FY 2002 PRESIDENT'S BUDGET BY PROGRAM

Market Surveillance, Analysis & Research

Total Budget:	**$7,128,000**	**68 FTEs**
Total Change:	**$ 13,000**	**–9 FTEs**

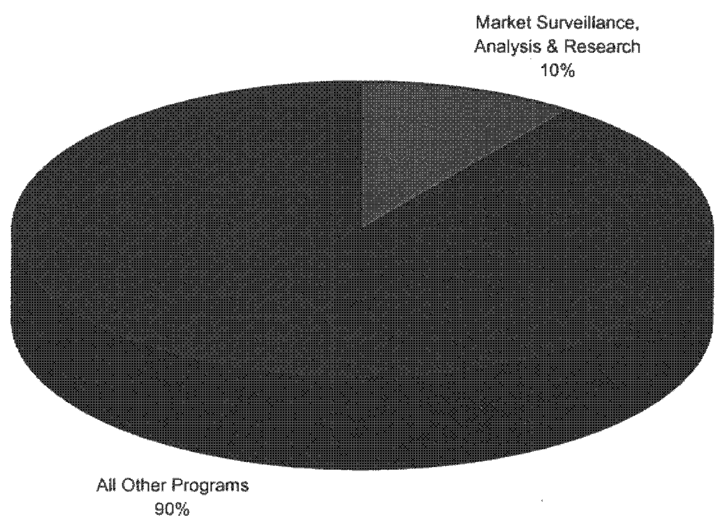


Figure 5: Market Surveillance, Analysis & Research Percentage of Total Budget Dollars

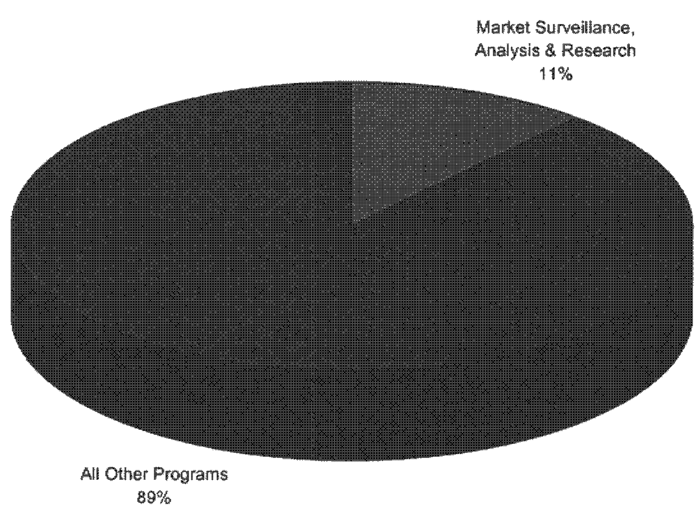


Figure 6: Market Surveillance, Analysis & Research Percentage of Total Budget FTEs

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:

1.1[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.

1.2 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 2002 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 addition, the CFMA removed restrictions on the trading of single stock and narrow-based equity index futures. These products may be offered beginning in August 2001 pursuant to rules to be promulgated jointly by the CFTC and SEC. The Market Surveillance, Analysis, and Research program will initiate and carry out the Commission's surveillance and oversight program for these markets. In FY 2002, the Market Surveillance, Analysis, and Research program requests 68 FTEs, which is nine FTEs below the FY 2001 budget. The three subprograms—Market Surveillance, Market Analysis, and Market Research—will have 53 FTEs, 10 FTEs, and five FTEs, respectively.

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 estab-

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

lished by the futures markets directly or indirectly affect all Americans. 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. Of the 53 FTEs allocated to the Market Surveillance subprogram, one FTE will assist the Trading and Markets program with rule enforcement reviews upon request, and 52 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 330 futures and option contracts representing major agricultural commodities, metals, energy, financial instruments, equity indices, foreign currencies, and newly authorized security futures products; 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.

Market Analysis

The CFMA and the Commission's regulatory framework are intended to promote innovation in futures and option trading and in product development, while maintaining protections related to systemic risk, manipulation and the economic functioning of the markets. In general, the regulatory scheme matches the level of regulatory oversight to the nature of the marketplace considering whether access is restricted to eligible participants or commercial participants and the extent to which the commodities traded are susceptible to manipulation. Designated contract markets and DTFs must meet specific approval criteria and they must comply, on an ongoing basis, with core principles. Exempt markets are subject to certain notification requirements. The Commission has anti-manipulation authority over these markets and they must offer a degree of price transparency if serving a price discovery function.

Under the CFMA, exchanges must file all new products and rule amendments with the Commission and certify that they meet the requirements of the Act and Commission rules. Material rule amendments to enumerated agricultural commodities with open interest must be submitted to the Commission for prior approval, and exchanges may voluntarily submit any new product or new rule or rule amendment to the Commission for approval. The procedures and review periods for approval are set forth in the law. In addition, while all types of commodities are eligible for trading on a contract market, the law provides that only certain commodities meeting specified anti-manipulation criteria may be eligible for trading on a DTF or on an exempt market.

In order to serve the vital price discovery and hedging functions of futures and option markets, exchanges must provide marketplaces that have appropriate protections in place and provisions for ensuring the integrity of transactions. In addition, exchanges must list products for trading that are not readily susceptible to manipulation and do not lead to price distortions or disruptions in the futures or option markets and in the underlying cash markets. Adherence to the approval criteria and core principles and appropriate contract design minimizes market derivatives and contracts' susceptibility to manipulation or price distortion.

The Market Analysis subprogram, in cooperation with other offices of the Commission, reviews exchanges' compliance with approval criteria and core principles for futures exchanges and derivatives transaction facilities execution. The reviews are conducted both for new applicants and for existing markets.

The subprogram also reviews exchange's requests for approval of new contracts and rule amendments to existing contracts' economic significance to ensure that contracts are in compliance with statutory and regulatory anti-manipulation requirements. It also conducts pre-surveillance reviews of new products and rule changes of economic significance submitted under ertification procedures to provide information about the markets and the design features in order to conduct effective market surveillance and to ensure that the contracts' and rules comply with the Commission's rules and policies. The reviews foster markets free of disruptions or price manipulation and provide essential information about the markets to conduct effective surveillance and address regulatory and public interest issues. In this regard, 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 of contracts.

In addition, the Market Analysis staff reviews the Commission's rules and policies related to oversight of markets and products to ensure that the Commission's regulatory program is achieving Commission goals and does not hinder innovation. In cooperation with OIA, the subprogram also works with foreign regulatory bodies as members of international working groups to provide assistance and expertise about futures and option trading, product design, surveillance, and the regulation of derivatives markets.

The Market Analysis staff assists in the development of rules and listing standards related to narrow-based and trading in single-share stock futures on US exchanges and the procedures for allowing such contracts traded on foreign exchanges to be offered. In addition, the staff provides support to the Enforcement program of the Commission in the form of economic and statistical analysis or expert testimony in connection with manipulation cases or other violations of commodity laws.

