COMMODITY FUTURES TRADING COMMISSION

FY 2017 AGENCY FINANCIAL REPORT

COMMODITY FUTURES TRADING COMMISSION

J. Christopher Giancarlo
Chairman

Anthony C. Thompson
Executive Director

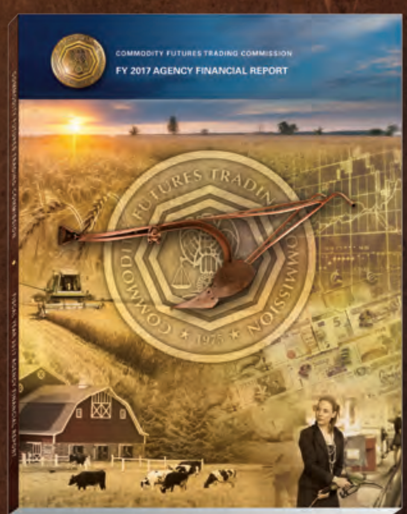
Mary Jean Buhler
Chief Financial Officer

November 2017

ABOUT THIS REPORT

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

We welcome your views on all aspects of this report. Please send your feedback to *lmalone@cftc.gov.* You can view the FY 2017 Agency Financial Report website at *http://www.cftc.gov/About/CFTCReports/index.htm*.



COMMODITY FUTURES TRADING COMMISSION

Agency Financial Report

Fiscal Year 2017

Agriculture has been at the heart of the U.S. Commodity Futures Trading Commission's (CFTC or Commission) mission since the agency's inception. In recognition of agriculture's significance to not only the Commission's work, but also the nation's economy, a farmer's plow appears prominently on the CFTC's seal.

On the cover of this Agency Financial Report is a photo of the farmer's plow that resides in the reception area of the CFTC's Kansas City office. This plow was owned and used by Scott A. King, who farmed in Bloomington Township, Butler County, Kansas from 1918 to 1978. Mr. King used this plow to plant wheat, corn, and alfalfa on his farm, where he also raised cattle and hogs. This plow was originally horse-drawn and later adapted for use with a tractor.

The Commission's ownership and display of this historic farmer's plow symbolizes the agency's mission to support America's agricultural commodity futures markets and the men and women who depend on them.

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Fast Read

If you only have a few minutes, the next six pages provide a highly-condensed version of this report.

When you have more time be sure to read the full report.

The CFTC and the U.S. Derivatives Markets

The CFTC is an independent agency of the U.S. government that oversees the U.S. derivatives markets, which include futures, options, and swaps.

CFTC was established in 1974, assuming regulatory authority over commodity futures markets that had previously belonged to the U.S. Department of Agriculture (USDA) since the 1920s.

These markets have existed since the 1860s, beginning with agricultural commodities such as wheat, corn, and cotton.

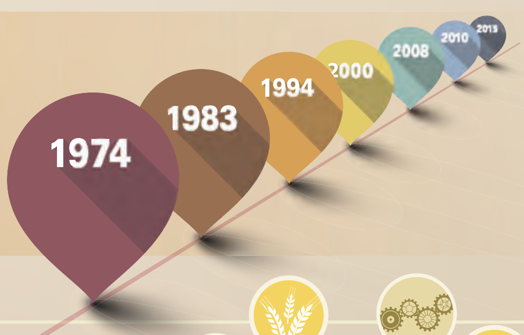
The markets grew to include energy and metal commodities, such as crude oil, heating oil, gasoline, copper, gold, and silver.

Over time, highly complex financial instruments based on interest rates, stock indexes, foreign currency, and other products far exceeded agricultural contracts in trading volume.

In the aftermath of the 2008 financial crisis, the Commission mandate was vastly expanded to include most over-the-counter (OTC) derivatives markets.

Be sure to visit the CFTC timeline of significant dates in the history of the CFTC and futures regulation located at

http://www.cftc.gov/About/HistoryoftheCFTC/index.htm



Why is This Important to Me?

The futures and swaps markets are essential to our economy and the way that businesses and investors manage risk. Farmers, ranchers, producers, commercial companies, municipalities, pension funds, and others use these markets to lock in a price or a rate. This helps them focus on what they do best: innovating, producing goods and services for the economy, and creating jobs. The CFTC works to ensure these hedgers and other market participants can use markets with confidence. **These markets shape the prices we pay for food, energy, and a host of other goods and services.**

CFTC Regulatory Jurisdiction

The CFTC oversees a variety of individuals and organizations participating in the markets. These include swap execution facilities (SEFs), derivatives clearing organizations (DCOs), designated contract markets (DCMs), swap data repositories (SDRs), swap dealers, futures commission merchants (FCMs), commodity pool operators (CPOs), and other regulated entities.

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

These trillion dollar markets, with massive economic force, are expanding and changing steadily in both volume and new users and their complexity continues to evolve with new technologies, cross-border activities, product innovation, and greater competition.

Through effective oversight, regulation, and enforcement, the CFTC enables the markets to better serve their vital function in the Nation's economy–providing a mechanism for price discovery and a means of offsetting price risks.

CFTC Mission

The mission of the CFTC is to foster open, transparent, competitive, and financially sound markets. By working to avoid systemic risk, the Commission aims to protect market users and their funds, consumers, and the public from fraud, manipulation, and abusive practices related to derivatives and other products that are subject to the Commodity Exchange Act (CEA).

Industry Oversight

Estimated 2017 Notional Value of Derivatives U.S. Markets:

U.S. Swaps
$243 Trillion

U.S. Futures
$23 Trillion

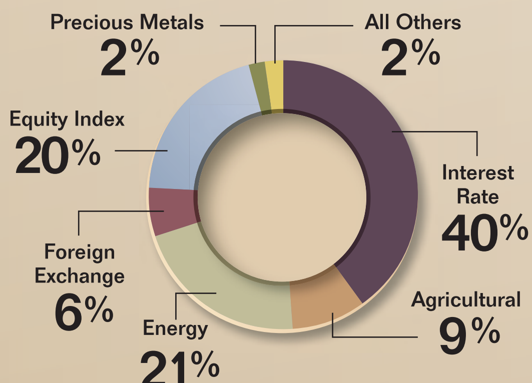
$274.8 Billion

Customer Funds Held in FCM Accounts as of September 2017

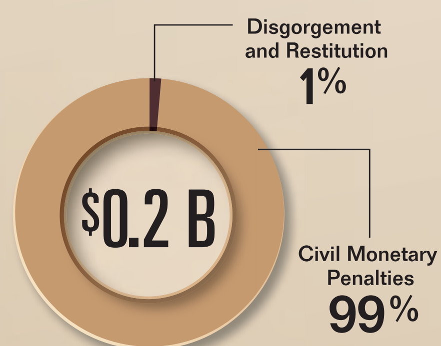
FY 2017 CFTC Regulated Entities

Trading Entities	56
Clearing Entities	22
Data Repositories	4
Registrants – Intermediaries	166
Registrants – Managed Funds	3,817
Other Registrants	56,793

FY 2017 Commodity Futures Trading Activity



FY 2017 Monetary Sanctions Assessed



221

New Investigations Opened in FY 2017

49

Enforcement Actions Filed in FY 2017

Fast Read

Strategic Priorities

The CFTC's work is structured around four strategic goals and a set of management objectives:

Market Integrity & Transparency

The focus of *Market Integrity and Transparency* is to recognize that derivatives markets provide a means for market users to offset price risks inherent in their businesses and to serve as a public price discovery mechanism.

Financial Integrity & Avoidance of Systemic Risk

The focus of *Financial Integrity and Avoidance of Systemic Risk* is to strive to ensure that Commission-registered DCOs, swap dealers, major swap participants (MSPs), and FCMs have the financial resources, risk management systems and procedures, internal controls, customer protection systems, and other controls necessary to meet their obligations so as to minimize the risk that the financial difficulty of any of these registrants, or any of their customers has systemic implications.

Comprehensive Enforcement

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

Domestic & International Cooperation & Coordination

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

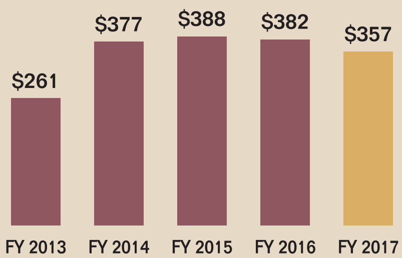
Management Objectives

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

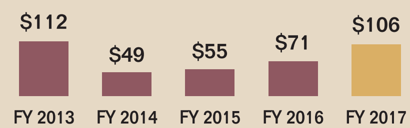
Financials

The charts below compare key financial line items for fiscal years (FYs) 2013 – 2017 ended September 30 of each fiscal year.

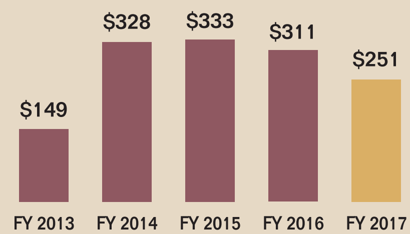
Assets
($ in millions)



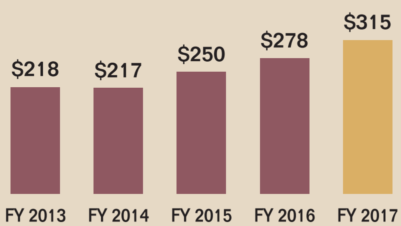
Total Liabilities
($ in millions)



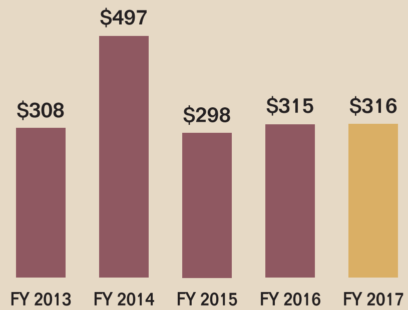
Total Net Position
($ in millions)



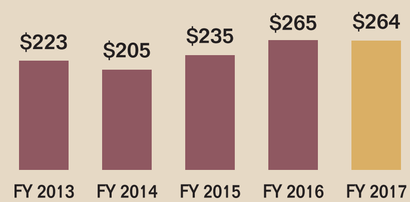
Total Net Cost of Operations
($ in millions)



Total Budgetary Resources[1]
($ in millions)



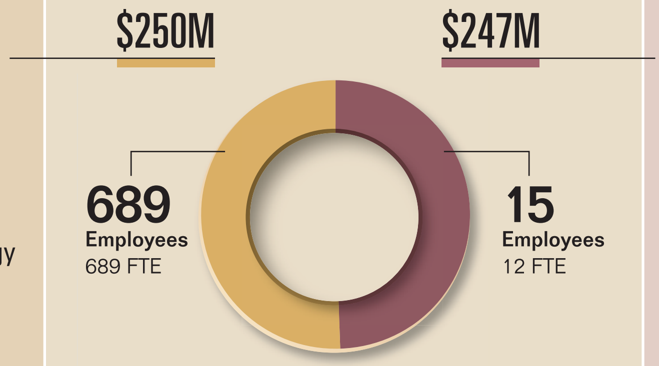
Gross Outlays
($ in millions)



Budget and Personnel

FY 2017 Appropriation

Appropriations for the CFTC fund the annual salaries and expenses of the agency. A portion of the appropriation is earmarked by Congress for information technology investments and for the Office of the Inspector General.



FY 2017 Customer Protection Fund

The CFTC Customer Protection Fund is a revolving fund established under Section 748 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) for the payment of awards to whistleblowers through the whistleblower program and the funding of customer education initiatives designed to help customers protect themselves against fraud or other violations of the CEA or the rules or regulations thereunder.

[1] *In FY 2016, the Commission corrected a violation of the recording statute by recording its obligations for all future building lease payments in accordance with OMB Circular A-11. The effect on the status of budgetary resources is reflected in FY 2015 – FY 2017.*

Going Forward

In 2017, Chairman Giancarlo introduced a three part agenda for the Commission going forward, *"The American people have entrusted the Trump Administration to turn the tide of over-regulation. Accordingly, financial market regulators, like the CFTC, must pursue their missions to foster open, transparent, competitive, and financially sound markets in ways that best foster American growth and prosperity."*

The table below highlights key priorities in this new agenda. Read the forward-looking section, CFTC: A New Direction Forward, for additional information.

New Podcast "CFTC Talks"

Launched August 14, 2017

Hosted by Andrew "Andy" Busch, CFTC Chief Market Intelligence Officer, a weekly podcast featuring a wide range of guests from market participants, government agencies, economists/analysts, technology experts and CFTC staff who will clarify and enlighten listeners on the markets the CFTC regulates and issues impacting those markets.

To listen, visit:

http://www.cftc.gov/media/podcast/index.htm.

Subscribe to the podcast on iTunes by looking for "CFTC Talks."

<table>
<tr><th colspan="2">CFTC: A New Direction Forward</th></tr>
<tr><td rowspan="3">I. Fostering Economic Growth
</td><td>Reduce Regulatory Burdens: Project KISS

"Keep It Simple, Stupid" will be a Commission-wide review of CFTC rules, regulations, and practices to make them simpler, less burdensome, and less costly.</td></tr>
<tr><td>Improve Market Intelligence: Become a Smarter Regulator

Realign market surveillance, create a market intelligence branch, and appoint a Market Intelligence Officer are key reforms to sharpen the CFTC's surveillance capability while increasing its knowledge of evolving structures and practices to inform sound policymaking.</td></tr>
<tr><td>Embrace FinTech: Create CFTC Innovation Initiative

Embrace technological change by leveraging financial technology (FinTech) innovation to become a more effective regulator and identify CFTC rules and regulations that need updating for relevance in 21st century digital markets.</td></tr>
</table>

CFTC: A New Direction Forward *(continued)*

II. Enhancing U.S. Financial Markets

Trading Liquidity: Balance Regulations with Economic Growth

The growing incidences of market events, such as recurring Flash Crashes, shake the confidence of the world financial markets. The Commission will seek to ensure that regulations, including capital requirements, properly balance systemic risk concerns with the need for robust, liquid markets.

Fix Flawed Swap Rules: Reduced Hedging = Reduced Lending

Among other adverse effects in the swaps market, flaws in the swaps trading regulatory framework have resulted in driving global market participants away from transacting with U.S. entities subject to CFTC swaps regulation. The CFTC is drafting an alternative swaps trading regulatory framework that better aligns regulatory oversight with inherent swaps market dynamics, streamlines unnecessary regulatory burdens, and promotes swaps trading on SEFs.

