U.S. Commodity Futures Trading Commission
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James E. Newsome
Chairman

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February 4, 2002

The Honorable Robert C. Byrd
Chairman
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, D.C. 20510-6025

The Honorable C. W. Bill Young
Chairman
Committee on Appropriations
United States House of Representatives
2407 Rayburn House Office Building
Washington, D.C. 20515-6015

Dear Chairman Byrd and Chairman Young:

I am pleased to transmit to you the FY 2003 Budget of the Commodity Futures Trading Commission. The budget reflects an appropriation request for $82,800,000 and 537 staff-years, an increase of $9,100,000 and 27 staff-years over the FY 2002 adjusted appropriation.

Copies of this submission are also being transmitted to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry. If I can provide you with any further information, please do not hesitate to call.

Sincerely yours,

James E. Newsome
Chairman

Enclosure

cc:

The Honorable Tom Harkin
Chairman
Committee on Agriculture,
 Nutrition, and Forestry
U.S. Senate
SR - 328A Russell Senate Office Building
Washington, D. C. 20510-6000

The Honorable Larry Combest
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D. C. 20515-6001

THE FY 2003 PRESIDENT'S BUDGET

Table of Contents

A Note on the Format:

This document is comprised of three sections: Part I is the FY 2003 President's Budget, which contains the traditional program-based budget structure in which the agency's FY 2003 President's Budget is summarized and justified, pages 1-132; Part II is the FY 2003 Annual Performance Plan, which incorporates the goal-based approach of the CFTC Strategic Plan and in which funds are distributed by Goal and Outcome Objective, see pages 133-194; Part III is the FY 2001 Annual Performance Report, which summarizes the Commission's performance as compared to the annual goals set forth in the CFTC Strategic Plan, see pages 195-266.

Parts I and II contain a cross-cutting analysis. That is, the program-based analysis of the OMB Budget Estimate is augmented by a programmatic distribution of resources by Agency Goal. Conversely, the goal-based analysis of the Annual Performance Plan also disaggregates resources by program. Our intent is to engender greater understanding among the public, the Congress, the Administration, market users, and the many other persons and entities with which we work of how the Commission resources contribute to the accomplishment of the agency's mission.

Questions or comments about this document can be directed to: Emory H. Bevill, Acting Director, Office of Financial Management at 202-418-5187, via e-mail at ebevill@CFTC.gov or Deidre King, Budget Analyst at 202-418-5189, via e-mail at d_king@CFTC.gov.

FY 2003 President's Budget—Figures and Tables

EXECUTIVE SUMMARY

Introduction to the Commission

Congress created the Commodity Futures Trading Commission (the CFTC or the Commission) in 1974 as an independent agency with the mandate to regulate commodity futures and option markets in the United States. The Commission's mandate was renewed and/or expanded in 1978, 1982, 1986, 1992, and 1995. In December 2000, the Commission was reauthorized by Congress and the President through fiscal year (FY) 2005 with the passage of the Commodity Futures Modernization Act of 2000 (CFMA).

The CFMA fundamentally transforms the Commission from a front-line regulatory agency to an oversight regulator. Although the Commission's approach to regulation will change, the CFTC's mission remains unchanged. The CFTC continues to be responsible for fostering the economic utility of futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trade practices, and fraud. Through effective oversight regulation, the CFTC enables the commodity futures markets better to serve their vital function in the nation's economy—providing a mechanism for price discovery and a means of offsetting price risks.

The President's Budget for FY 2003 is $82.8 million with 537 full-time equivalents (FTEs). This is a $7.8 million decrease from the FY 2002 appropriation of $90.6 million. (The FY 2002 appropriation included $16.9 million in supplemental funds to cover expenses related to the September 11, 2001 terrorist attack on the World Trade Center.) After adjusting the FY 2002 base of $90.6 million to exclude the $16.9 million supplemental funding, the adjusted base is $73.7 million. The President's FY 2003 Budget is a $9.1 million, or 12 percent, increase over the adjusted FY 2002 base of $73.7 million.

Compared to the FY 2002 appropriation, key changes in the FY 2003 President's Budget are:

$ +5.9 million to maintain current service levels;

$ +3.2 million to provide for the salary and related expenses of 37 additional staff.

The FY 2003 President's Budget

Breakout of $82.8 Million Budget Estimate

The Commission is requesting $82.8 Million in FY 2003;

$73.7 Million is the base (FY 2002 Appropriation) */
$ 9.1 Million is the increase in FY 2003. . . .

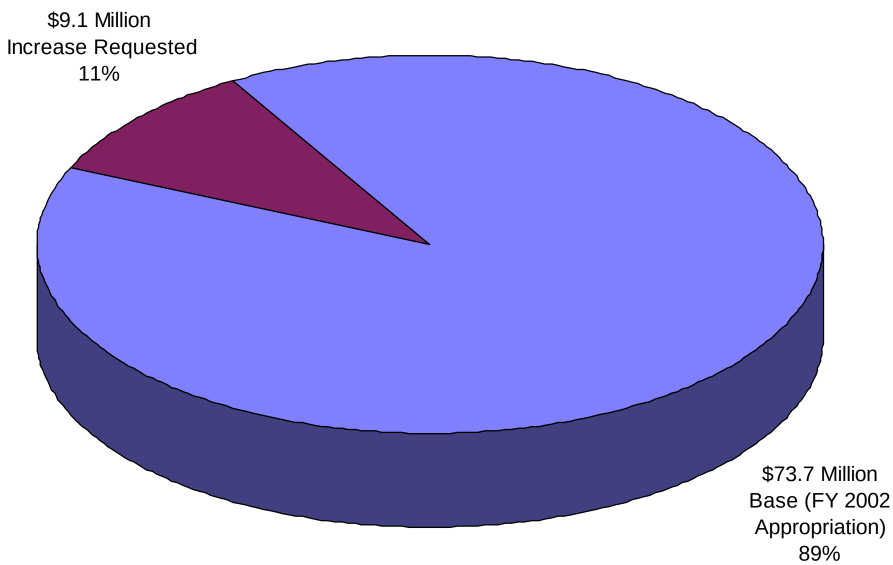

Figure 1: $82.8 Million Budget Estimate

*/ Excludes Anti-Terrorism Supplemental Appropriation of $16.9 Million.

Breakout of $82.8 Million Budget Estimate

By Program Activity

. . . . the $82.8 Million Budget is allocated among five programs: Enforcement; Trading & Markets; Market Surveillance, Analysis & Research; Proceedings; and General Counsel. There is one support program: Executive Direction . . . .

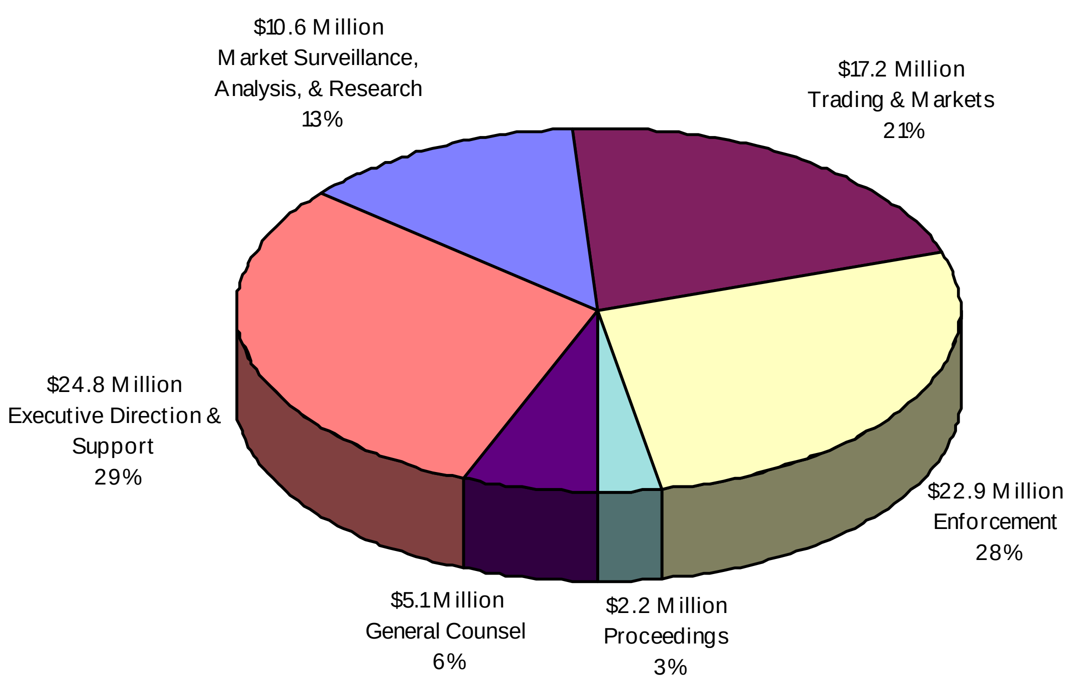

Figure 2: $82.8 Million Budget Estimate by Program

Breakout of $82.8 Million Budget Estimate

By Object Class

. . . . approximately 73 percent of the CFTC's budget covers staff salaries and benefits . . . .

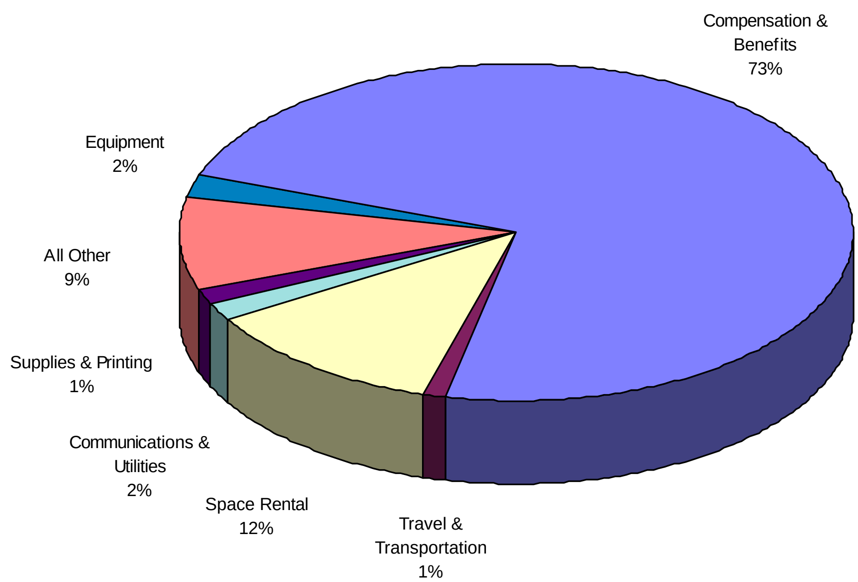

Figure 3: $82.8 Million Budget Estimate by Object Class

Breakout of the $16.9 Million Supplemental Appropriation

. . . . the Commission was appropriated $16.9 million in supplemental funds to respond to and recover from the terrorist attack of September 11, 2001 and to prepare for and mitigate against future disasters. . . . .

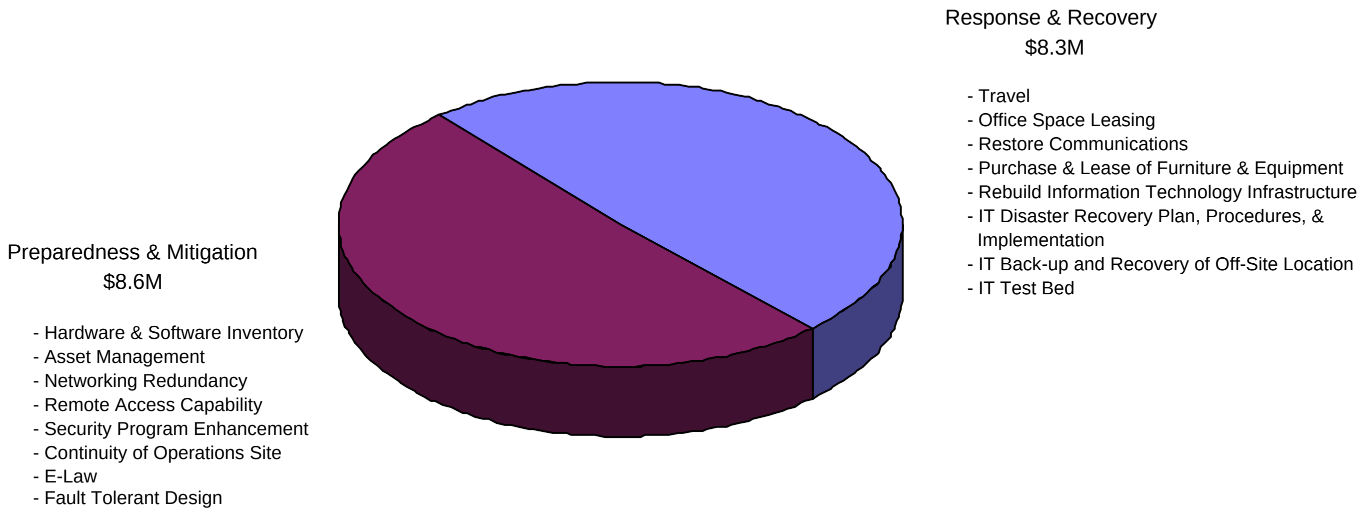

Figure 4: $16.9 Million Supplemental Appropriation

Crosswalk From FY 2002 to FY 2003

	FY 2002 Estimate	FY 2003 Request	Change
Budget Authority ($000)	$90,600	$82,800	($7,800)
Full-Time Equivalents (FTEs)	510	537	27

<u>**Explanation of Change**</u>	**FTEs**	**Dollars ($000)**
Increases: (Adjustments to FY 2002 Base)		
To provide for annualization of estimated Jan. 2002 4.6% pay increase		436
To provide for estimated January 2003 3.7% pay increase		1,110
To provide for within-grade increases		324
To provide for increased costs of personnel benefits		987
To provide for use of permanent rather than temporary employees		498
To provide for 27 more FTEs (from 510 to 537 FTEs)	27	3,136
To provide for increased costs in other non-personnel services		2,609
- Travel/Transportation ($104)		
- Space Rental ($1,567)		
- Communications/Utilities (-$291)		
- Supplies/Printing ($12)		
- All Services ($1,995)		
- Equipment (-$778)		
To reflect elimination of $16.9M in anti-terrorism supplemental funding appropriated in FY 2002		-16,900
Total Increases	**+27**	**($7,800)**

Table 1: Crosswalk from FY 2002 to FY 2003

CFTC Mission Statement and Agency Goals

Mission Statement

The mission of the Commodity Futures Trading Commission is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity futures and options, and to foster open, competitive and financially sound commodity futures and option markets.

Goal One

Protect the economic functions of the commodity futures and option markets.

Outcome Objectives

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. Oversee markets that can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.

Goal Two

Protect market users and the public.

Outcome Objectives

1. Promote compliance with, and deter violations of, Federal commodities laws.
2. Require commodities professionals to meet high standards.
3. Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Commodity Exchange Act.

Goal Three

Foster open, competitive and financially sound markets.

Outcome Objectives

1. Ensure sound financial practices of clearing organizations and firms holding customer funds.
2. Promote and enhance effective self-regulation of the commodity futures and option markets.
3. Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.
4. Promote markets free of trade practice abuses.

Breakout of $82.8 Million Budget Estimate

By Agency Goal

. . . . the $82.8 Million Budget is allocated among the agency’s three Strategic Goals as follows . . . .

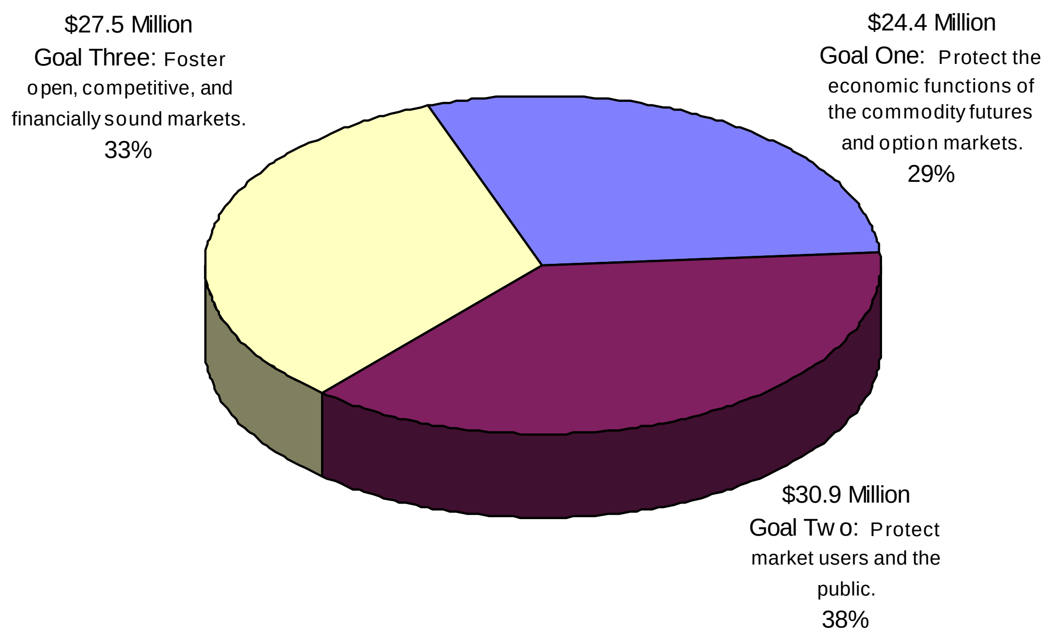

Figure 5: $82.8 Million Budget Estimate by Agency Goal

Ranking of Commission Outcome Objectives

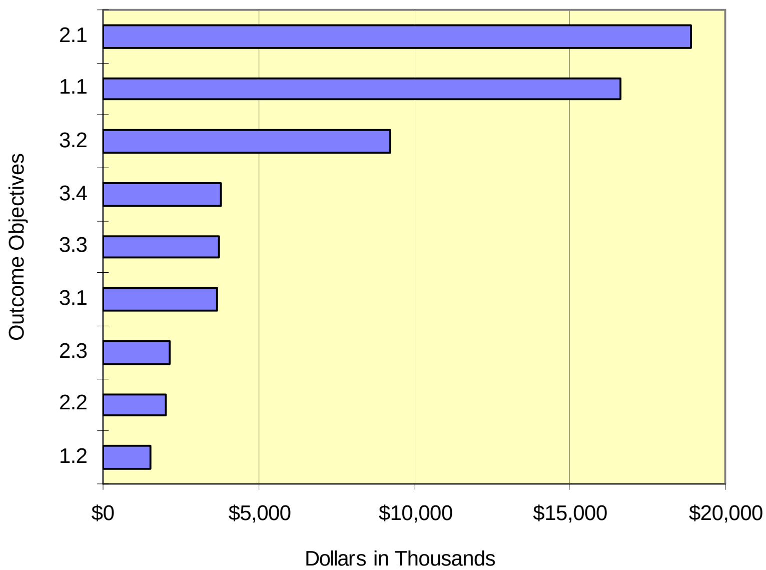

Table 2: Outcome Objectives by Dollars Budgeted

	Outcome Objective
2.1 [1/]	Promote compliance with, and deter violations of, Federal commodities laws.
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.
3.2	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.
3.1	Ensure sound financial practices of clearing organizations and firms holding customer funds.
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 Commodity Exchange Act.
1.2	Oversee markets that can be used effectively by producers, processors, financial institutions, and other firms for the purpose of price discovery and risk shifting.

1/ Denotes Goal Two, Outcome Objective One. (See page 6.)

Significant Developments in the Past Year

Terrorist Attack of September 11, 2001

The Commission's New York Regional Office in the World Trade Center was destroyed on September 11, 2001; fortunately, all Commission staff escaped without serious injury. Commission staff devoted significant resources to attending to the needs of New York staff and locating temporary and long-term space for the office in the immediate aftermath of September 11.

Immediate Response. The Commission's New York offices were on the 37th floor of One World Trade Center (WTC). When staff became aware of the attack on the WTC and the Pentagon, the Office of the Executive Director (OED) team began to respond to these events. Simultaneous with the evacuation of the D.C. office, OED set up a command center in the headquarters office. Staff worked to contact New York employees and were able to verify that all employees survived the attack. OED worked with the agency's Employee Assistance Program (EAP) provider to establish immediate counseling services for employees and their families, with a particular focus on New York. On September 20, 2001, the Commission and the EAP counselors provided New York employees with an opportunity to share their experiences with each other and also provided staff with emergency supplies, including cell phones, phone cards, and employee assistance information.

OED staff also ensured that the payroll for New York staff continued, that New York staff received new PIN numbers for travel and purchase cards, and that employees received information on reimbursement for personal items, travel, workers compensation, administrative leave, and other administrative matters. OED staff also ensured the continuation of computer network support, updated information on the CFTC Web site, and configured all available laptops for temporary use by New York staff.

In addition, OED staff began an immediate search for temporary and permanent office space, successfully locating interim space in lower Manhattan. Mail was rerouted to the new location and arrangements were made for necessary supplies. OED also submitted a supplemental appropriations request to the Office of Management and Budget (OMB) to reestablish the New York office and enhance the security of CFTC operations.

Efforts on all administrative fronts have continued in FY 2002, and the agency anticipates that New York staff will move into new permanent space in April 2002.

Temporary Regulatory Relief. On September 19, 2001, the Commission issued a statement of policy advising registrants that, as a result of the financial market disruptions caused by the terrorist attacks on September 11, 2001, the Commission had determined to provide temporary relief from compliance by registrants with certain regulatory requirements, including certain required computations, filing deadlines, and record-keeping requirements. The Commission recognized that circumstances may make additional relief appropriate in certain cases and encouraged affected registrants to contact the National Futures Association (NFA), their designated self-regulatory organization, or Commission staff in that regard.

Supplemental Funding. Congress appropriated $200,000 in FY 2001 and $16,900,000 in FY 2002, to be made available until expended, to provide for the immediate response and recovery from the terrorist attacks and to prepare for and mitigate future attacks or like disasters. Figure 4 on page 5 provides an approximate breakdown of the $16,900,000 appropriation as currently planned for expenditure.

Reauthorization and Regulatory Reform

FY 2000. FY 2000 witnessed a series of events, often on parallel legislative and regulatory tracks, that resulted in substantial revisions to the Commodity Exchange Act (CEA) and the transformation of the Commission from a front-line regulator to an oversight agency. The process began with legislative recommendations to Congress in November 1999 from the President's Working Group on Financial Markets (PWG) based on a study requested by the chairmen of the Senate and House Agriculture Committees. The PWG urged Congress to exclude from the CEA transactions in financial instruments conducted over-the-counter (OTC) or electronically by financial institutions and other persons with demonstrated economic capacity. The PWG stated that statutory exclusions, together with other recommendations contained in its report, were needed to enhance legal certainty for OTC markets, to promote innovation, and to reduce systemic risk.

The PWG also recommended that Congress grant explicit authority to the CFTC to provide regulatory relief for exchange-traded financial futures consistent with the CFTC's determination that such relief would be in the public interest. After receiving the recommendations of the PWG, the chairmen of the Senate and House Agriculture Committees asked the Commission to exercise its exemptive authority to fashion such relief for US futures markets while Congress itself proceeded to consider legislation to reauthorize the CFTC, drawing significant guidance from the PWG's recommendations.

Legislative and regulatory activity continued on parallel tracks through the remainder of the year. In November 2000, the Commission adopted final rules granting comprehensive regulatory reform. This action was superseded the following month when Congress passed and President Clinton signed the CFMA. Accordingly, the Commission withdrew its final rules in order to determine their consistency with the requirements of the CFMA. The CFMA: 1) repealed the ban on single-stock futures and directed the CFTC and the Securities and Exchange Commission (SEC) to implement a joint regulatory framework for futures on individual securities and narrow-based stock indices (security futures products); 2) codified the principal provisions of the Commission's November 2000 final rules; 3) brought legal certainty to trading in OTC derivatives; 4) clarified the CFTC's jurisdiction over foreign currency trading; and 5) gave the CFTC explicit authority to regulate derivatives clearing organizations (DCOs). The CFMA also reauthorized the Commission through the end of fiscal year 2005. Commission staff are now working to implement the CFMA by both promulgating rules and conducting various studies (both independently and in coordination with other members of the PWG) mandated by the CEA and working closely with the SEC and the Board of Governors of the Federal Reserve System (FRB) to open the market to security futures products.

FY 2001. The Commission proceeded to implement the requirements of the CFMA with several proposed and final rules already published in the *Federal Register*. The rules are available on the Commission Web site: http://www.cftc.gov/opa/opapress01.htm.

Below is brief summary of a number of rulemakings and other regulatory initiatives proposed or implemented thus far:

- *Implementation of a New Regulatory Framework*. In March 2001, the Commission proposed rules to implement the new statutory framework under the CFMA consisting of a three-tiered structure of designated contract markets, registered derivatives transaction execution facilities (DTFs), and exempt markets. The rules were adopted as final July 30, 2001.

- *Derivatives Clearing Organizations*. The CFMA provides authority for the Commission to regulate certain DCOs. Since May 2001, the Commission has proposed and finalized rules to specify the form and provide guidance for the content of applications for DCO registration as well as the procedures for processing DCO registration applications. The rules assist the Commission in overseeing the operations and activities of DCOs and in enforcing compliance by DCOs with core principles and other provisions of the CEA and Commission regulations.

- *Notice-Designation and Exemption Procedures for Contract Markets in Security Futures Products*. In May 2001, the Commission proposed, and in August 2000 adopted as final, rules to permit national securities exchanges, national securities associations, and alternative trading systems to be designated contract markets in security futures products. The rules also established procedures for these entities to apply for exemptions from unnecessary or duplicative regulations upon the filing of specified notice with the Commission.

- *Notice Registration of Securities Broker-Dealers To Trade Security Futures Products*. As required by the CFMA, in May 2001, the Commission proposed rules providing for notice registration of SEC-registered securities broker-dealers as futures commission merchants (FCMs) or introducing brokers (IBs) for the limited purpose of conducting transactions in security futures products. The rules were finalized in August 2001.

- *Requests for Exemptive Orders by Securities Broker-Dealers Trading Security Futures Products*. The CFMA directs the Commission to establish procedures whereby securities broker-dealers who are either registered as FCMs or IBs for the limited purpose of trading security futures products, or exempt from floor broker (FB) or floor trader (FT) registration by virtue of restricting their commodity interest trading to security futures products, may apply for, and be granted, orders providing exemption from provisions of the CEA and Commission rules in addition to the provisions from which such broker-dealers are specifically exempted by the terms of the CFMA. In April 2001, the Commission proposed, and in August 2001 adopted as final, rules establishing such procedures.

- *Margin for Security Futures Products*. The CFMA authorizes the FRB to prescribe rules governing margin for security futures products: 1) to preserve the financial integrity of markets trading these products; 2) to prevent systemic risk; and 3) to set margin requirements comparable to those for security options. The FRB, in March 2001, delegated its authority over margin for security futures products jointly to the Commission and the SEC in accordance with the CFMA. In September 2001, the two Commissions jointly proposed rules to address these issues.

- *Treatment of Customer Funds and Financial Responsibility Rules Concerning Security Futures Products*. The CFMA directs the Commission and the SEC to issue rules to avoid duplicative or conflicting requirements for firms dually and fully registered as FCMs and securities broker-dealers with respect to their handling of transactions involving security futures products in the areas of treatment of customer funds, minimum financial and related reporting requirements, and record-keeping. The two commissions jointly proposed rules to address these issues in accordance with CFMA requirements in September 2001.

- *Dual Trading*. As required by the CFMA, the Commission proposed rules to restrict dual trading by FBs in security futures products in July 2001. The dual trading restriction would affect FBs that trade security futures products through open outcry on the trading floor of a designated contract market or registered DTF. The proposed rules would provide for certain exceptions to the restriction, including provisions for the correction of errors, customer consent, spread transactions, and market emergencies. The proposed rules also would provide an exception based on unique or special characteristics of an agreement, contract, or transaction, or of the designated contract market or registered DTF.

- *Rules Permitting Certain Customers to "Opt Out" of Customer Funds Segregation Requirements*. In April 2001, the Commission adopted rules permitting certain customers to opt out of having their funds segregated by an FCM for trades on or through a DTF. As amended by the CFMA, the CEA provides that a registered DTF may authorize an FCM to offer its customers that are eligible contract participants (generally, institutional customers) the right not to have the customer's funds that are carried by the FCM, for purposes of trading on a registered DTF, separately accounted for and segregated. The new rules specify the conditions under which such an opt out may be accomplished.

- *Privacy Disclosures and Restrictions on Use of Non-Public Customer Information*. As required by the CFMA, in April 2001, the Commission adopted rules implementing notification requirements and restrictions on the ability of financial institutions subject to its jurisdiction to disclose nonpublic personal information about consumers and customers to nonaffiliated third parties. Under the CFMA (and Title V of the Gramm-Leach-Bliley Act (GLBA)), the Commission was required to adopt regulations to limit the instances in which FCMs, IBs, commodity pool operators (CPOs), and commodity trading advisors (CTAs), subject to Commission jurisdiction, may disclose nonpublic personal information about a consumer to nonaffiliated third parties and to require those entities to disclose to their customers their privacy policies and practices with respect to information sharing with both affiliates and nonaffiliated third parties.

- *Advisory on Foreign Currency*. In February 2001, the Commission issued an advisory clarifying that the CEA and Commission jurisdiction apply to foreign currency futures and options trading involving retail customers and that such trading is legal only if the counterparty is a regulated financial entity enumerated in the CEA (as amended by the CFMA). FCMs and their affiliates are included in the enumerated categories.