As a result of ongoing changes in technology, including advances in electronic trading and the use of the Internet for executing business-to-business commercial transactions, the number of derivatives exchanges is expected to grow, consisting of designated contract markets and DTFs as well as exempt markets. These new exchanges are developing derivatives products based on a wide variety of nontraditional "commodities," including diverse tangible commodities; services; and indexes of commercial or economic activity and events. The US exchanges continue to innovate by developing new futures and option contracts. In addition, exchanges are expected to offer a wide variety of securities futures pursuant to the recent amendments to the Act.

In view of these considerations, five new exchanges are expected to file with the Commission for approval as contract markets or DTFs and five entities are expected to notify the Commission as exempt markets. In addition, 39 new contracts are projected to be filed with the Commission under the certification procedures, with 22 requests for approval of products. This projection is based on existing and prospective exchanges' continuing interest and competition in developing innovative futures and option contracts in the financial, physical commodity, and other sectors; the prospects for joint ventures between existing exchanges and business-to-business facilities to develop derivatives markets; the introduction of single stock futures trading; and the tendency to establish option contracts on futures that have traded successfully. In addition, 104 rule changes are projected to be submitted during FY 2002 under certification procedures, with 20 filings submitted for approval. These will include a number of significant changes to existing rules to reflect changing conditions in the underlying cash markets.

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;
- 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 deter violations of commodity laws;
- Development of educational materials on futures and 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.

Impact of Requested Funding Level

The growth in the number of different types of markets trading a wider array of derivatives products, including single stock futures, requires surveillance, data collection, analysis, reporting, and research about new developments in derivatives trading. Surveillance and oversight of exchanges and product design, involves monitoring futures and option contracts to detect or prevent potential problems, price manipulation and other major market disruptions caused by abusive trading practices.

In FY 2002, the Surveillance, Analysis, and Research staff will be required to monitor a large and diverse array of markets and will initiate and carry out the Commission's program of surveillance and oversight of single stock futures. The Commission anticipates that a large number of these contracts will be listed for trading, both on futures and securities exchanges. The level of surveillance, exchange oversight, contract design reviews, and studies to enhance understanding of the markets may not be commensurate with the growth in new types of exchanges and the initiation of trading in new products such as single stock futures; thus, the potential for undetected price manipulation and abusive trading practices may increase. This could result in 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. In addition, at the requested level, while the staff would review new contract and rule change submissions for approval within statutory time frames, it would not be able to conduct more timely reviews to bring new products and rule changes to the marketplace as quickly as possible. Moreover, at the requested level, staff efforts to monitor developments in derivatives trading and market innovations may be delayed. In this regard, 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. Market research and monitoring of these developments help ensure that the Commission has in place sound regulatory policies to reduce systemic risk in financial markets and protect the economic function of the markets without undermining innovation and the development of new approaches to risk management.

Consequence of Not Receiving Requested Level of Resources

In FY 2002, the level of surveillance, exchange oversight, contract design reviews, and studies to enhance understanding of the markets would not be commensurate with the growth in new types of exchanges and the initiation of trading in new products such as single stock futures. Thus, price manipulations and abusive trading practices may go undetected. This would result in 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. In addition, the staff may not be able to review all new contract and rule change submissions for approval within statutory time frames. Moreover, staff efforts to monitor developments in derivatives trading and market innovation would be delayed. This would undermine the ability of the Commission to keep its regulatory policies in line with new developments in the industry which could impede innovation, lead to systemic risk in financial markets, and adversely affect the economic function of the markets. The lower staff levels requested for FY 2002 are the minimum that the Commission believes necessary to meet its market surveillance and oversight responsibilities.

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

	FY 2001		FY 2002		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Surveillance	$5,024	59.00	$5,000	53.00	-$24	-6.00
Market Analysis	1,237	11.00	1,419	10.00	182	-1.00
Market Research	854	7.00	709	5.00	-145	-2.00
TOTAL	$7,115	77.00	$7,128	68.00	$13	-9.00

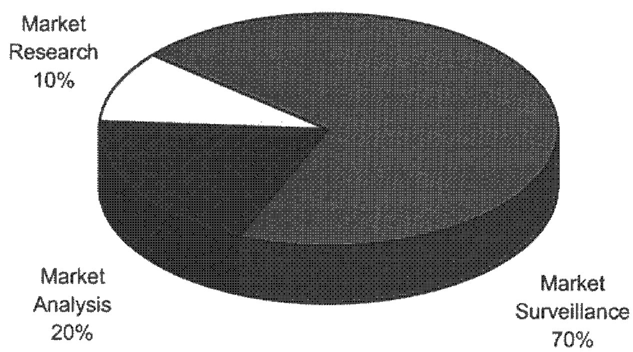


Figure 7: Market Surveillance, Analysis & Research FY 2002 Budget Dollars by Subprogram

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

	FY 2001		FY 2002		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.	$5,739	63.00	$6,325	61.00	$588	-2.00
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.	840	9.00	567	5.00	-273	-4.00
Subtotal Goal One	**$6,579**	**72.00**	**$6,893**	**66.00**	**$314**	**-6.00**
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.	$170	2.00	$94	1.00	-$76	-1.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	244	2.00	142	1.00	-102	-1.00
3.4 Promote markets free of trade practice abuses.	121	1.00	-1	0.00	-123	-1.00
Subtotal Goal Three	**$536**	**5.00**	**$235**	**2.00**	**-$301**	**-3.00**
TOTAL	**$7,115**	**77.00**	**$7,128**	**68.00**	**$13**	**-9.00**

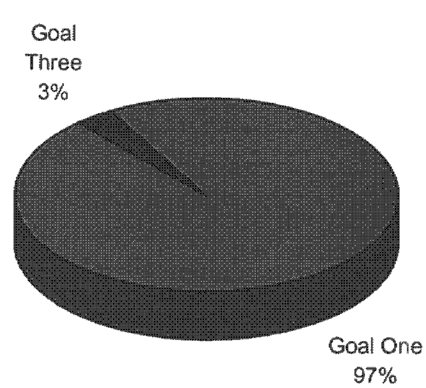


Figure 8: Market Surveillance, Analysis & Research FY2002 Budget Dollars by Goal

Trading & Markets

Total Budget:	**$15,374,000**	**110 FTEs**
Total Change:	**$ 30,000**	**–17 FTEs**