Effective International Engagement: Operate with Cross-Border Comity, Not Uniformity

Working in tandem with efforts to foster mutually beneficial standards for international markets, the Commission seeks to strengthen the bonds among financial regulators to ensure that we present a united front against wrong-doers who harm market intermediaries or participants.

III. Right-sizing Regulatory Footprint

Eschew Empire Building: Focus on Core CFTC Missions

The CFTC is resetting its focus on its core mission by streamlining the work of the CFTC divisions, delegating responsibility to NFA where appropriate, and looking to areas to benefit from cooperation with parallel Federal market regulators, other Federal and state regulators, and enforcement agencies.

In the Tradition of Quality Reporting, the Commodity Futures Trading Commission Proudly Presents the FY 2017 Agency Financial Report

A Message from the Chairman

I am pleased to present the Agency Financial Report for FY 2017 for the CFTC. This document provides a report of the Commission's mission, goals, and accomplishments upholding the mission, as well as financial and performance data.

American farmers and ranchers have used listed derivatives markets to hedge their costs of production and delivery for more than 100 years. These markets allow the risks of variable production costs, such as the price of raw materials, energy, foreign currency, and interest rates, to be transferred from those who cannot afford them to those who can. They are the reason why American consumers enjoy stable prices in the grocery store, whatever the conditions out on the farm.

But derivatives markets are not just useful for agricultural producers. They impact the price and availability of heating in American homes, energy used in factories, interest rates charged on home mortgages, and the returns earned on retirement savings. In short, derivatives serve the needs of society to help moderate price, supply, and other commercial risks to free up capital for economic growth, job creation, and prosperity.

Enforcement

The CFTC is committed to seeing that America's derivatives markets operate free from fraud, manipulation, and other trading abuses. Throughout this year, the CFTC's Division of Enforcement has brought important enforcement actions across

our markets, which have strengthened market integrity and enhanced customer protections. CFTC staff continue to work proactively alongside law enforcement partners, including the U.S. Department of Justice, to ensure that, in the appropriate cases, the CFTC is facilitating criminal prosecutions of the most culpable actors.

21st Century Regulator

So much of our world today, from information to music to manufacturing to transportation to commerce—even farming, is undergoing a digital transformation. It should be no surprise that our capital, commodity, and futures markets are going through the same transformation. The electronification of markets over the past 30 to 40 years and the advent of exponential growth in digital technologies have altered trading, markets, and the entire financial landscape with far-ranging implications for capital formation and risk transfer.

With this in mind, the CFTC recently launched an initiative called LabCFTC. It serves as the focal point for Commission efforts to facilitate market-enhancing FinTech innovation and fair competition for the benefit of the American public. LabCFTC is designed to make the CFTC more accessible to FinTech innovators. It serves as a platform to inform the Commission's understanding of emerging technologies. LabCFTC will enable the CFTC to be proactive and forward-thinking as FinTech applications continue to develop, and to help identify related regulatory opportunities, challenges, and risks.

Cybersecurity

All federal agencies and financial market participants must be vigilant about cybersecurity. That includes the CFTC. It is why we are constantly reviewing and updating our cybersecurity protections to guard against the growing threat of a breach. Our agency has successfully thwarted hundreds of attempted breaches. Yet, we can never be complacent or assume that past success is an indicator of future resilience.

Notwithstanding our commitment to cyber vigilance, the CFTC takes nothing for granted. The cyber threat is persistent and ever changing. It has rightly been said that it is not a question of "if" a cyber intrusion will occur, but "when" it will occur. In light of the relentlessness of the cyber threat, our team at the CFTC has taken several proactive steps including working with the U.S. Department of Homeland Security, and instituting a monthly review with the CFTC's Chief Cybersecurity Officer to discuss all recent cyber incidents, agency responses, anticipated threats, and emerging best practice defenses.

Project KISS

Too often CFTC rules and regulations are applied in a needlessly complex and costly manner. They cause compliance to be too complex, costly, or time-consuming for market participants, especially derivatives end users, such as producers and farmers and ranchers. To address this problem, the CFTC has launched the Project KISS initiative.

Project KISS stands for "Keep It Simple, Stupid." It is an agency-wide review of CFTC rules, regulations, and practices to make them simpler, less burdensome, and less costly. On February 24, 2017, President Trump issued an Executive Order on "Enforcing the Regulatory Reform Agenda." Although the CFTC as an independent agency is not strictly bound by President Trump's Executive Order, we believe that Project KISS is in line with the President's objectives.

As part of the Project KISS effort, the CFTC issued a call for recommendations from the public on regulatory reform. We received 65 comments from the public through a portal on the CFTC website. In addition to the public comments, CFTC staff identified over forty examples of ways in which we might achieve the objectives we have set forth under Project KISS.

Project KISS is not about identifying rules for repeal. It is about taking our existing rules and applying them in ways that are simpler, less costly, and less burdensome. We believe the American taxpayer expects us to do nothing less.

Conclusion

I have spent the past three years on the Commission getting to know the agency, its staff, and its programs. My admiration and respect have not diminished, but grown. In January, upon becoming Acting Chairman, I began a process of looking at every function and expenditure undertaken by the Commission, just as I learned to do in my business career.

We identified several ways the agency can run more efficiently and save taxpayer dollars. We also discovered areas within our current mission where we need to devote additional resources. Moving forward, with the right allocation of resources, we know that we can meet the challenges of an evolving 21st Century market.

This Chief Financial Officer's message in this report includes the results of the independent audit of our FY 2017 Financial Statements, which I am pleased to report is an unmodified opinion. I can also report that the CFTC had no internal control weaknesses and that the financial and performance data in this report are reliable and complete under the Office of Management and Budget (OMB) guidance. Key management assurances and further details about internal controls are provided in the Management's Discussion and Analysis Section of this report.

CFTC Commissioners and staff are committed to supporting and strengthening the CFTC's mission to foster open, transparent, competitive, and financially sound markets for the trading of commodity and financial futures, swaps, and other derivatives. We will continue to implement reforms in ways that enhance safe, sound, sustainable, secure, and vibrant markets for finance and investment in order to promote economic growth and job creation.

The dedicated public servants who work diligently at this agency to assure that American derivatives markets are free from fraud and manipulation are truly the heart of the Commission. Their work ensures our markets efficiently serve the risk transfer needs of American businesses and agriculture, and our fellow citizens who rely on them.

J. Christopher Giancarlo
Chairman
November 13, 2017

FY 2017 Commissioners

J. Christopher Giancarlo, Chairman

J. Christopher "Chris" Giancarlo was unanimously confirmed as Chairman of the CFTC by the U.S. Senate on August 3, 2017. Prior to becoming Chairman, Mr. Giancarlo was designated Acting Chairman on January 20, 2017 and was nominated by President Trump to serve as the Chairman on March 14, 2017 to a term that expires in April 2019. Mr. Giancarlo had served as a CFTC Commissioner since his swearing in on June 16, 2014, after unanimous consent by the U.S. Senate on June 3, 2014. He was nominated by President Obama on August 1, 2013.

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

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

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

Sharon Y. Bowen, Commissioner

Sharon Y. Bowen was sworn in as a Commissioner of the CFTC on June 9, 2014 for a five-year term. Ms. Bowen resigned as Commissioner of the CFTC on September 30, 2017.

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

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

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

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

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

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

Brian D. Quintenz, Commissioner

Brian D. Quintenz was nominated by President Trump as a Commissioner of the CFTC on May 12, 2017, was unanimously confirmed by the Senate on August 3, 2017, and was sworn into office on August 15, 2017 for the remainder of a five-year term expiring in April 2020.

Prior to his appointment to the CFTC, Mr. Quintenz founded and served as the Managing Principal and Chief Investment Officer of Saeculum Capital Management, a registered CPO that specialized in risk management and technical analysis investment strategies.

Mr. Quintenz started the finance side of his career at Hill-Townsend Capital, a Registered Investment Advisor established to focus solely on U.S. bank and financial company investment opportunities. While there, Mr. Quintenz performed rigorous fundamental valuation analysis on regional and global banks, projected future earnings estimates, and implemented proprietary hedging strategies.

Prior to working in the financial markets, Mr. Quintenz worked for Congresswoman Deborah Pryce (OH-15) for several years ultimately becoming her senior policy advisor.

Mr. Quintenz graduated Magna Cum Laude from Duke University with a major in Public Policy Studies and received an MBA from Georgetown University McDonough School of Business, where he was inducted into the Phi Beta Gamma honors society.

Rostin Behnam, Commissioner

Rostin Behnam was nominated by President Trump as a Commissioner of the CFTC on July 13, 2017, was unanimously confirmed by the Senate on August 3, 2017, and was sworn in to serve as a Commissioner on September 6, 2017 for term expiring in June 2021.

Prior to joining the CFTC, Mr. Behnam served as senior counsel to U.S. Senator Debbie Stabenow of Michigan, Ranking Member of the Agriculture, Nutrition, and Forestry Committee. Mr. Behnam served as counsel to Senator Stabenow since 2011, focusing on policy and legislation related to the CFTC and USDA.

Prior to serving Senator Stabenow, Mr. Behnam practiced law in New York City and worked at the New Jersey Office of the Attorney General. Mr. Behnam is a graduate of Georgetown University and earned a J.D. from the Syracuse University College of Law.

A Conversation with Chairman, J. Christopher Giancarlo

> ***The CFTC needs market reforms that support economic growth and are forward-looking to ensure we are a 21st century regulator for 21st century digital markets. This means balancing derivative market regulation with market health, vibrancy, and economic growth.***
>
> ***– J. Christopher Giancarlo***

What were CFTC's major accomplishments in FY 2017 and key challenges facing 2018?

We are making forward progress with a proactive agenda. Working cooperatively with former Commissioner Sharon Bowen, we completed an average of 3½ voting actions a week, which is on par with the activity of the CFTC under the previous administration. We launched unprecedented new initiatives, like LabCFTC and Project KISS. We continued with an active enforcement strategy.

As for challenges, we need to fix our flawed swaps trading rules. CFTC's current approach is highly over-engineered, disproportionately modeled on U.S. futures markets, and biased against both human discretion and technological innovation. We will continue to work positively with our overseas regulatory counterparts, as we did in reaching hard-negotiated, but very constructive equivalence agreements with the European Commission. Lastly, it is time for the agency to resume normalized operations and practices. For the past six years, the CFTC has operated at a breakneck pace driven by Dodd-Frank's mandate for swift rule implementation. That mandate was the justification for a considerable amount of expediency in rule adoption and agency process. The era of Dodd-Frank implementation at the CFTC is now drawing to a close. It is time to return to greater care and precision in rule drafting, more thorough econometric analysis, less contracted timeframes for public comment, and a reduced docket of new rules and regulations to be absorbed by market participants.

How will you spend most of your time in FY 2018?

I plan to focus on my priority as Chairman to promote the CFTC's mission to foster open, transparent, competitive, and financially sound markets—free from fraud and manipulation—for the trading of commodity and financial futures, swaps, and other derivatives. Second, we must serve the CFTC's regulatory mission in a way that best promotes broad-based economic growth and American prosperity. That means getting back to regular order in operations, conducting more thorough econometric analysis, and efficiently managing appropriated resources. Further, we must do so in a way that respects the American taxpayer.

Finally, we must ensure that the CFTC is taking steps to become a 21st century regulator for 21st century digital markets.

We launched two initiatives that speak to these priorities. Project KISS, which stands for, "Keep It Simple, Stupid," is an agency-wide review of CFTC rules, regulations, and practices to make them simpler, less burdensome, and less costly. Project KISS is NOT about identifying rules for repeal or even rewrite. It is about taking our existing rules as they are and applying them in ways that are simpler, and less burdensome. I believe the American taxpayer expects us to do nothing less. We also launched LabCFTC, a new initiative aimed at promoting responsible FinTech innovation to improve the quality, resiliency, and competitiveness of the markets the CFTC oversees. The purpose of LabCFTC is twofold—the first is to provide greater regulatory certainty that encourages market-enhancing FinTech innovation to improve the quality, resiliency, and competitiveness of our markets. The second is to identify and utilize emerging technologies that can enable the CFTC to carry out its mission more effectively and efficiently in a rapidly evolving digital world.

What initially drew you to the CFTC and caused you to take the leap from firm to regulator?

I spent sixteen years as a practicing commercial lawyer in New York and London and then fourteen years as a senior executive of a publicly-traded financial service firm in New York City before I entered the regulatory arena as a CFTC Commissioner.

I have been a long-standing advocate of swaps market reform and this goes back to when I entered the swaps industry in 2000. I became a supporter of central counter-party clearing of swaps early on, when I saw how its emergence in the energy swaps market increased trading liquidity and market participation. In 2005, I led an effort to develop a clearing facility for credit default swaps. So I guess you could say that I was pro-reform before most people.

So, I was then—and remain today—a supporter of the swaps reforms established in 2009 by the G20 leaders and embodied in the Dodd-Frank Act. My support for these reforms was not based on academic theory or political ideology, but rather on practical experience in our financial markets.

I have not wavered in my support for these reforms in my three years on the Commission. Yes, I have criticized some of the agency's particular implementation of the reforms—almost always where I believed they were impractical, overly burdensome, or out of step with Congressional intent. Yet, in all cases, I advocated alternative approaches that I believe better support healthy markets and are more faithful to the law. It is with those basic principles in mind that I have developed our policy priorities for the CFTC discussed within this report, including Project Kiss, LabCFTC, and reforms to CFTC swaps trading rules.