- *Study of the Commodity Exchange Act and Rules Thereunder*. The CFMA requires the Commission to study provisions of the CEA and Commission rules and orders that govern the conduct of persons required to be registered under the CEA and to submit a report to the Senate and House Agriculture Committees identifying: 1) core principles the Commission has adopted or intends to adopt to replace Commission rules; 2) rules that the Commission decides to retain and the reasons therefor; and 3) the regulatory functions that the Commission performs that can be delegated to a registered futures association (RFA) and the functions that the Commission has determined must be retained and the reasons therefor. The CFMA directed the Commission to complete the study by December 21, 2001. Staff began work on this study, which requires the Commission to solicit the views of the public, registrants, RFAs, and registered entities. Two major industry trade groups, in responding to a request for comments, requested that the completion date of the study be extended into 2002 due to the industry's need to comment upon other regulatory initiatives and prepare for the onset of trading in security futures products. On August 22, 2001, the Commission sent a letter to the chairmen of the congressional agriculture committees recommending that the completion date for the study be extended six months, to June 21, 2002 the Commission received a response indicating no objection to such an extension.

- *Trading Facilities Review Procedures*. Staff of the Trading and Markets program established internal procedures to facilitate the review and disposition of new market applications and filings made pursuant to the new regulatory framework for trading facilities. In particular, these procedures will facilitate the Commission's implementation of regulations that require that the application for a designated contract market be reviewed within 60 days and the application for becoming a DTF be reviewed within 30 days.

Enforcement

The primary goal of the Enforcement program is to police futures markets for conduct that violates the CEA or Commission regulations. Such misconduct undermines the integrity of the markets and the confidence of market participants. The following matters are examples of significant developments during the past year:

Foreign Currency Trading. In recent years, the Commission has witnessed an increase in the numbers and complexity of financial investment opportunities including a sharp rise in foreign currency (forex) trading scams. While much foreign currency trading is legitimate, various forms have been touted in recent years to defraud members of the public. Currency trading scams often attract customers through advertisements in local newspapers, radio promotions, or attractive Internet Web sites. These advertisements may boast purportedly high-return, low-risk investment opportunities in foreign currency trading or even highly paid currency-trading employment opportunities.

The CFMA made clear that the Commission has the jurisdiction and authority to investigate and take legal action to close down a wide assortment of unregulated firms offering or selling foreign currency futures or options contracts to the general public. Under the CFMA, it is unlawful to offer foreign currency futures or options contracts to retail customers unless the offeror is a regulated financial entity, including an FCM (or an affiliate of such an entity). In addition, the Commission has jurisdiction to investigate and prosecute foreign currency fraud involving futures or options.

In the wake of Congress' clarification in this area, during FY 2001, the Commission launched a comprehensive initiative to inform the industry about the CFMA, to combat the problem of forex fraud, and to educate the public about its dangers. First, the Enforcement program undertook a systematic effort to identify those unregistered entities that were engaging in retail forex transactions and to notify them of the CFMA's requirement that such business be conducted only by regulated financial entities. Several firms applied for registration as FCMs as a result of receiving this notice, while others indicated that they intend to disband their business in light of the CFMA.

The new Federal legislation also provided additional support to the Commission's continuing efforts to crack down on individuals and companies that fraudulently market foreign currency futures and options. Subsequent to the enactment of the CFMA, the Commission brought seven civil injunctive actions during FY 2001 charging firms with fraudulently selling illegal foreign currency contracts to retail customers:

- *CFTC v. SunState FX, Inc., et al.,* No. 01-8329 CIV-MORENO (S.D. Fla. filed April 18, 2001);

- *CFTC v. International Currency Strategies, Inc., et al.,* No. 01-8350 (S.D. Fla. filed April 20, 2001);

- *CFTC v. Infinite Trading Group, L.L.C., et al.,* No. 1:01-CV-1107 (N.D. Ga. filed April 30, 2001);

- *CFTC v. International Monetary Group, Inc., et al.,* No. 5:01CV1496 (N.D. Ohio filed June 18, 2001);

- *CFTC v. Acro Information Service, Inc., et al.,* No. 01-06926 (C.D. Cal. filed August 9, 2001);

- *CFTC v. Fintrex, Inc., et al.,* No. 01-06907 (C.D. Cal. filed August 9, 2001); and

- *CFTC v. World Banks Foreign Currency Traders, Inc. et al.,* No. 01-7402 (S.D. Fla. filed August 23, 2001).

Enforcement staff also presented training programs to state and Federal regulators on the new statutory requirements concerning foreign currency trading, with an emphasis on issues confronting law enforcement officials in investigating and prosecuting forex schemes.

Finally, the Commission's forex project also included a parallel and equally important public education initiative. In light of the CFMA, during FY 2001, the Commission began educating the industry and the general public about the new legal requirements respecting foreign currency trading by: 1) issuing a Consumer Advisory directed to the forex industry concerning the CFMA and how forex firms may lawfully offer foreign currency futures and options trading opportunities to the retail public; and 2) updating and re-issuing its earlier Consumer Alert on foreign currency trading to help the retail public identify foreign currency trading scams. The Commission's Consumer Advisory reaffirmed that off-exchange trading of foreign currency futures and options contracts with retail customers by a counterparty that is not a regulated financial entity as set forth in the CFMA is unlawful. In the separate Consumer Alert, the Commission warned consumers of sales solicitations touting high-return, low-risk investment opportunities in foreign currency trading and of highly paid currency-trading employment opportunities. The Commission urged the public to be skeptical of such claims and suggested some "red flags" to look for and cautionary steps to take before trading foreign currency products. Both the Commission's Advisory and its Consumer Alert are available on the Commission's Web site, along with other Advisories concerning possible fraudulent activity in the commodity futures and options industry (http://www.cftc.gov/cftc/cftccustomer.htm#advisory).

Cross-Border Violations. The Commission's Enforcement program also has devoted time and resources to matters involving allegations that persons or entities have committed fraud or other misconduct in their cross-border activities. Such misconduct can adversely affect US firms as well as customers located in the US and overseas. The Commission's efforts in this area during the past year included the filing of the following administrative and civil injunctive actions.

In *In re U.S. Securities and Futures Corp., et al.,* CFTC Docket No. 01-01 (CFTC filed October 26, 2000), the Commission filed an administrative complaint against US Securities & Futures Corp (USSFC), a New York FCM, and Justus Enterprises, Inc. (Justus), an unregistered commodity trading advisor, as well as certain of their respective officers and employees. The complaint alleged that between 1996 and 1998, USSFC and Justus facilitated the defrauding of customers by a German foreign broker who traded through USSFC, by fraudulently allocating thousands of customer trades after they were executed. The Commission received assistance from the Hamburg police in connection with this matter.

In *In re Szach,* CFTC Docket No. 01-05 (CFTC filed January 8, 2001), the Commission simultaneously instituted and settled an administrative enforcement action against Scott N. Szach, the former chief financial officer of Griffin Trading Company (Griffin), a registered FCM. The Commission's Order found that Szach failed to diligently supervise Griffin's London branch office, where a customer trading on Eurex repeatedly breached his trading limits by substantial amounts for substantial periods of time, ultimately leading to Griffin's bankruptcy. In bringing this action, the Commission worked cooperatively with the US Attorney's Office for the Northern District of Illinois, (which secured Szach's guilty plea to criminal charges based on the same misconduct), as well as the Chicago Board of Trade (CBT) and the Securities and Futures Authority and Financial Services Authority of the United Kingdom (which have concluded disciplinary proceedings against Szach).

In *In re Excellent USA, Inc., et al,* CFTC Docket No. 01-20 (CFTC filed August 20, 2001), the Commission filed an administrative complaint against Excellent USA, Inc., a registered non-clearing FCM, and its managing director, John F. Gallwas. The complaint charged that Excellent and Gallwas did not have an adequate system of supervision in place to monitor the trading in the omnibus accounts of two Japanese firms that accounted for nearly all of Excellent's business. According to the complaint, Excellent and Gallwas ignored various warning signs that the Japanese firms were engaged in customer fraud and regularly accepted spread orders from the Japanese firms - including simultaneously entered orders to buy and sell the same spread - that resulted in the omnibus accounts holding an almost equal and offsetting position in each futures month and that had the appearance of improper wash sales.

On the same day, in *In re LFG, L.L.C.*, CFTC Docket No. 01-19 (CFTC filed August 20, 2001), the Commission simultaneously instituted and settled an administrative enforcement action against LFG, L.L.C., a registered FCM. The Commission's Order found that Excellent transmitted the orders described above to LFG's grain desk at the CBT and that LFG accepted the suspicious spread orders without inquiring into the trading or the intent of customers and despite the unusual trading patterns evident in LFG's daily equity runs. The Order also found that LFG had no written procedures relating to the supervision of foreign omnibus accounts and that no one at LFG had responsibility for monitoring those accounts. The order found that, as a result, LFG contributed to the failure to provide adequate customer protection to foreign retail customers who traded in US futures markets.

The Commission received the cooperation of the Japanese government and the CBT in its investigation of the *Excellent* and *LFG* matters.

In *CFTC v. Duncan, et al.*, No. 01C-6802 (N.D. Ill. filed August 30, 2001), the Commission filed a civil injunctive action against Andrew Duncan of Toronto, Canada and his company, Aurum Society, Inc., charging them with fraudulently operating a commodity pool and misappropriating customer funds. The complaint alleged that the defendants fraudulently solicited at least $3 million from customers in the US and Canada, claiming that the pool made great profits when, in fact, the pool realized net losses from the start of trading. Specifically, the complaint alleged that Duncan and Aurum Society operated a "Ponzi" scheme in which they collected funds from unwitting customers for commodities trading, misused that money, and used new customer funds to repay earlier investors. The Ontario Securities Commission provided assistance to the Commission in connection with this matter.

Manipulation. Price manipulation harms the integrity of and public confidence in, the markets by distorting the hedging and price discovery functions of these markets and creating an artificial appearance of market activity. The following cases are examples of the Commission's continuing efforts to prosecute manipulation:

In *In re Eisler*, CFTC Docket No. 01-14 (CFTC filed July 11, 2001), the Commission filed an administrative complaint against Norman Eisler and his trading company, First West Trading, Inc. (First West). The action involved allegations that Eisler, as a member of the New York Futures Exchange (NYFE) settlement committee, manipulated settlement prices of the PSE Technology Index option contract (P-Tech Options) to inflate the value of the First West trading account by, on average, an excess of $2 million each day, thereby avoiding or dramatically reducing its margin calls.

In a related compliance case, *In re New York Futures Exchange, Inc.*, CFTC Docket No. 01-13 (CFTC filed July 11, 2001), the Commission simultaneously instituted and settled an administrative enforcement action against NYFE. The Commission found that NYFE had no procedure in place to ensure that its settlement committee complied with the NYFE settlement prices rule for P-Tech Options.

In *In re Avista Energy, Inc., et al.*, CFTC Docket No. 01-21 (CFTC filed August 21, 2001), and *In re Johns*, CFTC Docket No. 01-22 (CFTC filed August 21, 2001), the Commission simultaneously instituted and settled administrative enforcement actions finding that Avista Energy, Inc. and certain of its former employees manipulated the settlement prices of the Palo Verde and California-Oregon-Border electricity futures contracts on the New York Mercantile Exchange (NYMEX) in order to increase the company's net gain on certain over-the-counter option positions whose value was based on the settlement prices at issue. On the same date, the Commission filed a separate administrative complaint, *In re DiPlacido, et al.*, CFTC Docket No. 01-23 (CFTC filed August 21, 2001), charging other former Avista employees and a NYMEX floor broker with participating in the manipulative scheme.

Litigation. Through the litigation program, the Office of the General Counsel represents the Commission in the US District Courts and the Courts of Appeals and assists the Solicitor General in representing the Commission before the US Supreme Court.

During FY 2001, the Commission succeeded in obtaining dismissal of two cases before the US Supreme Court that sought to challenge rulings favorable to the Commission. *R&W Technical Services v. CFTC*, No. 99-1883 (S. Ct.); *Elliott, et al. v. CFTC*, No. 00-259 (S. Ct.).

Before the Courts of Appeals, the Commission obtained favorable rulings upon the following issues:

- The Commission possesses authority to take enforcement action to investigate fraud committed by CTAs, including trading advisors who market purported "impersonal" advice, without violating rights of free speech guaranteed by the First Amendment to the US Constitution. *Commodity Trend Service, Inc. v. CFTC*, No. 99-4142 (7th Cir.).

- The Commission possesses authority to afford discretion to the actions of self-regulatory associations that are subject to Commission oversight. *MBH Commodity Advisors, Inc. v. CFTC*, No. 00-1957 (7th Cir.).

- The authority to settle cases lies with the Commission, not with members of its staff, and the Commission cannot be bound to agreements based upon any apparent authority of the staff. *CFTC v. Field and Smith*, No. 00-01754 (7th Cir.).

In addition, in a number of cases, the Office of the General Counsel successfully defended cases against violators of the CEA who failed to return funds to defrauded customers, *SEC and CFTC v. Armstrong*, Nos. 00-6076, 6156 (2nd Cir.), *CFTC v. Busch*, No. 00-15016 (11th Cir.), *Maseri v. CFTC*, 98-5791 (11th Cir.), *CFTC v. Colton*, No. 00-135-68 (11th Cir.). The Office also successfully defended Commission decisions that were challenged in court, *Perk v. CFTC*, No. 99-0484, 4085 (2nd Cir.), *Laken v. CFTC*, No. 01-1389 (7th Cir.), *Clark v. CFTC*, No. 00-4218 (2nd Cir.).

Before the US District Courts, the Office of the General Counsel successfully defended the Commission's right to conduct an enforcement action in *Radcliffe v. CFTC*, No. 2:00-CV-34 (E.D. Tenn.) and defended the Commission in other cases involving the law enforcement program; e.g. *Rickerson v. CFTC*, No. 00-0701-CV (W.D. Mo.). In addition, the office represented the Commission in personnel cases before the district courts and before administrative agencies, such as the Equal Employment Opportunity Commission (EEOC) and the Merit Systems Protection Board (MSPB).

The Office of the General Counsel also monitors bankruptcy cases involving futures industry professionals and, as appropriate, assists courts, trustees, and customers in implementing special Bankruptcy Code provisions that pertain to commodity firms. In FY 2001, the Office of the General Counsel appeared before various Bankruptcy Courts throughout the country to protect both the Commission's interests in law enforcement and customer interests in the recoupment of lost funds. In FY 2001, the office actively participated in five bankruptcy cases and monitored affairs in another 10 cases.

Finally, through its *amicus curiae* program, the Office of the General Counsel supports the Commission in assisting the courts in resolving difficult or novel questions arising under the CEA or Commission regulations with the intent of making significant contributions to the development of consistent and accurate legal precedent. In FY 2001, the office actively considered participating as *amicus curiae* in three cases.

Innovative Markets

In FY 2001, the exchanges filed with the Commission 28 new futures and option contracts based on a wide variety of underlying physical products and financial instruments. In addition to the 11 contracts submitted for Commission approval, another 17 were filed under the Commission's certification procedures, whereby exchanges certify that their contracts comply with statutory and regulatory requirements. Several of the approved contracts represent innovative approaches designed to meet specialized hedging needs of producers and firms. For example, the Commission approved physical-delivery crude oil futures contracts, a novel benzene futures contract, and US Treasury instruments contracts. Also, the Commission reviewed futures and option contracts based on wood products produced in several regions in the US, as well as various livestock contracts and a regional electricity contract.

International Regulatory Cooperation

Information Sharing. In December 2000, the CFTC and the Commodities Exchanges Commission of the Ministry of the Russian Federation for Antimonopoly Policy and Support of Entrepreneurship issued a joint statement on technical assistance. In June 2001, the Commission signed a Memorandum of Understanding (MOU) with the Capital Market Board of Turkey concerning consultation and cooperation in the enforcement of futures laws. The MOU provides a framework for the authorities to share information and extend assistance to one another in taking statements, collecting information, and conducting investigations.

Best Practices. The Commission also continued its active participation within the International Organization of Securities Commissions (IOSCO) to develop regulatory "best practice" principles in the following areas that are intended to help foster higher international regulatory standards and increased access to markets and products:

- *Regulatory Oversight.* The Commission continued its active participation in the IOSCO task force on the implementation of the IOSCO report, *Objectives and Principles of Securities Regulation (Core Principles)* that were adopted as a statement of international "best practices." The Commission participated in drafting groups that prepared surveys for a high-level self-assessment on the extent to which the Core Principles have been implemented. In this capacity, the Commission served as the prime drafter on the committee that developed the survey questionnaire on "the regulator" and "the secondary markets" and participated in the analysis of completed surveys. Most recently IOSCO named the Commission to chair the Implementation Committee and to facilitate the development of a consistent assessment methodology.

- *Electronic Markets.* The Commission continued to participate in IOSCO's work on the regulatory implications of cross-border electronic markets. The Commission contributed to a revision of IOSCO's 1990 statement of regulatory principles that was adopted by IOSCO in October 2000. The Commission played an active role in developing and collating a survey of current practices and participated actively in the drafting of new principles.

- *Internet*. The Commission participated in an IOSCO task force that examined the regulatory implications of the increasing use of the Internet in securities/derivatives markets and assisted in the drafting of a report that was presented to IOSCO in June.

- *Securities Settlement Systems.* The Commission actively participated in a joint IOSCO-Committee on Payment and Settlement Systems (CPPS) Task Force that developed recommendations for improving securities settlement systems. The Commission continues to participate in the development of an assessment methodology for the clearing and settlement principles.

- *IOSCO Standing Committee on Secondary Markets and Market Intermediaries*. During FY 2001, the Commission continued its participation in IOSCO standing committees that have been examining regulatory issues affecting markets and intermediaries. Issues being examined include single-stock listing standards, trading halts, the effect of transparency on market fragmentation, current practices of intermediaries in liquidity management, and the regulation of financial intermediaries conducting cross-border business.

- *IOSCO Standing Committee on Enforcement and Information-Sharing*. During FY 2001, the Commission's Enforcement program continued to participate in IOSCO's Standing Committee on Enforcement and Information-Sharing (SC4). SC4 considers issues and formulates recommendations relating to international assistance in the detection, investigation, and prosecution of securities and futures violations.

- *International Assistance and Cooperation*. During the year, the Commission continued to provide assistance to foreign regulators through publications, training, and other forms of assistance, including: 1) organizing the annual meeting for international regulators during the Futures Industry Association's (FIA) conference in Boca Raton, Florida, which focused on identifying practical methods to reduce unnecessary duplication of regulatory efforts or requirements affecting the same entity operating globally, and the Commission's annual training seminar in Chicago; and 2) publishing its *2001 Report on Exchange-Traded Derivatives in Developing Capital Markets*.

Electronic Trading Developments

The Commission is faced with an increasing number of important issues concerning the impact of technological changes on methods of transacting business on futures exchanges and a proliferation of designation applications for new electronic futures exchanges. For example, the following issues are related to developments in electronic trading:

- *onExchange*. In December 2000, the Commission designated onExchange Board of Trade as a contract market and approved the onExchange Clearing Corporation as a registered DCO. OnExchange will utilize an Internet-based trading system limited to proprietary trading by onExchange subscribers. OnExchange was the first contract market to be designated under CEA, as amended by the CFMA on December 21, 2000. The exchange initially plans to trade five-year US Treasury Note futures contracts.

- *BrokerTec*. In June 2001, the Commission approved an application from BrokerTec Futures Exchange, L.L.C. for designation as a contract market for the automated trading of various interest rate futures contracts. This application was accompanied by an application from BrokerTec Clearing Company, L.L.C. for registration as a DCO that also was approved by the Commission at the same time. The contract market application included novel block-trading and market-maker provisions.

- *Nasdaq LIFFE*. In August 2001, the Commission granted contract market designation, subject to certain conditions regarding final specification of clearing and self-regulatory arrangements, to the Nasdaq London International Financial Futures and Options Exchanges L.L.C. Futures Exchange (Nasdaq LIFFE) pursuant to Sections 5 and 6 of the CEA. Nasdaq LIFFE is the first exchange designation to permit trading of futures contracts on individual securities and narrow-based securities indices.

- *Optionable, Inc*. Commission staff reviewed for sufficiency under the CEA and the Commission's regulations a notice of intent to operate as a Section 2(h)(3) exempt commercial market received from Optionable, Inc. and issued an acknowledgement letter to Optionable on July 30, 2001. The exempt commercial market category was specifically created by the CFMA.

- *CME GLOBEX Direct Access*. Commission staff reviewed a proposal from the CME to permit various individuals and institutional customers to obtain direct access to the GLOBEX trading system upon securing a prior guarantee from a clearing member.

- *eNymex Implementation Rules*. Commission staff reviewed a proposal from New York Mercantile Exchange (NYMEX), certifying that its new and amended rules implementing a new electronic trading system, Electronic New York Mercantile Exchange (eNYMEX), complied with the CEA and the Commission's regulations.

- *FutureCom*. Subsequent to designation as a contract market and approval as a clearing organization, FutureCom submitted a proposal to replace its clearing bank with a Texas state bank owned in part by FutureCom's majority partner and founder. Staff undertook extensive review of the bank's qualifications and other materials submitted by FutureCom in support of the proposal and presented FutureCom with numerous questions about the proposal. On February 5, 2001, before approval of the proposed change in clearing banks but after passage of the CFMA, FutureCom, having been deemed by staff to be a grandfathered registered DCO, resubmitted its proposal to change clearing banks pursuant to the self-certification procedures of Section 5b of CEA.

Exchange Developments

- *NYFE Block Trading*. Commission staff reviewed a NYFE provision, similar to provisions adopted at the Cantor Financial Futures Exchange (CX) and the Chicago Mercantile Exchange (CME), which permits certain defined sophisticated market participants to execute large-sized transactions away from the exchange's central marketplace. The provision would permit such block trading in several of the exchange's stock index futures and futures options products.

- *BOTCC, CME, and NFA Minimum Adjusted Net Capital Requirement*. Commission staff reviewed duplicative proposals from the Board of Trade Clearing Corporation (BOTCC), CME, and the NFA revising the treatment of naked long-option positions in the calculation of clearing members' level of adjusted net capital.

- *CBT Block Trading*. The Commission approved CBT's request for its block-trading proposal on April 18, 2001. The proposal would establish block-trading procedures at the exchange whereby members and non-member customers that qualified as eligible participants would be allowed to negotiate and execute futures transactions of a minimum size bilaterally away from the centralized competitive market.

Managed Funds

- *Filing Extension for Commodity Pool Annual Reports*. In December 2000, the Commission amended its rules to permit CPOs of pools that are invested in other collective investment vehicles (commonly called "funds of funds") to claim by a notice filing an extension of time (up to 150 calendar days after the end of a pool's FY) to file and distribute their pools' annual reports. The extension is available to CPOs who are not able to obtain information from the collective investment vehicles in which their pools invest in sufficient time for their accountants to prepare, certify, and distribute the pool's reports by their due dates.

- *Use of Profile Disclosure Document to Solicit Commodity Pool Participants*. In October 2000, the Commission adopted rule changes permitting CPOs to solicit pool participants by means of a summary profile document meeting the requirements of NFA Compliance Rule 2-35(d), prior to providing the pool's full Disclosure Document.

Financial Integrity¾Net Capital

- *Capital Charge on Unsecured Foreign Broker Receivable*. In November 2000, the Commission adopted amendments to Rule 1.17 to expand the current exemption from the five percent capital charge for unsecured foreign broker receivables. The amendments modify the net capital treatment of unsecured receivables from foreign brokers to provide greater parity between FCMs and Rule 30.10 firms.

- *Offsetting Customer Deficits in the Segregated Account with Readily Marketable Securities*. In August 2001, the Commission published in the *Federal Register* final amendments to Rule 1.32 to permit an FCM to offset a customer deficit in the segregated account with readily marketable securities deposited by such a customer.

- *Risk-Based Capital*. Commission staff prepared a report on the implementation of risk-based net capital requirements by several exchanges and the NFA, and staff are evaluating potential amendments to the Commission's net capital rules.

Foreign Futures

- *Treatment of Customer Funds*. In June 2001, the Commission issued an order under Sections 4(b) and 4(d) of the CEA and Commission Rule 30.10 to permit CME clearing members to commingle in a single account funds received from customers trading on US exchanges with funds received in connection with CME's clearing of certain products traded on or through the Spanish exchange known as MEFF. Absent such an order, the first of its kind issued by the Commission, CME clearing members would be required to hold customer funds attributable to trading MEFF products in an account separate from the account containing funds of customers for trades on US exchanges.

- *Comparability Relief*. In May 2001, the Commission issued an order under Rule 30.10 granting the application for relief filed by the Winnipeg Commodity Exchange on behalf of its members. This relief permits those members to solicit and accept orders and funds related thereto from persons located in the US for trades on the exchange without registering under the CEA or complying with rules therein, based upon substituted compliance with the regulatory framework of the province of Manitoba, Canada.

- *Foreign Boards of Trade Automated Trading Systems in the US*. In November 2000, Commission staff issued a no-action letter to Eurex Zurich Ltd. (Eurex CH) in connection with the placement of terminals in the US to provide access to the Eurex CH automated trading system. In March 2001, staff granted no-action relief to the London Metals Exchange (LME) with respect to access to its automated trading systems from within the US.

- *Rules Concerning Foreign Futures and Options Secured Amount*. In October 2000, the Commission clarified its interpretation of the foreign futures or foreign options secured amount requirement set forth in Rule 30.7 that the requirement for FCMs to obtain an acknowledgment from a depository, with respect to the treatment of foreign futures and options customer funds, applies only to the treatment of funds by the initial depository.

- *Order Related to Foreign Futures and Options Secured Amount*. In October 2000, the Commission amended the orders issued pursuant to Rule 30.10 to the New Zealand Futures and Options Exchange, the Montreal Exchange, the Sydney Futures Exchange (SFE), the UK Securities and Futures Authority, the UK Investment Management Regulatory Organisation Limited, and the Singapore Exchange Derivatives Trading Limited (SGX-DT). The amendment reflects the Commission's revised interpretation of the Rule 30.7 foreign futures or foreign options secured amount requirement as it applies to both FCMs and certain foreign firms exempt from such registration.

Information Technology Assessment

During FY 1999, the Commission contracted with Electronic Data Systems for an independent assessment of the Commission's information technology program. The assessment was conducted between January 2000 and June 2000, with a report issued in July 2000.

The report included a number of specific recommendations including: 1) Office of Information Resources Management (OIRM) organization structure changes; 2) planning and management procedure modifications, including reestablishment of an Information Technology Strategic Planning body, with enhanced management involvement; 3) staffing and training policies, including a staff increase from 35 FTEs to at least 58 FTEs; and 4) implementation of staff skill requirements based upon the CIO Council Core Competencies framework, infrastructure changes, including an enhanced information security program, and reengineering of the change management process.

A number of the changes have been implemented with existing resources. The Commission has initiated these efforts. This effort included modifying the OIRM organization to support the required changes and reestablishing an information technology strategic planning body with executive level involvement.

With this minimum recommended staffing, the Commission will be better positioned to continue the implementation of the recommended changes to its information technology program.

Oversight of SRO Programs

- *Cantor Financial Futures Exchange (CX) Market Surveillance, Trade Practice Surveillance, Audit Trail and Disciplinary Programs*. In March 2001, Commission staff issued a rule enforcement review report of the CX. The purpose of the review was to evaluate CX's market surveillance, trade practice surveillance, audit trail, and disciplinary programs for the period September 1, 1999 through August 31, 2000. In its review, staff found that the New York Cotton Exchange (NYCE), which CX has contracted to perform its self-regulatory surveillance functions, maintains adequate programs on behalf of CX in each of the areas reviewed.

- *Minneapolis Grain Exchange (MGE) Market Surveillance, Trade Practice Surveillance, Audit Trail, and Disciplinary Programs*. Commission staff issued a rule enforcement review report on the MGE market surveillance, trade practice surveillance, audit trail, and disciplinary programs for the period of October 1, 1999 through September 30, 2000. In its review, staff found that MGE maintains adequate market surveillance and audit trail programs. However, MGE needs to make improvements in certain respects to its trade practice surveillance and disciplinary programs.

- *NFA Program for Review of FCM and Introducing Broker Independent (IBI) Financial Reports*. Commission staff completed a review of FCM and IBI financial reports review program of the NFA. The review found that generally the program effectively supports NFA's financial surveillance over its member FCMs and IBIs and promotes compliance by FCMs and IBIs with Commission rules and those of NFA and other self-regulatory organizations (SROs).

- *Chicago Board of Trade (CBT) Market Surveillance Program*. Commission staff completed a rule enforcement review of CBT's market surveillance program. The review covered the target period of November 1, 1999 to November 1, 2000. In its review, staff found that the CBT maintains an effective and comprehensive market surveillance program. CBT staff routinely monitor, among other things, price relationships, volume, open interest, deliverable supply and market news and facilitate orderly liquidations by heightening surveillance as contract expirations approaches. The CBT also operates an effective program for monitoring speculative position limits and the bona fides of exchanges of futures for physicals transactions.

- *New York Cotton Exchange (NYCE)*. Commission staff completed a rule enforcement review of the trade practice surveillance and disciplinary programs of the NYCE. In its review, staff found that the NYCE had adequate programs in the areas reviewed and made recommendations for improvements regarding trade practice surveillance and customer restitution.

- *Financial Oversight*. Commission staff completed a review of the Standard Portfolio Analysis of Risk Margin Systems (SPAN) developed by the CME and used by all US commodity futures exchanges and many exchanges worldwide. Commission staff are currently conducting a review of stress testing procedures at the CME, CBT, and BOTCC.

- *NFA Disciplinary Program*. Commission staff are currently conducting a review of NFA's disciplinary program.

Information Sharing with Other Federal Agencies

In January 2001, the Commission amended Rule 140.73, which delegates authority to members of the Commission's staff to provide information to other government agencies, in order to conform the rule to the provisions of the CEA that authorize such information sharing. The Commission also made certain technical corrections to Rules 140.72 and 140.73 to clarify its delegations of authority.

