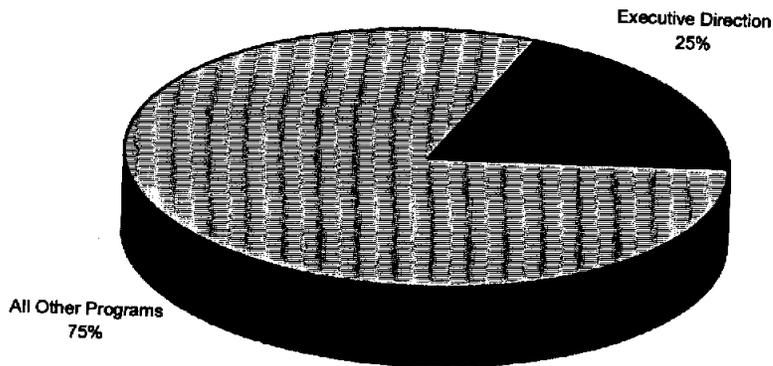


Figure 29: Executive Direction Percentage of Total Budget Dollars

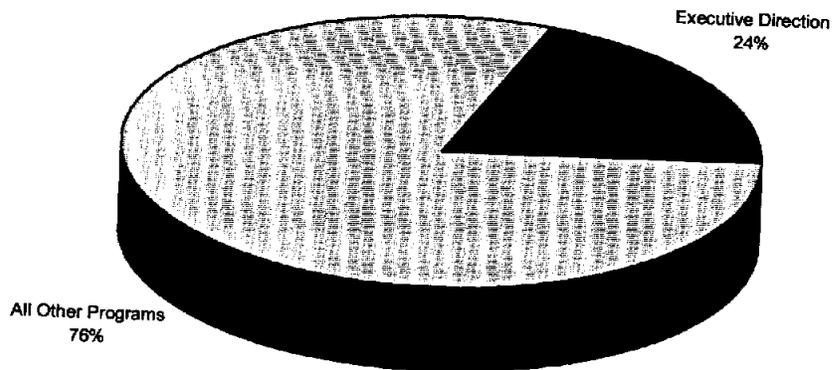


Figure 30: Executive Direction Percentage of Total Budget FTEs

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Executive Direction & Support

Outcome Objectives

The Executive Direction and Support program includes Agency Direction and Administrative Management and Support. Executive Direction and Support assists all other program areas of the Commission and supports all goals and outcome objectives of the Commission.

Justification of the FY 2001 President's Budget

Agency Direction

The Commission develops and implements agency policy in furtherance of the purposes of the CEA. This policy is designed to foster the financial integrity and economic utility of commodity futures and option 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. Agency Direction is administered by the Chairman and Commissioners and includes the following offices of the Chairman: 1) Public Affairs; 2) the Secretariat; 3) Legislative and Intergovernmental Affairs; 4) the Inspector General; and 5) International Affairs.

Agency Direction requests a total of 54 FTEs for FY 2001, an increase of two FTEs over the FY 2000 budget—one for the Office of International Affairs (OIA) and the other for the Office of the Secretariat. The significant increase in international coordination and requests for assistance have placed additional burdens on the staff of OIA. OIA requests this additional staff year to provide research and information development support, coordinate meetings with visitors from foreign regulatory agencies, and assist in preparations for international conferences and meetings. This will enhance OIA's ability to provide better information to the Commission on international financial matters and to offer improved information and guidance to foreign visitors.

The other additional staff year is requested to provide research and technical services support for the Office of the Secretariat. Over the past year, the Records section of the Office of the Secretariat has assumed responsibility for several new duties generated by the increased demand for electronic information services and systems. These include managing, decoding, and distributing electronically filed submissions including fast-track and regular exchange filings; responding to comment letters and e-mail requests for information from the general public; maintaining an up-to-date Secretariat home page; and developing imaging systems to publish public comments and frequently requested Freedom of Information Act materials and guidance.

Administrative Management and Support

Administrative Management and Support is provided by the Office of the Executive Director (OED). OED is responsible for policy development and implementation of the management and administrative functions of the agency. OED staff:

- Formulate budget and resource authorization strategies;
- Supervise the allocation and utilization of agency resources;
- Promote management controls and financial integrity;
- Manage the administrative support offices;
- Oversee the development and implementation of the automated information systems of the Commission; and
- Oversee the library services of the Commission.

In addition, the staff of the Executive Director and subordinate offices oversee agency-wide compliance with federal requirements enacted by Congress and imposed by the Office of Management and Budget (OMB), the US Treasury Department, the General Accounting Office (GAO), and the Office of Personnel Management (OPM). The administrative support offices include the offices of Financial Management, Information Resources Management, Human Resources, Administrative Services, and the Commission Library.

The Administrative Management and Support subprogram requests a total of 96 FTEs for FY 2001, an increase of two FTEs over the FY 2000 budget. The new positions will be allocated to the Office of Financial Management to support the reengineering of Commission contracting functions and the Office of Information Resources Management to supervise the expanded OIRM operations staff.