Glossary of Abbreviations and Acronyms

The CFTC Glossary

A Guide to the Language of the Futures and Swaps Industries

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

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

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

Glossary of Acronyms

U.S. Federal Law

CEA	Commodity Exchange Act
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FCPIA	Federal Civil Penalties Inflation Adjustment Act
FECA	Federal Employees' Compensation Act
FISMA	Federal Information Security Management Act
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
GPRA	Government Performance and Results Act
RCA	Reports Consolidation Act

CFTC Divisions and Offices

BMU	Office of the Executive Director, Business Management Unit
DCR	Division of Clearing and Risk
DMO	Division of Market Oversight
DOE	Division of Enforcement
DSIO	Division of Swap Dealer and Intermediary Oversight
OCE	Office of the Chief Economist
OCEO	Office of Customer Education and Outreach
ODT	Office of Data and Technology
OED	Office of the Executive Director
OGC	Office of the General Counsel
OIA	Office of International Affairs
OIG	Office of the Inspector General
WBO	Whistleblower Office

U.S. Federal Departments and Agencies

CFTC .... U.S. Commodity Futures Trading Commission
DOL .... U.S. Department of Labor
FDIC .... Federal Deposit Insurance Corporation
GAO .... U.S. Government Accountability Office
GSA .... U.S. General Services Administration
NFC .... USDA National Finance Center
OMB .... Office of Management and Budget
OPM .... Office of Personnel Management
SEC .... U.S. Securities and Exchange Commission
Treasury .... U.S. Department of the Treasury
USDA .... U.S. Department of Agriculture

Other Abbreviations

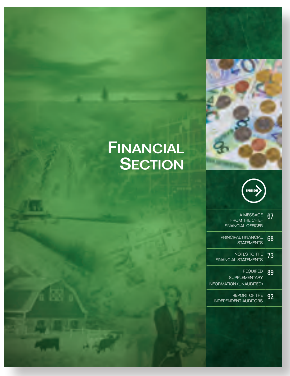
AP .... Associated Person
BASIC .... NFA's Background Affiliation Status Information Center Database
CME .... Chicago Mercantile Exchange Inc.
CMIO .... Chief Market Intelligence Officer, CFTC
COTS .... Commercial Off-the-Shelf
CPMI .... Committee on Payments and Market Infrastructures
CPI .... Centralized Production Intake Project
CPO .... Commodity Pool Operator
CSRS .... Civil Service Retirement System
CTA .... Commodity Trading Advisor
DCM .... Designated Contract Market
DCO .... Derivatives Clearing Organization
DNP .... Do Not Pay
DSRO .... Designated Self-Regulatory Organization
EMMoU ...... Enhanced Multilateral MOU Concerning Consultation and Cooperation and the Exchange of Information
EU .... European Union
FASAB .... Federal Accounting Standards Advisory Board
FBIIC .... Financial and Banking Information Infrastructure Committee
FBOT .... Foreign Board of Trade
FCM .... Futures Commission Merchant
FERS .... Federal Employees Retirement System
FINRA .... Financial Industry Regulatory Authority
FMI .... Financial Market Infrastructure
FinTech .... Financial Technology
FIXML .... Financial Information Exchange Markup Language
FOREX .... Foreign Currency
FpML .... Financial Products Markup Language
FSB .... Financial Stability Board
FS-ISAC .... Financial Services—Information Sharing and Analysis Center
FSOC .... Financial Stability Oversight Council
FSSCC .... Financial Services Sector Coordinating Council
FTE .... Full-time Equivalent
FY .... Fiscal Year
GAAP .... U.S. Generally Accepted Accounting Principles
GAGAS .... Generally Accepted Government Auditing Standards
GUUG .... FSB's Working Group on UTI/UPI Governance
IB .... Introducing Broker
IOSCO .... International Organization of Securities Committee
ISDA .... International Swaps and Derivatives Association
IT .... Information Technology
MOU .... Memorandum of Understanding
MSP .... Major Swap Participant
NFA .... National Futures Association
NIST .... National Institute of Standards and Technology
ODRG .... OTC Derivatives Regulators Group
OPERA .... Organizations, Products, Events, Rules, and Actions Portal
ORB .... Other Retirement Benefits
OTC .... Over-the-Counter
PFI .... Potential Future Exposure
PFMI .... Principles for Financial Market Infrastructures
ReD .... CFTC Registration Deficient
ReSG .... FSB's Resolution Steering Group
RFED .... Retail Foreign Exchange Dealer
SAS .... Statistical Analysis Systems
SBR .... Statement of Budgetary Resources
SD .... Swap Dealer
SDR .... Swap Data Repository
SEF .... Swap Execution Facility
SFFAS .... Statement of Federal Financial Accounting Standards
SIDCO .... Systemically Important DCO
SOS .... Schedule of Spending
SRO .... Self-Regulatory Organization
SSE .... System Safeguards Examination
TCR .... Tip, Complaint, or Referral Form
UK .... United Kingdom
UPI .... Unique product identifiers
US .... United States
UTI .... Unique transaction identifiers

How This Report is Organized

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

This report is prepared by the CFTC. Information in this Agency Financial Report is provided as of November 15, 2017, and covers the period October 1, 2016, to September 30, 2017, unless otherwise indicated.

Three documents comprise the FY 2017 Agency Financial Report, in addition to the Appendix.



The **Management's Discussion and Analysis** section is an overview of the entire report. The MD&A presents performance and financial highlights for FY 2017 and discusses compliance with legal and regulatory requirements, business trends and events, and management issues.

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

Other Information contains the Inspector General's assessment of management challenges, combined schedule of spending, and a summary of the results of the Commission's audit and management assurances. It also includes summaries pertaining to improper payments, fraud reduction, civil monetary penalties, and CFTC space.

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

Management's Discussion and Analysis

INSIDE

Welcome to the CFTC

Organization and Location

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

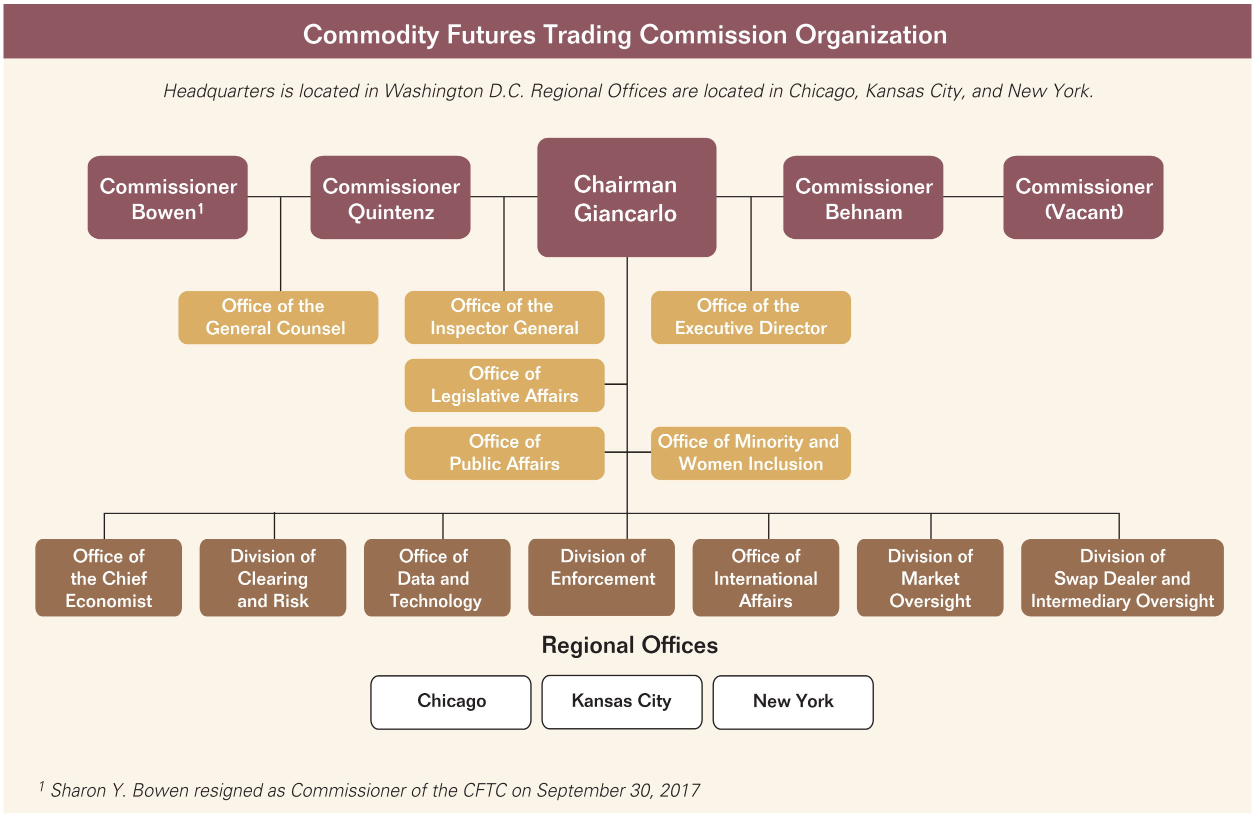
The Office of the Chairman oversees the Commission's principal divisions and offices that administer and enforce the CEA and the regulations, policies, and guidance thereunder. The Office of the Chairman include: Public Affairs, Legislative Affairs, and Minority and Women Inclusion.

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

The Dodd-Frank Act established the CFTC Customer Protection Fund for the payment of awards to whistleblowers, through the whistleblower program, and the funding of customer education initiatives designed to help customers protect themselves against fraud or other violations of the CEA or the rules or regulations thereunder. The Whistleblower Office (WBO) administers the whistleblower program. The Commission undertakes and maintains customer education initiatives through the Office of Customer Education and Outreach (OCEO).

CFTC Organization Structure, Locations and Facilities

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



The CFTC Organization

Below are brief descriptions of the organizations:

The Commission

The Offices of the Chairman and the Commissioners provide executive direction and leadership to the Commission—specifically, as it develops and adopts Commission policy that implements and enforces the CEA and other statutes, rules and regulations. Commission policy is designed to foster the financial integrity and economic utility of derivatives markets for hedging and price discovery, to conduct market and financial surveillance, and to protect the public and market participants against manipulation, fraud, and other abuses. The Office of the Chairman includes: Public Affairs, Legislative Affairs, and Minority and Women Inclusion.

Office of the General Counsel

By statute, the OGC provides legal services and support to the Commission and all of its programs. These services include: 1) engaging in defensive, appellate, and *amicus curiae* litigation; 2) assisting the Commission in the performance of its adjudicatory functions; 3) providing legal advice and support for Commission programs; 4) assisting other program areas in preparing and drafting Commission regulations; 5) interpreting the CEA; 6) overseeing the Commission's ethics program and compliance with laws of general applicability; and 7) providing advice on legislative, regulatory issues and financial technology innovation. The CFTC's new FinTech program, Freedom of Information Act Office, and E-discovery coordinator are all located in OGC.

Office of the Inspector General

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

Office of the Executive Director

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

Office of the Chief Economist

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

Division of Clearing and Risk

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

Office of Data and Technology

ODT develops and delivers the technology, applications, and technical services necessary to execute the CFTC's full range of mission and business operations. ODT delivers services to CFTC through four components: Systems and Services, Data Management, Infrastructure and Operations, and Policy and Planning. Systems and Services provides access to data and information, platforms for data analysis, and enterprise-focused automation services. Data Management focuses on data analysis activities that support data acquisition, utilization, management, reuse, transparency reporting, and data operations support. Infrastructure and Operations organizes delivery of services around network infrastructure and operations, telecommunications, and desktop and customer services. Delivered services are highly available, flexible, reliable, and scalable, supporting the systems and platforms that empower staff to fulfill the CFTC mission. Policy and Planning focuses on information technology (IT) security, strategic and operational planning, IT policy and procedure development, configuration management, enterprise architecture, and internal business management. The four service delivery components are unified by an enterprise-wide approach that is driven by the Commission's strategic goals and objectives.

Division of Enforcement

The DOE investigates and prosecutes alleged violations of the CEA and Commission regulations. The Commission's enforcement efforts are necessary for public confidence and trust in the financial markets. DOE utilizes its authority to, among other things: 1) shut down fraudulent schemes and seek to immediately preserve customer assets through asset freezes and receivership orders; 2) uncover and stop manipulative and disruptive trading; 3) ensure that markets, firms, and participants subject to the Commission's oversight meet their obligations, including their financial integrity and reporting obligations, as applicable; 4) ban certain defendants from trading in its markets and bar them from being registered; and 5) obtain orders requiring defendants to pay restitution, disgorgement, and civil monetary penalties. DOE also engages in cooperative enforcement work with domestic, state and Federal, and international regulatory and criminal authorities. The WBO within DOE receives tips, complaints and referrals of potential violations, which allows the staff to bring cases more quickly and with fewer CFTC resources, and guides the handling of whistleblower matters as needed during investigation, litigation, and award claim processes. The Commission also augments its enforcement program through both: a robust market surveillance program, which, among other things, develops and utilizes sophisticated systems to analyze trade data, respond to outlying events, and identify trading or positions that warrant further enforcement inquiry; and forensic economic analysis, which includes extensive data analysis to develop evidence for investigations into potential market manipulation, disruptive trading practices (including spoofing) and other unlawful trade-based conduct.

Office of International Affairs

OIA advises the Commission regarding international regulatory initiatives; provides guidance regarding international issues raised in Commission matters; represents the Commission in international fora, such as the International Organization of Securities Commission (IOSCO), the Financial Stability Board (FSB), and the OTC Derivatives Regulator Group (ODRG); coordinates Commission policy as it relates to policies and initiatives of major foreign jurisdictions and the G20; coordinates with the U.S. Department of the Treasury (Treasury) and U.S. financial regulatory authorities on international matters; negotiates cooperative arrangements and responds to inquiries related to supervisory cooperation or information sharing; and provides technical assistance to foreign market authorities, including advice and organization of international training programs and regulatory symposia.

Division of Market Oversight

DMO fosters open, transparent, fair, competitive, and secure markets through oversight of derivatives platforms and SDRs. DMO is responsible for reviewing new applications for DCMs, SEFs, SDRs, and foreign boards of trade (FBOTs) and examining existing trading platforms and SDRs to ensure their compliance with the applicable core principles and other regulatory requirements, including system safeguards. DMO also evaluates new platform-traded products to ensure that they are not susceptible to manipulation, and reviews entity rules to ensure compliance with the CEA and Commission regulations. Furthermore, DMO is responsible for analyzing internal and external data to identify current and emerging market trends to inform sound policymaking at the Commission and promote efficient and vibrant markets. DMO also drafts and implements regulations and other regulatory work product to enhance derivatives market structure, and provides guidance to the Commission and registrants regarding these regulations.