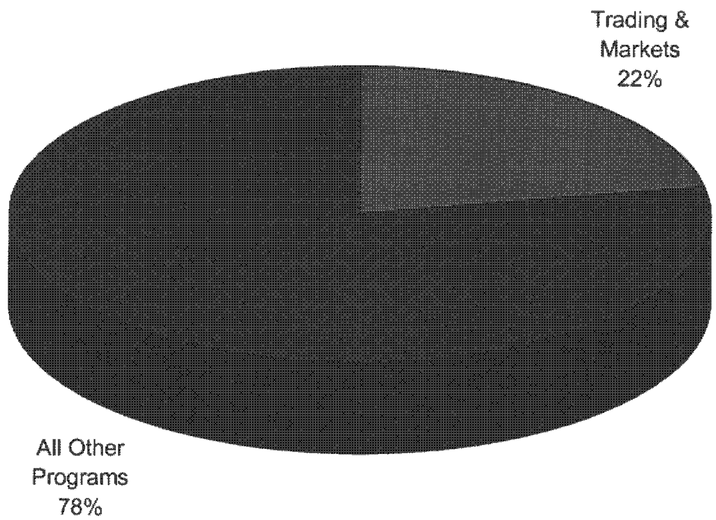


Figure 9: Trading & Markets Percentage of Total Budget Dollars

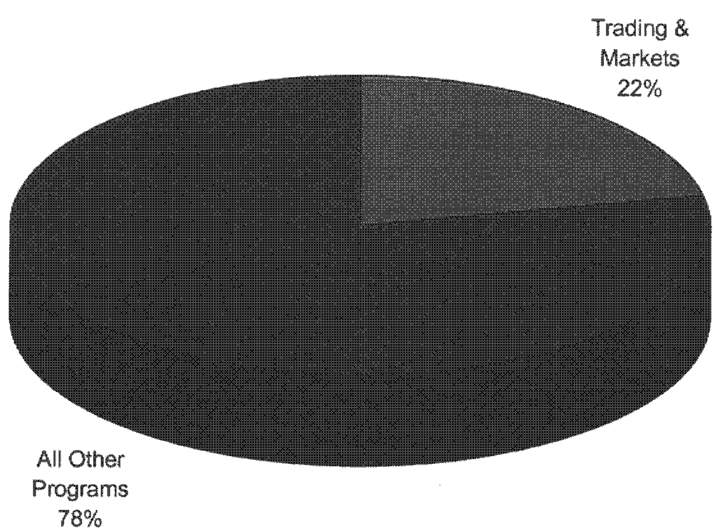


Figure 10: Trading & Markets Percentage of Total Budget FTEs

Trading & Markets

Outcome Objectives

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

1.1[2] 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 2002 President's Budget

In FY 2002, the Trading and Markets program requests 110 FTEs, a net decrease of 17 FTEs from the FY 2001 budget. The decrease of 17 FTEs will be allocated to the three subprograms as follows: three FTEs from Regulatory Development and Registration; seven FTEs from the Audit and Review subprogram; and seven FTEs from the Contract Markets subprogram.

The Trading and Markets program is responsible for:

- Oversight of compliance by US futures exchanges, clearing organizations, 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, the protection of customer funds, and clearing and settlement activities;
- 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 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 that 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

Staffing will be reduced by three FTEs from the FY 2001 level. Under this reduced services level, the Regulatory Development and Registration subprogram will endeavor to: 1) develop innovative regulatory approaches to address new product developments, market linkages, and trading mechanisms; and 2) 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.

The subprogram will follow the recommendations the Commission makes to Congress in the report on intermediaries mandated by Section 125 of the CFMA. The reduction in FTEs will cause slower development of the innovative regulatory approaches and slower implementation of the recommendations in the report to Congress than would be the case if the current services level were maintained.

As information technology increasingly frees markets from geographic and time-of-day constraints, resources must be allocated 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. The subprogram also develops rules for, and processes applications submitted by, foreign boards of trade in connection with access to automated trading systems from within the US. Further, as other sectors of the global economy continue the process of deregulation, 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. Staff of this subprogram review and monitor systems developed to address these needs, particularly in an off-exchange environment. They also evaluate other off-exchange products and new types of trading mechanisms.

In addition, staff continue to examine current regulation with a view towards enhancing the Commission's comprehensive regulatory reform program initiated in FY 2000, particularly with respect to rules concerning intermediaries of commodity interest transactions. The subprogram also will be involved in supporting the Commission's coordinated efforts with other domestic and foreign financial regulators to achieve harmonized regulatory standards.

Contract Markets
Staffing will be reduced by seven FTEs from the FY 2001 level. The reduced level of resources may hinder the Contract Markets subprogram in its effort to 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. Fewer staff resources will affect the Contract Markets subprogram coverage by constraining the level of review of self-regulatory programs and other compliance and investigative activities performed by the staff. Despite this reduction in staff resources, the Contract Markets subprogram will attempt to remain responsive to changes in the futures industry, including a dramatically changing market structure, escalating internationalization of the futures marketplace, increased use of technology, and a proliferation of exchanges and other markets subject to Commission oversight. Maintaining this level also is essential because the market oversight functions of Contract Markets will take on increased importance due to the broad changes to the Commission's regulatory framework under the CFMA. The Commission's oversight role will depend significantly on the ability of this subprogram to review the performance of increasing numbers of designated contract markets and derivatives transaction execution facilities.

Audit and Review
Staffing will be reduced by seven FTEs from the FY 2001 level. The reduced level of resources will impair the ability of the Audit and Review subprogram to continue to assure the financial integrity of individual registrants and the markets generally and to improve SRO programs for supporting this program. These goals may prove more difficult to achieve as the subprogram staff attempts to implement the new regulatory framework under the CFMA. The increasing globalization of financial markets and the proliferation of instruments requires the Commission to balance the activities of assisting firms in achieving greater competitiveness with anticipating potential financial threats.

Subprogram staff will continue to explore pro-competitive measures while providing necessary resources to oversight functions to ensure that the goals of systemic financial integrity, individual registrant integrity, and customer protection are met. The reduced level of resources may impair some of these efforts. Further, staff efforts to improve efficiency and effectiveness such as the expansion of computer-based data gathering capacity may be delayed even though this effort would result in a less burdensome, more efficient process for analyzing financial data. As the Commission moves from a direct regulatory posture to an oversight posture, such capacity will be critical.

Impact of Reduced Level of Resources for FY 2002

Despite the reduced level of resources, the Trading and Markets program remains committed to managing the increases in volume and complexity of trading activity while improving responsiveness by:

- Reviewing Commission rules to determine if they should be streamlined further in light of technological and market developments;
- Providing guidance to foster innovative transactions and electronic trading systems;
- Monitoring 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;
- Facilitating implementation of the Commission's regulatory reform efforts and providing guidance to the public and to industry professionals regarding application of the new regulatory framework;
- Maintaining US leadership in setting internationally accepted standards for the regulation of markets and trading;
- Encouraging technological improvements and market innovation; and
- Enhancing disclosure about managed investment products including hedge funds and to provide better information to investors.

With the decreased level of resources, however, the program will not be equipped to respond to these critical challenges as promptly as would be the case if the current services level were maintained. This decrease of resources also will hinder the ability of the Commission's staff to respond, as it has in past years, fully and 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. Also, staff will be less able to fulfill new responsibilities arising from the new regulatory framework under the CFMA. Thus, although all of these challenges are becoming more and more complex as the sophistication of the marketplace rises, the Trading and Markets program will have fewer staff resources to deal with them.