Pay Parity

During FY 2001, Congressman Saxby Chambliss, Chairman of the House Agriculture Subcommittee on General Farm Commodities and Risk Management, introduced a bill to remove CFTC from Title V pay coverage and place CFTC on par with all of the other Federal financial regulators (HR 1580). The CFTC has been paying group retention allowances to its attorneys and economists to help reduce and/or mitigate the high turnover rate among CFTC staff. This budget request does not include funds to provide pay parity with all other Federal financial regulators including the SEC. The CFTC is now the sole remaining Federal financial regulator to remain under the provision of Title V. The Commission looks forward to working with Congress and the Administration in addressing this inequity and impediment to Commission productivity.

* * *

FY 2003 PRESIDENT'S BUDGET BY PROGRAM

Market Surveillance, Analysis & Research

Total Budget:	**$10,582,000**	**73 FTEs**
Total Change:	**$ -848,000 */**	**10 FTEs**

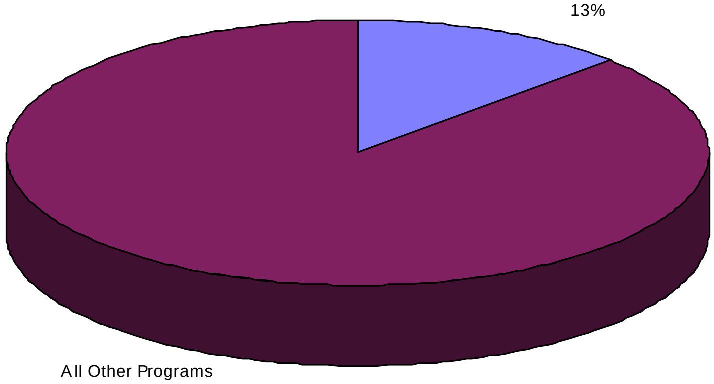

Figure 6: Market Surveillance, Analysis & Research Percentage of Total Budget Dollars

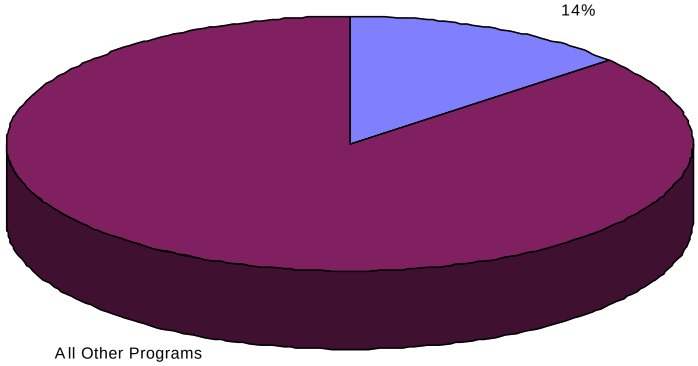

Figure 7: Market Surveillance, Analysis & Research Percentage of Total Budget FTEs

*/ "Total Change" represents the difference between the FY 2003 request ("Total Budget") and the FY 2002 appropriation, which includes a supplemental increase to cover expenses related to the September 11, 2001 terrorist attack.

Market Surveillance, Analysis & Research

Outcome Objectives

The Market Surveillance, 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 that 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 2003 President's Budget Estimate

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). The Market Surveillance, Analysis, and Research program will initiate and carry out the Commission's surveillance and oversight program for these markets. In FY 2003, the Market Surveillance, Analysis, and Research program requests 73 FTEs, which is five FTEs above the FY 2002 level. The three subprograms—Market Surveillance, Market Analysis, and Market Research—will have 58 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 established 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

[1] 1.1 Denotes Goal One, Outcome Objective One, see page 7.

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 58 FTEs allocated to the Market Surveillance subprogram, one FTE will assist the Trading and Markets program with rule enforcement reviews upon request, and 57 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 350 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, such as 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-fraud and anti-manipulation authority over exempt 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 CEA and Commission rules. Material rule amendments to contracts for 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 consumers safe 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 disruptions 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 DTFs. The reviews are conducted both for new applicants and for existing markets.

The subprogram also reviews exchanges' 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 certification 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 the Office of International Affairs (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 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 CEA.

In view of these considerations, nine new exchanges are expected to file with the Commission during FY 2003 for approval as contract markets or DTFs and five entities are expected to notify the Commission as exempt markets. In addition, 22 new contracts are projected to be filed with the Commission under the certification procedures, with 17 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, 324 rule changes are projected to be submitted during FY 2003 under certification procedures, with 44 of those 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 Commission's Enforcement program 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 Level of Resources

The growth in the number of different types of markets that trade a wider array of derivatives products, particularly 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 2003, 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. At the requested level of surveillance, exchange oversight, contract design reviews, and studies to enhance understanding of the markets will 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 staff will be able to detect and prevent price manipulation and abusive trading practices, which would result in direct economic harm to producers and other users of the underlying commodities and indirect harm to the economy as a whole.

In addition, at the requested level, the staff would be able to conduct more timely reviews, within the statutory time frames, to bring new products and rule changes to the marketplace as quickly as possible. Moreover, at the requested level, the staff would be able to monitor developments in derivatives trading and market innovations. 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 a potentially large impact on the stability of international and domestic financial markets. Market research and effective 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

If the Commission does not receive the resources requested for FY 2003, the level of surveillance, exchange oversight, contract design reviews, and studies to enhance understanding of the markets will not be commensurate with the growth in new types of exchanges, new trading execution methods in futures markets, and the initiation of trading in new products, such as single-stock futures. Thus, price manipulations and abusive trading practices may go undetected.

In addition, staff may not be able to review all new contract and rule change submissions for approval within statutory time frames. 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.

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 staff levels requested for FY 2003 are the minimum that the Commission believes necessary to meet its market surveillance, market research, and oversight responsibilities.

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

	FY 2002		FY 2003		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Surveillance	$8,659	53.00	$8,202	58.00	-$457	5.00
Market Analysis	1,856	10.00	1,582	10.00	-274	0.00
Market Research	915	5.00	798	5.00	-117	0.00
TOTAL	$11,430	68.00	$10,582	73.00	-$848	5.00

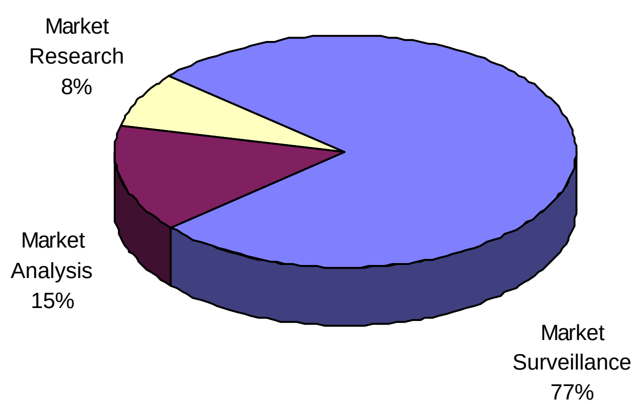

Figure 8: Market Surveillance, Analysis & Research FY 2003 Budget Dollars by Subprogram

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

	FY 2002		FY 2003		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.	$10,227	61.00	$9,538	66.00	-$689	5.00
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.	856	5.00	743	5.00	-113	0.00
Subtotal Goal One	**$11,084**	**66.00**	**$10,282**	**71.00**	**-$802**	**5.00**
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.	$163	1.00	$141	1.00	-$22	0.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	183	1.00	159	1.00	-23	0.00
3.4 Promote markets free of trade practice abuses.	0	0.00	0	0.00	0	0.00
Subtotal Goal Three	**$346**	**2.00**	**$300**	**2.00**	**-$46**	**0.00**
TOTAL	**$11,430**	**68.00**	**$10,582**	**73.00**	**-$848**	**5.00**

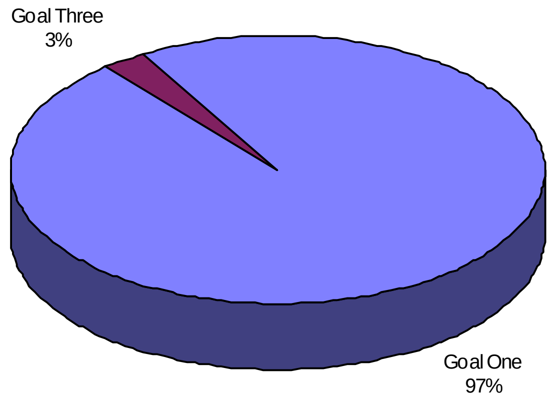

Figure 9: Market Surveillance, Analysis & Research FY 2003 Budget Dollars by Goal

Trading & Markets

Total Budget: $17,220,000 114 FTEs
Total Change: $ -1,992,000 */ 4 FTEs

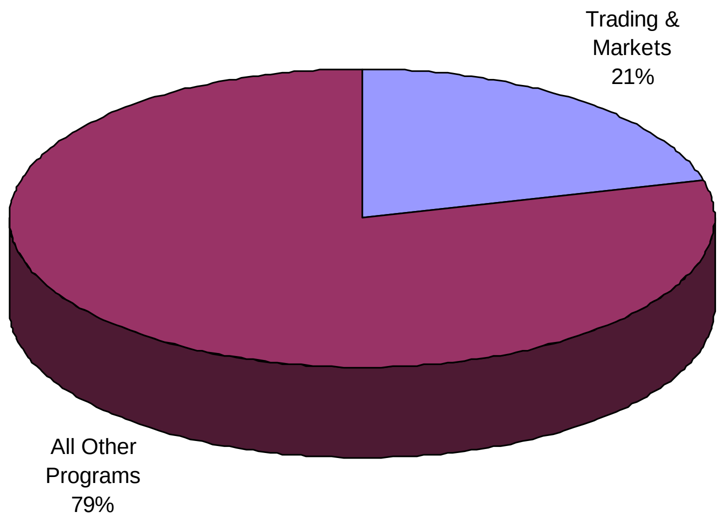

Figure 10: Trading & Markets Percentage of Total Budget Dollars

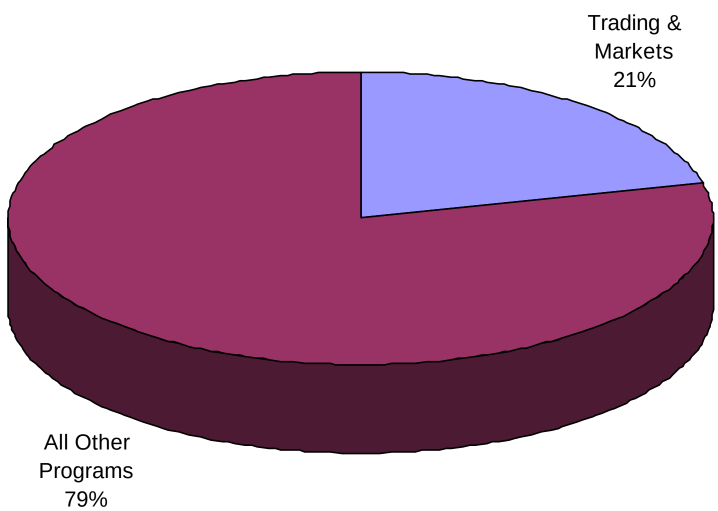

Figure 11: Trading & Markets Percentage of Total Budget FTEs

*/ "Total Change" represents the difference between the FY 2003 request ("Total Budget") and the FY 2002 appropriation, which includes a supplemental increase to cover expenses related to the September 11, 2001 terrorist attack.

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 2003 President's Budget Estimate

In FY 2003, the Trading and Markets program requests 114 FTEs, an increase of four FTEs over the FY 2002 budget. The requested increase is necessary for the Trading and Markets program to adequately meet the current demands made upon it and the new and additional responsibilities imposed by the CFMA. The increase of four FTEs will be allocated to the three subprograms as follows: two FTEs to the Regulatory Development and Registration subprogram; one FTE to the Contract Markets subprogram; and one FTE to the Audit and Review subprogram.

The Trading and Markets program is responsible for:

- Oversight of programs of US futures exchanges, clearing organizations, and RFAs to assure their members' compliance with their rules;

- Encouragement of self-regulatory organization programs that seek to focus on areas of greatest risk, including off-exchange transactions, commodity pools trading as hedge funds, and traders with large speculative positions;

- Development of an effective, flexible regulatory environment responsive to evolving market conditions;

[2] 1.1 Denotes Goal One, Outcome Objective One, see page 7.

- 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 clearance and settlement activities; and
- Development of rules and policies to address cross-border transactions, the coordination of policy with foreign market authorities, systemic risk, as well as emergency procedures to address market events, such as firm defaults.

Regulatory Development and Registration

An increase of two FTEs is requested for the Regulatory Development and Registration subprogram in FY 2003. Augmented by this increased services level, the Regulatory Development and Registration subprogram will take on additional responsibilities imposed by the CFMA, including: 1) coordination with the SEC and concurrent additional oversight with respect to implementation and trading of security futures products; 2) addressing ongoing regulatory issues regarding application of the multitude of new exemptions and exclusions in the CFMA with respect to trading of derivatives; 3) oversight of an increased number of RFAs; 4) oversight of and liaison with the Division of Enforcement concerning firms engaged in retail foreign currency transactions; and 5) implementation of a required report to Congress concerning amendments to provisions of the CEA and Commission rules governing intermediaries.

The foregoing additional responsibilities supplement and do not replace the existing responsibilities of the Regulatory Development and Registration subprogram, which include endeavoring 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 other industry 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 advances in information technology increasingly free 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 regulations with a view towards implementation of the CFMA and harmonizing existing regulations with the new legislation, enhancing the Commission's comprehensive regulatory reform program initiated in FY 2000. 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

An increase of one FTE is requested for the Contract Markets subprogram in FY 2003. The changes to the Commission's regulatory framework under the CFMA create new challenges for the market oversight functions of the Contract Markets subprogram. The additional resource will help the subprogram to manage the additional responsibilities imposed by the CFMA, including: 1) reviewing applications by persons seeking designation as contract markets and registration as DTFs, derivatives clearing organizations, and RFAs; 2) coordinating with the SEC and concurrent additional oversight with respect to implementation and trading of security futures products by futures and securities exchanges; 3) addressing ongoing regulatory issues regarding application of the multitude of new exemptions and exclusions in the CFMA with respect to trading of derivatives; and 4) oversight of an increased number of trading facilities, products, and RFAs. In addition, the increased level of resources will help the Contract Markets subprogram to address the rapid growth in volume and the ongoing changes in the marketplace.

Audit and Review

An increase of one FTE is requested for the Audit and Review subprogram in FY 2003. The increase in resources is necessary to enable 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. The subprogram staff is responsible for implementing new provisions of the CFMA governing review of applications from DCOs, oversight of the operations and activities of DCOs, and enforcement of compliance by DCOs with core principles and other provisions of the CEA and Commission regulations.

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 requested level of resources will further support staff efforts to improve efficiency and effectiveness, such as the expansion of computer-based data gathering capacity that 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 Requested Level of Resources

The requested funding level will allow the Trading and Markets program to meet the new and increased responsibilities imposed upon it by the CFMA and to keep pace with the rapid growth in futures and options trading volume and the profound changes resulting from new market trading systems, advances in technology, and new market practices. The Trading and Markets program is committed to managing the increases in volume and complexity of trading activity while improving responsiveness by:

- Providing guidance to permit 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 CFMA and the Commission's own 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; and
- Encouraging technological improvements and market innovation.

Consequences of Not Receiving Requested Level of Resources

Without the additional resources requested, the Trading and Markets program cannot simultaneously perform the tasks imposed upon it by the CFMA and keep pace with the rapid growth in futures and options trading volume and the profound changes resulting from new market trading systems, advances in technology, and the new market practices. The Trading and Markets program is committed to maintaining an effective regulatory system responsive to technological development, business changes, and market evolution. Without the additional resources requested, the program will not be suitably equipped to be responsive to these critical challenges. Failure to provide these additional resources would hinder the ability of the program to provide guidance to industry professionals, customers, and other market users regarding how to comply with an increasingly changing business and regulatory environment. Not responding promptly to these inquires would hamper innovation and financial market growth and would burden the international competitiveness of US-based exchanges and intermediaries with regulatory inefficiencies and outmoded regulatory structures.

The Trading and Markets program also will not be equipped to maintain its current levels of oversight activities without the additional resources requested. In particular, the Trading and Markets program will not be able to review effectively the increasing applications of persons seeking to become designated contract markets, registered DTFs, and registered DCOs. Failure to obtain the requested staff resources also would limit the level of review of self-regulatory rule enforcement programs and other compliance and investigative activities performed by staff. Additionally, failure to provide the requested resources would limit the oversight of an increased number of trading facilities, products, and RFAs.

Table 5: Trading & Markets Summary of Request by Subprogram

	FY 2002		FY 2003		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Contract Markets	$7,619	45.00	$6,739	46.00	-$880	1.00
Reg. Dev. & Regis.	3,380	17.00	3,224	19.00	-157	2.00
Audit and Review	8,212	48.00	7,257	49.00	-955	1.00
TOTAL	**$19,211**	**110.00**	**$17,219**	**114.00**	**-$1,992**	**4.00**

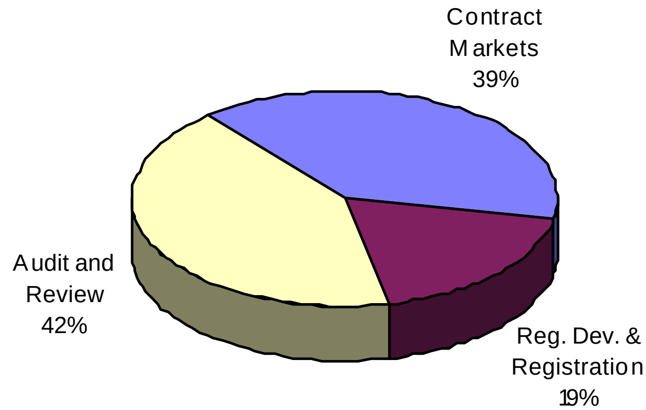

Figure 12: Trading & Markets FY 2003 Budget Dollars by Subprogram

Table 6: Trading & Markets Summary of Request by Goal

	FY 2002		FY 2003		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.	$935	5.50	$809	5.50	-$126	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.	269	1.50	232	1.50	-$38	0.00
Subtotal Goal One	**$1,204**	**7.00**	**$1,041**	**7.00**	**-$163**	**0.00**
GOALTWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of Federal commodities laws.	$1,054	6.00	910	6.00	-$144	0.00
2.2 Require commodities professionals to meet high standards.	$1,595	9.00	1,376	9.00	-219	0.00
Subtotal Goal Two	**$2,649**	**15.00**	**$2,285**	**15.00**	**-$363**	**0.00**
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	$1,624	9.00	1,546	10.00	-$78	1.00
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	9,293	54.50	8,357	56.50	-935	2.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	2,918	15.50	2,672	16.50	-247	1.00
3.4 Promote markets free of trade practice abuses.	1,525	9.00	1,320	9.00	-204	0.00
Subtotal Goal Three	**$15,359**	**88.00**	**$13,894**	**92.00**	**-$1,464**	**4.00**
TOTAL	**$19,211**	**110.00**	**$17,219**	**114.00**	**-$1,992**	**4.00**

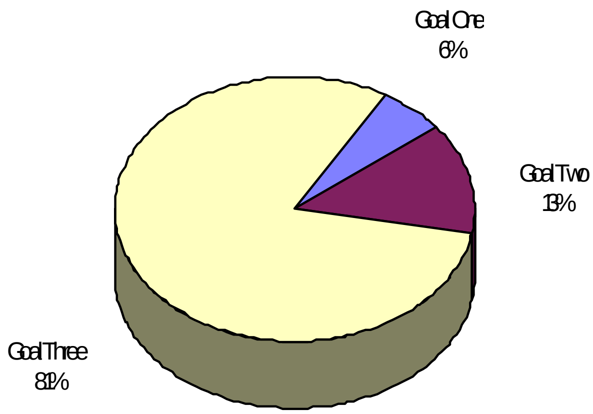

Figure 13: Trading & Markets FY 2003 Budget Dollars by Goal

Enforcement

Total Budget:	**$22,879,000**	**148 FTEs**
Total Change:	**$ -3,169,000 */**	**2 FTEs**

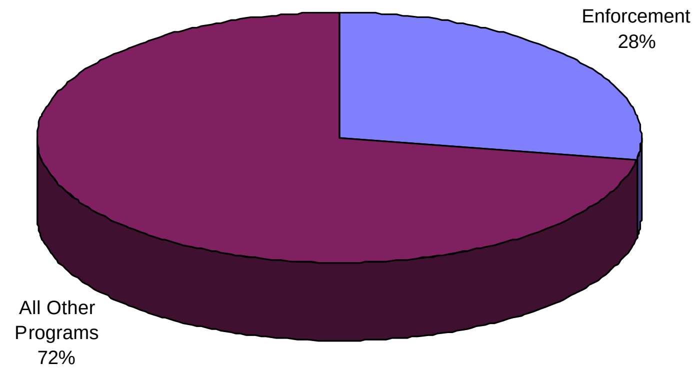

Figure 14: Enforcement Percentage of Total Budget Dollars

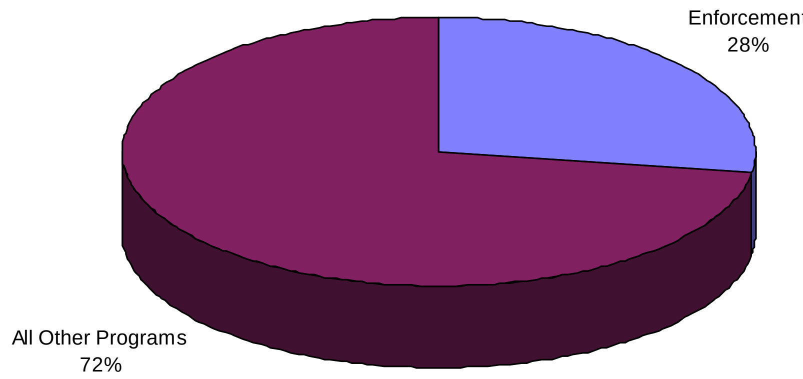

Figure 15: Enforcement Percentage of Total Budget FTEs

*/ "Total Change" represents the difference between the FY 2003 request ("Total Budget") and the FY 2002 appropriation, which includes a supplemental increase to cover expenses related to the September 11, 2001 terrorist attack.

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 2003 President's Budget Estimate

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 2003, the Enforcement program has requested 148 FTEs, an increase of 2 FTEs from the FY 2002 budget. These additional FTEs are vitally needed by the Enforcement program due to increased responsibilities and to growth in the volume and complexity of the futures and option markets. These responsibilities are expected to increase further not only as a consequence of continued industry growth and globalization, but also in response to changes anticipated by the Commission's evolution from a regulatory to an oversight agency. Additionally, the Enforcement program has an enhanced responsibility for taking action against the pervasive fraudulent sale of illegal, off-exchange forex contracts to retail customers in light of the CFMA's recent clarification of the Commission's jurisdiction in this area. 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.

Responding to Violative Conduct

When enforcement investigations indicate that violative conduct has occurred, the Commission files either administrative or civil injunc-

[3] 1.1 Denotes Goal One, Outcome Objective One, see page 7.

tive 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 that 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 who provide trading advice—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 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, and on occasion providing testimony or other assistance to, state regulators and other Federal agencies, such as the US Department of Justice (DOJ), the Federal Bureau of Investigation (FBI), the SEC, and Federal banking regulators. The Commission may also 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 *Working Relationships* for a fuller discussion of cooperative enforcement efforts.)

Impact of Requested Level of Resources

The markets continue to grow in volume and complexity as increasingly sophisticated instruments are being employed. An ever-larger 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 Enforcement program will utilize the two additional FTEs requested for FY 2003 in targeting certain program areas, for example: 1) forex fraud (pursuant to the new provisions of the CFMA) by, among others, unregulated boiler rooms and bucket shops telemarketing to the general public; and 2) unregistered CPO fraud. As stated, the requested FTE 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 and to assist, and work jointly with, other authorities. Illustratively, three civil injunctive actions that the Commission brought against fraudulent forex firms in FY 2001, subsequent to the enactment of the CFMA, were filed simultaneously with actions brought by other criminal or civil authorities. This type of joint and coordinated prosecution of cases, with complementary charges and remedies, improves the prospects for recovery of ill-gotten gains and enhances the deterrent impact on other potential violators.

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.

Consequences of Not Receiving Requested Level of Resources

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. 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. With insufficient staff, the Enforcement program's ability to target certain problem areas, like forex fraud, will be limited. The Division also will be unable to maintain the training required of a nationwide enforcement program.

If the Enforcement program is unable to bring actions because of insufficient resources, other authorities may not be available to step in and 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.

Table 7: Enforcement Summary of Request by Program

	FY 2002		FY 2003		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Enforcement	$26,048	146.00	$22,878	148.00	-$3,170	2.00
TOTAL	**$26,048**	**146.00**	**$22,878**	**148.00**	**-$3,170**	**2.00**

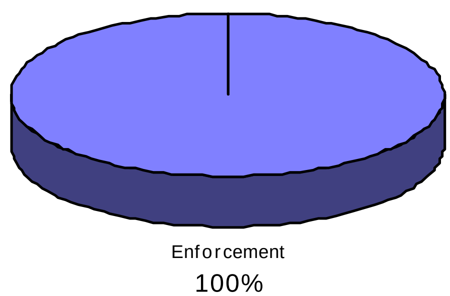

Figure 16: Enforcement FY 2003 Budget Dollars by Program

Table 8: Enforcement Summary of Request by Goal

	FY 2002		FY 2003		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.	$4,043	22.66	$3,551	22.97	-$492	0.31
Subtotal Goal One	**$4,043**	**22.66**	**$3,551**	**22.97**	**-$492**	**0.31**
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	$17,716	99.30	$15,564	100.68	-$2,152	1.38
2.2 Require commodities professionals to meet high standards.	$278	1.56	246	1.59	-33	0.03
Subtotal Goal Two	**$17,995**	**100.86**	**$15,810**	**102.27**	**-$2,185**	**1.41**
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.	$1,852	10.38	$1,623	10.51	-$229	0.13
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	29	0.16	25	0.16	-4	0.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	186	1.04	161	1.04	-25	0.00
3.4 Promote markets free of trade practice abuses.	1,945	10.90	1,708	11.05	-236	0.15
Subtotal Goal Three	**$4,011**	**22.48**	**$3,517**	**22.76**	**-$493**	**0.28**
TOTAL	**$26,048**	**146.00**	**$22,878**	**148.00**	**-$3,170**	**2.00**

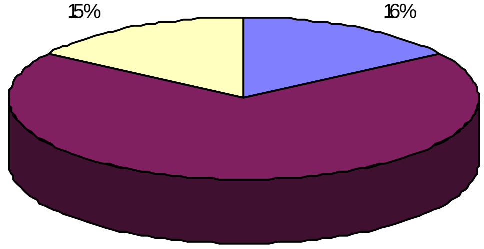

Figure 17: Enforcement FY 2003 Budget Dollars by Goal

Office of Proceedings

Total Budget: $ 2,215,000 15 FTEs
Total Change: $ -364,000 [*/] 0 FTE

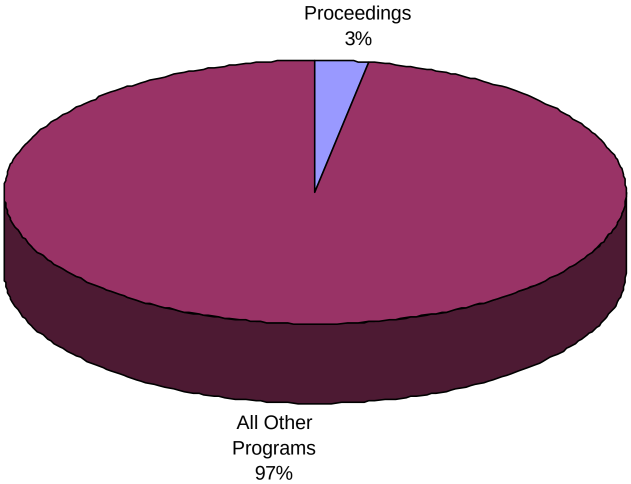

Figure 18: Proceedings Percentage of Total Budget Dollars

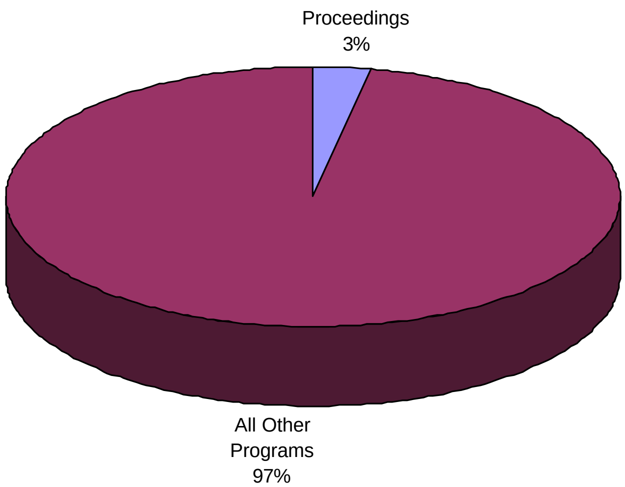

Figure 19: Proceedings Percentage of Total Budget FTEs

[*/] "Total Change" represents the difference between the FY 2003 request ("Total Budget") and the FY 2002 appropriation, which includes a supplemental increase to cover expenses related to the September 11, 2001 terrorist attack.

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 CEA.

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 2003 President's Budget Estimate

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 2003, the Office of Proceedings is requesting 15 FTEs—no change from FY 2002.

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. The Hearings section includes Judgment Officers (JOs) who decide reparations complaints in voluntary and summary proceedings and administrative law judges (ALJs) who conduct formal proceedings.

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 20 administrative enforcement cases into FY 2003. This projection is based on estimates that 27 cases will be filed and 27 cases will be resolved.