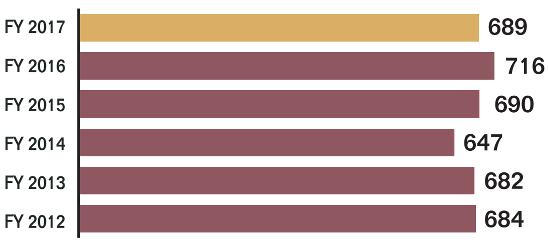
Division of Swap Dealer and Intermediary Oversight

The DSIO oversees the registration and compliance activities of market intermediaries and the futures and swaps industry self-regulatory organizations (SROs), which includes the National Futures Association (NFA). DSIO develops and implements regulations concerning registration, fitness, financial adequacy, sales practices, risk management, business conduct, capital and margin requirements, protection of customer funds, cross-border transactions, and anti-money laundering programs. DSIO provides guidance to the Commission, registrants, SROs and other market participants regarding the CEA and Commission regulations. DSIO monitors the compliance of these registrants and provides oversight and guidance for complying with the system of registration and compliance established by the CEA and the Commission's regulations. DSIO further assesses registrant compliance with the CEA and Commission regulations by conducting targeted reviews and examinations of registrants and performing oversight of the SRO examination functions. DSIO also oversees CPOs and commodity trading advisors (CTAs) with respect to managed funds and managed accounts.

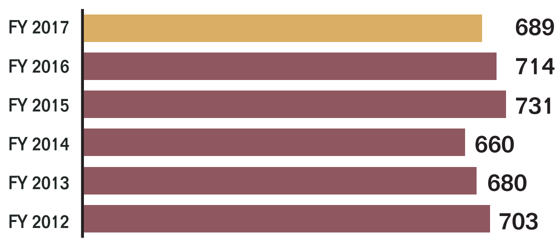
CFTC Resources[1]

The Commission's most valuable asset is its employees. Collectively, the Commission employed 689 full-time permanent employees that compute to 689 full-time equivalents (FTE[2]) in FY 2017. CFTC staff are comprised of 65 percent direct mission staff (attorneys, economists, auditors, risk and trade analysts, and other financial specialists) and 35 percent management and support staff to accomplish four strategic goals and a set of management objectives in the regulation of commodity futures, options, and swaps.

Full-Time Equivalents



Number of Employees



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

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

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

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

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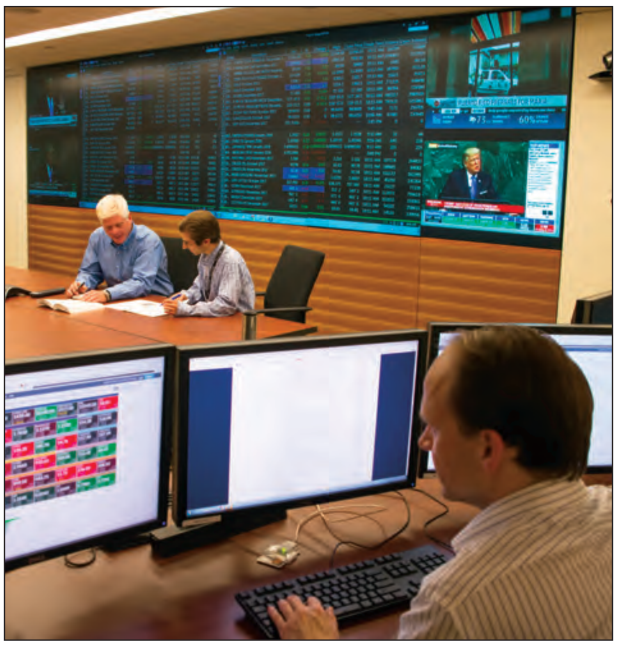
[1] *Excludes the CFTC Customer Protection Fund, which employed 15 employees that compute to 12 FTE in FY 2017.*

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

CFTC Mission and Responsibilities over the U.S. Derivatives Markets

CFTC Mission

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



The Commission administers the CEA, 7 U.S.C. section 1, *et seq*. The 1974 Act established the Commission as an independent regulatory agency with jurisdiction over futures trading in all goods, articles, services, rights, and interests; commodity options trading; leverage trading in gold and silver bullion and coins; and otherwise strengthened the regulation of the commodity futures trading industry.

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

Derivative

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

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

Futures Markets

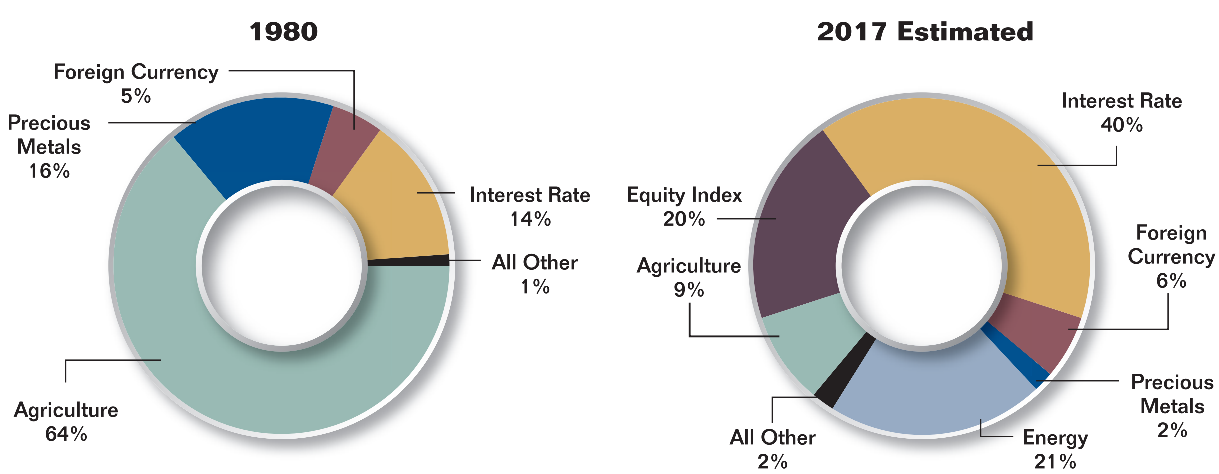
The Commission construes the definition of a futures contract broadly. Essentially, it is an agreement to purchase or sell a commodity for delivery in the future: 1) at a price that is determined at initiation of the contract; 2) that obligates each party to the contract to fulfill the contract at the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

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

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

Over the years, the futures markets have become increasingly diversified from their agricultural beginnings. Futures based on other physical commodities, such as metals, beginning in the 1970s, and energy products, during the 1980s, were developed. Since being introduced in the 1970s, financial futures contracts based on interest rates, foreign currencies, Treasury bonds, security indexes, and other products have far outgrown the agricultural contracts in trading volume.

Share of Futures and Options Trading Activity by Sector



Source: Futures Industry Association

Since 1980, the share of on-exchange commodity futures and option trading activity in the agricultural sector decreased from approximately two-thirds of trading activity to just over 9 percent of activity. The share of the financial futures and option contract activity increased from less than 20 percent of trading activity to approximately two-thirds of the trading activity. Among the other contracts, trading in energy contracts increased to approximately 21 percent of activity, from zero in 1980.

Swaps Markets

Generally speaking, a swap is an exchange of one set of cash flows for another. Swaps can be used to hedge risks arising from changing commodity prices, interest rates, credit spreads, foreign exchange rates, and other economic quantities.

For example, a company that manufactures metal bottles plans to buy 50 metric tons of aluminum from its regular suppliers in six months, but wants to hedge against the risk of rising aluminum prices. It can enter into a swap, agreeing in six months to pay $2,000 per metric ton for 50 tons of aluminum, or $100,000, in exchange for receiving the price of 50 metric tons of aluminum that prevails in 6 months. This swap locks in a cost of $100,000 for the aluminum needs of this manufacturer.

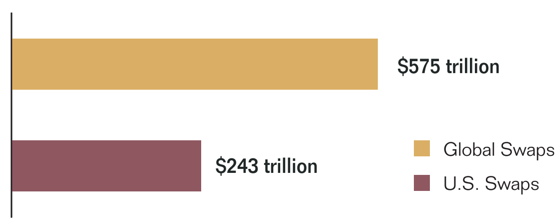
If the price of aluminum at the end of the six months happens to be $2,500 per ton, the manufacturer will buy the 50 tons from its suppliers at that prevailing price, for a total of $125,000. At the same time, as specified by the swap, the manufacturer will pay the agreed upon $100,000 in exchange for receiving the price of 50 tons at the prevailing price, that is, $125,000. The $125,000 paid to suppliers is exactly covered by the $125,000 received from the swap, so the manufacturer's total cost of obtaining the aluminum is the payment through the swap of $100,000.

If, on the other hand, the price of aluminum at the end of the six months happens to be $1,500 per ton, the manufacturer buys 50 tons from its suppliers at that price, for a total of $75,000. The manufacturer then settles the swap, paying $100,000 and receiving the market price of $1,500 on 50 tons, or $75,000. Once again, the total cost of obtaining the aluminum is $100,000. Hence, because of the swap, whether the price of aluminum rises or falls, the manufacturer's realized cost is $100,000. Note that, in the case when the price turns out to be $1,500 per ton, the manufacturer loses money on the swap—it pays $100,000 and receives only $75,000—but that is just part of the hedging strategy that locks in a cost of $100,000.

Before the Dodd-Frank Act, swaps were traded OTC and were mostly bilateral, that is, strictly between the two counterparties to the swap. Since then, as envisioned by Dodd-Frank, much of the swaps market trades on regulated execution facilities; is reported to regulators; and—particularly in the case of interest rate swaps and credit default swaps—is centrally cleared, that is, the two counterparties to a swap legally face a clearinghouse. These changes have greatly enhanced the Commission's ability to monitor trading activity and risk in swap markets. Considerable effort is expended at the CFTC to improve its ability to process, understand, and analyze the swaps market data it receives.

The notional value[3] of U.S. swaps markets, as reported in the CFTC weekly swaps report, is a significant portion of the global OTC market. Notional amounts are not a measure of risk.

Estimated Notional Values of FY 2017 Swaps Market



Sources: Global Swaps reflect interest rate and foreign exchange contracts globally, as reported by the Bank of International Settlements. U.S. Swaps reflect interest rate and credit default contracts reported from four SDRs as reported by the CFTC Weekly Swaps Report. The U.S. swaps estimate is based on June 2017 numbers. The global swaps estimate is an extrapolation based on 2016 numbers.

[3] *The notional value of a swap is the value used to calculate the payments due on that swap. If, for example, one counterparty was obliged to pay 3 percent on $100 million notional amount of an interest rate swap, that payment would be calculated to be $3 million. The $100 million notional amount is never paid or received. The notional value of a swaps market is the sum of the notional values of all outstanding trades, without any netting of long and short positions, even between pairs of counterparties.*

Industry Oversight

The Commission is committed to carrying out its mission to promote market integrity and transparency, protect customer funds, and lower the risk of the derivatives markets to the U.S. economy and the American public, and this is accomplished by:

- Regulating entities that participate in derivatives market activities;
- Regulating exchanges on which derivatives are transacted;
- Overseeing central clearing entities, which generally insert themselves between the parties to a transaction to guarantee performance should a party default;
- Regulating SDRs, which receive data on swap transactions as they are executed, making the data available to regulators, and disseminate economic terms of each transaction in real time to the public; and
- Investigating and prosecuting alleged violations of the CEA and Commission regulations.

While our country reaps the rewards of growth in the derivatives markets, the Commission must remain vigilant in protecting market participants and the public from fraud and manipulation in these increasingly complex markets. Electronic trading platforms, innovative trading instruments, new methods for executing transactions and cybersecurity issues have contributed to an increasingly complex marketplace. Typically, the Commission has over 300 investigations open at any particular time. If evidence of criminal activity is found, matters can and will be referred to state or Federal authorities for prosecution.

To further protect the U.S. economy and American public, Congress directed the CFTC to establish the Customer Protection Fund for the payment of awards to whistleblowers, through the whistleblower program, and the funding of customer education and outreach programs designed to help customers protect themselves against fraud and other violations of the CEA or the rules or regulations thereunder. Now in the fifth year of operation of these programs, the Commission has paid a total of over $12 million in whistleblower awards and continues to expand its outreach efforts to educate investors through social media, trade shows, special events, television advertising, and SmartCheck.gov web sessions (*https://www.smartcheck.gov/*).

Industry Oversight – CFTC Regulated Market Participants

Regulating Market Participants

Certain registered market participants are required to meet robust business conduct standards to lower risk and promote market integrity. Market participants are required to meet recordkeeping and reporting requirements so that regulators can police the markets. Market participants are subject to capital and margin requirements to reduce risk in the system.

The CFTC's regulatory scope encompasses trading and dealing entities, clearing entities, SDRs, intermediaries, and the sole registered futures association, the NFA. For most of the registered market participants, the Commission's role is as a second-line regulator, where it relies on designated self-regulatory organizations (DSROs)[4] or SROs, as applicable, to perform critical regulatory responsibilities.

The Commission's direct regulatory activities in registration, rule and product reviews, and examinations are primarily focused on the DCMs, DCOs, SDRs, SEFs, and the NFA. The Commission also conducts limited scope direct examinations of registered futures and swaps intermediaries, as resources are available. While the DSROs are obligated to conduct surveillance and enforcement activities for entities under their purview, the Commission conducts surveillance and enforcement activities across all market participants. The

[4] *SROs (i.e., the commodity exchanges and registered futures associations) that enforce minimum financial and reporting requirements for their members, among other responsibilities outlined in the CFTC's regulations. When an FCM is a member of more than one SRO, the SROs may decide among themselves which of them will assume primary responsibility for these regulatory duties and, upon approval of the plan by the Commission, be appointed the DSRO for that FCM.*

number of regulated entities and registrants in FY 2017 is provided in the following table:

FY 2017 REGULATED ENTITIES	
Trading Entities	
Designated Contract Market (DCM)	14
Foreign Board of Trade[5] (FBOT)	17
Swap Execution Facility (SEF)	25
Clearing Entities	
Derivatives Clearing Organization[6] (DCO)	16
Exempt Derivatives Clearing Organization (Exempt DCO)	4
Systemically Important DCO (SIDCO)	2
Data Repositories	
Swap Data Repository[7] (SDR)	4
Registrants[8] – Intermediaries	
Futures Commission Merchant[9] (FCM)	62
Major Swap Participant (MSP)	0
Retail Foreign Exchange Dealer (RFED)	2
Swap Dealer (SD)	102
Registrants – Managed Funds	
Commodity Pool Operator (CPO)	1,628
Commodity Trading Advisor (CTA)	2,189
Other Registrants	
Associated Person (AP)	51,837
Introducing Broker (IB)	1,252
Floor Broker (FB)	3,134
Floor Trader (FT)	570

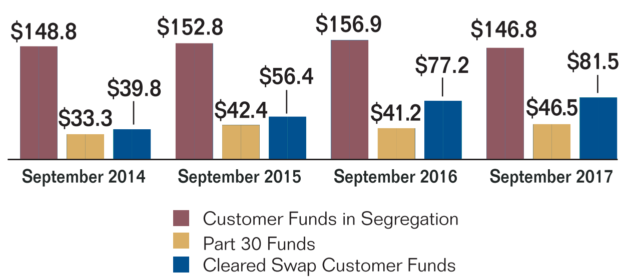
For registered FBOTs, the CFTC shares regulatory authority with the FBOT's home regulatory authority with respect to oversight over direct access trading from the United States and review of products to be offered for trading by direct access. For intermediaries, the CFTC retains certain direct oversight responsibilities and has delegated some oversight responsibilities to SROs.