Table 5: Trading & Markets Summary of Request by Subprogram

	FY 2001		FY 2002		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Contract Markets	$6,326	52.00	$6,081	45.00	-$245	-7.00
Reg. Dev. & Regis.	2,334	20.00	2,706	17.00	372	-3.00
Audit and Review	6,684	55.00	6,587	48.00	-97	-7.00
TOTAL	**$15,344**	**127.00**	**$15,374**	**110.00**	**$30**	**-17.00**

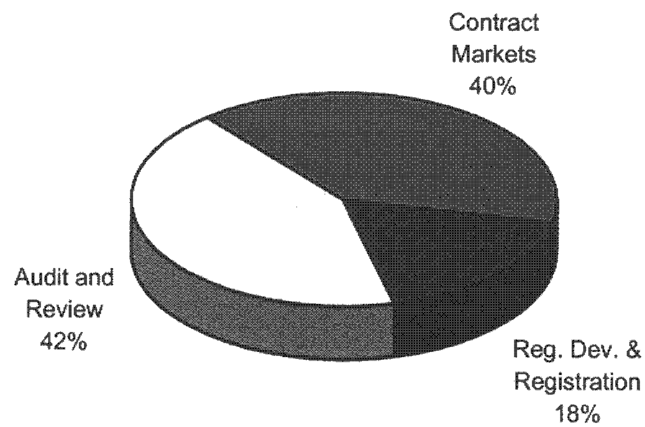


Figure 11: Trading & Markets FY 2002 Budget Dollars by Subprogram

Table 6: Trading & Markets Summary of Request by Goal

	FY 2001		FY 2002		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.	$669	5.50	$748	5.50	$79	0.00
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.	180	1.50	216	1.50	$36	0.00
Subtotal Goal One	**$849**	**7.00**	**$964**	**7.00**	**$116**	**0.00**
GOALTWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	$1,021	8.50	845	6.00	-$175	-2.50
2.2 Require commodities professionals to meet high standards.	$1,084	9.00	1,279	9.00	195	0.00
Subtotal Goal Two	**$2,105**	**17.50**	**$2,123**	**15.00**	**$19**	**-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	$1,079	9.00	1,301	9.00	$222	0.00
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	8,020	66.00	7,438	54.50	-582	-11.50
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	2,195	18.50	2,330	15.50	135	-3.00
3.4 Promote markets free of trade practice abuses.	1,097	9.00	1,217	9.00	120	0.00
Subtotal Goal Three	**$12,391**	**102.50**	**$12,286**	**88.00**	**-$100**	**-14.50**
TOTAL	**$15,344**	**127.00**	**$15,374**	**110.00**	**$30**	**-17.00**

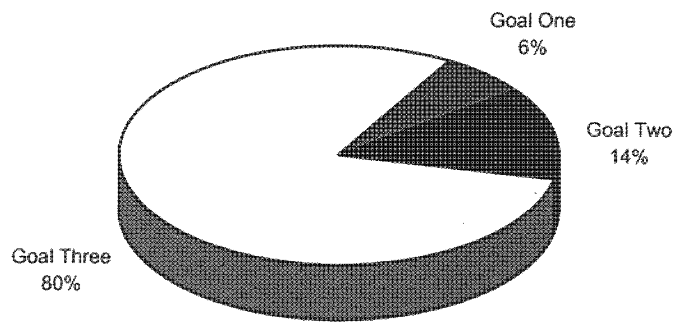


Figure 12: Trading & Markets FY 2002 Budget Dollars by Goal

Enforcement

Total Budget:	**$21,089,000**	**146 FTEs**
Total Change:	**$ 1,304,000**	**–12 FTEs**

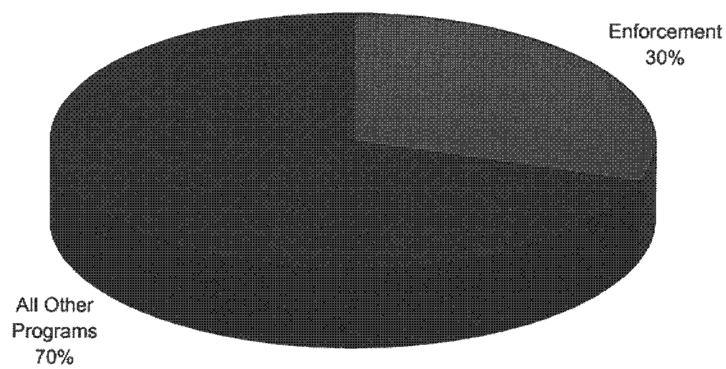


Figure 13: Enforcement Percentage of Total Budget Dollars

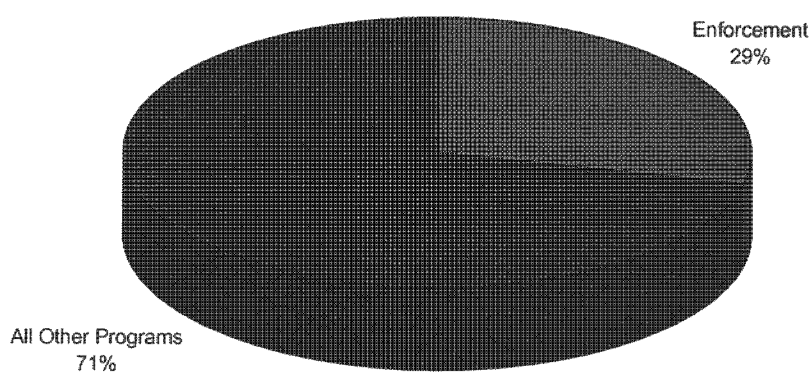


Figure 14: Enforcement Percentage of Total Budget FTEs

Enforcement

Outcome Objectives

The outcome objectives of the Division of Enforcement are:

1.1[3] 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 2002 President's Budget

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

In FY 2002, the Enforcement program has been allocated 146 FTEs, a decrease of 12 FTEs from the FY 2001 budget. The Enforcement program's allocation of FTEs over the past five years has remained relatively stable despite its increased responsibilities due to growth of the futures and option markets. These responsibilities are expected to 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. Additionally, the Enforcement program will have an enhanced responsibility for taking action against the increasingly-pervasive fraudulent sale of illegal, off-exchange foreign currency contracts to retail customers in light of the recent clarification of the Commission's jurisdiction in this area in the CFMA

As a result of these changes, the Enforcement program anticipates growth in its responsibility for safeguarding the integrity of the markets and ensuring that market professionals meet the highest possible standards. It is anticipated that the Enforcement program will achieve the reduction of 12 FTEs through attrition, with remaining

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

staff devoted to investigation and prosecution of matters involving fraud, quick-strike cases, supervision and compliance issues, and market abuse cases as the need arises. This increase in responsibility coming at a time of a decrease in resources will have consequences on the Enforcement program. The Enforcement program's FY 2002 FTE allocation, a reduction of 7.6 percent from our current allocation, might result in delays in the completion of investigations and greater selectivity in the matters being opened.

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 $120,000 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 trading facilities designated or registered by the Commission. 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 that undermine 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 handling 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 by 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 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 96 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 FTEs allocated for FY 2002 are 12 fewer than are authorized for FY 2001; a decrease that is approximately equal to the size of one investigation/litigation team. While the FTEs eliminated will be distributed throughout the Enforcement program in an attempt to minimize the impact, nonetheless, this decrease will likely have a measurable impact on the program.

In recent years, the Enforcement program has been striving to process matters more quickly in order to be able to address as wide a range of potential violations as possible. The reduction in FTEs, however, could result in fewer matters being addressed and those that matters that are addressed may take longer to complete. This reduction may also threaten the Enforcement program's ability to respond quickly on cooperative enforcement matters.