The Office of Proceedings expects to carryover 64 reparations cases into FY 2003. This projection is based on estimates that 112 cases will be filed and 100 cases will be disposed of, leaving a balance of 87 reparations cases—23 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 inquir-

[4] 2.1 Denotes Goal Two, Outcome Objective One, see page 7.

ies 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 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 2002		FY 2003		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Enforcement	$688	4.00	$591	4.00	-$97	0.00
Reparations	1,891	11.00	1,624	11.00	-267	0.00
TOTAL	**$2,579**	**15.00**	**$2,215**	**15.00**	**-$364**	**0.00**

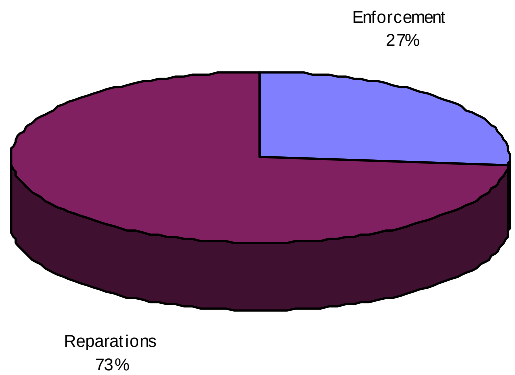

Figure 20: Proceedings FY 2003 Budget Dollars by Subprogram

Table 10: Proceedings Summary of Request by Goal

	FY 2002		FY 2003		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.	$1,032	6.00	$886	6.00	-$146	0.00
2.2 Require commodities professionals to meet high standards.	86	0.50	73	0.50	-13	0.00
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	1,290	7.50	1,108	7.50	-182	0.00
Subtotal Goal Two	**$2,407**	**14.00**	**$2,067**	**14.00**	**$ (341)**	**0.00**
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.	172	1.00	148	1.00	-23	0.00
Subtotal Goal Three	**$172**	**1.00**	**$148**	**1.00**	**-$23**	**0.00**
TOTAL	**$2,579**	**15.00**	**$2,215**	**15.00**	**-$364**	**0.00**

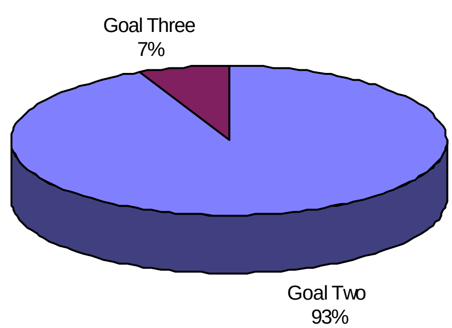

Figure 21: Proceedings FY 2003 Budget Dollars by Goal

Office of the General Counsel

Total Budget: $ 5,110,000 30 FTEs

Total Change: $ -509,000 */ 1 FTE

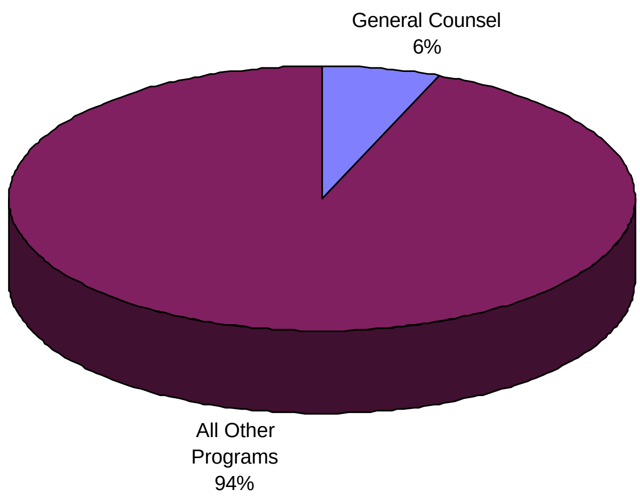

Figure 22: General Counsel Percentage of Total Budget Dollars

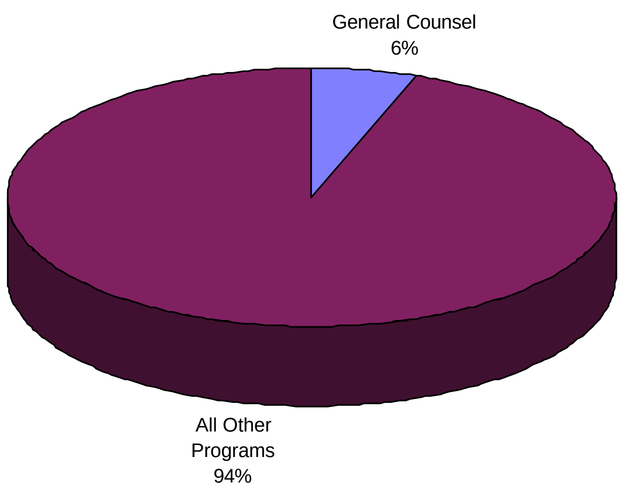

Figure 23: General Counsel Percentage of Total Budget FTEs

*/ "Total Change" represents the difference between the FY 2003 request ("Total Budget") and the FY 2002 appropriation, which includes a supplemental increase to cover expenses related to the September 11, 2001 terrorist attack.

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 that 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 CEA.

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 2003 President's Budget Estimate

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; providing advice on legislative issues; and providing exemptive, interpretive, and no-action letters and opinions to the public. The Office of the General Counsel is requesting an increase to 30 FTEs from a base of 29 in FY 2002.

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:

- 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, and legislative issues;

[5] 1.1 Denotes Goal One, Outcome Objective One, see page 7.

- 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 and prepares draft legislation as requested by members of Congress or their staffs and provides liaison with other Federal financial regulators as necessary on specific projects;
- 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 2003, 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 as codified in the CFMA. In addition, the CFMA requires that the Commission undertake numerous rulemakings and studies, many of which involve joint regulatory efforts with other Federal financial regulators.

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 CEA 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 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 GLBA, 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 published regulations drafted by the Office of General Counsel, 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 and the implementation of the CFMA, 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 regarding 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 handle EEO 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.

Many deadlines governing the litigation program are imposed by courts or other tribunals and are mandatory. The failure to adhere to such deadlines exposes the Commission to adverse decisions and potential sanctions, including monetary sanctions by courts or other tribunals. Other 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 2002		FY 2003		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
General Counsel	$5,619	29.00	$5,110	30.00	-$509	1.00
TOTAL	**$5,619**	**29.00**	**$5,110**	**30.00**	**-$509**	**1.00**

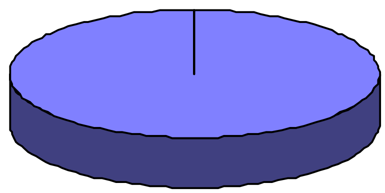

Figure 24: General Counsel FY 2003 Budget Dollars

Table 12: General Counsel Summary of Request by Goal

	FY 2002		FY 2003		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.	$1,071	5.53	$974	5.72	-$97	0.19
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.	110	0.57	100	0.59	-11	0.02
Subtotal Goal One	**$1,182**	**6.10**	**$1,074**	**6.31**	**-$108**	**0.21**
GOAL TWO: Protect market users and the public.						
Outcome Objectives						
2.1 Promote compliance with and deter violations of federal commodities laws.	$1,663	8.59	$1,515	8.89	-$148	0.30
2.2 Require commodities professionals to meet high standards.	331	1.71	302	1.77	-30	0.06
2.3 Provide a forum for effectively and expeditiously handling customer complaints against persons or firms registered under the Act.	814	4.20	739	4.34	-75	0.14
Subtotal Goal Two	**$2,809**	**14.50**	**$2,556**	**15.00**	**-$253**	**0.50**
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.	$295	1.52	$265	1.57	-$29	0.05
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	147	0.76	135	0.79	(12)	0.03
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	296	1.53	269	1.58	(27)	0.05
3.4 Promote markets free of trade practice abuses.	296	1.53	269	1.58	(27)	0.05
Subtotal Goal Three	**$1,035**	**5.34**	**$938**	**5.52**	**-$96**	**0.18**
Unallocated						
Unallocated & Prorated	594	3.06	542	3.17	-52	0.11
Subtotal Unallocated	**$594**	**3.06**	**$542**	**3.17**	**-$52**	**0.11**
TOTAL	**$5,619**	**29.00**	**$5,110**	**30.00**	**-$509**	**1.00**

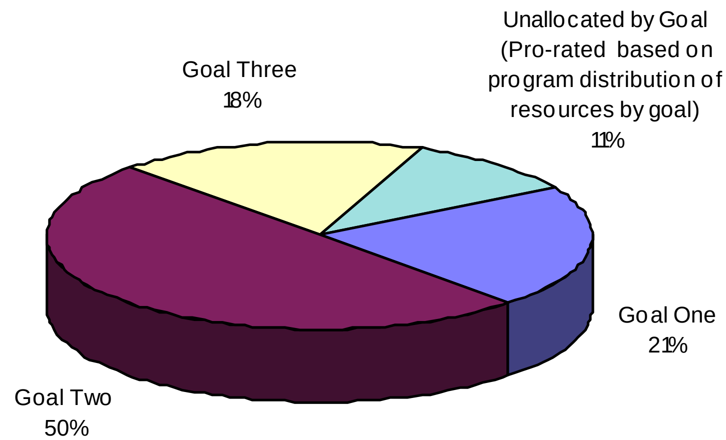

Figure 25: General Counsel FY 2003 Budget Dollars by Goal

Executive Direction & Support

Total Budget: $24,794,000 157 FTEs

Total Change: $ -918,000 */ 15 FTEs

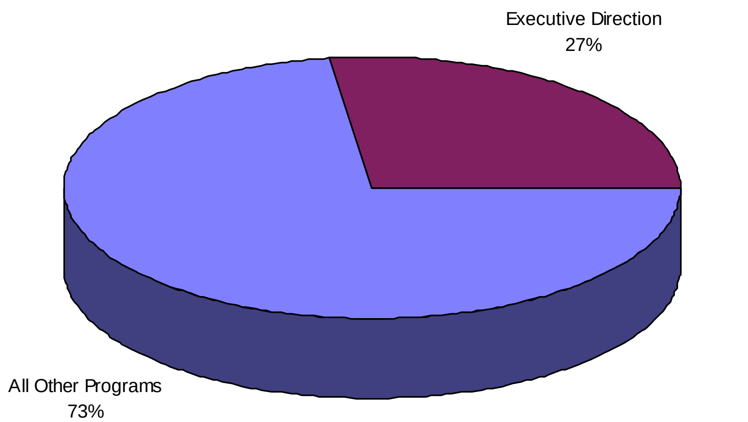

Figure 26: Executive Direction Percentage of Total Budget Dollars

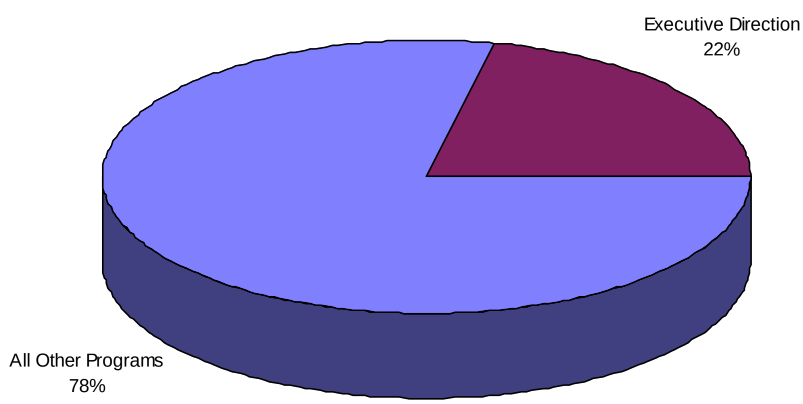

Figure 27: Executive Direction Percentage of Total Budget FTEs

*/ "Total Change" represents the difference between the FY 2003 request ("Total Budget") and the FY 2002 appropriation, which includes a supplemental increase to cover expenses related to the September 11, 2001 terrorist attack.

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 2003 President's Budget Estimate

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.

In FY 2001, the Commission began implementation of 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.

During FY 2002, the Commission will continue to implement this new legislation, in addition to continuing its significant involvement in international regulatory matters.

Agency Direction requests a total of 52 FTEs for FY 2003. This increase of five FTEs above the FY 2002 level will return the Offices of the Commissioners and the Chairman to their FY 2001 levels. One FTE is requested for each of the four Commissioners' offices to provide legal and advisory support.

In addition, one FTE is requested for Office of Legislative and Intergovernmental Affairs. This position will restore the position of director, which has been vacant. The Director will facilitate communications between the Commission and Congress, other Federal agencies and state governments. In addition, the Director is responsible for monitoring legislative and regulatory activities at the Federal and state levels, advising the Commission and its staff on legislative matters, and responding to inquiries from congressional and other government offices.

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 Commission's automated information systems; and
- Oversee the library services of the Commission.

In addition, the staff of the OED and subordinate offices oversee agency-wide compliance with Federal requirements enacted by Congress and imposed by the 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 105 FTEs for FY 2003, an increase of 10 FTEs above the FY 2002 budget.

The increase of 10 positions is requested for OIRM to implement the recommendations of the FY 2000 information technology assessment conducted by an independent external reviewer. The recommendations include: 1) organization structure changes within OIRM; 2) re-establishment of an Information Technology Strategic Planning body with enhanced senior management involvement; 3) a staff increase of 35 to at least 58 FTEs; 4) implementation of staff skill requirements based upon the CIO Council Core Competencies framework; 5) infrastructure changes including an enhanced information security program; and 6) reengineering of the change management process.

A requested increase was deferred in FY 2002 due to budgetary constraints. Delaying the staffing increase again will further delay the Commission's ability to meet its need for expanded information technology expertise to support the requirements of a growing global electronic trading environment. The increase in FTEs 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.

President's Budget

All offices in the OED are engaged in a process review to manage work more efficiently and to set priorities for managing work with reduced FY 2002 staffing.

Consequence of Not Receiving Requested Level of Resources

Agency Direction

Failure to restore the four FTEs to the Offices of the Commissioners would result in a diminution in the administrative and regulatory responsiveness of the Commission. For example, public outreach, responsiveness to Congressional and public inquiries may be slower, or administrative and technical review of Commission memoranda, correspondence, or official actions may take longer.

The absence of a Director for the OLIA would hamper the Commission's efforts to communicate effectively with Congress at a time when financial issues are of significant importance. In addition, the Commission would not be able to coordinate as effectively with other financial regulators at the Federal and state levels.

Administrative Management & Support

In FY 2000, the Commission received the report of an independent external information technology assessment. The complexity of building both a client-server and e-government environment, which can support CFTC's mission critical information systems, has increased the requirement for coordination of operations, infrastructure support, and systems. The requested additional FTEs will allow the Commission to start to build the requisite technology skill sets to operate its infrastructure, pursue systems development activities in a Web environment, and implement some of the critical improvements in the use of information technology suggested in the assessment.

These additional resources will also allow CFTC to position itself to support the Federal e-government initiative. Without the additional FTEs 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 that 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, on line trading systems and automated execution of trades. Failure to increase OIRM staff would also result in delays in implementing the recommendations of the information technology assessment regarding the management of information.

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

	FY 2002		FY 2003		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Agency Direction	$8,812	47.00	$8,658	52.00	-$154	5.00
Admin. Mgmt. & Supp.	16,900	95.00	16,136	105.00	-764	10.00
TOTAL	**$25,712**	**142.00**	**$24,794**	**157.00**	**-$918**	**15.00**

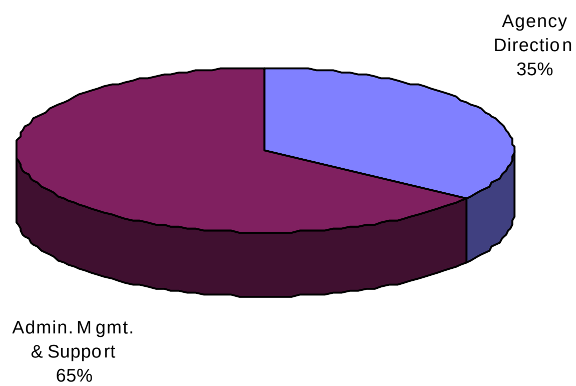

Figure 28: Executive Direction & Support FY 2003 Budget Dollars by Subprogram

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

	FY 2002		FY 2003		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.	$ 1,442	8.00	$1,762	11.30	$320	3.30
Subtotal Goal One	**$1,442**	**8.00**	**$1,762**	**11.30**	**$320**	**3.30**
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.	$284	1.60	277	1.80	-$7	0.20
Subtotal Goal Two	**$284**	**1.60**	**$277**	**1.80**	**-$7**	**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	$232	1.25	205	1.25	-$27	0.00
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	$446	2.40	564	3.50	118	1.10
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	561	3.00	499	3.00	-64	0.00
3.4 Promote markets free of trade practice abuses.	400	0.00	378	2.45	-23	2.45
Subtotal Goal Three	**$1,641**	**7.65**	**$1,645**	**10.70**	**$5**	**3.05**
Unallocated						
Unallocated & Prorated	$21,989	122.50	$20,730	130.70	-1,260	8.20
Subtotal Unallocated	**$21,989**	**122.50**	**$20,730**	**130.70**	**-$1,260**	**8.20**
TOTAL	**$25,356**	**139.75**	**$24,414**	**154.50**	**-$942**	**14.75**

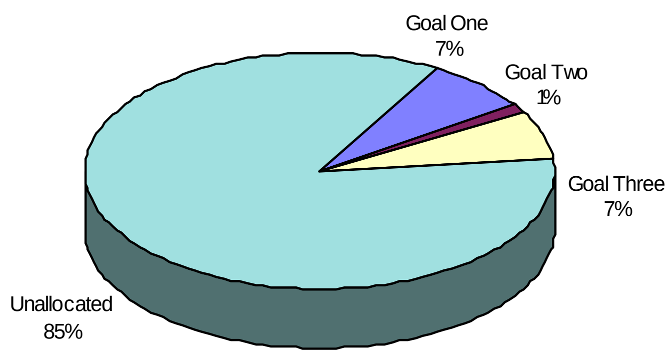

Figure 29: Executive Direction & Support FY 2003 Budget Dollars by Goal

IMPROVING EFFICIENCY & EFFECTIVENESS

Modernizing and streamlining regulations and reducing unnecessary regulatory burdens are priorities of the Commission. Some of the Commission's efforts in FY 2002 to date include:

Reductions of Regulatory Burdens

During FY 2001, Commission staff undertook initiatives to reduce regulatory burdens. These initiatives are in addition to several rule-makings and other actions required by or appropriate to the implementation of the CFMA that are described under the "Regulatory Reform" in the Significant Developments of the Past Year section of the budget.

- *Investment of Customer Funds*. In December 2000, the Commission adopted rule amendments to expand the range of instruments in which FCMs and clearing organizations may invest customer funds to include such highly liquid and readily marketable instruments as certain sovereign debt, agency debt, money market mutual funds, and corporate notes.

- *Foreign Futures and Options Secured Amount*. In October 2000, the Commission issued a revised interpretation of the foreign futures or foreign options secured amount requirement set forth in Rule 30.7. Specifically, the Commission clarified that the requirement for FCMs to obtain an acknowledgment from a depository with respect to the treatment of foreign futures and options customer funds applies only to the treatment of funds by the initial depository.

- *Purchase and Sale of Electricity*. Commission staff are in the process of preparing responses to the no-action requests of: 1) Automated Power Exchange, Inc., the automated system for buying/selling electricity; 2) PJM Interconnection, L.L.C., the automated system for buying/selling electricity "capacity credits"; and 3) Pradium, the Internet-based system for trading agricultural commodities. Staff are also reviewing another request for no-action relief from PJM related to its Fixed Transmission Rights Market and a request for exemption for Electric Energy Group for bilateral electricity contracts.

Large Trader Reporting

The Commission implemented its re-engineered market surveillance computer systems. Some components of the new computer systems became operational in FY 2000 when the mainframe-based computer systems were terminated. During FY 2001, the Commission completed development of this new system by improving its operational speed, particularly in the regional offices, and by enhancing the quality of the system in a number of areas. During FY 2000, the Commission worked with several remaining brokerage firms that were filing reports manually to assist them in converting to the new systems of electronic filings via the Internet. As a result of that effort, all large trader reports are now being filed electronically. This avoids the need to have staff enter the data manually. In May 2000, the Commission raised the reporting levels for 23 commodities to reduce the amount of data that is required to be reported to the Commission by brokerage firms and individual traders. In FY 2001, the Commission worked with exchanges to replace data filings on magnetic tape with earlier direct electronic transmission of daily surveillance data.

Exchange Database System

The Commission continues to evaluate the Exchange Database System in light of its future needs, particularly emerging trading technologies and rapidly changing markets, in order to determine and implement the most appropriate means of meeting those needs. In FY 2001, the Commission focused on the maintenance requirements of its client-server environment. These tools will aid futures trading investigators in discerning patterns of trading that suggest potential violations and complex patterns of violations, particularly violations that may be facilitated by the increased use of electronic trading systems. The system will enhance the types of data maintained and the frequency and methods through which data can be accepted.

Electronic Filing and Record-Keeping

The Commission continues its efforts to develop and implement electronic filing programs that increase registrants' efficiency in the filing of financial reports, and in Commission staff's analysis, retrieval, and storage of the data while maintaining necessary safeguards over the data. After extensively testing and modifying the electronic filing software, the Commission found it reliable for the transmission, receipt, and review of financial reports received from most FCMs. In this connection:

- About one-half of the approximately 190 registered FCMs file their financial reports electronically with the Commission. CME, CBT, and NYMEX-member FCMs file financial reports electronically with the Commission's three regional offices, located in New York, Chicago, and Kansas City. These FCMs now use the same electronic filing software to simultaneously file the same financial reports with the CBT, CME, NYMEX, and the Commission; thereby reducing a regulatory reporting burden on those firms. Almost all CME, CBT, and NYMEX member firms file their financial reports on a monthly basis, while a few smaller firms continue to file reports on a quarterly basis.

- Approximately one-half of the FCMs registered with the Commission are non-exchange members whose designated SRO is NFA. NFA adopted a different form of electronic filing software than that used by CME, CBT, NYMEX, and the Commission because NFA has members in different registration categories, with different filing requirements. The Commission and NFA explored a filing option under which NFA would transmit to the Commission financial reports it had received electronically. In addition, NFA is considering implementing software enhancements that would allow FCMs to file financial reports directly with the Commission and NFA.

- One of the benefits of receiving financial reports electronically is the ease of gathering data. To that end, the Commission now updates the FCM financial data on its Web site on a quarterly basis rather than semi-annually. Once all FCMs are filing electronically, staff expects that the data can be updated monthly.
- The exchanges recently adopted changes to their financial rules that caused the existing financial statement form, Form 1-FR, to become obsolete. The Commission is planning to update the Form 1-FR and to work with futures exchanges on modifying the filing software to incorporate the changes necessary to accommodate the new filing formats and to analyze the financial information provided in the reports.

Use of the Internet

The Commission uses the Internet to make information and assistance available to the general public. The Commission's Web site (http://www.cftc.gov) provides information about the Commission and its work, including press releases, speeches of Commissioners, the *Weekly Advisory* (which includes Commission events, meetings, news, seriatim actions, *Federal Register* notices and comment periods, initial decisions, and opinions and orders), the *Commitment of Trader Reports*, and other reports from the Market Surveillance, Analysis, and Research program, and the *Proceedings Bulletin*. The Commission's Web site also provides the public with information concerning trader sanctions, registration suspensions, and reparations. The Web site also hosts a public questionnaire that encourages the public to report suspected commodity market abuses.

In FY 2003, the Commission will complete a usability analysis of its intranet, Open Interest. Based on the results of the analysis, the Commission will develop a plan for a major redesign and enhancement of the CFTC intranet in FY 2003.

Internet Monitoring

The Commission monitors the Internet for illegal activity involving futures and options. Enforcement staff review the contents of futures and options related Web sites to identify potential misconduct. This monitoring of the Internet generates enforcement inquiries concerning issues such as possible misrepresentations of the success of trading programs and the offer of potentially illegal products that are not traded on a trading facility designated or registered by the Commission. Commission enforcement actions often include allegations of violative conduct involving use of the Internet.

In addition to its own Internet surveillance program, on April 23, 2001, the Commission participated in the second annual international Internet surf day organized by IOSCO that included the participation of 38 regulators in 35 countries. The sites identified for follow-up review by Commission and NFA staff during this surf involved commodity futures and options in a variety of settings, such as:

computerized trading systems promising highly successful buy and sell signals; trade recommendations based on seasonal trends in the prices of commodities like heating oil and gasoline; and purported profit opportunities on commodities such as foreign currencies, precious metals, and stock indices.

Enforcement Modernization Project

As part of the Enforcement Modernization Project (EMP), the Commission's Enforcement program, OIRM, and Office of the Inspector General (OIG) have undertaken a far-ranging review and certain enhancements of the automated systems that Enforcement staff use for recording and tracking enforcement-related data. Phase Three of the EMP contemplates the implementation of commercial software applications and associated computer hardware to perform some or all of the following three functions: 1) case management, workflow, and reporting, which will provide the Enforcement program with a centralized relational database to track all Enforcement activity including the ability to create and monitor progress on investigation, discovery, and litigation plans, and that also will enable the Enforcement program to extract data from the system to more effectively meet its various reporting obligations; 2) document management, which will allow the Enforcement program to store, index, and search electronic copies of documents obtained in the course of investigations and litigation so that Enforcement staff may quickly and efficiently access them through the Commission's personal computers; and 3) litigation support, which will provide Enforcement staff with tools to simplify core litigation tasks such as locating, organizing, and categorizing witness statements and document information, and to more efficiently prepare case plans and witness profiles for use in taking testimony and at trial. Such computerized systems offer the added benefit of secure storage, thereby eliminating the risk of loss of paper records in circumstances such as the attacks of September 11, 2001.

With the establishment of a formal information technology capital investment process, the EMC, made up of senior business managers at the Commission, chartered an Integrated Project Team (IPT) to validate the requirements of the EMP and to consider similar requirements from other lines of business, particularly the Office of Proceedings. During FY 2001, the IPT completed work in several areas, including: 1) determining the Commission's current and future business requirements that each of the three functions discussed in the preceding paragraph would accomplish; 2) determining the need for a conversion from paper-based business practices to electronic work processes; and 3) defining, researching, and recommending an acquisition strategy to the EMC.

This technology solution will provide additional support to improve the effectiveness and efficiency of the CFTC's Enforcement program and the execution of its Strategic Goal Two to "protect market users and the public."

Regulatory and Legislative Matters

In FY 2002, the Office of the General Counsel advised the Commission concerning implementation of the CFMA, as well as assisted in implementing rules, regulations, and studies as required by the legislation. In particular, the Office of the General Counsel coordinated the Commission's work with the SEC and other agencies to accomplish the joint rulemakings required by the CFMA. Further, the Office of the General Counsel coordinated the work of several divisions and offices in drafting the Commission's proposed and final rules regarding the privacy of customer information in accordance with the GLBA and as required by the CFMA. The Office of the General Counsel also continued its review of requests for no-action relief to allow the offer and sale of foreign exchange-traded foreign stock index futures contracts in the US. In FY 2001, the Office of General Counsel issued five of these no-action letters.

Financial Management Improvements

- *Financial Reporting*. In an effort to streamline financial management reporting to US Treasury, the staff of OFM implemented a new Internet-based software application, Federal Agencies Centralized Trial-Balance System II (FACTS II) for FY 2001. FACTS II software was successfully installed and used to report quarterly FY 2001 budget execution data to fulfill the requirements of the Report on Budget Execution (SF-133), the Year-End Closing Statement (SF-2108), and much of the initial set of data that will appear in the prior year column of the Program and Financing Schedule. FACTS II reporting enables staff to submit one set of financial data, thereby eliminating reconciliation of data and duplicate reporting. It improves the consistency of data reported across the government by relying on the US Standard General Ledger account adjusted trial balances. In FY 2002, OFM will continue to work with Treasury to streamline financial management reporting and implement new financial applications that become available through its Internet/intranet platforms. OFM will also provide budgetary and staffing resources to support the Enforcement Modernization Project by streamlining the financial management reporting of accounts receivable and collections of fines, fees, and penalties.

- *Travel Management*. In FY 2001, the Commission enhanced the internal controls of its travel program. In the first quarter, OFM completed the transition of travel management center services to Sato Travel, thereby streamlining the agency's management of services from four centers to one. Sato Travel services were enhanced during the fourth quarter by transitioning the agency's services to Potomac Falls Travel, a subcontractor of Sato Travel, which will provide more personalized and timely service to agency travelers and support staff. During the second quarter of FY 2001, OFM reviewed traveler delinquent charge card accounts. The review revealed agency travelers to be in substantial compliance with agency policy and ethical standards for Executive Branch employees to timely satisfy financial obligations. Agency internal controls were enhanced in the third quarter to incorporate monthly reviews of delinquent accounts. During the third quarter, OFM also developed a travel voucher audit plan to review compliance with agency policy and General Services Administration (GSA) Federal Travel Regulation. The plan will be implemented during the fourth quarter of FY 2001 and will be completed by the end of the third quarter of FY 2002. Results of the audit will assist the agency in making additional improvements to its internal controls for the travel program.

In FY 2002, OFM plans to incorporate quarterly travel voucher audits into its management review process. OFM also plans to review its travel management system to determine how efficiencies in speed and productivity can be achieved, including the development of an electronic interface from the travel system to the agency's core financial system. In FY 2003, the Commission plans to implement the electronic interface between the two systems.

- *Financial Management*. In FY 2001, OFM completed its FY 2001 annual closing process using the new financial system that became operational in FY 2000. The Commission's system is fully supported by the Department of Interior (DOI) through an interagency agreement. The annual closing process, as well as FY 2001 budgetary, funding, and obligating transactions were accomplished one month ahead of the processing schedule used for the agency's old system. Efficiencies in workflow and processing in the new system were also achieved during FY 2001 through the development and implementation of an electronic bankcard interface program for purchase card transactions, and a financial management system training program. During the third quarter, OFM worked with DOI to design and implement an interface program to provide an online method of reviewing and approving purchase card transactions. Throughout FY 2001, OFM expanded the use of the financial management system by training the agency's purchase cardholders and the Enforcement program's support staff to enter their obligating transactions in the system. In FY 2002, OFM will expand the use of the bankcard interface program by training the agency's purchase cardholders to review and approve their purchase card transactions online, thereby eliminating a manual, labor-intensive workflow process. OFM will also review its obligating processes and determine if further efficiencies can be achieved by designing and implementing online functionality that will produce contracts and purchase orders that simultaneously obligate these transactions within the financial management system. In FY 2003, OFM will work with the agency's executive staff to develop and implement a process for integrating property management into the financial management system.