Consequence of Not Receiving Requested Level of Resources

Agency Direction

As noted in the May 1999 GAO Report, *The Commodity Exchange Act: Issues Related to the Reauthorization of the Commodity Futures Trading Commission's Reauthorization*, "market observers have emphasized the need for CFTC to continue its efforts to coordinate with foreign regulators as the trend towards global electronic trading accelerates." In addition, as the Commission places increasingly greater emphasis on oversight activities, obtaining information concerning foreign transactions and regulatory developments will be critical to accomplish this mission. The additional FTE proposed for the Office of International Affairs is for a paralegal who could, among other things, facilitate the exchange of fitness information from foreign regulators regarding the remote members of US exchanges, engage in consistent research coverage of the increasing number of Internet Web sites of international regulatory agencies and of international regulatory newsletters, and assist in the scheduling and planning of international meetings and visits by international regulators. The additional position would permit existing staff to focus their efforts

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on analyzing and responding to new information. Failure to obtain this added level of resources would inhibit the ability of OIA adequately to cover international developments and develop appropriate responses.

Administrative Management & Support

The Commission is the process of streamlining its acquisition or procurement process. Last fiscal year all members of the Commission acquisition team were provided instruction on a wide range of acquisition topics such as simplified acquisition, credit card purchases, contract administration, ethics, and Federal contracting principles. The Commission also hired a new Contracting Officer to ensure the Commission's acquisition policies and procedures are always carried out in the best interest of the government consistent with the Federal Acquisition Regulations, pertinent statute or case law, Executive Orders or other regulations. The additional position requested would augment the resources available to the existing two-person staff. The additional FTE would help ensure that acquisition policy is executed fully and properly which should in turn result in the advancement of the best interest of the government and the tax payer. Without the additional position the acquisition staff will on occasion be forced to settle for minimum compliance rather than thorough compliance with all pertinent regulations.

The Commission is completing the decommissioning of its mainframe computer center. The complexity of the client server environment, which now supports our mission-critical information systems, has increased the requirement for coordination of network, workstation, Internet, intranet, and database operations. The additional position requested would provide supervision and coordinate these resources. The additional FTE would help ensure that the mission-critical applications are continually available to Commission staff. Without the additional position, the operations staff will continue to address coordination issues on an ad-hoc basis, with the potential for system downtime when automated support for Commission activities will not be available.

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Table 13: Executive Direction & Support Summary of Request by Subprogram

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Agency Direction	\$6,155	52.00	\$6,719	54.00	\$564	2.00
Admin. Mgmt. & Supp.	10,426	94.00	11,302	96.00	876	2.00
TOTAL	\$16,581	146.00	\$18,021	150.00	\$1,440	4.00

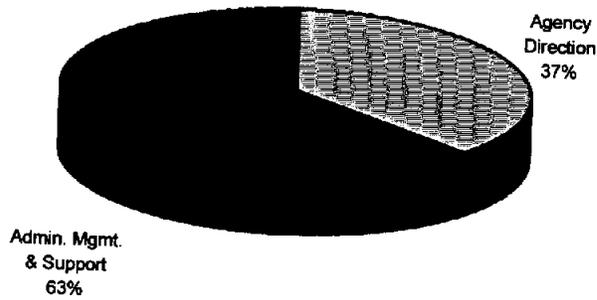


Figure 31: Executive Direction & Support FY 2001 Budget Dollars by Subprogram

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Table 14: Executive Direction and Support Summary of Request by Goal

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	\$ 1,124	10.00	\$1,308	11.00	\$184	1.00
Subtotal Goal One	\$1,124	10.00	\$1,308	11.00	\$184	1.00
GOAL TWO: Protect market users and the public.						
None						
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds	\$118	1.00	124	1.00	\$6	0.00
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	\$237	2.00	249	2.00	12	0.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	355	3.00	373	3.00	18	0.00
3.4 Promote markets free of trade practice abuses.	0	0.00	-	0.00	0	0.00
Subtotal Goal Three	\$710	6.00	\$746	6.00	\$36	0.00
Unallocated						
Unallocated & Prorated	\$14,747	130.00	\$15,967	133.00	1,220	3.00
Subtotal Unallocated	\$14,747	130.00	\$15,967	133.00	\$1,220	3.00
TOTAL	\$16,581	146.00	\$18,021	150.00	\$1,440	4.00

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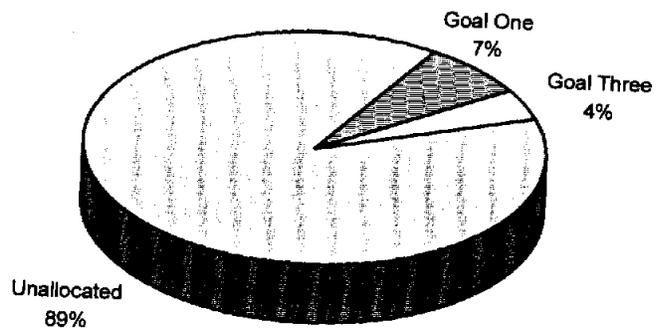


Figure 32: Executive Direction & Support FY 2001 Budget Dollars by Goal