Table 7: Enforcement Summary of Request by Program

	FY 2001		FY 2002		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Enforcement	$19,783	158.00	$21,086	146.00	$1,303	-12.00
TOTAL	**$19,783**	**158.00**	**$21,087**	**146.00**	**$1,304**	**-12.00**

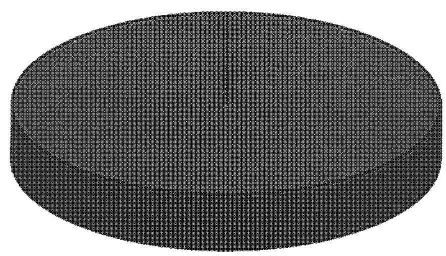


Figure 15: Enforcement FY 2002 Budget Dollars by Program

Table 8: Enforcement Summary of Request by Goal

	FY 2001		FY 2002		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.	$3,070	24.52	$3,273	22.66	$203	-1.86
Subtotal Goal One	**$3,070**	**24.52**	**$3,273**	**22.66**	**$203**	**-1.86**
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	$13,455	107.46	$14,342	99.30	$887	-8.16
2.2 Require commodities professionals to meet high standards.	$213	1.70	225	1.56	12	-0.14
Subtotal Goal Two	**$13,668**	**109.16**	**$14,567**	**100.86**	**$901**	**-8.30**
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.	$1,405	11.22	$1,498	10.38	$93	-0.84
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	21	0.17	23	0.16	2	-0.01
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	141	1.13	150	1.04	9	-0.09
3.4 Promote markets free of trade practice abuses.	1,477	11.80	1,575	10.90	98	-0.90
Subtotal Goal Three	**$3,045**	**24.32**	**$3,246**	**22.48**	**$201**	**-1.84**
TOTAL	**$19,783**	**158.00**	**$21,087**	**146.00**	**$1,304**	**-12.00**

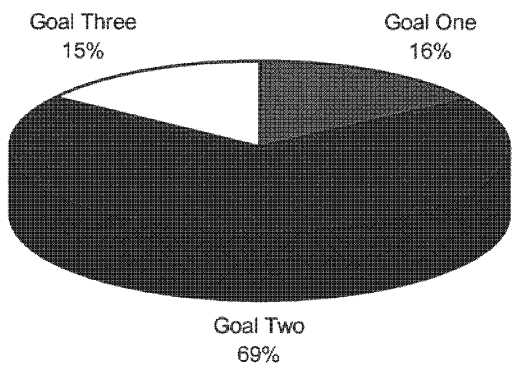


Figure 16: Enforcement FY 2002 Budget Dollars by Goal

Office of Proceedings

Total Budget:	**$ 1,957,000**	**15 FTEs**
Total Change:	**$-335,000**	**–5 FTEs**

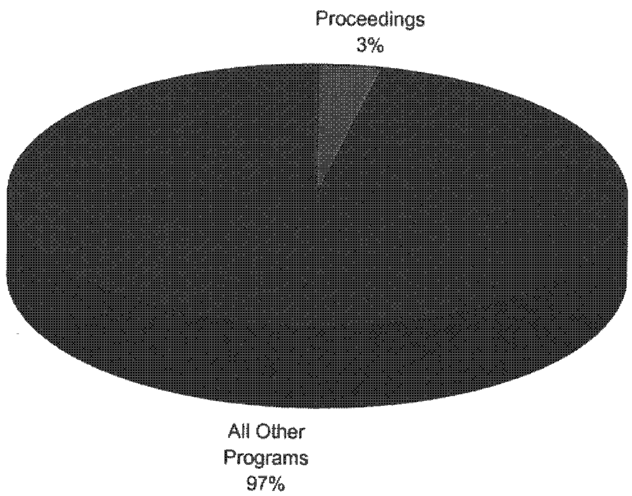


Figure 17: Proceedings Percentage of Total Budget Dollars

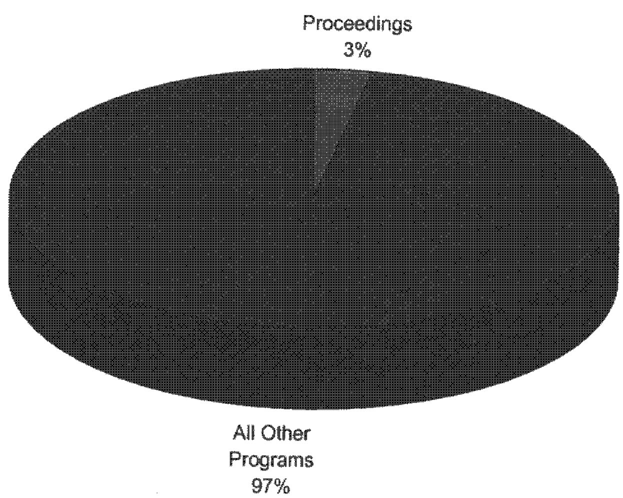


Figure 18: Proceedings Percentage of Total Budget FTEs

Office of Proceedings

Outcome Objectives

The outcome objectives of the Office of Proceedings are:

2.1[4] 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 2002 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 2002, the Office of Proceedings is requesting 15 FTEs.

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 20 administrative enforcement cases into FY 2002. This projection is based on estimates that 27 cases will be filed and 27 cases will be disposed of , leaving a balance of 20 administrative enforcement cases at the end of the fiscal year. 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 64 reparations cases into FY 2002. This projection is based on estimates that 112 cases will be filed and 100 cases will be disposed of, leaving a balance of 90 reparations cases—26 cases in the Complaints section and 64 cases in the Hearings section.

In response to over 12,000 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 in-

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

quiries 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 Futures Industry Association (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 adversely affect the high quality service that the Office of Proceedings provides on a daily basis.

Table 9: Proceedings Summary of Request by Subprogram

	FY 2001		FY 2002		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Enforcement	$802	7.00	$522	4.00	-$280	-3.00
Reparations	1,488	13.00	1,435	11.00	-55	-2.00
TOTAL	**$2,290**	**20.00**	**$1,957**	**15.00**	**-$335**	**-5.00**

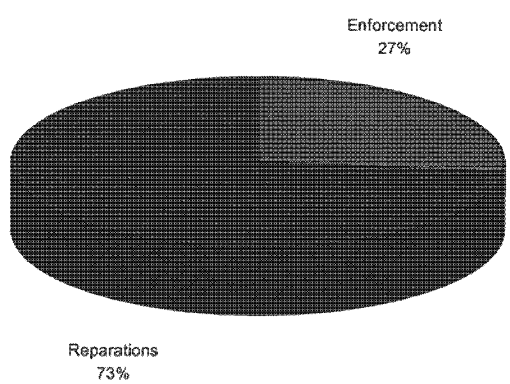
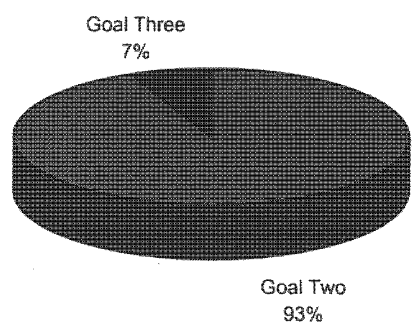