- *Improved Procurement Process and Policy*. In FY 2001, OFM continued its efforts to redefine the way the Commission conducts its contracting activities. The push to reengineer these functions stems from changes in Federal acquisition laws and regulations aimed at streamlining the acquisition of goods and services, and employing up to date technologies. Achievements in the past year include: the hiring of one full-time contracting officer; ongoing procurement training of CFTC staff; audit of acquisition activities of several offices that have been delegated procurement authority; and migration to the Federal government's e-commerce Web site, FedBizOpps, which will enable OFM to upload solicitations and procurement synopses onto this widely used Web site, thereby increasing competition for Commission acquisitions.

- *Annual Performance Reporting.* The Government Performance and Results Act of 1993 (GPRA) seeks to improve the effectiveness, efficiency, and accountability of Federal programs by requiring Federal agencies to set goals for program performance and to report on annual performance compared with the goals. Annual program goals are to be set out in annual performance plans, and performance against these goals is to be reported in annual performance reports. In April 2001, the Commission submitted its FY 2000 Annual Performance Report to the President, Congress, and OMB—an annual submission mandated by GPRA.

Automated Access to Research Information

The Commission provides its employees with automated research tools that make information readily accessible at their desktops and provide faster and more efficient search and retrieval capabilities. The Commission Library installed a Windows-based integrated library system, Horizon, which enhances employee access to library materials. All catalog records have been successfully transferred from the previous system and all new borrower records have been included in Horizon. Presently, the system is available only on terminals in the library. The system will be available to all Commission employees at their desktops by the end of FY 2002.

Information Technology Improvements

During FY 2001, the Commission began the implementation of the recommendations of an independent, external information technology assessment done in FY 2000. The critical recommendations included the following: 1) reestablishment of a priority-setting body consisting of senior operating division managers; 2) major increases in the staffing levels of OIRM; and 3) attention to staff morale issues to counter staff hiring and retention problems that could cripple the Commission's information technology program.

In FY 2002, the continued refinement of the Integrated Surveillance System, which tracks futures and option data on a daily basis, is ongoing to improve its capability to match anticipated changes in the futures industry. This system is also being enhanced to incorporate the requirements defined in the CFMA.

In FY 2003 the Commission will also: 1) resume reengineering the Exchange Database System, which tracks monthly trade data information; 2) enhance the performance of the reengineered Integrated Surveillance System; 3) continue to modernize support for the Enforcement program's activities; 4) deploy a video-conferencing capability to the Commission; 5) begin to reengineer its information resource management processes as identified in the assessment; and 6) assess the potential application of Web technology to provide Commission staff with access to agency systems.

Information Technology Security Improvements

In FY 2002, one of the Commission's primary focus areas for information technology is maintaining a secure environment, which adequately protects the Commission's information resources. To that end, the Commission is developing policy and procedures, which reduce the agency's vulnerability to external cyber attacks. These activities include reinforcing the agency's firewall with additional filtering capability and increasing the complexity and variability of the agency's network password access program. An in-depth information technology security assessment will begin in FY 2002 and continue in FY 2003. As recommended by the FY 2000 independent information technology assessment and mandated in the Government Information Security Reform Act (GISRA), the budget request supports the further strengthening of CFTC's information technology security program and its successful implementation. With the requested funding, CFTC will be better positioned to integrate security throughout CFTC's critical infrastructure, as well as within its business applications, thereby reducing its risk and external vulnerabilities.

Office of Administrative Services

OAS installed additional cameras to increase security for the main conference rooms located on the lobby level of the headquarters building. In addition, other security enhancements were made to increase employee safety while providing easier access for employees utilizing the stairwell and the main reception area.

Additional audio-visual equipment was installed in the Hearing Room to enhance the capabilities to match those of the other conference rooms.

OAS developed service standards on transportation and printing and will be working with other OED organizations for the development of additional standards for all of the major services provided by OAS. This process will streamline OAS activities and define expectations for those using OAS services.

Improved Access to Human Resources Information

The Commission continues to design, test, and implement government-wide human resources systems that will provide efficient and effective customer services. Since its inception, the Commission has worked with a group of other small agencies and OPM to create and refine systems, including:

- *Alternative Dispute Resolution*. This program provides effective alternative methods to resolve workplace disputes, EEO complaints, and employee grievances. Methods include facilitation, conciliation, early neutral intervention, fact-finding, mediation, and cooperative problem-solving.

- *Delegated Examining Unit*. This unit assumed examination authority under a delegation from OPM, enhancing the Commission's ability to fill vacant positions expeditiously.

- *Document Scanner*. An improved scanner enables OHR to capture electronic versions of position descriptions, vacancy announcements, and human resources reports. These documents are made available to managers and supervisors via the Commission's intranet, Open Interest.

- *Employee Assistance Programs (EAP)*. To enhance employee well-being, the Commission maintains a free, confidential counseling program with 24-hour availability for employees and their family members to help with personal problems that may impact their work life. The EAP also provides consultation to supervisors who have employees with performance and/or attendance problems. The EAP typically deals with problems surrounding work, finances, substance abuse, family, relationships, health, legal concerns and emotional well-being.

- *Employee Express*. This system allows Federal employees to make changes to their personnel and payroll data and benefits elections by phone or over the Internet.

- *Employee Resource Center (ERC)*. A resource center with a circulating library of resources and learning seminars, to include videos, books, resource locators, Web sites, literature and materials encompassing career and life planning, training and development, health, employee assistance and work/life balance. The ERC is host to employee work groups, meetings, and educational outreach programs to include health/EAP seminars and preventive screenings; new employee orientation; transit subsidy distribution; performance management committee meetings and focus groups; and training program development committees.

- *Health and Wellness*. The fitness centers enhance the health of employees. The Commission has contractor services for five health units that provide for walk-in care and treatment, with additional services to include immunizations, physical examinations, health screenings, and various promotion and outreach efforts.

- *Open Interest and CFTC.gov*. "Open Interest," the Commission's intranet site, is designed to provide Commission employees immediate access to human resources references, such as the National Finance Center (NFC), OPM, and the Thrift Savings Plan. In addition to human resources information found on Open Interest, the Commission has recently redesigned its official Web site, www.cftc.gov, which includes an updated employment page, "*Working for the CFTC.*"

- *Replacement Timekeeping Software*. The new NFC System for Time and Attendance Reporting (STAR) was installed during FY 2001, improving speed, data security, and training for new time-keepers.

- *Videoconferencing Equipment*. Through the installation of video-conferencing in FY 2002, training and other group activities will take place more quickly and economically.

- *Videotaping of Training and Special Events*. The videotaping of various Commission sessions and activities affords the agency an opportunity to capture educational briefings, seminars, and programs for circulation through the ERC to facilitate audience expansion and new employee review.

- *Reasonable Accommodations Program*. The Rehabilitation Act of 1973 requires Federal employees to provide reasonable accommodations for qualified individuals with disabilities. The Commission is committed to providing reasonable accommodation to its employees and applicants for employment in order to assure that individuals with disabilities enjoy full access to equal employment opportunity at CFTC.

Enforcement Management Structure

Early in FY 2001, the senior managers of the Enforcement program participated in a management retreat, with a shorter follow-up retreat held later in the year. The retreats afforded these managers an opportunity for focused and dedicated analysis of issues relating to the overall direction, productivity, and effectiveness of the Enforcement program. Following the retreats, Enforcement management developed a network of management-led committees to provide leadership on strategic planning and other program-wide management issues.

Enforcement Training Program

During FY 2001, the Enforcement program conducted a training conference for its professional staff. This conference, which has been held periodically over the years, served to: 1) develop and refine the investigative and litigation skills of Enforcement attorneys, investigators, and paralegals; 2) introduce newer staff to issues regularly encountered in the work of the program; and 3) keep all staff up-to-date on current developments in the industry and in the law. The conference consisted of programs presented by staff from Enforcement and other divisions within the Commission as well as by various outside professionals and educators.

As a result of suggestions presented by an Enforcement program task force composed of attorneys and investigators representing its headquarters and regional offices, the program has changed the schedule of its training conference from an annual basis to approximately once every 18 months and made training a topic in each employee's performance reviews in order to give supervisors and staff an opportunity to discuss specific training to enhance staff job performance. The absence of a training conference during FY 2002 will free resources and time to further develop in-house training opportunities in investigative and litigation techniques for newer staff members and to provide intensive training in legal writing to all professional staff in the Enforcement program. The next Enforcement training conference is planned for FY 2003.

During FY 2001, the Enforcement program implemented a mentoring program to ease the transition of new employees into the program and to accelerate their learning about the work of the program, regularly encountered legal issues, and the resources that are available to them. The Enforcement program also maintains a user-friendly electronic procedures manual that provides guidance in all critical areas of the program and that is available on line to Enforcement staff nationwide. It includes a comprehensive outline of information critical to the Enforcement program with hyperlinks to instructional materials, related statutes, and relevant authorities.

During FY 2001, the Enforcement program also provided additional guidance to staff in certain particular areas of import. Shortly after enactment of the CFMA, the Enforcement program provided training to staff in conducting investigations undertaken pursuant to the foreign currency provisions of the new law. The Enforcement program also developed a more detailed Financial Disclosure Statement to aid the staff in analyzing a respondent's or defendant's ability to pay restitution or a civil monetary penalty in settlement.

WORKING RELATIONSHIPS

Strong working relationships with other organizations and jurisdictions involved in commodity futures and option trading, law enforcement, and domestic and international financial regulation increase the Commission's ability to build knowledge, develop insight, share information, and participate in developing standard practices and policies across these industries.

President's Working Group on Financial Markets

The PWG is a forum for the coordination of Federal financial regulation across markets. It brings together the leaders of the Federal financial regulatory agencies, including the Secretary of the Treasury, who chairs the group, and chairs of the FRB, the CFTC, and the SEC. In addition to the four primary financial regulators, the PWG also includes the heads of the National Economic Council (NEC), the Council of Economic Advisors, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Bank of New York, and the Office of Thrift Supervision. Issues considered by the PWG and its staff have included individual and coordinated agency initiatives concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to trading in derivative instruments, bankruptcy law revisions, and contingency planning for market emergencies.

During FY 2000, the PWG made legislative recommendations to Congress designed to provide legal certainty for OTC derivatives, remove impediments to innovation, and reduce systemic risk. In addition, the PWG encouraged the development of electronic trading systems and appropriately regulated clearing systems for OTC derivatives. Consistent with these recommendations, Congress enacted and President Clinton signed into law the CFMA, including coordination of the mandated study on swaps transactions offered to non-eligible contract participants. During FY 2001, the PWG focused on the Retail Swaps Study and disclosure issues of mutual interest.

Information Sharing with Other Financial Regulators

The Commission benefits from established intergovernmental partnerships, sharing information and consulting on issues of importance to the Commission and other organizations. Regulatory coordination with the SEC will increase with the advent of security futures products in FY 2002.

The Commission routinely shares information with other financial market regulators, particularly the SEC, the US Treasury, the FRB, and the New York Federal Reserve Bank. Biweekly staff conference calls are held with these organizations to review developments in the cash and futures markets for US Treasury securities. Quarterly staff meetings also are held to review major expirations of financial futures markets. The Commission routinely shares information regarding contract market terms and conditions with these and other financial market regulators and other agencies pursuant to statutory requirements for consultation and to obtain information from other agencies that have expertise with regard to a particular commodity under review.

The Commission has played a consulting role in the US Department of Agriculture (USDA) Risk Management Education initiative, which was authorized by the Federal Agricultural Improvement and Reform (FAIR) Act of 1996.

Registered Futures Associations

The CEA authorizes the Commission to delegate registration functions to RFAs and requires that RFAs perform certain self-regulatory functions. The NFA is a RFA and industry-wide SRO for the futures industry and has been in operation for almost 20 years. NFA has been the principal direct regulator, under Commission oversight, of those industry professionals who are not members of another SRO. Except for certain securities broker-dealers who are registered as an FCM solely to engage in security future product transactions, Commission Rule 170.15 specifically requires membership in a RFA of each person required to register as an FCM. That rule, combined with the by-laws of NFA, operates to compel membership in an RFA by all industry professionals who deal with the public with respect to commodity interest transactions.

During FY 2002, certain securities broker-dealers will continue to register as FCMs or IBs solely to engage in security futures product transactions through a simplified, notice registration process. The CFMA exempts these firms from RFA membership.

The CEA is designed to promote coordination between any RFA and the Commission to assure high standards for industry professionals. NFA monitors registrants, under Commission oversight, for compliance with the CEA and rules promulgated thereunder, as well as NFA rules. NFA also monitors, under Commission oversight, the activities of NFA members registered as CPOs, CTAs, IBs, and FCMs who are not members of a futures exchange, as well as associated persons (APs) of any of the foregoing.

The Commission has delegated to NFA virtually all registration functions, including processing registration applications and related documentation and taking adverse actions against registrants and applicants for registration based upon disqualifying conduct. The authority delegated by the Commission covers all registrants, even those over whom NFA does not exercise primary front-line jurisdiction, such as FCMs who are exchange members, FBs, FTs, and CTAs who are not NFA members. The most recent Commission delegation of authority to NFA concerning registration involves agricultural trade options merchants (ATOMs) and their APs, a delegation made in April 1998 in connection with the Commission's promulgation of rules to govern trading of agricultural trade options. In addition, on April 13, 2000, the Commission issued a revised "Guidance Letter" to NFA, advising NFA to cease using Commission Rule 1.63 as the basis for determining whether the disciplinary history of a FB or FT should disqualify them from registration. Instead the letter advised NFA to use the standard articulated in *In re Clark* (statutory disqualification (SD) may arise if the disciplinary history consists of a pattern of exchange disciplinary actions alleging serious rule violation that resulted in significant sanctions).

The Commission oversees the NFA registration program through frequent contacts with NFA staff members on specific matters as well as through formal reviews by the Commission of NFA programs. Reviews are presented to the Commission and made public. In late 1995, the Registration Working Group (RWG) was established, which includes staff members of the Commission and NFA. This group convenes quarterly to discuss issues of mutual interest concerning registration.

During FY 2001, the RWG discussed, among other things: 1) regulatory reform; 2) implementation of the CFMA, particularly with respect to notice registration for securities broker-dealers that limit futures activity to security futures products; 3) revision of NFA's rules governing SD proceedings; 4) development of a mandatory electronic registration filing system; and 5) removal of registration holds.

The Commission has forged partnerships with NFA in other areas by delegating additional responsibilities while maintaining vigorous oversight programs to assure that newly delegated responsibilities are discharged fairly and effectively. For example, beginning in 1993, all individual registrants were required to attend ethics training.

In December 1995, the Commission delegated to NFA functions relating to: 1) reviewing certifications required to be filed by persons seeking to become ethics trainers; 2) monitoring activities of ethics trainers; and 3) maintaining records of registrants' attendance at ethics training sessions. As part of regulatory reform, the Commission amended its rules to permit registrants greater flexibility in complying with continuing education requirements. In September 1997, the Commission delegated the review of applications of individual foreign firms for an exemption from registration as well as certain other tasks related to activities in the foreign futures and option areas. In November 1997, the Commission delegated to NFA the function of reviewing CPO and CTA disclosure documents and processing CPO and CTA notices of exemption under various Commission rules.

Beginning in FY 1999, the Commission delegated to NFA the responsibility for monitoring the payment of restitution in certain enforcement actions that is to be made pursuant to multi-year plans in which the amount paid by the defendant/respondent is based upon the level of his/her income. By having NFA assume the duties that traditionally were delegated to a receiver, the Commission has saved resources and preserved customer assets. NFA collected about $2.5 million in this capacity during FY 2000 and another $0.7 million during FY 2001.

The Commission also is working with NFA to provide enhancements to the design and execution of programs operated by NFA and on various regulatory issues. The projects include enhancement to the Background Affiliation Status Information Center (BASIC), which is the disciplinary information database. BASIC was put on line in February 1999 to enhance public access to disciplinary information on registrants, including providing access to such information through the Internet. The Commission is working with NFA on performance reporting and disclosure enhancements, sales practice and telemarketing issues, audit priority system enhancements, arbitration rule amendment proposals, expansion of the electronic filing program for financial reports, off-exchange foreign currency transactions, and a redesign of the comprehensive registration database, the Membership Registration Receivables System (MRRS), including new registration forms and a transition to a paperless registration system.

The Securities and Exchange Commission and the CFMA

When the CFMA became law in December 2000, among other things, it substantially amended the CEA by establishing two categories of markets subject to Commission regulatory oversight—designated contract markets and registered DTFs. Additionally, there are two other types of markets that may be subject to Commission oversight, "Section 2(h)(3) exempt commercial markets" and Section "5d exempt boards of trade."

Title II of the CFMA also repeals the longstanding ban on single-stock futures and directs the Commission and the SEC to implement a joint regulatory framework for security futures products, which include single-stock and narrow-based stock index futures. Trading of such futures products generally is expected to begin during the third quarter of FY 2002 (limited principal-to-principal trading has been permitted since August 21, 2001), and trading of options on these futures could begin three years after enactment of the CFMA if the Commission and the SEC jointly determine to permit such trading. The Commission and the SEC will work together to promulgate rules, including rules for registered derivatives clearing organizations, notice procedures permitting national securities exchanges, national securities associations, and alternative trading systems to be designated contract markets in security futures products, and restrictions on dual trading in security futures products for FBs.

US Department of Agriculture

Consistent with the mandate of the FAIR Act of 1996, the Commission and its staff have been working with the USDA Risk Management Agency, the USDA Cooperative State Research, Education, and Extension Service, and the USDA Office of Outreach in a risk management education effort. The FAIR Act initiated a phase-out of the price support programs that had provided a safety net for American agriculture since the 1930s. Recognizing that the disappearance of these programs would force producers to become more self-reliant in risk management, the FAIR Act required the Secretary of Agriculture, "in consultation with the Commodity Futures Trading Commission," to provide producers with appropriate "...education in management of the financial risks inherent in the production and marketing of agricultural commodities...."

This risk management education effort is intended to be broad in scope and content, focusing on integrating basic information from all relevant sectors, including crop insurance, futures, and options. Recent initiatives include development of educational materials and programs for ultimate delivery to farmers through the funding of a number of grants for risk management education projects as well as planning and conducting a number of regional risk management education conferences and seminars. Longer term strategies for the delivery of educational materials to producers currently are being developed and implemented and include the establishment of Web site tutorials, the use of television and radio infomercials, and local meetings and seminars. Chairman Newsome serves as the Commission's designee to the Risk Management Education Steering Committee, which oversees this entire risk management education effort.

Educational Opportunities & Outreach Efforts

Commission staff members provided technical assistance to foreign market authorities and foreign exchange representatives to promote the creation of effective international regulatory standards by allowing other regulators to benefit from the vast regulatory experience of the Commission. Each year, the Commission hosts numerous delegations from foreign jurisdictions seeking to learn about various aspects of the Commission's regulatory program. Each year, the Commission also conducts a one-week training seminar for foreign regulators and exchange representatives. The seminar provides intensive training on the full scope of the Commission's regulatory program and broader policy issues.

The Commission has authorized staff to travel to foreign locations to provide on-site assistance to foreign regulatory authorities. Commission staff participated in numerous training initiatives by: the Asian Development Bank (ADB)/Asian Pacific Economic Cooperation; the Japanese Ministry of Finance and the Organization for Economic Cooperation and Development (Japan); the Asian Pacific Economic Council (APEC) in the Philippines; IOSCO on manipulation (China); the Toronto Centre in Canada on regulatory oversight and crisis management; and the Organization on Economic Cooperation and Development Round Table on Capital market Reform in Asia (Japan). Staff have provided assistance to the World Bank, International Monetary Fund, and Financial Stability Forum (FSF) initiative to assess implementation of standards of best practices.

Each year, the Commission sponsors a meeting of international regulators that takes place in conjunction with the FIA's Annual Spring Conference. The meeting is an opportunity for international regulators to discuss issues of current practical concern, such as the structural and regulatory changes occurring as a result of technology and global markets. These meetings foster greater cross-border cooperation among regulators and permit regulators to take the global perspective into account when approaching domestic regulatory issues. The meeting in FY 2001 discussed practical methods to reduce inconsistent or unnecessary duplication of regulatory efforts in order to facilitate cross-border access and effective supervision. The meeting included discussions with futures industry representatives concerning obstacles to cross-border business.

Upon request from various international financial regulators, the Commission provides information on the Commission's programs and comments on various reports. For example, comments were provided to the International Monetary Fund regarding several interim draft codes, including its Code of Good Practices on Transparency and Monetary and Financial Policies.

The Chicago Federal Reserve Bank has supported the Commission's training seminar for foreign regulators by permitting the Commission to use the Chicago Federal Reserve's facilities and by participating in the first day plenary session. Similarly, the International Finance Corporation, a division of the World Bank, co-sponsors with the Commission a one-day seminar in Washington, D.C. on the fundamentals of creating successful derivatives markets in developing capital markets. During FY 2001, the Inter-American Development Bank assisted regulators from Latin America to attend the Commission's annual training seminar and provide for the transcription and translation of the seminar's materials into Spanish.

The Commission also participates in multiple forums of industry professionals, attorneys, and accountants who practice in the futures area, as well as end-users of futures markets. The forums typically provide an opportunity for Commission staff to discuss current issues regarding the CEA, Commission rules and rule proposals, and market developments. Commission members or staff have made presentations at conferences sponsored by the FIA. Representatives of major agricultural organizations met in Washington, D.C. in March 2001 to discuss measures to improve farm risk management and other issues. The organizations are all members of the Commission's AAC. The AAC, made up of representatives of national farm organizations, major commodity groups, agribusiness concerns, and agricultural bankers, advises the Commission on agricultural issues and serves as a communications link between the agricultural community and the Commission.

Agricultural Advisory Committee

The AAC represents a vital link between the Commission, which regulates agricultural futures and option markets, and the agricultural community, which depends on those markets for hedging and price discovery. The 25 member organizations of the AAC represent a major portion of the American agricultural community. Since 1985, the meetings of the AAC have fostered an ongoing dialogue between that community and the Commission.

The AAC's most recent meeting, its 29th, took place on March 28, 2001. At the meeting, the committee was briefed on the major restructuring of futures regulation mandated by the CFMA. The committee members then engaged in substantive discussions with industry witnesses, Commission staff and each other concerning the usage of, and appropriate regulatory structure for, agricultural trade options and other risk management alternatives in light of the CFMA and proposed regulatory changes. They also heard presentations on the Warehouse Act of 2000 as it applies to agricultural futures and current activities of USDA's Risk Management Agency.

Technology Advisory Committee

The Technology Advisory Committee (TAC) advises the Commission on the impact and implications of technological innovation in the financial services and commodity markets. Its objectives include: 1) assisting the Commission in reviewing emerging technologies utilized by financial services and commodity markets; 2) identifying technology providers for the financial services and commodity markets; 3) analyzing the impact of emerging technologies on the financial services and commodity markets as well as on market professionals and market users, particularly in the areas of system capacities and readiness, order flow practices, and clearing and payment activities; 4) reviewing the CEA, as amended by the CFMA, and the regulations promulgated thereunder to assess their applicability to electronic issues and to ensure the Commission's ability to exercise appropriate fraud and manipulation authority; and 5) examining ways that the Commission may respond to the increasing use of technology in financial services and commodity markets through appropriate legislative proposals and/or regulatory reform.

During FY 2001, the TAC met to discuss implementation of the CFMA with regard to electronic trading facilities; NFA guidance on implementing best practices for electronic order routing; straight through processing; and a wide range of technology-related challenges. The Advisory Committee formed subcommittees on standardization and market access.

Global Markets Advisory Committee

The GMAC was created by the Commission on February 25, 1998, for the purpose of obtaining input on international market issues that affect the integrity and competitiveness of US markets and firms engaged in global business. As stated in GMAC's charter, "[t]he objectives and scope of activities of [GMAC] shall be to conduct public meetings and to submit reports and recommendations on matters of concern to the exchanges, firms, market users, and the Commission regarding the regulatory challenges of a global marketplace ... including ... avoiding unnecessary regulatory or operational impediments faced by those doing global business." Membership of GMAC consists of 23 individuals representing US futures exchanges, self-regulators, financial and commodity intermediaries, market users, and traders.

GMAC's most recent meeting took place on August 1, 2001. At the meeting, selected committee members, Commission staff, and industry representatives briefed the full committee on recent developments in electronic trading, the CFMA provisions on security futures products, cross-border access to domestic and foreign investors, and IOSCO activities. Following the briefings, GMAC members discussed policy alternatives potentially available under the CFMA amendments and considered how best to proceed in advising the Commission.

Memoranda of Understanding, International Arrangements

During the past year, the Commission continued to cooperate with a variety of foreign regulatory and enforcement authorities through formal MOUs and other arrangements to combat cross-border fraud and other illegal practices that could harm customers or threaten market integrity. Cross-border information sharing among regulators and enforcement authorities plays an integral role in the effective surveillance of global markets linked by products, participants, and technology. Indeed, information-sharing arrangements can be critical to combating cross-border fraud and manipulation, addressing the financial risks of market participants, and sharing regulatory expertise on market oversight and supervision. As a matter of course, the Commission makes and receives a significant number of requests for assistance and information to and from foreign authorities in connection with various marketplace and enforcement issues.

The Commission has entered into MOUs and cooperative arrangements with many jurisdictions including 19 formal cooperative enforcement arrangements, four arrangements relating to financial information sharing, and nine cooperative arrangements for sharing information on matters related to the implementation of the Commission's Part 30 regulations, which grant foreign firms an exemption from certain Commission rules. Moreover, the Commission was instrumental in the development of the Declaration on Cooperation and Supervision of International Futures Markets and Clearing Organizations and its companion exchange MOU, a multinational, large exposure, information-sharing arrangement.

In September 2000, OIA finalized a supplemental MOU with the CONSOB that facilitates, subject to each jurisdiction's national application procedures, remote electronic access by futures markets participants in one jurisdiction to regulated futures markets in the other jurisdiction by establishing reciprocal information-sharing arrangements regarding the initial and ongoing fitness and financial solvency of such remote members.

In December 2000, the Commission and the Commodities Exchanges Commission of the Ministry of the Russian Federation for Antimonopoly Policy and Support of Entrepreneurship issued a joint statement on technical assistance. In June 2001, the Commission signed an MOU with the Capital Markets Board of Turkey concerning consultation and cooperation in the enforcement of futures laws. The MOU provides a framework for the authorities to shape information and extend assistance to one another in taking statements, collecting information, and conducting investigations.

International Organization of Securities Commissions

The Commission is an active participant in IOSCO, an organization of more than 166 members from 97 countries. The main purposes of IOSCO are as follows: 1) provide mechanisms for exchanging information and expertise among regulatory authorities for the supervision of world securities and derivatives markets; 2) establish standards of best practices; 3) ensure market integrity; and 4) promote effective supervision. IOSCO deals with issues affecting both developed and emerging markets, secondary markets, financial intermediaries, international enforcement concerns, and investment management. Work is driven by IOSCO members and is carried out in working groups of its Technical Committee. The Chairman of the Commission serves as a member of the Technical Committee.

IOSCO conducts its work primarily through individual standing committees that specialize in issues related to multinational disclosure and accounting, the regulation of secondary markets, the regulation of market intermediaries, enforcement and the exchange of information, and investment management. The Commission has been active in work related to secondary markets, market intermediaries and enforcement, and the exchange of information. Illustrative work includes: regulatory issues concerning transparency; trading halts; securities settlement systems; standards for supervision of cross-border electronic trading systems; and efforts to identify legal and regulatory measures that can be useful and effective in the detection, investigation, and prosecution of price manipulation. In addition, the Commission has actively participated in a special Internet Task Force that is studying issues related to the use of the Internet in securities/derivatives transactions and on a combined task force of IOSCO and the Basle Committee on Banking Supervision's CPSS that is developing principles for securities settlement systems.

Cooperative Enforcement

Domestic

The Commission's cooperative enforcement efforts are an important part of its ability to promote compliance with and deter violations of, Federal commodities laws. Cooperative enforcement enables the Commission to maximize its ability to detect, deter, and impose sanctions against wrongdoers involving US markets, registrants, and customers. The benefits of cooperative enforcement include: 1) the use of resources from other sources to support Commission enforcement actions; 2) coordination in filing actions with other authorities to further the impact of enforcement efforts; and 3) development of consistent and clear governmental responses and avoidance of duplication of efforts by multiple authorities.

In FY 2001, the Enforcement program provided training to Federal and state regulatory and criminal authorities across the country. Enforcement program staff presented: 1) a program to state and Federal regulators on the new statutory requirements concerning foreign currency trading under the CFMA, with an emphasis on issues confronting law enforcement officials in investigating and prosecuting foreign currency schemes; 2) a program to state regulatory representatives regarding futures and options fraud generally, to aid in their investigation and prosecution of unregistered pool activity, IB fraud, and scams involving illegal instruments; 3) a session on Internet and financial fraud investigations at a training program for agents of the FBI; and 4) training to staff of the Internet Fraud Complaint Center, which is operated by the FBI and the National White Collar Crime Center about illegal conduct within the Commission's jurisdiction to help them recognize Internet complaints they receive that they can refer to the Commission for investigation.