The CFTC's registrants that are intermediaries play a vital role in the Nation's financial system by connecting customers to the global market. They include swap dealers, FCMs, CPOs, and CTA, among others. With almost $275 billion in customer funds in FY 2017, they serve as a cornerstone of the Commission's regulatory framework. As such, the Commission directs its resources to provide critical policy and regulatory guidance to intermediaries, both directly and in coordination with the NFA. The Commission also uses its resources to ensure that registration rules, standards and reporting requirements keep pace with the needs of the evolving marketplace.

Six years ago, swap dealers faced no specific oversight with regard to their swap dealing activity. In 2011, under the Dodd-Frank Act, Congress directed the CFTC to create a framework for the registration and regulation of swap dealers and MSPs.

Amount of Customer Funds in Futures Commission Merchants Accounts

($ in billions)



Source: CFTC Monthly FCMs Financial Reporting

As a key component of the Commission's regulatory framework, all customer funds held by a FCM for trading on DCMs (exchanges) and SEFs must be segregated from the FCM's own funds—this includes cash deposits and any securities or other property deposited by customers to margin or guarantee their futures and cleared swaps trading. In addition, Part 30 of the CFTC's regulations also requires FCMs to hold apart from their own funds any money, securities or other property deposited by customers to margin futures contracts listed on foreign exchanges.

[5] *FBOTs are registered with the Commission, which allows the FBOT to permit its members and other participants in the United States to enter orders directly into the FBOT's trade-matching system. Seven FBOTs are operating under no-action letters until the Commission registers them.*

[6] *The number of DCOs includes the two SIDCOs.*

[7] *The four SDRs are provisionally registered with the CFTC.*

[8] *Registrants include companies and individuals, who handle customer funds, solicit or accept orders, or give training advice for profit or compensation. The CFTC registration process is handled through the NFA, an SRO with delegated oversight authority from the Commission.*

[9] *Excludes FCMs that are also registered as RFEDs.*

The Commission completed this requirement and began registering swap dealers and MSPs in January 2013. In 2017, 102 swap dealers are provisionally registered with the CFTC.

The Commission has continued to adopt rules requiring strong risk management. In FY 2016, the CFTC strengthened the Dodd-Frank framework by releasing final rules for initial and variation margin requirements for uncleared swaps. These rules are currently being implemented pursuant to the compliance schedule set forth in the rules. In this regard, swap dealers with an average daily aggregate notional amount of uncleared swaps, uncleared security-based swaps, foreign exchange forwards, and foreign exchange swaps in March, April and May of 2016 that exceeded $3 trillion were required to exchange both initial margin and variation margin commencing on September 1, 2016. Furthermore, swap dealers were required to post and collect variation margin with all counterparties subject to the rules commencing March 1, 2017, and swap dealers with an average daily aggregate notional amount of uncleared swaps, uncleared security-based swaps, foreign exchange forwards, and foreign exchange swaps in March, April and May of 2017 that exceeded $2.25 trillion were required to exchange initial margin commencing on September 1, 2017.

These margin rules setting collateral requirements serve as the first line of defense in the event of a default, and are critically important to minimizing risk that can come from OTC swaps. There will always be a large part of the swaps market that is not cleared because many swaps are not suitable for central clearing due to their limited liquidity or other characteristics. Moreover, DCOs will be stronger if greater care is exercised in what is required to be cleared. These rules protect against such activity posing excessive risk to the system.

The Commission also re-proposed capital and financial reporting requirements for swap dealers in FY 2017. The proposed capital requirements are intended to advance the statutory goal of the Dodd-Frank Act of helping to protect the safety and soundness of swap dealers and MSPs, while also taking into account the diverse nature of the entities participating in the swaps market and the existing capital regimes that apply to them.

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

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

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

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

In October 2016, the Commission acted to extend the phase-in period of the *de minimis* threshold for swap dealing by one year, to December 2018. In October 2017, the Commission acted to extend the new phase-in period by an additional year, to December 2019. This threshold determines when an entity's swap dealing activity requires registration with the CFTC. In 2012, the CFTC set the threshold initially at $8 billion in notional amount of swap dealing activity over the course of a year, and provided that it would fall to $3 billion at the end of 2017. Without the Commission actions, firms would have been required to start determining whether their activity exceeds that lower threshold in January 2017. This is now delayed to January 2019.

In 2016, CFTC staff completed a study regarding the *de minimis* threshold, as required by the swap dealer registration rule. The study estimated that lowering the threshold would not increase significantly the percentage of interest rate swaps and credit default swaps covered by swap dealer regulation, but may require additional firms to register. However, the study also noted that the data has certain shortcomings, particularly when it comes to non-financial commodity swaps, a market that is very different than for interest rate swaps and credit default swaps.

The extension allows CFTC staff to develop updated, improved and more granular data analysis to better inform the Commission's options on the *de minimis* exception. Additionally, it gives market participants further clarity regarding when they will need to begin preparing for a change, if any, to the de minimis exception, and provides additional time for new Commissioners and staff to become better apprised of issues relevant to this topic.

Industry Oversight – Marketplace

Marketplace Oversight

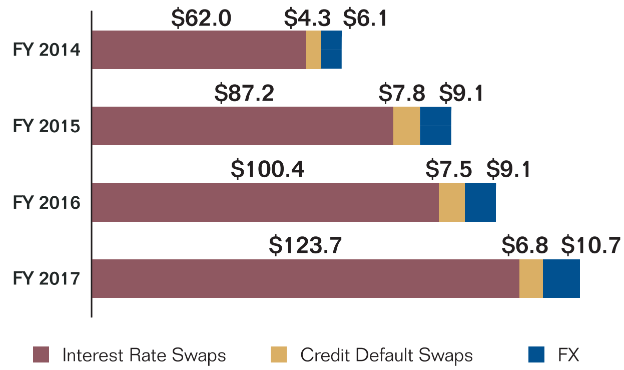
The purpose of the CEA is to serve the public interest through a system of effective regulation of trading facilities, clearing systems, market participants, and market professionals under the oversight of the Commission.

DCMs are exchanges that may list for trading futures or option contracts based on all types of commodities and that may allow access to their facilities by all types of traders, including retail customers. Some DCMs have been operating for many years as traditional futures exchanges, while others are new markets that were only recently designated as contract markets by the CFTC.

SEFs are defined as "a trading system or platform in which multiple participants have the ability to execute or trade swaps by accepting bids and offers made by multiple participants in the facility or system, through any means of interstate commerce." The trading platform requirement was designed to facilitate a more open, transparent and competitive marketplace, benefiting, among others, commercial end-users seeking to lock in a price or hedge risk.

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

($ in trillions)



Source: Futures Industry Association

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

Trading on SEFs began in October 2013. As of February 2014, specified interest rate swaps and credit default swaps subject to a mandatory clearing requirement were required to be traded on a SEF or other regulated exchange. In FY 2017, 55 percent of trading by notional value in rates and 75 percent of trading by notional value in credit was executed on SEFs. During this same period, notional value executed on SEFs generally has been in excess of $9.5 trillion monthly. It is important to remember that trading of swaps on SEFs is still relatively new. SEFs are still developing best practices under the new regulatory regime. The new technologies that SEF trading requires are likewise being refined.

Responding to the Needs of Commercial End-Users

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

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

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

In the years to come, the Commission will continue to prioritize being responsive to the concerns of end-users.

New Regulatory Environment Driving Innovations in Derivatives Markets

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

Coordination with International Regulators is Essential

The Commission is actively engaged internationally to avoid conflicting requirements and to enhance international cooperative efforts wherever possible. For example, the Commission has engaged in bilateral discussions regarding draft rule proposals or amendments to rules with international regulators and authorities, including the European Commission, European Central Bank, Bank of England, European Securities and Markets Authority, UK Financial Conduct Authority, French Autorité des marchés financiers, Japanese Financial Services Agency, Hong Kong Securities and Futures Commission, and the Monetary Authority of Singapore.

The Commission is committed to taking a leading role in international fora and standard-setting bodies in order to influence the outcomes in these bodies. The CFTC Chairman chairs the OTC Derivatives Regulators Group (ODRG), which consists of authorities responsible for regulating the largest derivatives markets in the world, and in that role participates in the OTC Derivatives Coordination Group (ODCG), composed of the heads of the major international standard setting bodies. The ODRG and ODCG's work programs are expected to continue through 2018, and the CFTC intends to continue its participation in that effort.

The Commission anticipates that it will continue its increased engagement with the FSB, and the Chairman participates on an invitation-basis in the FSB Steering Committee. The Commission co-chairs the FSB's Working Group on Unique Transaction Identifiers (UTI) and Unique Product Identifiers (UPI) Governance (GUUG) as well as the FSB Derivatives Assessment Team. The Commission will continue to participate in the FSB's Resolution Steering Group (ReSG) and the work of the financial market infrastructure (FMI) Cross-Border Crisis Management Group. The FSB ReSG will continue its work on central counterparty resolution regimes and resolution planning in FSB member jurisdictions (including the United States). The Commission will also continue to participate in the FSB OTC Derivatives Working Group (ODWG), including work on their periodic progress reports on the implementation of OTC derivatives reforms.

The CFTC will remain actively engaged as a permanent member of the Board of the IOSCO, and take leadership roles within important policy committees and task forces that develop standards and policy guidance for the derivatives markets. The Commission chairs the IOSCO Committee on Derivatives and the new IOSCO Board Cybersecurity Task Force. The CFTC also participates in IOSCO's other policy committees and task forces: Task Force on Financial Benchmarks, Assessment Committee, Committee on Regulation of Secondary Markets, Committee on Regulation of Market Intermediaries, Committee on Enforcement and the Exchange of Information and the Multilateral Memorandum of

Understanding Monitoring Group, Committee on Emerging Risks, Committee on Retail Investors, Inter-American Regional Committee, and Board Sub-Group on Data Protection.

The CFTC also occupies leadership roles in Committee on Payments and Market Infrastructures (CPMI)-IOSCO work. It co-chairs the CPMI-IOSCO Policy Standing Group and the CPMI-IOSCO Data Harmonization Group.

The CFTC also maintains robust bilateral dialogues with key foreign counterparties. The CFTC participates in the U.S.-EU Joint Regulatory Forum and the North American Free Trade Agreement Financial Services Committee. CFTC Chairman and CFTC staff have frequent meetings with the main regulatory authorities in the United Kingdom, France, Germany and other parts of Europe as well as authorities in Japan, China, Hong Kong, Singapore, and India.

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

The Commission is also focused on the increased use of automated trading, which accounts for a constantly growing share of the trading volume in the derivative markets. In recent years, there has been a fundamental change in this regard—approximately 70 percent of trading in the futures market is now automated. While there are positives that come from this technology, there is also a greater likelihood of disruption and other operational problems. The CFTC is taking steps to address these challenges. In FY 2016, the Commission issued a proposal that seeks to minimize the risk of disruption caused by automated trading and the Commission is currently evaluating that proposal and conducting additional research into automated trading in the derivatives markets.

Instances of Cyber-Attack Warrant Increased Vigilance

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

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

Industry Oversight – Clearing

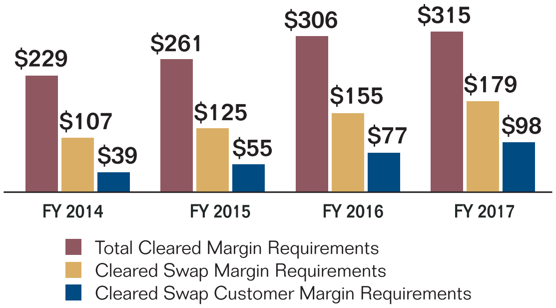
Lowering Risk to the American Public

Clearinghouses reduce risk that one entity's failure could spread to the public by standing between two parties and maintain resources to cover defaults. Clearinghouses value every position daily and require parties to post adequate margin on a regular basis.

DCOs reduce the risk that one market participant's failure could adversely impact other market participants or the public. DCOs accomplish this by standing in between the two original counterparties to a transaction—as the buyer to every seller and the seller to every buyer—and maintaining financial resources to cover potential defaults. DCOs value positions daily and require parties to post adequate margin on a regular basis. "Margin" is the collateral that holders of financial instruments have to deposit with DCOs to cover some or all of the risk of their positions. Collateral must be in the form of cash or highly liquid securities.

The use of central clearing entities in financial markets is commonplace and has existed for over 100 years. The idea is simple: if many participants trade standardized products on a regular basis, the tangled, hidden web created by thousands of private two-way trades can be replaced with

Margin Requirements
($ in billions)



Source: Part 39 Data Filings Provided by DCOs

CFTC has observed increases in both the number of market participants it oversees and the sizes of their cleared positions leading to increases in margin requirements. Total cleared margin (futures and swaps combined) increased $86 billion, or 38 percent from 2014 to 2017. Clearing of swaps has been growing more rapidly than futures due primarily to the 2013 swap clearing requirement. Total margin for cleared swaps alone increased $72 billion or 67 percent from 2014 to 2017. DCOs only accept trades from their members. If a market participant is not a member of the DCO, it must clear through a member as its customer. Customer swap clearing has been growing very rapidly, increasing $59 billion or 151 percent from 2014 to 2017.