Figure 19: Proceedings FY 2002 Budget Dollars by Subprogram

Table 10: Proceedings Summary of Request by Goal

	FY 2001		FY 2002		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	8.50	$783	6.00	-$191	-2.50
2.2 Require commodities professionals to meet high standards.	115	1.00	66	0.50	-48	-0.50
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	974	8.50	979	7.50	6	-1.00
Subtotal Goal Two	**$2,062**	**18.00**	**$1,827**	**14.00**	**$ (235)**	**-4.00**
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	$0	0.00	$0	0.00	$0	0.00
3.4 Promote markets free of trade practice abuses.	230	2.00	130	1.00	-100	-1.00
Subtotal Goal Three	**$230**	**2.00**	**$130**	**1.00**	**-$100**	**-1.00**
TOTAL	**$2,290**	**20.00**	**$1,957**	**15.00**	**-$335**	**-5.00**

Figure 20: Proceedings FY 2002 Budget Dollars by Goal



Office of the General Counsel

Total Budget:	**$ 4,766,000**	**29 FTEs**
Total Change:	**$ 129,000**	**–4 FTEs**

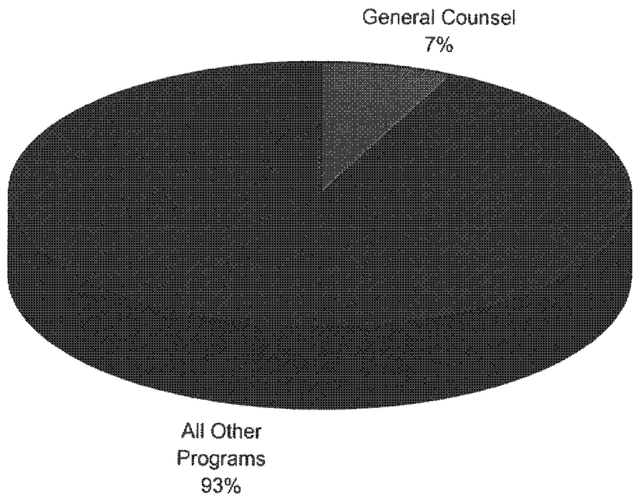


Figure 21: General Counsel Percentage of Total Budget Dollars

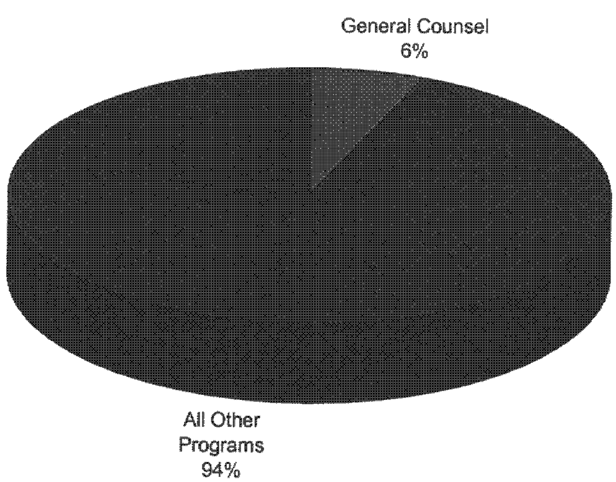


Figure 22: General Counsel Percentage of Total Budget FTEs

Office of the General Counsel

Outcome Objectives

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

1.1[5] 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 2002 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, which had a staff level of 33 FTEs during FY 2001 and requested 38 FTEs for FY 2002, will under the proposed budget ceiling, be reduced to 29 FTEs.

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.

- 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 2002, 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 particular, the Office of the General Counsel expects to devote substantial resources to fine-tuning and implementing the Commission's comprehensive regulatory reform initiative. In addition, the CFMA requires that the Commission undertake numerous rulemakings and studies.

The responsibilities of the Office of the General Counsel are likely to increase 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 myriad legal issues presented under the newly-amended Act and to participate in amending the Commission's regulatory scheme as appropriate. Finally, the Office of the General Counsel expects to continue to receive a large number of requests for no-action relief for foreign exchange-traded stock index futures contracts from the newly unified European stock market and from developing countries.

On an ongoing basis, the Office of the General Counsel devotes resources to legislative activities, administrative programs, and agency support. This 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 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 will also continue to assist the Commission in preparing testimony and legislative proposals it may present or submit to Congress. The Office may also be involved in activity arising from Congress' passage of the Gramm-Leach Bliley Act, which facilitates 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. For example, the Commission recently proposed regulations drafted by the Office which implement the privacy provisions of the GLBA, pursuant to a directive of the CFMA. 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.

The Office of the General Counsel continues to be responsible for all matters relating to the Commission's ethics standards and compliance with its Code of Conduct and the Office of Government Ethics government-wide ethics regulations. In addition to providing annual ethics training for Commission employees, the Office of the General Counsel is responsible for reviewing financial disclosure reports submitted by high-level Commission employees and for counseling agency personnel concerning ethics standards and programs, advising departing and former agency officials on post-employment conflict of interest standards, and administering a system for periodic evaluation of the ethics program.

The Office of the General Counsel will continue to advise the Commission on labor and employment law matters and to handle Equal Employment Opportunity cases arising under Title VII of the Civil Rights Act of 1964 and Merit Systems Protection Board cases arising under the Civil Service Reform Act of 1978.

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 (AAC), the Global Markets Advisory Committee (GMAC), and the Technology Advisory Committee (TAC). The activities of these committees are expected to 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

As a result of not receiving requested resource levels, 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 may 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 significant. The impact of not receiving the requested levels of resources may be felt broadly, adversely affecting or completely impairing the Commission's ability to:

- Enforce the high standards for futures industry professionals mandated by Congress;

- Remain abreast of the rapid changes in the futures markets, resulting in regulatory impediments to private sector innovation;
- Enforce vigorously its consumer protection programs;
- Respond quickly to innovative off-exchange activities; and
- Deal effectively with market emergencies.

Specific effects of a reduced level of resources in the Office of the General Counsel 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 advisory and review functions in all areas.