As in the past, the staff of the Enforcement program have coordinated with numerous Federal, state, and self-regulatory authorities. Program staff have sought assistance from or provided assistance to various Federal agencies, such as the SEC, the US Postal Inspection Service, and the Internal Revenue Service (IRS). Similarly, Enforcement program staff have provided assistance to and/or received assistance from state authorities, such as agencies responsible for the regulation of corporations, securities, and banking. The Commission also has provided Federal and local law enforcement authorities with testimony or other assistance in connection with criminal investigations. Enforcement program staff have worked with the DOJ and various US Attorney's offices throughout the US, the FBI, the offices of numerous state attorneys general, local police authorities, and task forces focusing on issues such as boiler rooms.

Although the Commission cannot publicly describe the nature of the assistance obtained or given in connection with pending investigations, the following is a sampling of cooperative enforcement matters during the past year in which the Enforcement program coordinated its efforts with domestic authorities:

- In October 2000, a grand jury returned an indictment against Dolores Galdo Juntilla, charging wire fraud in connection with a scheme to defraud investors through two companies, Omega FX-Texas, Inc. and Omega FX-USA, that purportedly offered investors the opportunity to trade foreign exchange over the Internet but, in fact, operated as a "Ponzi" scheme. *United States v. Juntilla*, Criminal No. CRH-00-707, Indictment (S.D. Tex. filed October 16, 2000)

- In October 2000, Fred Eric DeJong, a principal of AC Trading Group, Inc., was sentenced pursuant to a plea agreement in the US District Court in San Francisco to 63 months in prison for money laundering with a concurrent sentence of 48 months for mail fraud for his role in the commodities fraud first investigated by Enforcement program staff. Alexis Carles, a co-defendant, pled guilty to one count of mail fraud arising from the same charges. In November 2000, Carles was sentenced to 60 months of probation and ordered to make restitution of $3,043,000. *United States v. Carles and DeJong*, Criminal No. CR-99-0517, Sentencing (N.D. Cal. entered October-November 2000). This criminal prosecution was a direct result of the evidence developed in the Commission's civil injunctive action against the defendants filed in April 1997. *CFTC v. AC Trading Group, Inc., et al.*, Civ. No. 97-1360 (N.D. Cal. filed April 17, 1997)

- In November 2000, Robert Holland was convicted of violating Iowa law in connection with his fraudulent solicitation of customers while working for an alleged boiler room engaged in the business of selling illegal foreign currency options. At the request of the Iowa Attorney General, the Commission provided the testimony of a futures trading investigator at the trial of this criminal action. *Iowa v. Holland*, Criminal No. FE-CR 007130 (Iowa, November 2000)

- In November 2000, Edward W. Schroeder was sentenced in the US District Court in Los Angeles to 15 months incarceration in Federal prison, followed by three years supervised release and ordered to pay restitution of $2.7 million. Carl John Hermans was sentenced in September 2000 to 15 months incarceration in Federal prison followed by three years supervised release and ordered to pay restitution of $387,000. Both had been indicted on charges of mail fraud and money laundering. The indictment alleged that during the Commission's investigation and civil injunctive action charging Schroeder with commodity pool fraud, Schroeder continued to engage in illegal trading by laundering money through hidden accounts set up with Hermans' assistance. Specifically, it alleged that Schroeder defied a court order in the Commission's action freezing his assets in order to continue making commodity trades and to withdraw money that was supposed to be preserved for victims. *United States v. Schroeder and United States v. Hermans*, Sentencing (C.D. Cal. entered November 2000)

- In December 2000, S. Jay Goldinger was sentenced to 12 months and one day in a Federal prison camp followed by three years of supervised release after his guilty plea for defrauding commodity investors. He was ordered to pay restitution of $72,250,000, with the acknowledgment that his maximum payments are expected to be $1,500 a month for three years for a total of $54,000. *United States v. Goldinger*, Criminal No. CR 99-1116-CBM, Sentencing (C.D. Cal. entered December 4, 2000). As a result of a Commission walk-in inspection at Goldinger's firm, Capital Insight Brokerage, Inc. Capital Insight and subsequent investigation by Commission staff, Goldinger turned himself in and entered into a plea agreement with the US Attorney's Office. In November 1999, the Commission had obtained a consent order of permanent injunction and a $6 million disgorgement order in a civil injunctive action against Goldinger and Capital Insight. *CFTC v. Goldinger, et al.*, No. 99-11543 WMB (C.D. Cal. entered November 12, 1999)

- In January 2001, a grand jury returned an indictment charging Scott N. Szach, the former chief financial officer of registered FCM Griffin Trading Company, in connection with his unauthorized securities trading. *United States v. Szach*, Criminal No. 01CR 0008, Indictment (N.D. Ill. filed January 8, 2001). In May 2001, Szach pled guilty and was sentenced to two years in prison followed by two years of supervised release for wire fraud. The court also ordered Szach to pay full restitution of $2,096,580. The Commission worked cooperatively with the US Attorney's Office for the Northern District of Illinois in this matter and coordinated the filing and simultaneous settlement of a related administrative enforcement action on the same date as the criminal action. *In re Szach*, CFTC Docket No. 01-05 (CFTC filed January 8, 2001)

- In January 2001, John Larry Schenk pled guilty and was sentenced to one to 15 years for securities fraud and racketeering arising from his fraudulent operation of several commodity pools. The court also ordered Schenk to pay $637,516 in restitution. *United States v. Schenk*, Criminal Sentencing (D. Utah entered January 24, 2001). The criminal complaint, filed January 6, 2000, arose from the same conduct for which Schenk was charged in a Commission civil injunctive action filed in March 1998. An order of permanent injunction was entered against Schenk in the civil action in May 2000. *CFTC v. Schenk, et al.*, No. 2:98 CV 00216J (D. Utah filed March 27, 1998)

- In January 2001, Mark E. Chulik was sentenced to 15 months and ordered to pay restitution based on his guilty plea to four counts of fraud. His plea covered two counts of commodity fraud arising from the pool fraud initially investigated by Commission staff, which worked with the US Attorney's Office for the Central District of California throughout the criminal proceeding. *United States v. Chulik*, Criminal No. CR 00-1044 DFP, Sentencing (C.D. Cal. entered January 30, 2001). In February 2000, the Commission had obtained a consent order of permanent injunction and restitution in a civil injunctive action against Chulik, which found that Chulik had committed fraud and acted as an unregistered CPO. *CFTC v. Chulik, et al.*, No. 99-02412 GAF (C.D. Cal. entered February 15, 2000)

- In February 2001, a grand jury returned an indictment against Adam Juechter, Thomas Paley, Karol Kawalec, Wendy Bishop, Brian Lodestro, Christopher Arcoleo, and Jeffrey Freidman, charging them with wire fraud and conspiracy to commit money laundering in connection with their fraudulent solicitation of more than $3 million from retail customers to trade illegal foreign currency futures contracts through AYM Financial, Inc. (AYM). *United States v. Juechter, et al.*, Criminal Indictment (filed February 13, 2001). The criminal case arose from the same conduct for which AYM, Paley, Juechter, and AYM employee Mark Kronish were charged in a joint civil injunctive action filed by the Commission and the Arizona Corporation Commission on April 1,

1996. Consent orders of permanent injunction were entered against the defendants in the civil action in October 1999. *CFTC and Az. Corp. Comm'n v. AYM Financial Corp., et al.*, No. 96-CV-2640 (E.D. Pa. filed April 1, 1996)

- In February 2001, a grand jury returned an indictment charging Edward Fleming with 15 counts of contempt. *United States v. Fleming,* Criminal No. 01-10068-ALL, Indictment (D. Mass. filed February 15, 2001). The indictment charged that Fleming violated a series of court orders while acting as a court-appointed receiver in a Commission civil injunctive action. *CFTC v. U.S. Investment Co., Ltd., et al.*, No. 81-1070-MLW, Final Judgment (D. Mass. entered June 5, 1981)

- In March 2001, Philip B. Greer, Philip Mark Vaughan, and others were indicted by a Federal grand jury on 37 counts alleging conspiracy, fraud, and money laundering. The indictment alleged a scheme to defraud more than 500 investors out of $56 million in part by using the name of a charitable organization that supports missionary work abroad. Specifically, Greer, Vaughan, and other conspirators were charged with creating a "Ponzi" scheme and promising investors that they would make an annual return of up to 84 percent because their company, Banyan International Ltd., earned profits from a securities and commodity futures trading strategy that was virtually risk free when, in fact, Banyan's investments resulted in substantial losses of investor funds. On June 5, 2001, Greer pled guilty to commodity pool fraud in violation of the CEA, as well as six counts of money laundering and fraud. On June 14, 2001, Vaughan pled guilty to five counts of money laundering and fraud. The indictments were the result of a two-year investigation by the FBI, Internal Revenue Service (IRS), Postal Inspection Service, Secret Service, and the Commission. *United States v. Greer and Vaughan, et al.*, Criminal No. 3:01-CR11-T, Indictment (W.D. N.C. filed March 15, 2001)

- In March 2001, a grand jury returned an indictment against Robert L. Dormagen, alleging that he committed fraud while acting as a CPO and charging him with money laundering, unlawful monetary transactions, and wired, mail, and bankruptcy fraud. *United States v. Dormagen*, Criminal No. 2:01-00093, Indictment (S.D. W.Va. filed March 22, 2001). The criminal complaint arose from the same conduct for which Dormagen was charged in a Commission civil injunctive action filed in July 2000. *CFTC v. Dormagen, et al.*, No. 6:00-0567 (S.D. W.Va. filed July 3, 2000)

- In April 2001, the US Attorney's Office for the Southern District of Ohio filed a criminal information against Jeffrey T. Bailey, charging him with fraud, false reporting, and deception in connection with commodity futures contracts in violation of the CEA, arising from his fraudulent solicitation of customers while acting as a CPO in his own name and in the name of JMK Capital Management, Inc. (JMK). *United States v. Bailey*, Criminal No. CR 1 01 023, Information (S.D. Ohio filed April 12, 2001). On the same day, the Commission filed a civil injunctive action against Bailey and JMK, alleging that they fraudulently solicited customers to invest in the pool and misappropriated funds. *CFTC v. Bailey, et al.,* No. G-1-01:212 (S.D. Ohio filed April 12, 2001)

- In April 2001, the Commission filed a civil injunctive action charging SunState FX, Inc. and Ulrich Garbe with fraudulent solicitation of investors to trade foreign currency contracts, fraudulent operation of a commodity pool, illegal sale of commodity options, and registration violations. As part of a coordinated cooperative enforcement effort, the SEC also filed a civil injunctive action against SunState, Garbe, and others for violations of the Federal securities laws arising out of the same underlying facts. *CFTC v. SunState FX, Inc., et al.,* No. 01-8329-CIV-MORENO (S.D. Fla. filed April 18, 2001)

- In April 2001, the Commission filed a civil injunctive action charging International Currency Strategies, Inc., Fairfield Currency Group, Inc., Strategic Trading Group, Inc., Valentin Fernandez, Daniel Phillips, and Manny Kavekos with fraudulently soliciting customers to purchase illegal foreign currency options and misappropriating customer funds. The CFTC coordinated its action with the US Attorney's Office for the Southern District of Florida and the FBI. In a related criminal action, the US Attorney's Office indicted and arrested Fernandez, Phillips, and Kavekos for criminal violations arising out of the same activities. *CFTC v. International Currency Strategies, Inc., et al.,* No. 01-8350 (S.D. Fla. filed April 20, 2001)

- In April 2001, the Commission filed a civil injunctive action charging Infinite Trading Group, L.L.C., Shawn Christie, Edward Cameron Lindsey, and Anthony Garcia with fraudulently soliciting customers to trade illegal foreign currency options and misappropriating customer funds. The Georgia Governor's Office of Consumer Affairs and the US Attorney's Office for the Northern District of Georgia assisted the Commission in its investigation of this matter. The Commission coordinated the filing of its injunctive action with the Georgia authorities who, on May 1, 2001, arrested Christie and Lindsey for criminal violations in connection with their activities at Infinite Trading Group. *CFTC v. Infinite Trading Group, L.L.C., et al.,* No. 1:01-CV-1107 (N.D. Ga. filed April 30, 2001)

- In May 2001, Edward M. Collins was sentenced to 97 months imprisonment and ordered to pay $33 million in restitution after a jury found Collins guilty of 11 counts of mail fraud. *United States v. Collins*, Criminal No. 99 CR 311, Sentencing (N.D. Ill. entered May 24, 2001). In July 1994, the Commission filed a related civil injunctive action alleging that Collins, and others, committed fraud in connection with the operation of a commodity pool. On February 6, 1997, the district court granted the Commission's motion for summary judgment finding that Collins had committed the violations, as charged. *CFTC v. Collins, et al.*, No. 94 C 4375 (N.D. Ill. filed July 19, 1994)

- In July 2001, David Mobley, Sr., pled guilty to eight criminal counts, including wire fraud, mail fraud, money laundering, and tax evasion. *Unites States v. Mobley*, Criminal No. 2:00-CR-71-FtM-29DNF, Criminal Plea (M.D. Fla. entered July 21, 2001). Mobley's fraudulent conduct was the subject of a Commission enforcement action alleging that Mobley and several entities that he owned or controlled carried out a $59 million fraud on more than 170 investors in funds managed by Mobley and several of his entities. The civil injunctive action was filed with the assistance of the FBI and coordinated with the filing of a related fraud action by the SEC. *CFTC v. Mobley, et al.*, No. 00 Civ. 1317 (RCC) (S.D.N.Y. filed February 22, 2000)

- In July 2001, a grand jury returned a 10-count indictment against Scott Bell and R. Scot Rubel for allegedly cheating investors in connection with their now-defunct hedge fund, Theta Group, LLC. The fund invested in securities, securities options, and commodity futures. Bell and Rubel allegedly lured 32 wealthy individuals to invest more than $13 million in the hedge fund they managed and then took approximately $2 million for themselves while incurring trading losses of more than $4 million. The Commission and the SEC assisted the FBI in its investigation of this matter. *United States v. Bell and Rubel*, Criminal No. 01CR 0669, Indictment (N.D. Ill. filed July 25, 2001)

- In September 2001, Edward W. Knipping pled guilty to one count of wire fraud and agreed to forfeit funds previously seized by the government and to make restitution of approximately $6 million. *United States v. Knipping*, Criminal No. 01-74-P-H (D. Me. entered September 5, 2001). On June 20, 2001, the Commission filed a related civil injunctive action against Knipping and Time Traders, Inc. charging them with fraudulently operating a commodity pool and misappropriating funds. *CFTC v. Knipping, et al.*, No. 01-163-P-H (D. Me. filed June 20, 2001)

- In September 2001, Barry J. Wolf, a former Commission registrant, was sentenced to five years in prison and ordered to pay nearly $3 million in restitution in connection with his fraudulent solicitation of customers to invest in commodity futures accounts that Wolf managed. In May 2001, Wolf had pled guilty to 13 counts of mail fraud and commodity fraud. The Commission assisted the Department of Justice in its investigation of this matter. *United States v. Wolf*, Criminal No. OOCR 0871, Sentencing (N.D. Ill. entered September 13, 2001)

International

The Commission continues to coordinate enforcement activities with foreign authorities. During FY 2001, the Commission made 89 requests for assistance to foreign authorities, and it received 16 requests from authorities in foreign jurisdictions. The information exchanged between the Commission and foreign authorities has included registration and disciplinary histories of US and foreign firms and individuals, as well as evidence, including testimony and bank and brokerage account records, for use in investigations and enforcement actions.

Other Cooperative Efforts

In addition to direct cooperation with domestic law enforcement and regulatory authorities, the Enforcement program also represents the Commission in a variety of domestic and international efforts including task forces and working groups designed to keep market participants abreast of new developments in financial crimes and to coordinate governmental responses. Several examples of the efforts of the Enforcement program in this regard follow:

- *Telemarketing and Internet Fraud Working Group*. The Telemarketing and Internet Fraud Working Group consists of representatives from state and Federal regulatory and criminal authorities. At the working group's quarterly meetings, members discuss all aspects of telemarketing and Internet fraud, including issues such as new scams, new uses of technology, geographical hotspots for certain types of fraudulent activity, effective enforcement techniques, and recent cases that establish relevant precedent in the area. In the past, the working group served as a vehicle to introduce authorities to and train them to use the Consumer Sentinel Database, a clearinghouse for consumer complaints relating to, among other things, telemarketing and Internet fraud.

- *Consumer Protection Initiatives Committee*. The Consumer Protection Initiatives Committee was created by the Attorney General's Council on White-Collar Crime to coordinate activities of various agencies' consumer protection programs. Goals of the Committee include: 1) minimizing duplication of consumer protection efforts by sharing information on various fraud prevention and enforcement initiatives; 2) developing interagency consumer protection initiatives focusing on enforcement, deterrence, and public awareness; and 3) facilitating referrals of cases with strong criminal implications to the DOJ and the various US Attorney's Offices so as to better address consumer fraud issues.

- *Securities and Commodities Fraud Working Group*. The Securities and Commodities Fraud Working Group is a vehicle for public and private sector participants to discuss current trends in financial crime in the securities, futures, and options industries and to exchange ideas about enforcement techniques. The group, organized by the Fraud section of the Criminal Division of the DOJ, meets on a quarterly basis and its members include criminal and regulatory authorities from state and Federal agencies and representatives from various exchanges and other SROs.

- *"Internet Surfs" and Training.* During FY 2001, the Commission participated in an international "Internet Surf" and co-hosted an Internet surveillance training program. On April 23, 2001, the

Commission participated in the second annual international Internet surf day organized by IOSCO that included the participation of 38 regulators in 35 countries. The sites identified for follow-up review by the Commission and NFA involved commodity futures and options in a variety of settings, such as: 1) computerized trading systems promising highly successful buy and sell signals; 2) trade recommendations based on seasonal trends in the prices of commodities such as heating, oil, and gasoline; and 3) purported profit opportunities on commodities, such as foreign currencies, precious metals, and stock indices.

On June 14 and 15, 2001, the Commission and the SEC jointly hosted a third Internet Surveillance Training Program for relevant enforcement staff from IOSCO members. The program was held at the Commission's Washington, D.C. headquarters. Twenty-two participants from 17 jurisdictions attended the program.

Money Laundering. The Commission participates in domestic and international anti-money laundering cooperative enforcement efforts. On the domestic front, the Commission is a member of the Money Laundering Strategy Working Group (MLSWG) and the US Treasury Department's Bank Secrecy Act Advisory Group (BSAAG) and is consulting with the US Treasury in developing regulations as required by the USA Patriot Act enacted in response to the terrorist attacks of September 11, 2001. Internationally, the Commission has aided the US delegation to the Financial Action Task Force (FATF), including its efforts to combat global terrorist financing in the wake of the September 11 attacks.

US Treasury Department Financial Stability Agenda

The Commission contributes to the initiatives of the US Treasury Department to encourage global financial stability as called for in the 1997 Denver Statement of the Group of Seven Industrialized Nations (G-7) Heads of State and Government. Since the Denver Summit, the G-7 has focused on a range of measures to promote stability in the international financial system, including organizing the FSF to further issues in connection with the international financial architecture. The Commission has commented on various position papers prepared by the FSF. The Commission also provided comment to the US Treasury on World Trade Organization (WTO) negotiation position papers and provided support for Sub Cabinet Discussion with Taiwan.

Executive Direction & Support

The Commission participates in external groups and professional organizations to enhance its ability to remain informed about the latest advances in technology and administrative policies and practices both in the Federal and private sectors. Examples include:

Office of the Chairman

The Chairman participates in bi-monthly meetings of heads of small agencies. These meetings provide a forum for a diverse group of agency leaders to discuss administrative, statutory, and other substantive issues of mutual concern and to share experiences for overcoming common obstacles.

Office of the Executive Director

OED actively participates in the Small Agency Council, an organization of approximately 70 small Federal agencies that promotes cooperation and provides a mechanism for sharing information and expertise on administrative management.

In FY 2000, the Commission developed and implemented programs to enhance employee performance, promote employee morale, and improve the quality of services provided by the Commission. For example, OED implemented agency-wide training on two tracks: 1) a "nuts and bolts" training program for managers; and 2) training in industry, technical, and legal matters. The agency also appointed its first full-time EEO Director and moved the EEO office from the OED to the Chairman's Office. In addition, OED re-established an Employee Assistance Program and issued policies on recruitment and relocation bonuses, retention allowances, and professional liability insurance.

In FY 2001, the Commission established the EMC to develop integrated Commission-wide strategies for the effective use of financial, human, IT, and physical resources to support the mandates of the Commission. In addition, OED will continue in FY 2002 a teambuilding effort within the division and will continue a review of processes within administrative offices, which began in FY 2001 with OAS. The Commission will also continue to improve its procurement and accounting services, working with Department of Interior to develop a Commission-wide plan to implement a Fixed Asset Subsystem integrated with the Commission's Federal Financial System. The Commission will work with the NFC to upgrade its time and attendance reporting system. In addition, the Commission will expand its use of its intranet and will evaluate a system that would allow employees to prepare and maintain annual financial interest forms online.

Office of Administrative Services

OAS has established and maintained new working relationships with Federal Occupational Health, Occupational Safety and Health Administration (OSHA), and the Federal Emergency Management Agency (FEMA) to create and implement a new Safety and Health program. Interaction between these agencies has provided OAS valuable information in dealing with health, safety, and emergency preparedness issues.

Information Resources Management

The Office of Information Resources Management (OIRM) is a member of the Small Agency Information Resources Management Council. This council is the small agency counterpart to the Federal government's Chief Information Officers Council for large agencies. This council supports Federal information technology professionals as they develop robust information technology programs within their respective agencies. Both best practices and lessons learned are shared among members so that they may better implement the information technology guiding principles and regulatory requirements of OMB, GAO, and Congress.

OIRM also belongs to the FTS 2001 Coordinators Group and the Definity Users Group. Both groups deal with telecommunications issues. The FTS 2001 group provides a means to communicate government-wide issues to the commercial phone services companies, such as Sprint and MCI. The Definity Group provides a vehicle for communicating with other Lucent Definity phone system users.

Office of Financial Management

OFM is active in four important user groups: the US Treasury's Financial Management Service User's Group, the Non-Department of Interior Software Advisory Board, GSA Interagency Travel Management Committee, and the Travel Manager Interagency User Group. Participation in these groups enables the Commission to stay abreast of developments in and enhancements of these complex software systems as well as the latest developments and trends in Federal financial management. In addition, the Commission learns how other agencies and financial organizations are addressing new initiatives and changing system requirements.

Office of Human Resources

Participatory working relationships maintained by OHR foster support of management initiatives. In providing a wide variety of services to managers and employees, the OHR staff continued its active engagement in a number of interagency organizations. The relationships established include:

- *Committee for Automated Payroll/Personnel System*. This committee was formed to promote efficiency and effectiveness through enhanced system design and operations of the USDA's National Finance Center.

- *Human Resources Development Policy Subcommittee*. This is a working group of training officers who review, develop, interpret, and provide guidance on Federal government training policy.

- *Interagency Alternative Dispute Resolution (ADR) Working Group*. This group encourages agencies to use ADR techniques in resolving workplace disputes.

- *International Personnel Management Association*. This is a professional association that serves as a reference in obtaining current human resource information in the Federal government.

- *National Academy of Public Administration, Center for Human Resources Management*. This center brings together more than 50 agencies to generate cost-effective research, information, educational programs, and consulting services throughout the public sector.

- *National Council of Hispanic Employment Program Managers*. This is a working group established to promote equal employment opportunity for Hispanics in the Federal workplace.

- *Office of Personnel Management*. OPM established interagency network groups to collect agency input on employment trends and on human resources initiatives and proposals.

- *Shared Neutrals*. The shared neutrals program offers reciprocal mediation services, (ADR), among Federal agencies.

- *Small Agency Council on Training*. This consortium provides training opportunities to employees of member small agencies.

- *Small Agency Human Resources Council*. This group assesses how various human resources law, regulatory, and OPM policies impact small agencies.

Office of the Inspector General

The Inspector General is an active participant on the Executive Council on Integrity and Efficiency, an organization of agency-appointed Inspectors General that meets regularly to discuss common problems and solutions.

Commission Library

The library is a member of the Federal Library and Information Center Network (FEDLINK), a group that negotiates contracts with vendors of library materials and services on behalf of all Federal libraries. FEDLINK is also the mode by which the Commission Library accesses the Online Computer Library Center (OCLC), a worldwide shared cataloging and interlibrary loan network. The library also participates in the Metropolitan Library Network and the Law Librarians Society of Washington, D.C., a network that permits rapid location and use of documents not held by the Commission.

APPENDIX

The Commissioners

James E. Newsome, Chairman

James E. Newsome was confirmed by the U.S. Senate on December 20, 2001, to serve as Chairman of the Commodity Futures Trading Commission (CFTC). He was sworn in December 27, 2001, to a term expiring in June 2006. Chairman Newsome has served as a Commissioner of the CFTC since August 10, 1998, and as Acting Chairman since January 20, 2001.

Prior to joining the CFTC, Chairman Newsome served for nine years as Executive Vice-President of the Mississippi Cattlemen's Association and Beef Council. Additionally, he served as Chairman of the Mississippi Agribusiness Council, which is devoted to the development of domestic and international agribusiness opportunities within the state of Mississippi.

Chairman Newsome's involvement in agriculture led to his association with numerous organizations in both Mississippi and his home state of Florida. He has served as President of the Association of Mississippi Agriculture Organizations; as a member of the Governor's Task Force on the Future of Mississippi Agriculture and the Governor's Task Force on the Future of Florida's Small Farms; as a Delegate to the National Council for Agriculture Research, Extension and Teaching; as President of the Florida Future Farmers of America; and as President of the University of Florida Agriculture Council.

Since joining the Commission, Chairman Newsome has actively encouraged industry participation in regulatory initiatives, and has served as Chairman of the CFTC's Technology Advisory Committee. His conservative approach to Commission responsibilities has been open and inclusive and has contributed to major regulatory reform of the U.S. futures and derivatives markets.

A native of Plant City, Florida, Chairman Newsome received his B.S. degree in Food and Resource Economics from the University of Florida and his M.S., and Ph.D. degrees in Animal Science/Agricultural Economics from Mississippi State University. He is married to the former Mary Margaret Pomeroy of Carmel Valley, California and they have two daughters.

Barbara P. Holum, Commissioner

Barbara Pedersen Holum was nominated to be a Commissioner of the Commodity Futures Trading Commission by President Clinton on November 8, 1993, and confirmed by the Senate on November 19, 1993, and sworn in on November 28, 1993. On December 23, 1993, she was elected by seriatim order of the Commission to serve as Acting Chairman. Ms. Holum served in this capacity until October 12, 1994. She was appointed Chairman of the Advisory Committee on

CFTC-State Cooperation on March 14, 1994, and appointed Chairman of the GMAC on March 10, 1998. Commissioner Holum was confirmed by the Senate on July 31, 1998, and sworn in on August 4, 1998, to serve a second term as Commissioner at the CFTC.

Prior to joining the CFTC, Ms. Holum was President of the National Agricultural Lands Center, a non-profit private organization, which administers agricultural resource conservation programs and projects. Ms. Holum's government posts include serving as the Director of Congressional Liaison for the Commodity Futures Trading Commission during President Carter's administration and as the Congressional Liaison Officer for the National Agricultural Lands Study.

Ms. Holum was raised in Boelus, Nebraska. She was educated at the University of Nebraska and the University of Denver. Ms. Holum and her husband John reside in Annapolis, Maryland.

Thomas J. Erickson, Commissioner

Thomas Erickson was sworn in as a Commissioner of the US Commodity Futures Trading Commission on June 21, 1999. He was nominated by President Clinton on February 5, 1999, and confirmed by the Senate on June 17, 1999, to a term expiring in April 2003. Mr. Erickson serves as Chairman of the Commission's Technology Advisory Committee.

Mr. Erickson first joined the Commission in September 1997 as the Director of the Office of Legislative Affairs, after serving as Assistant to the President/Legal Counsel for the National Grain Trade Council. At the Council, he represented the grain trade and futures markets on matters of agricultural policy, futures trading, international trade, grain quality, and tax issues. Previously, he served as Legislative Assistant to US Senator Thomas A. Daschle.

A native of Sioux Falls, South Dakota, Mr. Erickson received a Bachelor of Arts degree in Government and International Affairs from Augustana College in 1984 and a Juris Doctor degree from the University of South Dakota School of Law in 1987. He is a member of the State Bar of South Dakota and of the District of Columbia Bar.

Mr. Erickson is married to Nancy Erickson of Brandon, South Dakota, and they have two children. The family resides in Washington, D.C.