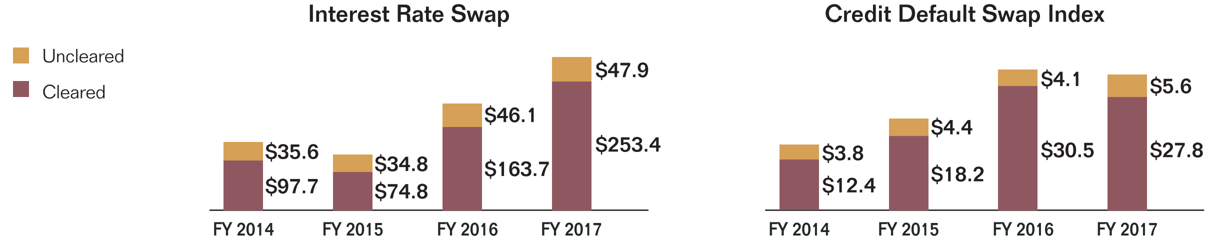
a more transparent and orderly structure, like the spokes of a wheel, with the clearing entity at the center interacting with market participants. In addition to facilitating trades, DCOs are required to monitor the overall risk and positions of each participant.

The CFTC was the first of the G-20 nations' regulators to implement a regime for required clearing of swaps. In 2013, the Commission required clearing for certain types of interest rate swaps denominated in U.S. dollars, euros, pounds and yen, as well as credit default swaps on certain North American and European indices. In FY 2016, the CFTC expanded the interest rate swap clearing requirement to include those denominated in the Australian dollar, Canadian dollar, Hong Kong dollar, Singapore dollar, Mexican peso, Norwegian krone, Polish zloty, Swedish krona, and Swiss franc. The home jurisdictions for these currencies have, or are expected soon, to mandate central clearing for these products, and the CFTC requirements will be phased-in based on when the corresponding clearing requirements have taken effect in non-U.S. jurisdictions.

Based on data reported to SDRs, as shown in the chart below, 84 percent of total interest rate swap transactions in FY 2017 were cleared. This is compared to estimates by the International Swaps and Derivatives Association (ISDA) that only 16 percent by notional value, of outstanding interest rate swaps were cleared in December 2007. With regard to index credit default swaps, 83 percent of transactions were cleared in FY 2017.

Cleared and uncleared swaps exhibit different types of risks, the proper mix of Commission resources depends on the absolute and relative sizes of these two types of transactions (Uncleared swaps are bilateral trades between two entities, such as a transaction between a dealer and customer. Cleared swaps act to reduce counterparty risk by replacing a swap between, for example, a dealer and a customer with one swap between the dealer and the central counterparty, and an offsetting swap between the customer and the central counterparty.)

Swap Volume Reported to SDRs, Cleared vs. Uncleared
Annual Transaction Dollar Volume
($ in trillions)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2014	FY 2015	FY 2016	FY 2017
Percent Cleared:	73%	68%	78%	84%	77%	80%	88%	83%

Source: CFTC Weekly Swaps Report. *http://www.cftc.gov/MarketReports/SwapsReports/index.htm*

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

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

To that end, throughout FY 2017, the Commission was intently focused on the resiliency of DCOs, as well as planning for recovery and resolution. These remain high priorities for the CFTC, and there is significant work taking place domestically and internationally. Domestically, the CFTC's examination and risk surveillance programs focus on DCO resiliency on an ongoing basis. Commission staff are applying regulatory or supervisory stress tests for the largest DCOs, which assess the impact of stressful market scenarios across multiple DCOs and clearing members on the same date. Staff worked with the major clearinghouses to make sure they had well-developed recovery plans in place by the beginning of calendar year 2017. And staff have been actively engaged in working with the Federal Deposit Insurance Corporation (FDIC) on resolution planning.

In addition, the CFTC has played a leadership role with regulators from around the world on issues related to the resilience, recovery, and resolution of clearinghouses. For example, during FY 2017, CFTC continued working with international regulators on a four-part international work plan on these issues.

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

Required clearing of swaps reduces credit risk between counterparties. Following the 2013 implementation of the Commission's first clearing requirement determination, which set forth rules requiring that certain interest rate swaps and credit default swaps be cleared, a significant portion of the swaps market moved into central clearing. This shift in market behavior has significant risk mitigation benefits.

In the context of central clearing, swap customers and other market participants are required to post initial margin to cover the potential future exposure (PFE)[10] of their positions in the event of default. In addition, swap customers and other market participants are required to pay variation margin to avoid the accumulation of large gain and/or loss obligations. As DCOs offer new swaps for clearing, the CFTC will assess the ability of the DCO to properly manage the risk of clearing those swaps.

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

The Commission will continue its work on supervisory stress tests for the largest clearinghouses in our jurisdiction. These examinations assess the impact of stressful market scenarios across multiple DCOs and clearing members on the same

[10] *PFE is the maximum expected credit exposure over a specified period of time calculated at some level of confidence (i.e. at a given quantile). PFE is a measure of counterparty risk/credit risk.*

date. The Commission will also continue to make sure the major DCOs have adequate recovery plans, and will continue its collaboration with the FDIC on resolution planning.

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

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

With respect to swaps that remain outside of clearing, in FY 2016, the CFTC adopted margin requirements for uncleared swaps entered into by swap dealers and MSPs subject to the CFTC's jurisdiction (i.e., non-bank swap dealers and MSPs). The Commission also adopted a cross-border approach for the implementation of this rule—which helps protect against the possibility that risks created outside our borders will flow back into the United States. In addition to margin requirements, the Commission is working to propose rules that will require non-bank swap dealers and MSPs to hold minimum levels of capital. Completion of the rulemaking process is a top agency objective. Together, capital and margin requirements are intended to reduce swaps-related systemic risk in the global financial system and to encourage clearing.

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

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

Aggregating Cleared Swaps and Futures Risk

Many large swap accounts (firms and customers) also clear large futures positions and often swaps and futures transactions are cleared at the same firm. To effectively meet its regulatory obligations, the Commission must ensure it has the procedures and technology in place to accurately identify these accounts and determine if the different asset classes increase or decrease risk. Since DCOs are increasingly offering cross-margin programs between asset classes, the Commission must also ensure it receives all position and account information for accounts in these programs. The Commission then has to have the software and expertise necessary to review and understand the risk and margin offsets present in the program.

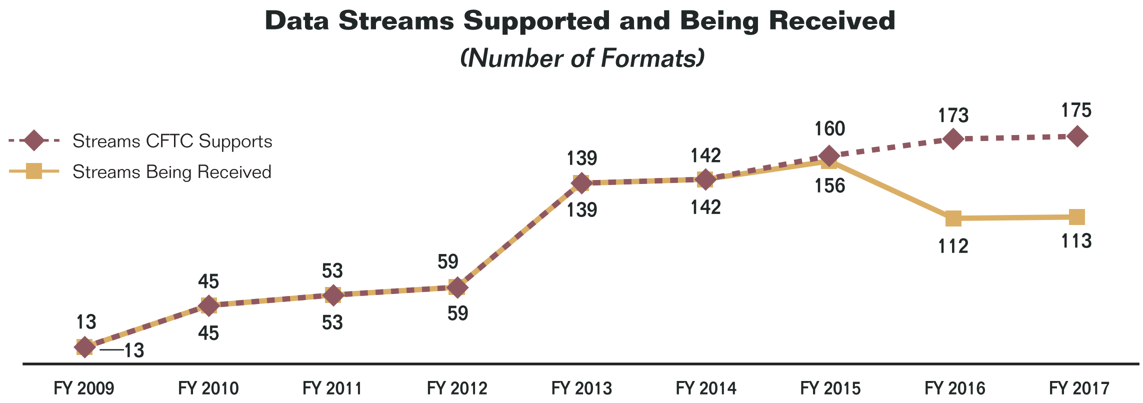
Industry Oversight – Data Reporting

Data Reporting

SDRs are centralized recordkeeping facilities for swap transactions. All swaps, whether cleared or uncleared, must be reported to SDRs.

The Commission must have an accurate picture of the marketplace to achieve greater transparency and to address potential systemic risk. This ongoing picture of the market is only possible through the collection, processing, and analysis of data from a wide array of market registrants. The data we use must be accurate, clean, and descriptive enough to enable us to identify actors and activities that can negatively impact end users. However, the collection of this data can not overly burden industry or have a negative impact on the markets we protect.

The futures, options, and swaps markets continue to evolve. Most market activities could be described with a few simple fields a few years ago. However, complex products such as OTC swaps may require dozens of fields to accurately describe the activity. The Commission's challenge is to distill complex data into more simple information that can be acted on appropriately.



Source: Office of Data and Technology, CFTC

The chart reflects a historical depiction of the number of CFTC-supported data streams received from the industry. By working with industry to add values to certain files, the number of reporting requirements has been reduced, and further data stream reductions are planned in the future. The burgundy line illustrates the number of types of files that have been ingested over time while the tan line depicts the number of types of files that the Commission currently receives. The number of files the Commission receives (currently 113 types of files) began falling in 2015-2016 as work began to consolidate data streams to reduce the reporting requirements placed on registrants.

Like all regulators, the CFTC's is continuing efforts to better understand and safeguard the markets by developing innovative ways to collect and comprehend the massive amounts of data generated by the swaps and futures industry. By harnessing the power of technology, the Commission is actively working to create powerful tools that are yielding new capabilities, speed and efficiencies while reducing the data reporting burden on regulated entities.

Receiving Data Efficiently

Because the markets the Commission regulates are so complex, it is important that the CFTC make it as simple as possible for industry participants to provide their data to us. If the data is difficult to provide, market participants may find conditions unfavorable to even participate in the market. To that end, the CFTC is working to streamline the ways in which we collect data. The following principles will continue to be followed as the Commission approach for institutionalizing mission critical data collection practices:

- **Consolidate Where Practical.** In certain cases, we are able to modify data streams, and eliminate the need for entire sets of data. In other cases, we have identified types of data which, if received, could simplify our data collection through other streams.

- **Provide Thorough Guidance.** In the past, the CFTC did not provide clear guidance describing data which was required of market participants. The CFTC now provides guidebooks for many of its data streams that thoroughly describe the data required and format to be used, along appropriate examples to help industry participants.

- **Use Data Standards Where Possible.** Registrants and regulators find it easier to provide data when the data uses published, established data standards such as financial information exchange markup language (FIXML) or financial products markup language (FpML). These standards allow the CFTC and industry to start from a common understanding of what is expected and required in a data stream.

- **Provide Automated Feedback.** To date, the CFTC has written and implemented over 500 data validations that provide registrants with immediate, automated feedback upon receipt of industry data. Entities that provide such data have indicated that it is generally much easier to correct data at the point of submission, rather than having to learn from the CFTC (sometimes weeks or months after it was submitted) that there were errors or issues with what was provided.

- **Offer Specialized Assistance.** The CFTC continues to provide one-on-one assistance to firms that may be having trouble meeting the Commission's data reporting requirements. Since each data stream reporting process includes a dedicated email address to reach out directly to CFTC staff with questions, receiving guidance/technical assistance is just an email away.

Managing Data Growth

Although the Commission anticipates that the total number of data sets the CFTC receives will decline over time (primarily through consolidation), the amount of data within each set, will continue to grow. In order to provide effective oversight and safeguard market users, the CFTC's analytical systems and tools must be sophisticated, and capable enough to meet this growing challenge of "big data" and allow the CFTC to rapidly and accurately take appropriate regulatory action.

Recently, the CFTC implemented a new "big data" platform that allows staff to analyze billions of market transactions in a fraction of the time needed under the Commission's previous process. For example, a query used to evaluate market data to identify spoofing activity in the futures market that previously took over 20 hours to complete is now achievable in about seven minutes using the new "big data" platform.

Moving forward, the CFTC is planning the move of additional "big data" to the new platform. Simultaneously, the CFTC is developing and leveraging Cloud strategies that will create a more secure, cost-effective storage and processing environment that will provides the scale, sophistication and speed needed to manage and assess the increasingly massive amount of trade and regulatory data that will be generated as the markets continue to grow and evolve.

Data Science

The CFTC's regulatory and enforcement programs are provided with increasingly specialized technology to exploit industry and market data using a tailored combination of commercial-off-the-shelf (COTS) tools that include data management and analysis tools like MicroStrategy, Matlab and statistical analysis systems (SAS). Collectively, this technology provides staff the ability to conduct their work with greater efficiency, speed and effectiveness than ever before. In addition, by creating strong working relationships between Commission's regulatory experts and technology specialists, the CFTC is realizing synergies in program effectiveness, speed and efficiency in ways that are continuing to transform how the Commission performs its mission. The CFTC will continue to seek ways to leverage technology to perform its regulatory and enforcement operations by consolidating data streams, providing clear feedback, supporting industry data providers and stakeholders, and developing and maintaining strong partnerships needed to meet future mission challenges.

Industry Oversight – Enforcement

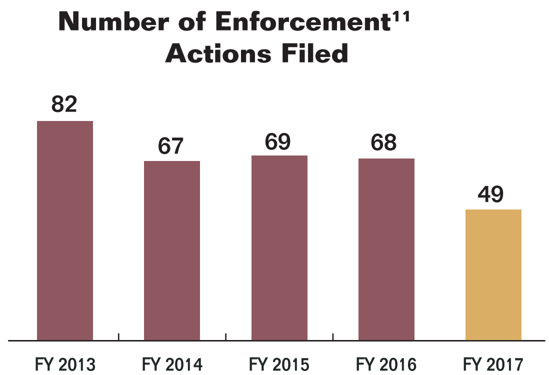
Protecting Market Users and the Public

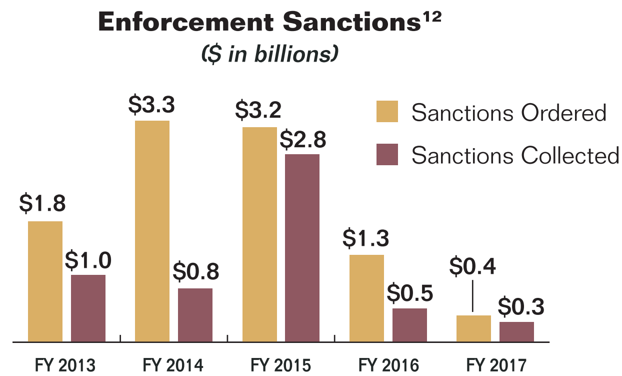
The Commission investigates and prosecutes alleged violations of the CEA and CFTC regulations. The Commission takes enforcement actions against individuals and firms registered with the CFTC, those who are engaged in derivatives trading on designated domestic exchanges, and those who improperly market derivatives contracts.