Table 11: General Counsel Summary of Request by Subprogram

	FY 2001		FY 2002		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
General Counsel	$4,638	33.00	$4,767	29.00	$129	-4.00
TOTAL	**$4,638**	**33.00**	**$4,767**	**29.00**	**$129**	**-4.00**

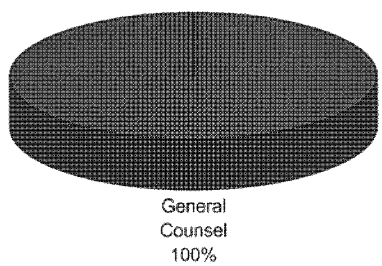


Figure 23: General Counsel FY 2002 Budget Dollars

Table 12: General Counsel Summary of Request by Goal

	FY 2001		FY 2002		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.	$885	6.30	$909	5.53	$24	-0.77
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.	91	0.65	94	0.57	2	-0.08
Subtotal Goal One	**$977**	**6.95**	**$1,003**	**6.10**	**$26**	**-0.85**
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	$1,376	9.79	$1,412	8.59	$37	-1.20
2.2 Require commodities professionals to meet high standards.	274	1.95	281	1.71	8	-0.24
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	670	4.77	690	4.20	20	-0.57
Subtotal Goal Two	**$2,319**	**16.51**	**$2,385**	**14.50**	**$66**	**-2.01**
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.	$243	1.73	$248	1.52	$5	-0.21
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	121	0.86	125	0.76	4	-0.10
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	246	1.75	252	1.53	6	-0.22
3.4 Promote markets free of trade practice abuses.	246	1.75	252	1.53	5	-0.22
Subtotal Goal Three	**$856**	**6.09**	**$876**	**5.34**	**$19**	**-0.75**
Unallocated						
Unallocated & Prorated	486	3.45	505	3.06	19	-0.39
Subtotal Unallocated	**$487**	**3.45**	**$505**	**3.06**	**$18**	**-0.39**
TOTAL	**$4,638**	**33.00**	**$4,767**	**29.00**	**$129**	**-4.00**

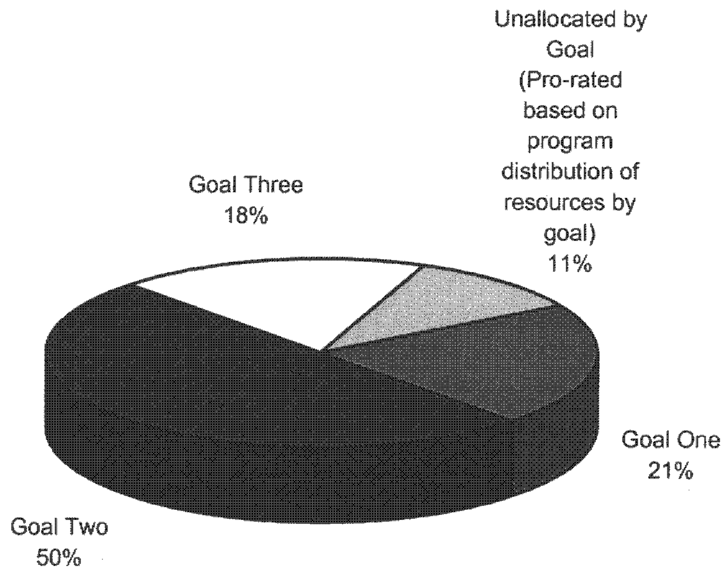


Figure 24: General Counsel FY 2002 Budget Dollars by Goal

Executive Direction & Support

Total Budget:	**$20,089,000**	**142 FTEs**
Total Change:	**$ 1,407,000**	**–10 FTEs**

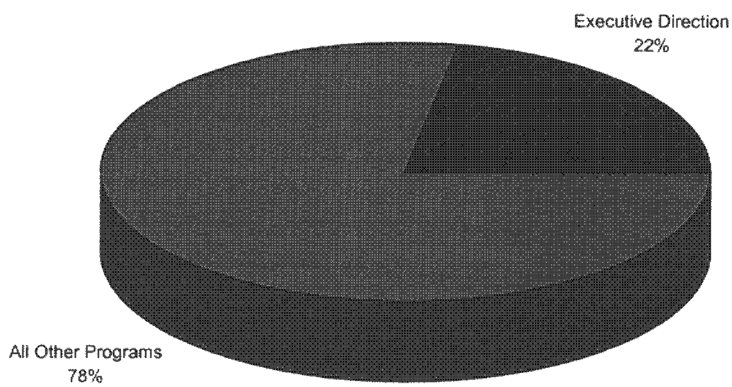


Figure 25: Executive Direction Percentage of Total Budget Dollars

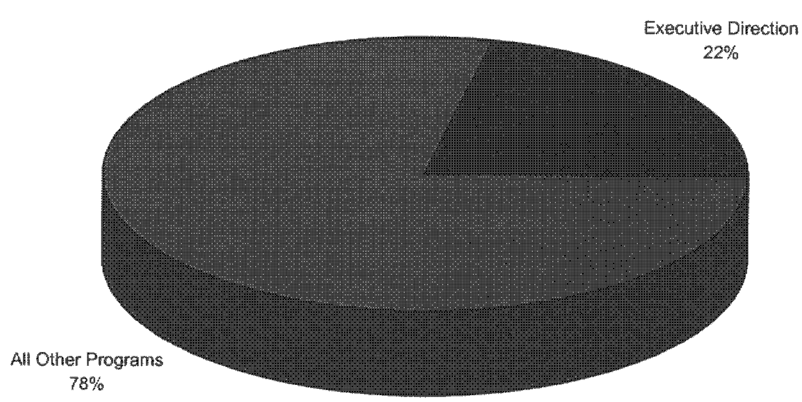


Figure 26: Executive Direction Percentage of Total Budget FTEs

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 2002 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.

FY 2000 was a period of sustained effort to reform the way in which the CFTC regulates futures markets and their participants and customers, to repeal the statutory prohibition against trading single-stock futures, and to affirm that over-the-counter financial transactions between institutions do not require regulation under the Commodity Exchange Act. Parallel initiatives to achieve these goals proceeded both within the CFTC and by the 106th Congress, as it considered legislation to reauthorize the agency.

The Commission developed a comprehensive regulatory framework that: 1) replaces "one-size-fits-all" rules with flexible core principles; and 2) establishes levels of regulation geared to the nature of particular instruments and the kind of persons trading them. In addition, the Commission reached an agreement with the Securities and Exchange Commission to lift the statutory ban on single-stock and narrow-based stock index futures, allowing these instruments to be traded under the joint supervision of the two agencies. The agreement also provides objective standards for determining whether a particular group of securities constitutes a broad-based stock index. The Commission has exclusive jurisdiction over broad-based stock index futures.

The parallel reform initiatives of the Commission and Congress culminated in the CFMA. The new legislation, signed by President Clinton in December 2000, repealed the ban on single-stock futures and implemented a regulatory framework for these instruments based on the agreement between the CFTC and SEC; enacted the principal provisions of the Commission's new regulatory framework; brought legal certainty to bilateral and multilateral trading in OTC financial markets; confirmed the CFTC's jurisdiction over certain aspects of the retail market in foreign exchange trading; and gave the CFTC authority to regulate clearing organizations. The CFMA also reauthorized the Commission for five years.

During FY 2001, the Commission will work to implement this new legislation, in addition to continuing its significant involvement in international regulatory matters.

Agency Direction requests a total of 47 FTEs for FY 2002, which is seven staff-years below the FY 2001 budget level. The Office of the Commissioners and the Chairman including Public Affairs and the Secretariat will share in the reductions.

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;
- Manage the Commission's technical and information infrastructure;
- Manage human resource strategies;
- 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 Office 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 (OFM), Information Resources Management (OIRM), Human Resources (OHR), Administrative Services (OAS), and the Commission Library.