Commodity Futures Trading Commission

Summary by Program Table

	FY 2001		FY 2002		FY 2003 Current Svcs.		FY 2003 Request	
	FTE	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE	$ (000)
Market Surv., Analysis & Rsrch.	**71**	**$9,247**	**68**	**$11,430**	**68**	**$9,941**	**73**	**$10,582**
Market Surveillance	55	7,155	53	8,659	53	7,523	58	8,202
Market Analysis	11	1,435	10	1,856	10	1,610	10	1,582
Market Research	5	657	5	915	5	808	5	798
Trading & Markets	**123**	**15,759**	**110**	**19,212**	**110**	**16,855**	**114**	**17,220**
Contract Markets	50	6,408	45	7,619	45	6,688	46	6,739
Regulatory Dev. & Registration	17	2,196	17	3,395	17	2,960	19	3,235
Audit and Review	56	7,155	48	8,198	48	7,207	49	7,246
Enforcement	**150**	**20,988**	**146**	**26,048**	**146**	**22,901**	**148**	**22,879**
Proceedings	**18**	**2,303**	**15**	**2,579**	**15**	**2,254**	**15**	**2,215**
General Counsel	**32**	**4,484**	**29**	**5,619**	**29**	**5,025**	**30**	**5,110**
Exec. Direction & Support	**152**	**18,077**	**142**	**25,712**	**142**	**22,624**	**157**	**24,794**
Agency Direction	51	6,678	47	8,812	47	7,816	52	8,658
Admini. Mgmt & Support	101	11,399	95	16,900	95	14,808	105	16,136
Total	546	$70,858	510	$90,600	510	$79,600	537	$82,800

Table 15: Summary by Program

Commodity Futures Trading Commission

Summary by Object Classification Table

IDENTIFICATION CODE: 95-1400-0-1-376		FY 2001	FY 2002	FY 2003
		($000)	($000)	($000)
11.1	Full-Time Permanent Compensation	$35,666	$36,495	$41,274
11.3	Other Than Permanent Compensation	2,500	2,500	2,500
11.5	Other Personnel Compensation	1,025	1,018	1,055
11.8	Special Pers. Serv. Payments	99	162	220
11.9	SUBTOTAL, PERSONNEL COMP.	39,290	40,175	45,049
12.1	Personnel Benefits: Civilian	12,561	13,905	15,085
13.0	Benefits for Former Personnel	14	66	67
21.0	Travel & Transportation of Persons	949	1,087	1,041
22.0	Transportation of Things	11	13	13
23.2	Rental Payments to Others	8,110	8,213	9,780
23.3	Comm., Utilities & Miscellaneous	1,498	1,805	1,514
24.0	Printing and Reproduction	334	318	263
25.0	Other Services	5,880	20,920	7,371
26.0	Supplies and Materials	661	721	788
31.0	Equipment	1,511	3,377	1,829
42.0	Claims/Indemnities	-	-	-
99.0	SUBTOTAL, DIRECT OBLIGATIONS	70,819	90,600	82,800
99.0	Reimbursable	114	100	100
99.0	TOTAL OBLIGATIONS	$70,933	$90,700	$82,900

Table 16: Summary by Object Classification

Commodity Futures Trading Commission

Growth in Volume of Futures & Options Contracts Traded & FTEs

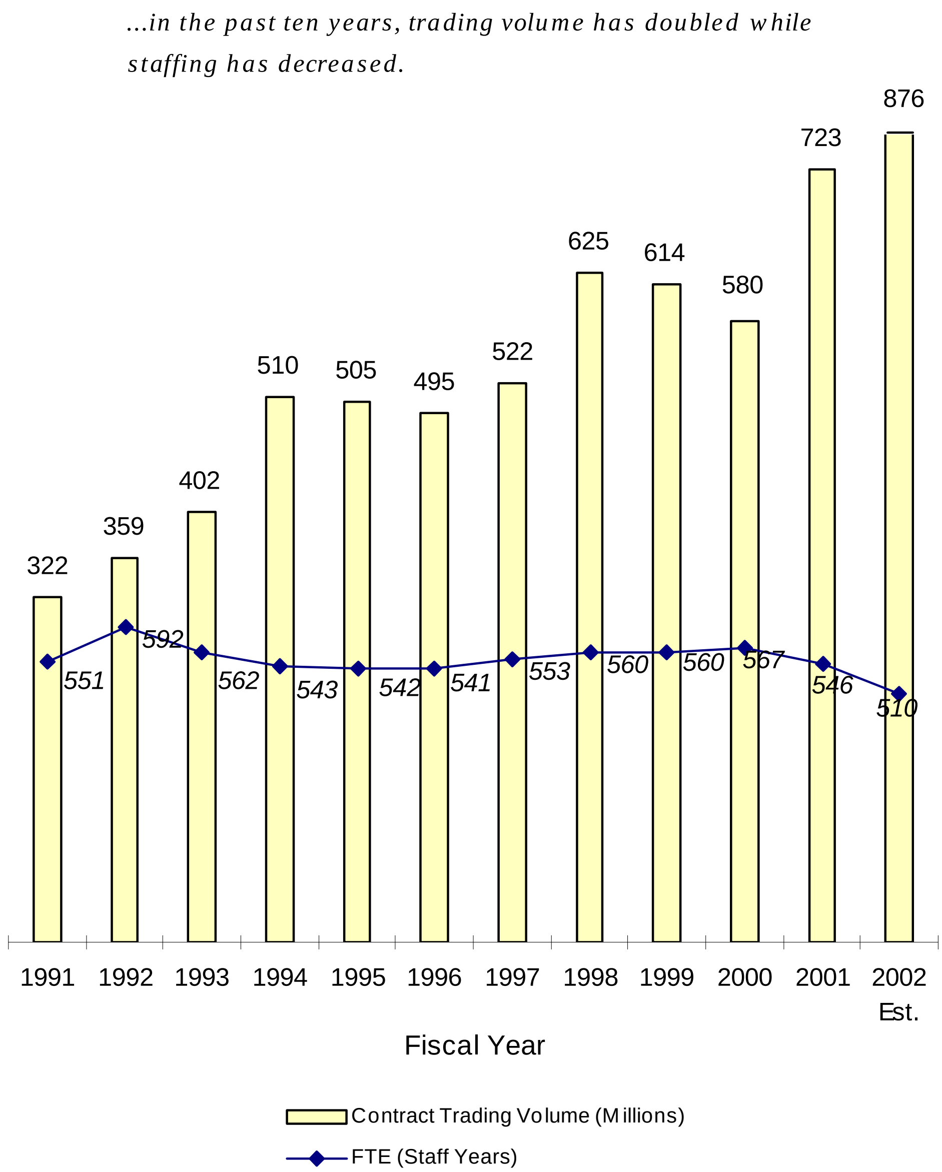

Figure 30: Growth of Volume of Contracts Traded and FTEs

Commodity Futures Trading Commission

Actively Traded Futures & Options Contracts

The number of actively traded contracts traded on US exchanges has almost doubled in the last decade, 1991-2000.

The number is expected to grow to 350 contracts by FY 2003.

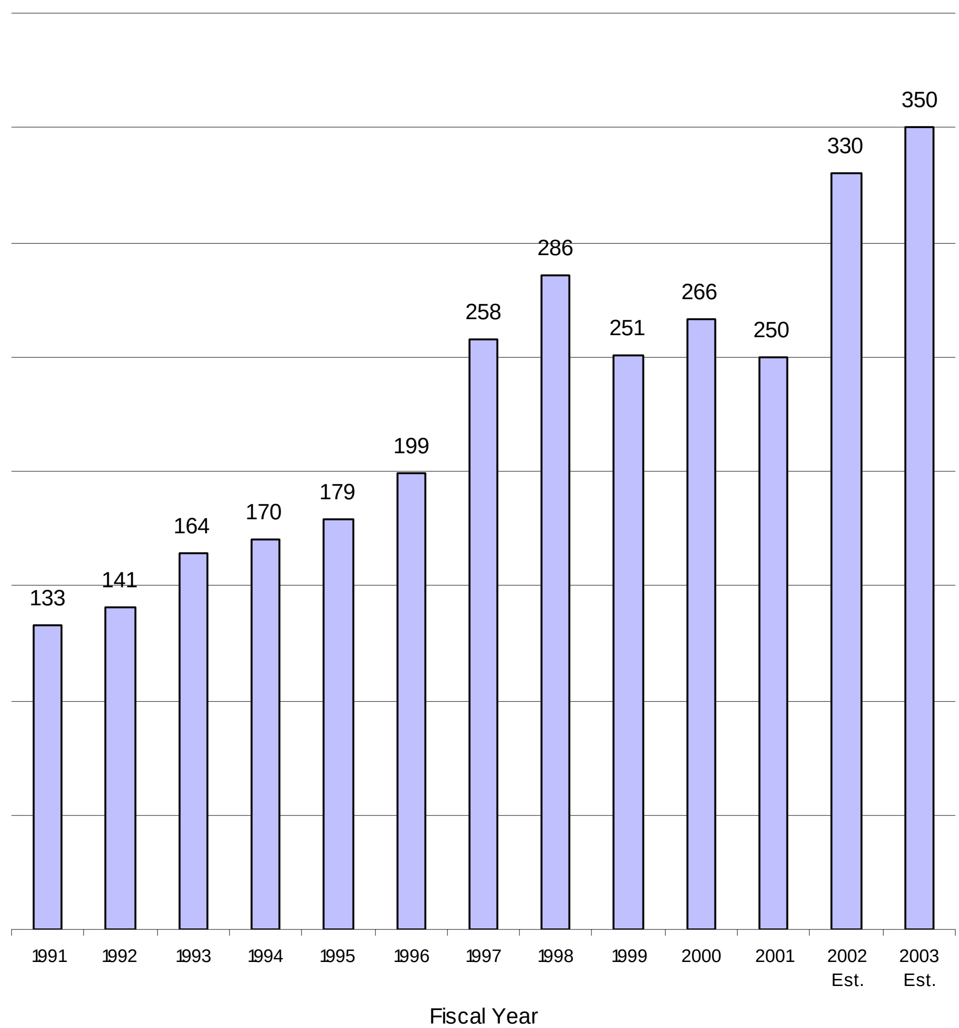

Figure 31: CFTC Actively Traded Contracts

Commodity Futures Trading Commission

Number of Registered Commodities Professionals

Companies and individuals who handle customer funds or give trading advice must apply for registration through the NFA, a self-regulatory organization to which the Commission has delegated that responsibility subject to CFTC oversight.

The Commission regulates the activities of over 64,992 registrants:

Type of Registered Professional	Number in Sept 2001
Associated Persons (AP) (Sales People)	*48,763*
Commodity Pool Operators (CPOs)	*1,761*
Commodity Trading Advisors (CTAs)	*2,749*
Floor Brokers (FBs)	*8,628*
Floor Traders (FTs)	*1,296*
Futures Commission Merchants (FCMs)	*192*
Introducing Brokers (IBs)	*1,603*
TOTAL	*64,992*

Table 17: Number of Registered Commodities Professionals

Customer Funds in Futures Commission Merchants Accounts

From 1995 through 2001, the amount of customer funds held in FCM accounts has almost doubled.

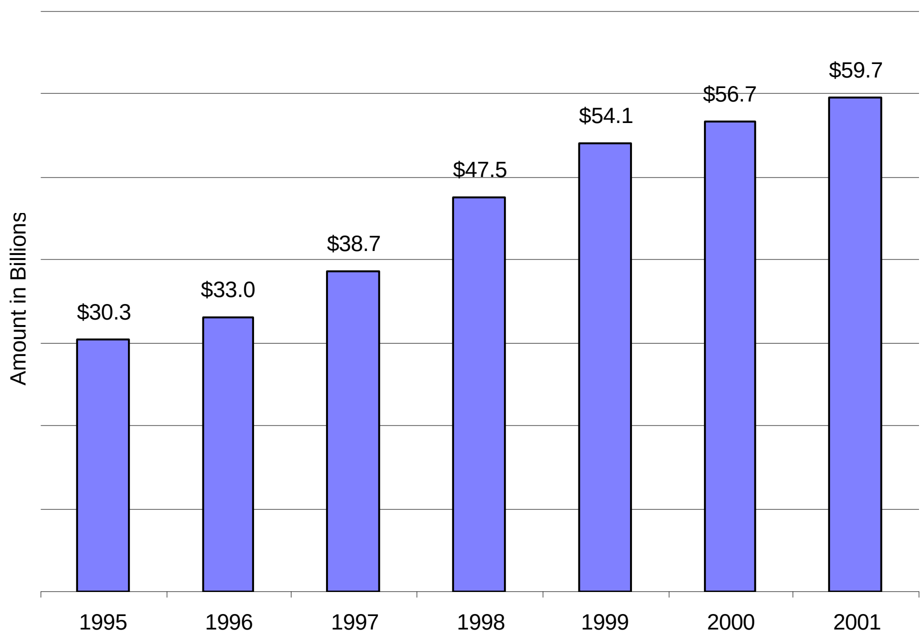

Figure 32: Customer Funds in FCM Accounts

Commodity Futures Trading Commission

Map of CFTC-Regulated Commodity Exchanges*

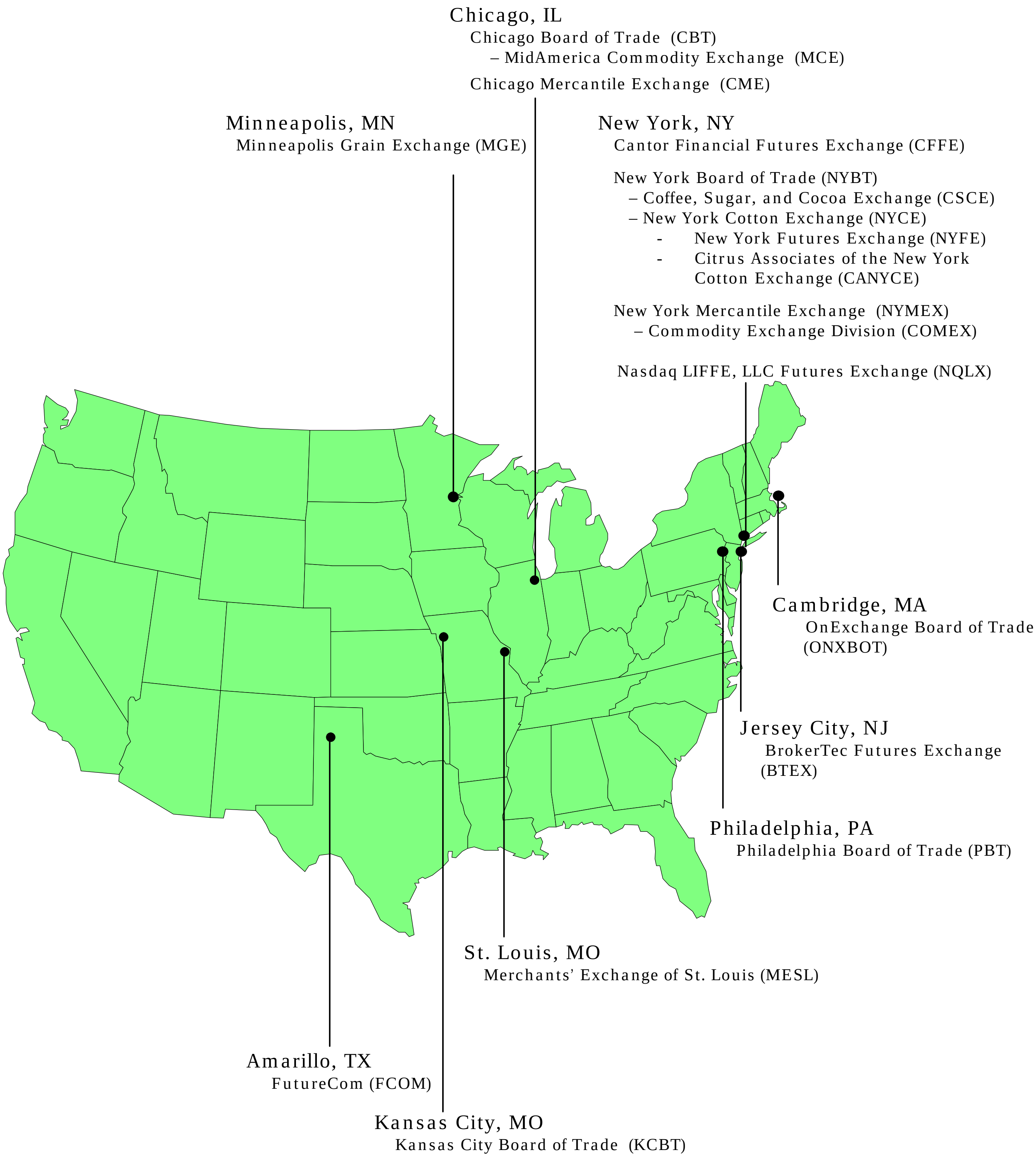

Figure 33: Map of CFTC-Regulated Commodity Exchanges

* CFTC-regulated commodity exchanges include only exchanges with non-dormant contracts.

Commodity Futures Trading Commission

Statement of Obligations & Employment by Geographic Location

Locations of Obligations (Millions)

	FY 2001	FY 2002	FY 2003
California	$2.1	$2.5	$2.3
District of Columbia	44.6	52.1	52.5
Illinois	13.3	16.8	16.0
Minnesota	0.2	0.2	0.2
Missouri	0.8	1.0	0.9
New York	9.9	18.0	10.9
Total Direct Obligations	$70.9	$90.6	$82.8

Location of Employment (Staff Years)	FY 2001	FY 2002	FY 2003
California	16	15	15
District of Columbia	339	316	340
Illinois	105	101	103
Minnesota	2	2	2
Missouri	7	6	6
New York	77	70	71
Total Staff Years	546	510	537

Commodity Futures Trading Commission

Summary of Futures & Option Trading in FY 2000 and FY 2001

Futures ¾ Average Month-end Open Interest, Number of Contracts Traded and Number of Contracts Settled by Delivery or Cash Settlement by Major Groups, All Markets Combined from FY 1995 through FY 2001

Fiscal Year	Total	Grain	Oilseed Products	Livestock Products	Other Agriculturals	Energy/Wood Products	Metals	Financial Instruments	Currencies
Average Month-end Open Interest (In Contracts)									
1995	6,434,175	502,955	332,115	118,664	357,332	695,734	378,352	3,749,845	299,178
1996	6,671,956	594,283	383,027	149,110	357,039	707,515	368,788	3,776,614	335,580
1997	7,035,190	484,878	378,005	158,554	399,845	793,050	355,152	4,052,556	413,150
1998	8,734,778	561,316	419,055	156,097	425,208	969,274	351,300	5,337,352	515,176
1999	8,927,497	581,590	420,159	178,617	395,387	1,140,329	361,265	5,372,623	477,527
2000	8,940,241	683,946	424,364	200,228	440,779	1,014,794	318,505	5,454,917	402,708
2001	10,225,194	686,902	435,295	185,850	428,695	1,089,204	285,622	6,692,181	421,445
Number of Contracts Traded									
1995	409,420,426	21,093,886	20,687,820	6,238,509	12,744,901	47,944,153	17,393,317	259,024,379	24,293,461
1996	394,182,422	30,217,442	25,591,703	7,048,534	12,018,522	46,891,524	16,938,969	234,261,790	21,213,938
1997	417,341,601	25,507,498	27,132,483	7,550,556	13,190,755	51,512,419	17,093,481	250,143,412	25,210,997
1998	500,676,345	26,139,949	26,854,245	7,385,569	14,039,615	61,705,146	17,044,818	319,916,653	27,590,350
1999	491,137,790	26,860,264	25,625,245	7,438,875	13,753,993	72,941,764	17,294,322	303,664,764	23,558,563
2000	477,760,141	27,415,057	24,663,381	6,840,029	13,806,793	74,065,666	13,920,393	297,039,566	20,009,256
2001	581,132,590	27,486,353	24,695,092	7,000,070	12,559,799	72,476,055	12,447,907	404,345,668	20,121,646
Number of Contracts Settled by Delivery/Cash Settlement									
1995	2,995,958	70,548	158,003	12,900	60,593	75,209	157,323	1,939,909	521,473
1996	2,890,167	38,226	172,442	13,384	39,406	87,777	132,507	1,903,974	502,451
1997	3,559,079	36,589	148,703	29,683	38,015	119,505	129,977	2,385,886	670,721
1998	4,186,906	131,357	116,412	42,230	31,826	129,566	163,894	2,705,700	865,921
1999	3,631,916	120,775	106,364	44,129	32,282	131,905	128,557	2,230,017	837,887
2000	4,533,590	148,164	138,900	44,351	68,902	107,379	152,087	3,151,497	722,310
2001	5,525,312	156,272	134,347	43,775	68,181	84,607	179,714	4,139,614	718,802

Futures ¾ Contract Market Review/ Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2000 and September 30, 2001

Exchange/Commodity		Average Month end Open Interest (Contracts) 1999-00	2000-01	Volume of Trading (Contracts) 1999-00	2000-01	Total Contracts Settled by Delivery or Cash Settlement (Contracts) 1999-00	2000-01
Chicago Board of Trade (CBT)							
Wheat	5,000 Bu.	132,915	140,334	6,412,247	6,630,041	65,177	57,321
Corn	5,000 Bu.	426,654	422,759	16,783,099	16,727,911	44,598	52,006
Oats	5,000 Bu.	15,172	13,453	394,972	383,591	4,575	4,180
Rough Rice	200,000 Lbs.	6,686	4,630	171,870	126,356	4,933	3,271
Soybeans	5,000 Bu.	161,569	162,444	12,481,559	12,002,149	43,079	15,799
Soybean Oil	60,000 Lbs.	141,082	144,708	5,423,463	5,673,793	86,161	114,313
Soybean Meal	100 Tons	112,544	121,976	6,161,948	6,646,265	3,148	2,432
U.S. Corn Yield Insurance (All)	Yield Est. x 100 1*	29	28	74	1	7	0
Dow Jones Industrial Average	$10 x Index	17,187	26,616	3,620,224	4,529,658	33,284	46,318
Dow Jones Composite Average	$10 x Index	0	0	7	0	0	0
Dow Jones Transportation Avg	$10 x Index	0	1	3	1	0	0
Dow Jones Utility Average	$10 x Index	3	1	16	8	0	0
U.S. Treasury Bonds	$100,000 F.V.	498,116	482,174	67,008,924	56,563,798	52,644	48,947
2-Year U.S. Treasury Notes	$200,000 F.V.	45,497	70,460	1,230,454	2,287,969	12,943	27,843
10-Year U.S. Treasury Notes	$100,000 F.V.	587,715	564,317	42,769,912	53,132,073	65,159	140,371
5-Year U.S. Treasury Notes	$100,000 F.V.	380,967	415,735	21,700,056	27,537,052	118,163	74,540
30-Day Federal Funds	$5,000,000 F.V.	40,696	108,040	1,374,299	3,586,867	125,743	261,771
Mortage Futures	$1,000 x Index	0	2,338	0	55,364	0	974
Five-Year Agency Note	$100,000 F.V.	0	110	0	1,919	0	160
Ten-Year Agency Note	$100,000 F.V.	35,710	52,193	856,701	1,487,772	9,190	32,692
Municipal Bond Index	$1,000 x Index	22,504	14,665	636,039	377,097	20,041	18,886
1000 Troy Ounce Silver	1,000 Tr. Oz.	1,049	990	13,206	11,821	781	1,098
5000 Troy Ounce Silver	5,000 Tr. Oz.	40	27	65	227	5	3
Gold (1 Kilogram)	352 Tr. Oz.	322	291	8,972	6,203	156	148
Gold, 100 Troy Oz	100 Tr. Oz.	1	0	3	0	0	0
1* Includes Corn yield Contracts for U.S., Iowa, Illinois, Nebraska, Ohio, and Indiana							
Total CBT		**2,626,458**	**2,748,290**	**187,048,113**	**197,767,936**	**689,787**	**903,073**
Kansas City Board of Trade (KCBT)							
Wheat	5,000 Bu.	70,480	75,987	2,324,744	2,427,034	16,144	29,562
Value Line Stock Index	$500 x Index	31	0	198	0	0	0
Stock Index Future, MVL	$100 x Index	244	272	14,122	18,010	19	110
Internet Stock Index	$25 x Index	320	72	6,577	606	171	127
Natural Gas	10,000 MM BTU's	50	0	84	0	71	0
Natural Gas Index	10,000 MM BTU's	1	0	2	0	0	0
Total KCBT		**71,126**	**76,331**	**2,345,727**	**2,445,650**	**16,405**	**29,799**
Minneapolis Grain Exchange (MGE)							
Hard Amber Durum Wheat	5,000 Bu.	129	7	1,516	120	59	18
Wheat	5,000 Bu.	22,462	23,700	963,054	970,836	8,171	9,227
White Wheat	5,000 Bu.	225	53	2,194	452	291	28
Cottonseed	120 Tons	119	86	329	688	14	86
White Shrimp	5,000 Lbs.	5	0	66	0	23	0
Black Tiger Shrimp	5,000 Lbs.	4	0	40	0	18	0
Electricity (On Peak)	736 MWh	36	75	305	0	60	125
Total MGE		**22,980**	**23,921**	**967,504**	**972,096**	**8,636**	**9,484**

Continued on next page

Futures Contract Market Review/ Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2000 and September 30, 2001

Exchange/Commodity		Average Month end Open Interest (Contracts) 1999-00	2000-01	Volume of Trading (Contracts) 1999-00	2000-01	Total Contracts Settled by Delivery or Cash Settlement (Contracts) 1999-00	2000-01
MidAmerica Commodity Exchange (MCE)							
Wheat	1,000 Bu.	2,280	1,472	80,248	62,891	954	414
Corn	1,000 Bu.	6,847	4,414	278,383	155,280	3,214	235
Oats - Old	1,000 Bu.	96	93	2,730	1,841	48	10
Lean Hogs	20,000 Lbs.	527	379	23,320	10,030	203	321
Live Cattle	20,000 Lbs.	163	115	10,491	7,203	0	0
Soybeans	1,000 Bu.	8,575	5,729	581,482	360,266	5,999	1,527
Soybean Oil	30,000 Lbs.	166	98	5,575	3,993	241	31
Soybean Meal	50 Tons	309	254	9,025	7,938	258	159
Canadian Dollar	CD 50,000	91	89	9,946	8,927	0	0
Swiss Franc	SF 62,500	182	113	37,835	14,862	1	0
Deutsche Mark	DM 62,500	51	3	3,223	75	12	7
British Pound Sterling	BP 12,500	97	76	13,823	7,617	28	3
Japanese Yen	Yen 6,250,000	273	172	31,398	15,187	1	2
Euro	125,000 Euros	29	31	3,225	2,434	44	15
Australian Dollar	AD 50,000	4	5	551	473	0	0
U.S. Treasury Bonds	$50,000 F.V.	6,384	603	763,334	69,703	939	0
13-Week U.S. Treasury Bills	$500,000 F.V.	2	2	85	95	0	0
6.5 - 10 Year U.S. Treasury Notes	$50,000 F.V.	194	32	13,621	2,292	0	0
5 Year U.S. Treasury Notes	$50,000 F.V.	1	0	222	4	0	0
3-Month Eurodollars	$500,000 F.V.	446	1,368	8,962	8,346	366	276
Platinum	25 Tr. Oz.	29	6	1,330	196	7	2
Silver, New York Delivery	1,000 Tr. Oz.	859	199	19,120	4,626	224	74
Gold, New York Delivery	332 Tr. Oz.	379	181	15,225	4,227	307	32
Total MCE		**27,984**	**15,434**	**1,913,154**	**748,506**	**12,846**	**3,108**
Chicago Mercantile Exchange (CME)							
Lean Hogs	40,000 Lbs.	51,922	43,546	2,202,571	1,988,900	26,244	25,422
Pork Cutout Index	40,000 Lbs.	0	0	1	0	1	0
E-Mini Lean Hogs	10,000 Lbs. x Index	550	210	8,881	9,537	0	1,378
Frozen Pork Bellies	40,000 Lbs.	4,549	2,613	346,519	191,717	322	668
Fresh Pork Bellies	40,000 Lbs.	10	0	5	0	0	0
Live Cattle	40,000 Lbs.	120,171	121,687	3,604,187	4,229,918	1,425	1,608
Feeder Cattle	50,000 Lbs.	22,203	17,235	643,086	562,076	15,939	14,099
E-Mini Feeder Cattle	10,000 Lbs.	16	20	181	515	0	81
Stocker Cattle	25,000 Lbs.	117	45	787	174	217	198
Butter	40,000 Lbs.	863	162	6,117	1,250	1,126	427
Milk	200,000 Lbs.	7,095	12,180	45,099	78,655	14,442	18,218
Non Fat Dry Milk	44,000 Lbs.	0	31	0	40	0	0
Dry Whey	44,000 Lbs.	0	0	0	4	0	0
Class IV Milk	200,000 Lbs.	997	1,825	2,766	7,038	0	3,422
Canadian Dollar	CD 100,000	64,313	63,619	2,490,989	2,803,281	63,129	67,481
French Franc	FF 500,000	22	2	377	26	67	2
Swiss Franc	SF 125,000	51,401	50,965	3,588,727	2,792,143	118,523	114,141
Deutsche Mark	DM 125,000	2,735	374	45,763	4,737	9,218	780
British Pound Sterling	BP 62,500	40,968	35,742	2,196,859	1,912,879	93,625	70,875

Continued on next page

Futures Contract Market Review/ Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2000 and September 30, 2001