The enforcement function is a critical component of the Commission's mandate to protect both customers and the integrity of the markets through comprehensive and effective investigation and prosecution of violations. The primary pillars of a robust enforcement function are the ability to rigorously and thoroughly investigate potential violations of the CEA and Commission regulations and the effective prosecution of such alleged violations, including the corresponding imposition of sanctions for the greatest deterrent effect. During FY 2017, for example, in 20 percent of its new enforcement actions, the Commission charged attempted manipulation or disruptive trading practices, including two benchmark manipulation actions and six actions alleging spoofing, and in over 40 percent of its new enforcement actions it charged retail customer fraud.

With respect to market integrity, the Commission has and will continue to focus on utilizing its authority to address fraud and manipulative conduct, false reporting of market information, and disruptive trading practices, including spoofing, trade practice violations and other misconduct on registered entities. The Commission will also protect the data integrity of information by enforcing requirements for recordkeeping and reporting across derivatives classes. The Commission will need to rise to the challenges posed by the growth and sophistication of financial markets and instruments, including the proliferation of economically-equivalent instruments trading in multiple trading venues and the increased prevalence of algorithmic and high-frequency trading, and the evolving markets for derivatives and commodities, including Bitcoins and crypto-currencies or block chain technology.

With respect to customer protection, the Commission has and will continue to use its enforcement resources to combat illegal off-exchange transactions and retail fraud, such as fraud by intermediaries (e.g., pool fraud), and fraud and illegal





Source: Division of Enforcement, CFTC

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

transactions relating to foreign currency (forex), precious metals, and crypto-currencies. A strong enforcement program is also vital to maintaining confidence in the financial markets by the market participants who depend on the futures and swaps marketplace by commercial necessity.

Finally, to benefit both market integrity and customer protection, the Commission will continue to enforce regulatory requirements to ensure that registrants maintain diligent supervision of their operations, adhere to their regulatory obligations, and maintain their financial integrity. To further protect customers and the integrity of the markets, the Commission will look to hold culpable wrongdoers, both individuals and firms, accountable.

Increased Effectiveness – Cooperation and Self-Reporting, Surveillance, and Analytics

In recent years, the Commission has taken several steps to boost the effectiveness of its enforcement program. These advancements include: increased clarity and incentive for self-reporting and cooperation with the Commission; enhanced domestic and international cooperative enforcement; and strengthened surveillance and forensic data analysis capability. The Commission will continue to employ these capabilities in the coming years, while assessing additional techniques and procedures to bolster its efforts to protect customers and foster open, transparent, competitive and financially sound markets.

Cooperation and Self-Reporting

In 2017, the Commission issued new enforcement advisories outlining the factors the enforcement program will consider in evaluating cooperation by individuals and companies in the agency's investigations and enforcement actions and setting out the benefits of self-reporting along with full cooperation. With the issuance of these advisories, the Commission further incentivized individuals and companies to self-report and cooperate fully and truthfully in investigations and enforcement actions, including by providing high-quality cooperation, including providing early and material assistance to the enforcement program.

As part of its enhanced cooperation effort, the Commission has begun using other tools, such as non-prosecution agreements and cooperation agreements, with firms and individuals in appropriate cases. The Commission has found that these non-prosecution agreements and cooperation agreements are powerful tools to reward extraordinary cooperation in the right cases, while providing individuals and organizations strong incentives to promptly accept responsibility for their wrongdoing and cooperate with the Commission's investigation. Cooperating witnesses provide first-hand knowledge that can help the Commission identify more culpable wrongdoers.

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[11] *Total Commission enforcement actions include Non-Prosecution or Deferred Prosecution Agreements.*

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

International and Domestic Cooperative Enforcement

The Commission augments the effectiveness and efficiency of its enforcement program through cooperative enforcement with SROs, and state, Federal, and international regulatory and criminal authorities. Cooperative enforcement not only empowers the Commission's enforcement program through a force multiplier effect, but it also sends a powerful message that fraud and threats to market integrity, will be dealt with on a unified front both domestically and globally.

The increasingly cross-border nature of enforcement cases means that the Commission, now more than ever, has an indispensable need to obtain evidence and testimony located in foreign jurisdictions. The Commission's international cooperative enforcement office obtains this critical information through formal arrangements with our international counterparts. The Commission's staff played a key role in IOSCO's development of a new multilateral memorandum of understanding that enhances the standards for cooperation between regulators fighting cross-border financial fraud and misconduct; this Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (EMMoU) was approved in the spring of 2017.

Domestically, the Commission's enforcement program works routinely with other civil and criminal authorities at both the state and Federal levels to enhance its effectiveness in pursuing violations of the CEA and Commission regulations. This cooperation takes many forms, including information sharing, referrals, providing subject matter expertise, and training. When required, the Commission also supports criminal prosecution of provable, willful violations of the CEA.

Surveillance and Forensic Data Analysis

The Commission maintains a robust market surveillance program that develops and utilizes sophisticated systems to analyze trade data and respond to outlying events, and to help identify trading or positions that warrant further enforcement inquiry. Specifically, the Commission conducts surveillance in all traded commodity classes on a prioritized basis, and performs discrete forensic analysis involving data reported to the Commission to confirm orderly operation of the markets and to identify conduct that may give rise to a potential violation of the CEA and Commission regulations.

The Commission's enforcement program also utilizes forensic economists who perform complex and extensive data analysis to develop evidence for investigations into potential market manipulation, disruptive trading practices (including spoofing) and other unlawful trade-based conduct. This analytical evidence is used to determine the nature and scope of the trading or activity at issue. The Commission will utilize its economic forensic analysis resources to keep pace with the enforcement program's increasing demand for, and complexity of, investigative analysis.

CFTC: A New Direction Forward

It has been almost 10 years since the 2008 financial crisis. Much of the regulatory work in the past six years has been to implement Congress' crisis response—the Dodd-Frank Act. Therefore the regulatory approach, both at the CFTC and across the Federal government, was in a sense backward looking.

And yet, it has taken a long time—too long—for many American companies and citizens to emerge from the recession and hire, invest, and borrow again. So much policymaking, rulemaking, and thought have been directed at building a regulatory superstructure that ostensibly would prevent another 2008-style crisis that we've lost sight of the emerging challenges just ahead and what is the right regulatory response.

The United States has the best financial markets in the world. They are the strongest, most dynamic, most innovative, most competitive and transparent. They have been a significant engine of U.S. economic growth and prosperity. But there is no question that the U.S. economy has not rebounded satisfactorily from the financial crisis. Americans believe that Washington politicians and bureaucrats have gotten in the way of their ability to earn a living. They want the burdens removed so that they can build their dreams again. The Commission has a role to play.

The Commission's work should strengthen U.S. markets and enhance those qualities in a way that does not place unnecessary burdens on the dynamic and innovative capacity of the industry. The time has come for our financial markets to be put more fully back into service of American economic recovery.

Fostering economic growth

Reduce Regulatory Burdens: Project KISS

The Commission has been actively engaged in developing and implementing ideas to reduce regulatory burdens and streamline existing regulations where the benefits do not justify the costs. For example, in 2017, Commission staff issued guidance to DCMs and SEFs to clarify the meaning of operating costs, which is used to calculate the amount of financial resources that these registrants must hold. This guidance provided consistency, reduced confusion and right-sized the financial resources requirement to only those operating costs that are necessary for a SEF or DCM to discharge its responsibilities in compliance with the CEA, the Commission's regulations, and the SEF's or DCM's rules. In addition, Commission staff are working to fix any flawed swaps trading rules (see below), staff are also reviewing a number of DCM rules for potential streamlining and reduction of regulatory burdens.

Commission staff are also reviewing the CFTC's part 40 regulations, under which registered entities submit rules and product terms and conditions for CFTC review, to determine if the submission process can be streamlined. One example is to potentially eliminate rule certifications for certain minor rule changes and instead allow entities to submit a monthly summary.

Staff are also reviewing the timelines for completion of rule enforcement reviews and system safeguard exams with an effort to streamline the process to reduce completion times.

The Commission oversees the registration and compliance of swap and futures market intermediaries and performs ongoing oversight of the compliance programs of swap and futures industry SROs, including the Chicago Mercantile Exchange (CME) and the NFA. The Commission is implementing a number of changes to simplify our activities including delegation of more activities to NFA, and working with NFA to greatly streamline its swap dealer registration procedures. For example, Commission staff, working closely with NFA, recently drafted a Commission Order to significantly update and simplify Form 8R, which is a registration form completed by thousands of associated persons and listed principles each year. The Commission also amended regulation 1.31 to make recordkeeping requirements technology neutral as database technology continues to rapidly evolve.

Going forward, the Commission plans a number of additional initiatives. In keeping with the Chairman's "Swap Regulation 2.0" initiative, DSIO has identified a number of amendments to swap dealer and FCM regulations that would eliminate or mitigate unnecessary regulatory burdens. Many of the public comments in response to the CFTC's Project KISS initiative identify the same or similar issues. The Commission has further identified several areas where existing CPO and CTA registration and/or compliance relief is ripe for codification in the Commission's regulations. Some of these rulemaking initiatives may address issues raised by commenters as part of Project Kiss. More specifics are described below under Enhance U.S. Financial Markets: Fix Flawed Swaps Rules.

The Commission is also considering further enhanced coordination and oversight with SROs to reduce regulatory burden on market participants. The Commission continuously assesses SRO oversight programs. The program is fully implemented and revised as necessary on an ongoing basis to reflect new regulatory requirements.

Improve Market Intelligence: Become a Smarter Regulator

The Commission has successfully created a new market intelligence branch under DMO that is responsible for analyzing and communicating current and emerging market dynamics, developments and trends for use internally within the CFTC to inform sound policymaking, as well as by Congress and outside parties in order to inform decision-making. In this regard, market intelligence staff conduct high value-added analysis using both proprietary and outside data. Commission staff are focused on several important issues, such as automated trading in derivatives and cash markets, the changing landscape of commodity markets and the effect on derivatives markets, and possible enhancements to the CFTC's Commitment of Traders reports.

The CFTC has also created and appointed a Chief Market Intelligence Officer (CMIO), reporting directly to the Chairman. The CMIO is helping to activate our agency's capability for market intelligence, giving us better insight into the needs of participants in the futures and swaps we oversee.

The CMIO is also helping the public understand risk transfer markets and why they are so important to prosperity. Too many people, including investors, do not know what we do or why we do it–both from a marketplace and regulatory perspective. The CFTC will not be able to enact the policy reforms we need unless the public has a better understanding of why they are vital to economic growth.

Embracing FinTech: Create CFTC Innovation Initiative Through LabCFTC

LabCFTC

Today, FinTech is driving innovation in financial markets across the globe. The computerization of the markets over the past 30 to 40 years and the advent of exponential growth in digital technologies have completely transformed market behavior, trading practices and risks, and the entire financial landscape. In fact, automated trading now constitutes approximately 70 percent of regulated futures markets. New technologies are wide-ranging in scope—from algorithmic trading, "big data" and cloud computing to distributed ledgers (e.g., blockchain), artificial intelligence and machine learning, among many others.

The pace of investment in these technologies, and in FinTech more broadly, has accelerated in recent years. According to one measure, FinTech has increased at a cumulative annual growth rate of over 45 percent from 2011 to 2016. This boom in technology represents a powerful convergence—where the capital required to launch new ventures equipped with these technologies has dropped enormously while, simultaneously, the return on investment in both speed and scalability offers market users game changing potential.

Over the last year, the Commission has enhanced its capacity to understand and facilitate market-enhancing innovation and engage directly with innovators. The Commission has undertaken this effort by launching the LabCFTC initiative, which is focused on promoting market-enhancing FinTech innovation and fair competition for the benefit of the American public. LabCFTC is designed to make the CFTC more accessible to FinTech innovators, inform the Commission's understanding of emerging technologies and serve as a focal point for the development and implementation of regulatory policy within the FinTech space. Collectively, LabCFTC's innovation outreach and policy shaping efforts will provide greater regulatory certainty that encourages the deployment of market-enhancing technology, ensures market integrity, and helps make the CFTC more effective and efficient in performing its mission. To achieve these goals, the LabCFTC initiative has three core components:

- Guide Point is a newly established dedicated point of contact for FinTech innovators to engage with the CFTC, learn about the CFTC's regulatory framework, and obtain feedback and information on the implementation of innovative technology-driven ideas for the market. Such feedback and discourse may provide innovators with valuable information that could help them save time and resources by helping them understand applicable regulatory frameworks and the Commission's approach to oversight. Additionally, engagement allows the Commission to better understand emerging technologies and proactively consider potential regulatory opportunities, challenges, and risks.
- LabCFTC's CFTC 2.0 is an extension of Guide Point that fosters the understanding, testing, and adoption of new technology within the Commission's own mission activities through collaboration with FinTech/RegTech industry and CFTC market participants. Knowing how emerging technologies may directly benefit the Commission is vital as the agency seeks to oversee markets and participants that increasingly rely on similar applications of technology.
- DigitalReg is designed to support the Commission's effort an effort to build a 21st century regulator and regulatory framework that recognizes the impacts of FinTech innovation. In light of rapidly evolving technology, DigitalReg will help the Commission identify and develop regulatory tools, approaches, and culture that promote market-enhancing innovation and satisfy key regulatory objectives. DigitalReg will also serve as a CFTC internal/inter-divisional resource to help educate Commission staff and track Fintech-related developments. Finally,

DigitalReg will also act as a hub to help the Commission coordinate with other U.S. and international regulatory authorities, and engage with external organizations (e.g., academic institutions, think tanks, etc.) to help drive FinTech related research.

One notable FinTech innovation has been the development of virtual currencies. Virtual currencies serve as digital mediums of exchange for goods and services, similar to fiat currencies. In 2015, the Commission found that Bitcoin and other virtual currencies are commodities. The CFTC's jurisdiction is implicated when a virtual currency is used in a derivatives contract, or if there is fraud or manipulation involving a virtual currency traded in interstate commerce. Commission staff have been engaged in conversations with trading platforms that have expressed an interest in listing virtual currency derivatives contracts. For example, in July 2017, the CFTC granted LedgerX registration as a SEF and DCO. LedgerX plans to list for trading virtual currency options, making it the first U.S. federally-regulated virtual currency derivatives platform and clearinghouse.