The Administrative Management and Support subprogram requests a total of 95 FTEs for FY 2002, a decrease of three FTEs below the FY 2001 budget. An increase of four positions will be allocated to the OIRM to implement the recommendations of a recent information technology assessment conducted by an independent external reviewer. The increase in staff-years is necessary to support the operation of Commission's information technology infrastructure, develop and modify mission support information systems, and manage the use of information technology to support the Commission's mission.

The increase of four positions for OIRM will be offset by a decrease of seven positions in the other Office of the Executive Director including: finance, human resources, administrative services and the library.

Consequence of Not Receiving Requested Level of Resources

Agency Direction

Electronic technology is rapidly integrating our global commodities markets. For example, in FY 2000, the Commission authorized direct access from terminals in the United States to markets in Australia, France, Germany, New Zealand, Singapore, and the UK. Applications from three other jurisdictions are pending. The Commission also is aware of renewed interest by developers of new US-based electronic markets. These technology-driven changes will increase cross-border trading volume, cross-border participation, and cross-border exchange linkages. Markets, intermediaries, and customers demand efficient access to these global markets and products with a minimum of regulatory burdens. However, because no one regulator will have the information or geographic reach to address regulatory and practical issues related to cross-border access, the Commission will need to cooperate even more with global regulators. 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 the Commission to continue its efforts to coordinate with foreign regulators as the trend towards global electronic trading accelerates."

The requested level of resources will permit the Commission to continue working within international organizations and bilaterally with individual countries to: facilitate cross-border business by seeking to identify and remove or lessen any practical or legal obstacles, to enhance cooperative arrangements; develop internationally accepted standards of best practice; share its expertise with and learn new ways of addressing issues from other regulators; enhance international supervisory cooperation and emergency procedures; facilitate market discipline through improved transparency; and improve the quality and timeliness of international information sharing.

Failure to maintain this level of resources would inhibit the ability of the Office of International Affairs (OIA) to represent adequately the Commission's interests in international organizations and with individual jurisdictions on a case-by-case basis.

An overall reduction of seven staff-years throughout the Offices of the Commissioners (4) and the Office of the Chairman (3) will result in a slight diminution in the administrative responsiveness of the Commission; for example public outreach and responsiveness may be slower or administrative and technical review of Commission memoranda, correspondence or official actions may take longer. While not desirable, these reductions reflect the Commission's efforts to keep reductions in program areas to a minimum.

Administrative Management & Support
In FY 2000, the Commission received the report of an independent external information technology assessment. The complexity of the client-server environment, which now supports our mission critical information systems, has increased the requirement for coordination of operations, infrastructure support, and systems. The requested additional positions will allow the Commission to continue to operate its infrastructure, pursue limited systems development activities, and implement some of the critical improvements in the use of information technology suggested in the information technology assessment. At the requested level, we anticipate 1) delays in the assessment of futures industry automated trading systems, including information security vulnerabilities inherent in systems of such complexity, 2) longer times to modify existing Commission information systems to support anticipated changes in the futures industry and in futures regulation and enhanced emphasis on information security, and 3) assignment of the responsibility for strategic operations functions to infrastructure and systems support staff in order to meet statutory and regulatory requirements for the effective management of information technology, including the management of information security, thus reducing the office's ability to support mission critical systems operations. Without the additional positions requested, the current OIRM staff would continue to provide support as resources became available, but the Commission would not be able to address critical security vulnerabilities without additional support. Other issues not addressed would either be deferred until resources become available or would result in failure of Commission to fulfill its mission. Specifically, failure to increase the infrastructure support staff would result in the following: 1) slower delivery of improvements to information security facilities with associated information security vulnerabilities; 2) longer delays in Help Desk support; and 3) more use of program office staff to address Help Desk requirements. Failure to increase the systems development staff would result in indefinite delays in all efforts to apply technology to business requirements which support the Commission's mission, in particular the challenges posed by changes in regulation of large segments of the futures industry following passage of the CFMA, online trading systems and automated execution of trades. Failure to increase the strategic operations staff would result in delays in implementing the recommendations of the IT assessment regarding the management of information.

The reduction of seven staff-years from financial management, human resources, the library and administrative support services may result in a diminution in service quality and responsiveness in meeting internal and external reporting requirements.

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

	FY 2001		FY 2002		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Agency Direction	$7,028	54.00	$7,098	47.00	$70	-7.00
Admin. Mgmt. & Supp.	11,654	98.00	12,989	95.00	1,335	-3.00
TOTAL	**$18,682**	**152.00**	**$20,087**	**142.00**	**$1,405**	**-10.00**

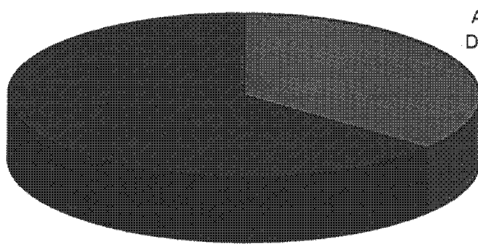


Figure 27: Executive Direction & Support FY 2002 Budget Dollars by Subprogram

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

	FY 2001 $ (000)	FY 2001 FTE	FY 2002 $ (000)	FY 2002 FTE	CHANGE $ (000)	CHANGE 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.	$ 766	6.25	$1,020	7.25	$254	1.00
Subtotal Goal One	**$766**	**6.25**	**$1,020**	**7.25**	**$254**	**1.00**
GOALTWO: Protect market users and the public.						
2.1 Promote compliance with and deter violations of federal commodities laws.	$0	0.00	-	0.00	$0	0.00
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	$71	0.60	109	0.80	$39	0.20
Subtotal Goal Two	**$70**	**0.60**	**$110**	**0.80**	**$39**	**0.20**
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	$130	1.00	151	1.00	$21	0.00
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	$308	2.40	357	2.40	48	0.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	390	3.00	453	3.00	63	0.00
3.4 Promote markets free of trade practice abuses.	238	0.00	274	2.00	37	2.00
Subtotal Goal Three	**$1,066**	**6.40**	**$1,235**	**8.40**	**$169**	**2.00**
Unallocated						
Unallocated & Prorated	$16,780	137.75	$17,722	125.55	943	-12.20
Subtotal Unallocated	**$16,780**	**137.75**	**$17,722**	**125.55**	**$943**	**-12.20**
TOTAL	**$18,682**	**151.00**	**$20,087**	**142.00**	**$1,405**	**-9.00**

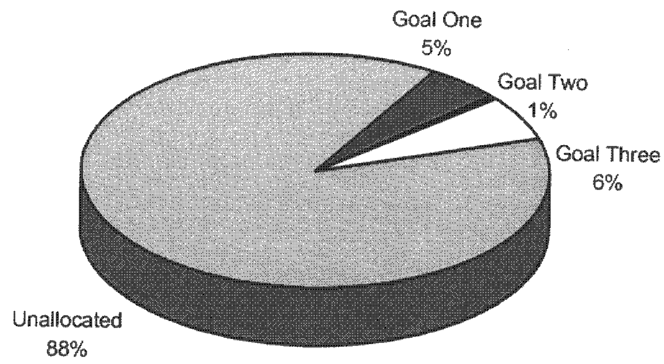


Figure 28: Executive Direction & Support FY 2002 Budget Dollars by Goal