		Average Month end Open Interest (Contracts)		Volume of Trading (Contracts)		Total Contracts Settled by Delivery or Cash Settlement (Contracts)	
Exchange/Commodity		**1999-00**	**2000-01**	**1999-00**	**2000-01**	**1999-00**	**2000-01**
Chicago Mercantile Exchange (CME) (*Continued*)							
Japanese Yen	Yen 12,500,000	82,319	89,689	4,298,405	4,262,896	157,791	133,858
E-Mini Japanese Yen	Yen 6,250,000	102	34	6,388	2,374	176	104
Euro	125,000 Euros	63,413	89,737	4,207,482	5,345,582	93,247	121,265
E-Mini Euro	62,500 Euros	367	451	23,305	20,288	716	954
ECU/British Pound Cross-Rate	125,000 Euros	908	0	3,278	53	0	0
Euro / Japanese Yen Cross-Rate	125,000 Euros	84	518	4,162	78,370	0	0
Euro / Swiss Franc Cross-Rate	125,000 Euros	2	55	2	108	0	0
South African Rand	Rand 500,000	2,166	2,081	47,570	55,925	8,017	6,459
Australian Dollar	AD 100,000	24,410	24,492	783,184	818,722	39,825	48,138
Russian Ruble	500,000 Rubles	4	31	11	60	3	30
Mexican Peso	MP 500,000	18,741	24,996	1,102,784	1,096,246	33,671	49,076
Brazilian Real	R$ 100,000	108	655	1,062	5,125	903	3,275
New Zealand Dollar	NZ $100,000	1,811	895	35,510	20,742	5,863	2,955
S&P 500 Stock Index	$500 x Index	389,811	491,255	23,083,991	22,432,130	346,072	426,255
E-Mini S&P 500 Stock Index	$50 x Index	30,813	87,014	16,859,104	32,211,582	113,443	322,561
S&P 500 Barra Growth Index	$500 x Index	1,084	779	15,449	12,071	2,891	1,623
S&P 500 Barra Value Index	$500 x Index	2,505	1,992	29,563	25,474	2,954	3,208
S&P 400 Midcap Stock Index	$500 x Index	13,410	16,063	306,286	390,487	14,367	17,601
Fortune E_50 Stock Index	$20 x Index	338	175	8,320	14,970	0	822
NASDAQ-100 Stock Index	$100 x Index	31,280	50,172	4,482,998	5,582,219	45,521	97,674
NASDAQ-100 Stock Index (Mini)	$20 x Index	16,334	77,758	6,683,941	27,155,893	71,238	341,754
Russell 2000 Stock Index Future	$500 x Index	13,056	18,621	439,366	666,450	14,029	20,598
Nikkei Stock Average	$5 x Index	17,006	17,712	454,189	474,765	47,696	46,558
13-Week U.S. Treasury Bills	1,000,000 F.V.	1,377	2,179	21,204	30,074	4,472	7,851
Overnight Federal Fund Rates	$45,000,000	112	0	187	0	75	0
Five-Year Agency Note	$100,000 F.V.	3,655	0	35,579	0	2,270	0
Ten-Year Agency Note	$100,000 F.V.	4,073	0	51,032	0	2,712	0
1-Month Libor Rate	$3,000,000 F.V.	36,938	36,422	940,688	1,243,520	193,396	214,759
3-Month Eurodollar	$1,000,000 F.V.	3,115,619	4,032,631	100,452,601	162,481,060	1,760,793	1,841,145
Japanese Bonds (10 year)	Yen 50,000,000 F.V.	13	4	0	0	0	0
3-Mo. Euroyen	Yen 100,000,000 F.V.	75,375	61,380	1,031,317	658,336	50,359	86,788
3-Mo. Euroyen - Libor	Yen 100,000,000 F.V.	1,353	5,841	6,346	20,853	1,363	14,313
Goldman-Sachs Commodity Index	$250 x Index	37,748	21,355	1,033,642	585,690	18,576	25,432
Random Length Lumber	80,000 Bd. Ft.	3,192	3,579	219,769	226,196	84	216
Oriented Strand Board Panels (All)	2*	22	35	502	10,343	40	18
Atlanta Heating Degree Days	$100 x Index	32	0	149	1	118	0
Chicago Heating Degree Days	$100 x Index	16	0	49	0	56	0
New York City Heating Degree Days	$100 x Index	17	0	24	0	33	0
Cincinnati Heating Degree Days	$100 x Index	2	0	47	0	29	0
Dallas Cooling Degree Days	$100 x Index	5	0	5	0	5	0
Tucson Cooling Degree Days	$100 x Index	5	0	5	0	5	0
Des Moines Cooling Degree Days	$100 x Index	5	0	5	0	5	0
Las Vegas Cooling Degree Days	$100 x Index	5	0	5	0	5	0
Total CME		**3,989,636**	**5,158,601**	**166,669,506**	**265,928,605**	**3,032,819**	**3,835,290**

2* Includes OSB panel contracts for North Central, Southeastern, Southwestern, and Western Oriented

Futures Contract Market Review/ Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2000 and September 30, 2001

		Average Month-end Open Interest (Contracts)		Volume of Trading (Contracts)		Total Contracts Settled by Delivery or Cash Settlement (Contracts)	
Exchange/Commodity	**Contract Unit**	**1999-00**	**2000-01**	**1999-00**	**2000-01**	**1999-00**	**2000-01**
Merchants' Exchange of St. Louis (MESL)							
Illinois Waterway Barge Rate	3,000 Tons	0	7	0	41	0	6
St Louis Harbor Barge Rate	3,000 Tons	0	6	0	50	0	9
Total MESL		**0**	**13**	**0**	**91**	**0**	**15**
New York Mercantile Exchange (NYMEX) and Commodity Exchange, Inc. (COMEX)							
No. 2 Heating Oil, New York Harbor	42,000 Gallons	137,653	135,545	9,237,905	9,521,422	29,283	21,787
Natural Gas	10,000 BTU's	305,203	405,142	18,136,332	15,626,918	34,475	35,436
Central Appalachian Coal	37,200 MMBTU	0	266	0	1,365	0	10
Electricity (California-Oregon Border)	864 MWh	1,219	0	13,851	17	2,238	1
Electricity (Palo Verde)	432 MWh	1,489	51	26,104	174	2,006	226
Electricity (Cinergy)	736 MWh	159	25	974	0	831	25
Electricity (Entergy)	736 MWh	42	0	159	0	166	0
Electricty (PJM)	736 MWh	245	0	491	0	488	4
Electricty, Mid Columbia Region	432 MWh	0	56	0	75	0	25
Propane Gas	42,000 Gallons	1,627	588	30,628	11,589	1,361	1,009
Crude Oil (Light Sweet)	1,000 Barrels	475,987	439,985	37,526,345	37,815,933	16,391	6,004
Crude Oil (Sour)	1,000 Barrels	15	0	25	0	15	0
Crude Oil (Brent)	1,000 Barrels	0	5,897	0	40,952	0	1,160
Unleaded Gasoline, New York Harbor	42,000 Gallons	87,767	97,960	8,871,901	9,221,070	19,614	18,561
Palladium	100 Tr. Oz.	2,540	1,566	63,125	27,131	895	446
Platinum	50 Tr. Oz.	10,486	6,982	368,317	217,150	1,432	985
Aluminum	44,000 Lbs.	1,662	3,044	34,724	48,836	4,131	7,914
Eurotop 100 Stock Index	$100 x Index	407	243	7,230	1,650	1,195	694
Eurotop 300 Stock Index	$200 x Index	2,366	630	38,904	7,653	2,213	908
Silver	5,000 Tr. Oz.	77,119	71,936	3,374,404	2,479,191	34,577	41,614
Copper - Grade #1	25,000 Lbs.	72,309	78,699	2,673,502	2,886,000	69,236	93,519
Gold	100 Tr. Oz.	151,710	121,701	7,348,400	6,762,299	40,336	33,879
Total NYMEX		**1,330,005**	**1,370,316**	**87,753,321**	**84,669,425**	**260,883**	**264,207**
New York Board of Trade (NYBT) - New York Cotton Exchange (NYCE), New York Futures Exchange (NYFE), Coffee, Sugar and Cocoa Exchange (CS&CE) and Cantor Exchange (CFFE)							
Cotton No. 2	50,000 Lbs.	61,308	66,562	2,614,097	2,327,953	6,493	6,556
Frozen Concentrated Orange Juice	15,000 Lbs.	25,427	25,816	695,225	637,577	2,104	1,639
Frozen Concentrated Orange Juice-2	15,000 Lbs.	124	12	273	11	471	15
FCOJ1-FCOJ2 Diff	15,000 Lbs.	138	5	1,881	23	0	2
Milk Index	1,000 Cwt.	385	44	1,045	2	1,125	65
Milk Index, Large	2,000 Cwt.	257	11	709	8	815	1
Cocoa	10 Tons	106,805	115,234	2,128,243	2,029,518	12,714	6,086
Sugar No. 11	112,000 Lbs.	178,272	142,694	5,819,141	5,191,507	8,920	18,703
Sugar No. 14	112,000 Lbs.	12,247	11,225	127,698	119,192	2,728	1,332
Coffee C	37,500 Lbs.	46,823	52,853	2,364,319	2,166,929	17,916	11,700
Canadian Dollar/Japanese Yen	CD 200,000	388	1,250	1,579	17,944	300	3,492
U.S. Dollar / Canadian Dollar	$200,000	166	109	3,582	1,789	487	274
U.S. Dollar / Swiss Franc	$200,000	920	716	18,726	14,359	3,092	2,611

Continued on next page

Futures Contract Market Review/ Average Open Interest, 12-Month Volume of Trading and Deliveries/Cash Settlement by Commodity and Exchange for Fiscal Years Ending September 30, 2000 and September 30, 2001

		Average Month-end Open Interest (Contracts)		Volume of Trading (Contracts)		Total Contracts Settled by Delivery or Cash Settlement (Contracts)	
Exchange/Commodity	**Contract Unit**	**1999-00**	**2000-01**	**1999-00**	**2000-01**	**1999-00**	**2000-01**
New York Board of Trade (NYBT) - New York Cotton Exchange (NYCE), New York Futures Exchange (NYFE), Coffee, Sugar and Cocoa Exchange (CS&CE) and Cantor Exchange (CFFE) (*Continued*)							
Swiss Franc/Japanese Yen Cross-Rate	SF 200,000	1,012	839	17,733	11,197	3,862	2,149
Swiss Franc/Deutsche Mark Cross-Rate	DM 125,000	20	0	20	0	0	0
Japanese Yen/Deutsche Mark Cross-Rate	DM 125,000	20	0	24	0	0	0
U.S. Dollar/British Pound	BP 125,000	404	376	15,791	16,096	912	1,062
Swiss Franc/British Pound Cross-Rate	BP 125,000	876	1,011	12,779	20,123	2,492	2,788
Deutsche Mark/British Pnd Cross-Rate	BP 125,000	24	0	335	0	0	0
Japanese Yen/British Pnd Cross-Rate	BP 125,000	2,672	2,316	90,135	46,951	5,953	5,580
U.S. Dollar/Japanese Yen	$200,000	2,353	979	42,399	19,028	3,843	2,993
Euro/Australian Dollar	100,000 Euros	520	1,234	4,653	17,979	928	1,216
Euro/US Dollar	200,000 Euros	3,581	2,236	102,389	78,992	6,051	8,934
Euro/US Dollar- Small	100,000 Euros	136	75	6,322	2,607	337	126
Euro/Yen Cross-Rate	200,000 Euros	7,023	8,152	237,143	296,926	14,413	20,624
Euro / Swedish Krona Cross-Rate	200,000 Euros	3,743	2,500	70,681	32,743	9,882	6,202
Euro / Swiss Franc Cross-Rate	200,000 Euros	5,073	2,496	108,802	46,291	10,239	6,740
Pound/Euro Cross-Rate	200,000 Euros	8,325	5,611	167,107	114,238	15,829	13,405
Euro Canadian Dollar Cross-Rate	200,000 Euros	678	790	6,397	12,632	2,518	1,888
Euro Norwegian Krone Cross-Rate	200,000 Euros	191	273	3,581	4,759	419	781
US Dollar/Swedish Krona	$200,000 F.V.	169	294	1,242	3,386	150	528
US Dollar/Norwegian Krone	$200,000 F.V.	8	6	32	45	0	8
US Dollar/South African Rand	$100,000	428	257	13,320	4,747	1,205	941
Australian Dollar	AD 200,000	4,923	587	52,679	6,884	4,868	2,128
Aussie Dollar/Canadian Dollar	$200,000 F.V.	335	1,006	1,594	15,450	288	4,431
Australian Dollar/Yen Cross-Rate	AD 200,000	1,378	1,438	35,783	27,780	2,034	3,120
Australian Dollar/Kiwi Cross-Rate	AD 200,000	1,216	948	24,516	12,718	2,720	3,068
New Zealand Dollar	NZ $200,000	1,525	1,121	34,053	26,850	4,628	4,293
NYSE Composite Index	3*	1,571	1,039	80,214	45,018	2,053	1,062
NYSE CMP Index (Small)	$50 x Index	346	72	7,771	3,386	1,770	419
Technology Index	$500 x Index	463	46	22,055	374	1,387	0
Russell 1000 Stock Index Future	4*	6,045	6,171	117,621	80,123	4,086	8,351
Russell 1000 Mini Index Futures	$50 x Index	0	455	0	15,002	0	418
CFFE U.S. Treasury Bonds	$100,000 F.V.	804	0	66,314	0	265	0
CFFE U.S. Treasury Bonds (Flex)	$100,000 F.V.	291	6,072	25,160	62,594	85	0
CFFE 10-Yr. U.S. Treas. Notes	$100,000 F.V.	920	0	65,315	0	275	0
CFFE 10- Yr. U.S. Treas. Notes (Flex)	$100,000 F.V.	1,390	5,096	199,760	81,670	48	0
CFFE WI 10-Yr. U.S. Treas. Notes	Par Amount	0	60	0	130	0	30
5-Yr U.S. Treasury Notes-Old	$250,000 F.V.	0	0	8,832	3,900	0	0
CFFE 5-Yr. U.S. Treas. Notes	$100,000 F.V.	605	0	9,442	0	342	0
CFFE 5-Yr. U.S. Treas. Notes (Flex)	$100,000 F.V.	452	3,266	55,803	66,031	85	0
CFFE WI 5-Yr. U.S. Treas. Notes	Par Amount	0	0	0	26	0	0
CFFE Five-Yr. Agency Note	$100,000 F.V.	0	0	1,220	0	0	0
CFFE Ten-Yr. Agency Note	$100,000 F.V.	878	0	470	0	0	0
U.S. Dollar Index	$1,000 x Index	7,441	7,518	315,491	313,278	4,868	5,637
CRB Bridge Index	$500 x Index	3,021	1,161	78,405	20,625	1,936	138
Total NYBT		**504,120**	**482,032**	**15,879,901**	**14,017,391**	**167,936**	**161,536**

3* Includes the large ($1,000 x Index) and mid-size ($500 x Index)

4* Includes the large ($1,000 x Index) and small Russel 1,000 Index ($500 x Index)

Total All Markets	**8,940,241**	**10,225,194**	**477,760,141**	**581,132,590**	**4,533,590**	**5,525,312**

+ Revised since FY 2000 Annual Report

Options ¾ Average Month-end Open Interest and Number of Contracts Traded by Major Groups, All Markets Combined for FY 1995 through FY 2001

Fiscal Year	Total	Grain	Oilseed Products	Livestock Products	Other Agriculturals	Energy/Wood Products	Metals	Financial Instruments	Currencies
Average Month-end Open Interest (In Contracts)									
1995	5,439,631	347,911	185,995	73,286	375,506	429,094	312,488	3,285,354	429,997
1996	6,172,544	537,468	290,224	82,274	302,587	588,465	393,719	3,514,795	463,012
1997	6,767,618	490,022	298,053	89,501	342,980	771,012	444,618	3,920,519	410,913
1998	8,072,707	475,752	338,525	85,406	440,680	895,155	520,748	4,982,586	333,855
1999	8,358,199	461,487	390,569	102,251	419,913	1,010,675	593,979	5,175,958	203,367
2000	7,422,500	631,242	280,994	110,338	450,166	1,237,793	578,283	4,007,518	126,166
2001	9,937,856	570,104	270,277	120,792	400,907	1,302,741	353,605	6,731,974	187,456
Number of Contracts Traded									
1994	99,205,548	3,339,533	3,493,150	718,515	3,266,062	8,075,827	3,191,136	66,937,138	10,184,187
1995	95,406,042	4,310,729	3,140,330	768,488	4,224,315	6,460,990	3,302,548	65,502,601	7,696,041
1996	100,320,446	8,573,628	5,758,271	896,115	3,445,669	7,817,074	3,369,996	62,667,270	7,792,423
1997	105,141,954	6,963,377	6,249,498	960,394	3,837,325	9,575,254	2,757,964	69,337,931	5,460,211
1998	124,107,563	6,251,033	5,663,415	1,000,816	4,937,468	12,132,919	3,178,313	86,884,632	4,058,967
1999	123,140,632	5,915,391	6,587,362	993,194	4,881,153	12,759,032	3,158,455	86,708,838	2,137,207
2000	102,579,828	6,993,655	5,189,730	882,772	5,046,387	14,904,652	3,455,302	64,695,826	1,411,504
2001	141,550,871	6,920,657	4,957,911	1,102,418	3,839,313	14,462,858	2,416,378	106,055,420	1,795,916

Options ¾ Average Month-end Open Interest and Volume of Trading by Exchange and Contract for Fiscal Years Ending September 30, 2000 and September 30, 2001

	Average Month-end Open Interest (Contracts)		Volume of Trading (Contracts)	
Exchange/Commodity	**1999-00**	**2000-01**	**1999-00**	**2000-01**
Chicago Board of Trade (CBT)				
Wheat	133,384	128,055	1,580,446	1,687,586
Corn	451,187	399,474	5,071,472	4,864,616
Oats	9,374	6,557	58,445	52,265
Rough Rice	8,846	3,048	50,011	19,935
Soybeans	184,045	169,884	4,009,482	3,771,371
Soybean Oil	53,176	57,059	542,313	535,817
Soybean Meal	42,154	41,436	628,393	642,953
Corn Yield Insurance (All) 1*	11	0	13	1
Dow Jones Industrial Average	16,176	19,400	209,676	293,275
U.S. Treasury Bonds	545,246	407,500	20,087,568	12,673,653
2-Year U.S. Treasury Notes	276	1,218	2,654	22,443
10-Year U.S. Treasury Notes	399,430	673,423	9,619,214	16,121,469
5-Year U.S. Treasury Notes	158,806	200,822	3,449,366	4,116,541
Ten-Year Agency Note	10,147	4,254	114,998	39,679
Municipal Bond Index	207	2	18	1,004
Catastrophe Insurance (All) 2*	1,589	76	206	0
1000 Troy Ounce Silver	2	1	26	8
Total CBT	**2,014,056**	**2,112,209**	**45,424,301**	**44,842,616**

1* Includes Corn Yield Insurance Contracts for Iowa and Ohio

2* Includes large cap and small cap national insurance and the following small cap contracts: Eastern, Midwestern, Western, Northeastern, Texas, Florida, and California

Kansas City Board of Trade (KCBT)				
Wheat	21,142	25,632	181,127	260,526
Stock Index Future, MVL	194	1	484	4
Internet Stock Index	5	0	12	0
Total KCBT	**21,341**	**25,633**	**181,623**	**260,530**
Minneapolis Grain Exchange (MGE)				
Hard Amber Durum Wheat	10	0	11	0
Wheat	5,546	6,026	42,416	31,052
White Wheat	16	0	51	0
Wheat European	100	112	352	0
Cottonseed	312	421	729	702
White Shrimp	11	0	61	0
Black Tiger Shrimp	8	0	57	0
Total MGE	**6,003**	**6,559**	**43,677**	**31,754**
MidAmerica Commodity Exchange (MCE)				
Wheat	640	358	3,969	926
Corn	997	842	5,355	3,751
Soybeans	1,307	1,476	8,811	7,064
Soybean Oil	0	1	2	4
U.S. Treasury Bonds	86	36	2,418	712
Gold, New York Delivery	6	2	21	3
Total MCE	**3,036**	**2,715**	**20,576**	**12,460**

Continued on next page

Options ¾ Average Month-end Open Interest and Volume of Trading by Exchange and Contract for Fiscal Years Ending September 30, 2000 and September 30, 2001

	Average Month-end Open Interest (Contracts)		Volume of Trading (Contracts)	
Exchange/Commodity	**1999-00**	**2000-01**	**1999-00**	**2000-01**
Chicago Mercantile Exchange (CME)				
Lean Hogs	18,774	14,666	177,489	157,509
Options on CME Lean Hog Index	144	90	214	0
Frozen Pork Bellies	3,537	753	32,871	7,510
Live Cattle	68,851	85,654	529,546	768,208
Feeder Cattle	19,027	19,629	142,642	169,191
Stocker Cattle	5	0	10	0
Butter	34	24	385	38
Milk	2,445	5,144	10,095	21,193
Class IV Milk	136	279	179	1,706
Canadian Dollar	7,123	23,985	72,211	109,631
Swiss Franc	10,982	14,142	123,559	131,643
Deutsche Mark	1,595	233	15,284	966
British Pound Sterling	18,069	14,077	199,664	146,742
Japanese Yen	62,933	81,196	662,030	747,707
Euro	20,169	48,109	313,109	623,002
ECU/British Pound Cross-Rate	200	0	0	0
Australian Dollar	849	4,389	10,829	28,327
Mexican Peso	926	719	5,536	4,310
S&P 500 Stock Index	228,466	224,633	4,239,463	4,545,981
E-Mini S&P 500 Stock Index	1,085	631	24,659	22,493
S&P 400 Midcap Stock Index	84	116	3,171	3,539
NASDAQ-100 Stock Index	6,884	6,533	609,678	259,365
Russell 2000 Stock Index Future	176	257	5,633	12,617
Nikkei Stock Average	562	246	5,693	2,953
1-Month Libor Rate	488	267	3,050	2,166
3-Month Eurodollar	2,613,804	5,185,646	25,959,223	67,818,410
3-Mo. Euroyen	9,409	1,202	21,719	2,345
Goldman-Sachs Commodity Index	140	95	2,973	4,109
Random Length Lumber - 80/110000 BD FT	1,293	2,443	18,542	27,441
Total CME	**3,098,190**	**5,735,158**	**33,189,457**	**75,619,102**
New York Mercantile (NYMEX) and Commodity Exchange, Inc. (COMEX)				
No. 2 Heating Oil, New York Harbor	93,833	101,620	1,181,875	957,349
Natural Gas	498,696	531,364	4,945,358	5,148,756
Electricity (California-Oregon Border)	1	0	1	0
Crude Oil (Light Sweet)	570,159	592,427	7,643,174	7,284,753
Crude Oil (Brent)	0	521	0	521
Unleaded Gasoline, New York Harbor	66,318	68,574	1,047,432	1,005,461
Heating Oil/Crude Oil Option Spread	5,050	4,129	47,795	22,810
Unleaded Gas /Crude Oil Option Spread	2,443	1,663	20,475	15,767
Platinum	729	213	8,617	2,194
Silver	61,300	60,208	639,147	464,792
Copper - Grade #1	9,403	5,618	83,499	47,167
Gold	506,843	287,563	2,723,992	1,902,214
Total NYMEX	**1,814,775**	**1,653,900**	**18,341,365**	**16,851,784**

Continued on next page

Options ¾ Average Month-end Open Interest and Volume of Trading by Exchange and Contract for Fiscal Years Ending September 30, 2000 and September 30, 2001

	Average Month-end Open Interest (Contracts)		Volume of Trading (Contracts)	
Exchange/Commodity	**1999-00**	**2000-01**	**1999-00**	**2000-01**
New York Board of Trade (NYBT): New York Cotton Exchange (NYCE), New York Futures Exchange (NYFE) Coffee, Sugar, and Cocoa Exchange (CS&CE) and Cantor Exchange (CFFE)				
Cotton No. 2	88,841	112,563	981,159	1,005,874
Frozen Concentrated Orange Juice	36,717	31,653	243,979	206,240
Milk Index	172	4	1,235	0
Milk Index, Large	463	106	2,375	46
Cocoa	59,176	38,561	545,215	404,573
Sugar No. 11	201,330	147,970	2,031,092	1,389,518
Coffee C	60,822	64,603	1,230,542	810,124
Swiss Franc / Japanese Yen Cross-Rate	155	0	163	0
U.S. Dollar / British Pound	100	40	200	80
Swiss Franc / British Pound Cross-Rate	128	0	133	0
Japanese Yen / British Pound Cross-Rate	47	0	148	8
U.S. Dollar / Japanese Yen	0	117	0	857
Euro/U.S. Dollar	1,091	207	1,499	964
Euro/Yen Cross-Rate	1,200	72	5,361	695
Euro / Swiss Franc Cross-Rate	80	0	80	0
Pound/Euro Cross-Rate	273	170	1,448	984
U.S. Dollar / South African Rand	196	0	200	0
New Zealand Dollar	50	0	50	0
Stock Index, NYSE CMP New	4,168	2,661	112,502	73,807
Technology Index	5,252	29	129,101	395
Russell 1000 Stock Index Future	3,341	926	75,179	17,811
U.S. Dollar Index	1,025	1,841	12,645	19,142
CRB Bridge Index	472	159	4,523	1,507
Total NYBT	**465,099**	**401,682**	**5,378,829**	**3,932,625**
Total Options	**7,422,500**	**9,937,856**	**102,579,828**	**141,550,871**
Total Futures	**8,940,241**	**10,225,194**	**477,760,141**	**581,132,590**
Grand Total Futures and Options	**16,362,741**	**20,163,050**	**580,339,969**	**722,683,461**

Table of Acronyms

AAC	Agricultural Advisory Committee
ADB	Asian Development Bank
ADR	Alternative Dispute Resolution
AID	Agency for International Development
ALJ	Administrative Law Judge
AP	Associated Person
APEC	Asian Pacific Economic Council
ATOM	Agricultural Trade Options Merchant
AYM	AYM Financial, Incorported
BASIC	Background Affiliation Status Information Center
BOTCC	Board of Trade Clearing Corporation
BTEX	BrokerTec Futures Exchange
BSAAG	Bank Secrecy Act Advisory Group
CANYCE	Cotton Exchange
CBT	Chicago Board of Trade
CEA	Commodity Exchange Act
CFTC	Commodity Futures Trading Commission
CFMA	Commodity Futures Modernization Act of 2000
CIO	Chief Information Officer
CME	Chicago Mercantile Exchange
COMEX	Commodity Exchange Division of the New York Mercantile Exchange
CONSOB	Commissione Nazionale per le Societa e la Borsa (Italy)
CPO	Commodity Pool Operator
CPPS	Committee on Payment and Settlement Systems
CSCE	Coffee Sugar and Cocoa Exchange
CTA	Commodity Trading Advisor
CX	Cantor Fitzgerald Financial Futures
DCO	Derivatives Clearing Organizations
DOI	Department of Interior
DOJ	Department of Justice
DTF	Derivatives Transaction Execution Facility
EAP	Employee Assistance Program
EEOC	Equal Employment Opportunity Commission
EMC	Executive Management Council
EMP	Enforcement Modernization Project
ENYMEX	Electronic New York Mercantile Exchange
ERC	Employee Resource Center
FACTS II	Federal Agencies Centralized Trial-Balance System II
FAIR	Federal Agricultural Improvement & Reform Act of 1996
FATF	Financial Action Task Force
FB	Floor Broker
FBI	Federal Bureau of Investigation
FCM	Futures Commission Merchant
FCOM	FutureCom
FDIC	Federal Deposit Insurance Corporation
FEDLINK	Federal Library and Information Center Network
FEMA	Federal Emergency Management Agency
FIA	Futures Industry Association
FOIA	Freedom of Information Act
FOREX	Foreign Currency
FRB	Board of Governors of the Federal Reserve System

FSA	Financial Services Authority (United Kingdom)
FSF	Financial Stability Forum
FT	Floor Trader
FTE	Full-time Equivalent
FY	Fiscal Year
G-7	Group of Seven Industrialized Nations
GAO	General Accounting Office
GISRA	Government Information Security Reform Act
GLBA	Gramm-Leach-Bliley Act
GMAC	Global Markets Advisory Committee
GOALS	Government Online Accounting Link System
GPRA	Government Performance and Results Act
GSA	General Services Administration
IB	Introducing Broker
IBI	Introducing Broker (Independent)
IPT	Integrated Project Team
IOSCO	International Organization of Securities Commissions
IRS	Internal Revenue Service
JO	Judgment Officer
KCBT	Kansas City Board of Trade
LIFFE	London International Financial Futures & Options Exchange
LME	London Metals Exchange
MCE	MidAmerica Commodity Exchange
MESL	Merchants' Exchange of St. Louis
MGE	Minneapolis Grain Exchange
MLSWG	Money Laundering Strategy Working Group
MRRS	Membership Registration Receivables System
MSPB	Merit Systems Protection Board
MOU	Memorandum/Memoranda of Understanding
NEC	National Economic Council
NFA	National Futures Association
NFC	National Finance Center
NYBT	New York Board of Trade
NYCE	New York Cotton Exchange
NYFE	New York Futures Exchange
NYMEX	New York Mercantile Exchange
OAS	Office of Administrative Services (CFTC)
OCC	Office of the Comptroller of the Currency
OCLC	Online Computer Library Center
OED	Office of the Executive Director (CFTC)
OFM	Office of Financial Management (CFTC)
OHR	Office of Human Resources (CFTC)
OIA	Office of International Affairs (CFTC)
OIG	Office of the Inspector General (CFTC)
OIRM	Office of Information Resources Management (CFTC)
OMB	Office of Management and Budget
ONXBOT	On Exchange Board of Trade
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
OTC	Over-the-Counter (Derivatives)
PBT	Philadelphia Board of Trade
PWG	President's Working Group on Financial Markets
RFA	Registered Futures Association

RWG	Registration Working Group
SC4	IOSCO Standing Committee on Enforcement & Information-Sharing
SD	Statutory Disqualification Action
SEC	Securities and Exchange Commission
SFE	Sydney Futures Exchange
SGX-DT	Singapore Exchange Derivatives Trading Limited
SPAN	Standard Portfolio Analysis of Risk Margin Systems
SRO	Self-Regulatory Organization
STAR	System for Time and Attendance Reporting
TAC	Technology Advisory Committee
UK	United Kingdom
USDA	United States Department of Agriculture
USSFC	US Securities and Futures Corporation
WTO	World Trade Organization

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THE FY 2003 PRESIDENT'S BUDGET

Table of Contents

A Note on the Format:

This document is comprised of three sections: Part I is the FY 2003 President's Budget, which contains the traditional program-based budget structure in which the agency's FY 2003 President's Budget is summarized and justified, pages 1-132; Part II is the FY 2003 Annual Performance Plan, which incorporates the goal-based approach of the CFTC Strategic Plan and in which funds are distributed by Goal and Outcome Objective, see pages 133-194; Part III is the FY 2001 Annual Performance Report, which summarizes the Commission's performance as compared to the annual goals set forth in the CFTC Strategic Plan, see pages 195-266.

Parts I and II contain a cross-cutting analysis. That is, the program-based analysis of the OMB Budget Estimate is augmented by a programmatic distribution of resources by Agency Goal. Conversely, the goal-based analysis of the Annual Performance Plan also disaggregates resources by program. Our intent is to engender greater understanding among the public, the Congress, the Administration, market users, and the many other persons and entities with which we work of how the Commission resources contribute to the accomplishment of the agency's mission.

Questions or comments about this document can be directed to: Emory H. Bevill, Acting Director, Office of Financial Management at 202-418-5187, via e-mail at ebevill@CFTC.gov or Deidre King, Budget Analyst at 202-418-5189, via e-mail at d_king@CFTC.gov.

FY 2003 President's Budget—Figures and Tables