There has also been an emergence of platforms that offer or seek to offer leveraged trading in spot markets for virtual currencies. In order to provide legal certainty around the operations of these virtual currency platforms and transactions thereon, the Commission is considering the issuance of an interpretation which would set forth clear guidance as to when virtual currency platforms are operating as spot markets exempt from CFTC registration versus operating derivatives-trading platforms subject to CFTC regulation and supervision.

Through its enforcement program, the Commission has demonstrated its continued commitment to facilitating market-enhancing FinTech innovation by acting aggressively and assertively to root out fraud and bad actors in these areas as exemplified by its recent anti-fraud enforcement action in connection with solicited investments in Bitcoin, a virtual currency.

Since the LabCFTC initiative was first launched in May 2017, the Commission has met with over one hundred innovators and placed new emphasis on coordinating with domestic and international regulators on technology issues. With these foundational initiatives now underway, the Commission plans to develop and deploy projects moving forward.

The LabCFTC initiative will accomplish its mission through thoughtful engagement with innovators, consideration of how new technologies can help make the Commission more effective and efficient, and collaboration with external organizations, including domestic and international regulators, focused on sharing best practices related to FinTech innovation. Ultimately, LabCFTC is a forward-looking initiative focused on helping the Commission become a 21st century regulator for 21st century digital markets, all while ensuring market integrity and facilitating market-enhancing innovation.

Enhance U.S. Financial Markets

Trading Liquidity: Balance Regulations with Economic Growth

Since the passage of the Dodd-Frank Act and the progression of Basel III, both domestic and foreign bank regulators have increased bank capital requirements by, among other things, raising minimum capital requirements and imposing new leverage ratios. These additional requirements have had a significant impact on the markets regulated by the Commission, particularly on some of the largest FCMs that are subsidiaries of bank holding companies.

As a member of the Financial Stability Oversight Council (FSOC), the Commission will continue to pursue having the FSOC assess whether, and in what manner, these recent increases in bank capital requirements have adversely impacted the futures and swaps markets by, for example, causing FCMs to exit the business and/or reducing their ability to support their customer base. The Commission will seek to ensure that regulations, including bank capital requirements, properly balance systemic risk concerns with the need for robust, liquid markets.

Fix Flawed Swaps Rules: Reduced Hedging = Reduced Lending

In January 2015, Chairman Giancarlo wrote a white paper that analyzed flaws in the CFTC's implementation of its swaps trading regulatory framework under Title VII and proposed a more effective alternative. The *Pro-Reform Reconsideration of the*

CFTC Swaps Trading Rules: Return to Dodd-Frank white paper is located at: *http://www.cftc.gov/idc/groups/public/@newsroom/documents/file/sefwhitepaper012915.pdf*. Commission staff have been analyzing the mismatch between the CFTC's swaps trading framework and the distinct liquidity, trading and market structure characteristics of the global swaps market. Commission staff plan to recommend to the Commission in FY 2018 an alternative swaps trading regulatory framework that better aligns regulatory oversight with inherent swaps market dynamics, streamlines unnecessary regulatory burdens and promotes swaps trading on SEFs.

The Commission implements Part 23 of the CFTC's regulations, the regulations applicable to registered swap dealers. Through the Commission's experience with swap dealers, NFA and other market participants in implementing the new swap dealer regulations, the Commission developed a better understanding of how the various details of these regulations may impose burdens and inefficiencies in the swaps markets while providing little or no regulatory benefit. The Commission has been exploring a substantial number of possible amendments to these rules that would add greater flexibility for methods of compliance and harmonize with the corresponding SEC regulations to reduce compliance costs, remove duplication of requirements, and codify existing relief.

The CFTC adopted a Commission proposed rulemaking addressing chief compliance officer regulations in May 2017 and is preparing a final rule for consideration. The Commission is further exploring revisions to swap dealer business conduct standards, counterparty disclosure and notice requirements, swap documentation rules, and risk management program requirements in Part 23. A number of comment letters received through Project KISS also suggest changes to these rules and are being considered in this process.

Effective International Engagement: Operate with Cross-Border Comity, not Uniformity

Working in tandem with efforts to foster mutually beneficial standards for international financial markets, the Commission seeks to strengthen the bonds among financial regulators to ensure that we present a united front against wrongdoers who harm market intermediaries or participants. To that end, the Commission's enforcement program plays a key role in IOSCO's support of international cooperative enforcement and information sharing, as illustrated by IOSCO's approval in the spring of 2017 of the EMMoU, a new multilateral memorandum of understanding (MOU) enhancing the standards for cooperation between regulators fighting cross-border financial fraud and misconduct.

The Commission plays a critical role in supporting the Commission's engagement with global regulators. In this regard, the Commission needs to work effectively in key international bodies to help ensure that the laws and regulations operate in a manner that is not at odds with the U.S. regulatory approach.

To address this important aspect of the CFTC's mission, the Commission has an identified action plan which includes holding leadership roles in IOSCO and its committees; providing thoughtful participation in relevant FSB groups and projects, in particular, the work discussed previously relating to GUUG, as well as the FSB ODWG, and the FSB Derivatives Assessment Team (which is overseen by the ODCG); working closely with other international regulators of both developed and developing countries; and developing international MOU with other regulators to help ensure that the Commission may work closely with other regulators in a cooperative manner.

As discussed above, the Commission is an active participant on most IOSCO committees and chairs the Committee on Derivatives. In addition, the Chairman is a member of the IOSCO Board and regularly participates in board level events. The CFTC's plan is to continue to take an active role at IOSCO to enable the staff to work more effectively with our international regulatory counterparts. The challenge in meeting this objective continues to be the budgetary pressures placed on the CFTC. Most of the IOSCO meetings require international travel and usually by a small cadre of staff. Our budget constraints require us to be more selective on international travel to IOSCO meetings.

By seeking to work more effectively with our regulatory counterparts while looking out for American interests, the Commission is dedicated to making American markets highly effective places to trade. As CFTC regulatory counterparts continue to implement swaps reforms in their markets, it is critical that staff make sure our rules do not conflict and fragment the global marketplace. The Commission should operate on the basis of comity, not uniformity, with overseas regulators. To accomplish this goal, Commission staff must continue to work with international study groups and bodies to help ensure that the regulatory approach by the Commission is not in conflict with other regulators. Commission staff must work closely with key regulators in countries such as China, India, the United Kingdom, France, Germany and other developed and developing countries to help ensure that the global regulatory approach is in comity with that of the CFTC. This can be accomplished through direct dialogue with these regulators, providing technical assistance and taking a leadership role in international dialogue on issues important to the United States and its markets. The challenge to the Commission to accomplish this objective will be resource constraints on staff levels and budget which can be addressed by thoughtful assignment of staff and prioritization of staff tasks.

The CFTC will continue to work positively with its overseas regulatory counterparts, as it did in reaching a constructive central counterparty equivalence decision by the European Commission. At the same time, the CFTC will fully embrace the Trump Administration's executive order to advance American interests in international financial regulatory negotiations and meetings. This means the CFTC should be an active participant in international bodies, like IOSCO, in which it pursues policies that are most appropriate for American markets.

By seeking to work more effectively with our regulatory counterparts while promoting American interests, we are dedicated to making American markets effective places to trade. As our regulatory counterparts continue to implement swaps reforms in their markets, it is critical that we make sure our rules do not conflict and fragment the global marketplace. That is why the CFTC should operate on the basis of comity, not uniformity, with overseas regulators. The CFTC should move to a flexible, outcomes-based approach for cross-border equivalence and substituted compliance.

In all of its international engagements with fellow financial regulators and related regulatory bodies, the CFTC will seek to act in a forthright and candid manner, displaying leadership when appropriate and respect and due consideration at all times.

The Commission is currently working with the staff of the European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets to assess whether our respective regulatory regimes for swaps trading platforms are comparable and, therefore, can be excepted from our respective registration requirements. This outcome would allow U.S. persons to trade on European registered swaps-trading platforms and EU persons to trade on CFTC registered SEFs. In undertaking this comparability assessment, Commission staff are conducting its analysis based on a flexible, outcomes-based approach endorsed in the Communiqué of the July 19-20, 2013 meeting of G-20 Finance Ministers and Central Bank Governors held in St. Petersburg, Russia. This approach seeks to determine whether the U.S. and EU swaps trading platform regulatory regimes achieve the same objectives rather than whether the rules in each jurisdiction are exactly the same. Comparability between U.S. and EU swaps trading regimes will reduce market fragmentation and enhance trading liquidity and legal certainty for participants in both jurisdictions.

In the longer term, the CFTC expects to promulgate formal regulations establishing an exempt SEF regulatory scheme whereby foreign swaps-trading platforms would be exempt from SEF registration if they were regulated and supervised by their home country regulator in a manner that was comparable to the manner in which SEFs are regulated by the CFTC. Again, the CFTC would look to take an outcomes-based approach in promulgating exempt SEF regulations.

The Commission drafted comparability determinations for the OTC derivatives rules of foreign jurisdictions, including most recently the margin requirements applicable to non-centrally cleared OTC derivatives (uncleared swaps). Commission comparability determinations were completed in 2013 for the risk management, chief compliance officer, and certain transaction level rules of the European Union, Japan, Canada, Australia, Switzerland, and Hong Kong. The Commission recently completed a comparability determination for the uncleared swap margin requirements of Japan and the European Union. The Commission is currently engaged with a number of other jurisdictions seeking comparability for uncleared swap margin rules. Each of these determinations require close cooperation with the applicable foreign regulator to understand the substance and the implementation of its rules, operating on the basis of comity, not uniformity, while striving to balance the need for market oversight with the health and vitality of the global swaps market.

The Commission is working to negotiate and implement supervisory MOUs with foreign regulators around the world. In view of the growing globalization of the world's financial markets and the increase in cross-border operations and activities of regulated entities, the CFTC enters into MOUs regarding cooperation and the exchange of information in the supervision and oversight of regulated entities that operate on a cross-border basis in both the United States and foreign jurisdictions. Through these MOUs, the authorities express their willingness to cooperate with each other in the interest of fulfilling their respective regulatory mandates particularly in the areas of protecting customers, fostering the integrity of and maintaining confidence in financial markets, and reducing systemic risk.

Right-size Regulatory Footprint

Eschew Empire Building: Focus on Core CFTC Missions

In FY 2017, the Commission realigned market surveillance staff from DMO to DOE and refocused a team within the DMO on developing improved market intelligence. Each of these actions leverages existing processes, and increases the efficiency and effectiveness of the Commission's core functions. Moreover, these actions allow us to better manage our resources while maintaining, but not increasing, our enforcement program's legal resources.

As part of its focus on its core mission, the CFTC is studying the feasibility of delegating more activities to NFA and other SROs so that the Commission staff can focus on core activities. The Commission has already worked closely with NFA to greatly streamline its swap dealer registration procedures.

Performance Highlights

Introduction

This section outlines and summarizes the CFTC's strategic and performance planning framework and summarizes progress toward CFTC's goals and objectives, as of the third quarter of FY 2017.

The FY 2017 Annual Performance Report will provide a complete discussion of all of the Commission's strategic goals, including a description of performance goals, objectives, data sources, verification and validation of all performance data, performance indicator results and trends, and information about internal reviews and evaluations. The FY 2017 Annual Performance Report will be published concurrently with the Commission's FY 2019 Congressional Budget Justification and will be available online at *http://www.cftc.gov/about/CFTCreports/index.htm*.

CFTC FY 2014 – 2018 Strategic Plan Matrix

Strategic and Performance Planning Framework

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

The Strategic Plan outlines the Commission's strategic goals, strategic objectives, and indicators under previous leadership. The goals in CFTC's Strategic Plan are influenced by several environmental factors, including global, complex and constantly evolving securities markets. The Commission is building a robust FY 2018 – FY 2022 Strategic Plan, which will reflect the priorities of current leadership and will be publicly available in 2018.

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

CFTC MISSION

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

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

Strategic Goals and Key Results

Below are targets and results for selected representative indicators from each strategic goal.

Strategic Goal One: Market Integrity and Transparency

FY 2017 Investment

Net Cost: $83.2 Million
Staffing: 182 FTE

Introduction to Strategic Goal One

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

Strategic Goal One Key Indicator Performance Results

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

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

Description: The OPERA portal is a multi-year project that allows exchanges to file contracts and rules electronically, improving upon the previous paper-based system. This indicator captures the efficiency with which staff can receive and process exchange submissions related to contracts and rules. Through the portal, exchanges are able to electronically file submissions directly with the Commission. The portal will then automatically route submissions to relevant staff without the need for staff to input certain data elements into its systems.

FY 2015	FY 2016	FY 2017 (as of June 30)
Nearly 96%	99%	100%
Target 100%: Met		

Objective 1.2: Effective self-regulatory framework

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

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

FY 2015	FY 2016	FY 2017 (as of June 30)
5 system safeguards (SSEs) examinations	5 on-site reviews for SSEs conducted	5 on-site reviews for SSEs conducted
Target 100%: Met		

Strategic Goal Two: Financial Integrity and Avoidance of Systemic Risk

FY 2017 Investment

Net Cost: $99.9 Million
Staffing: 219 FTE

Note regarding image: In honor of launching the CFTC's FinTech initiative, the New York Stock Exchange (NYSE) brought out examples of what was the cutting edge technology of the time (1870s – 1880s). To the far left is one of the original ticker tape machines. In the middle is a letter from Bell Telephone Company dated October 4, 1878, suggesting adding telephone service to the NYSE. On the right is a letter from Thomas Alva Edison dated August 24, 1882, suggesting the addition of a ticker tape machine to provide quotations for the NYSE.

Introduction to Strategic Goal Two

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

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

Strategic Goal Two Key Indicator Performance Results

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

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

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

FY 2015	FY 2016	FY 2017 (as of June 30)
Conducted back-testing of products and portfolios of 2 DCOs	Conducted back-testing of products and portfolios of 5 DCOs	Conducted back-testing of products and portfolios of 5 DCOs
Target 5 DCOs: Met		

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

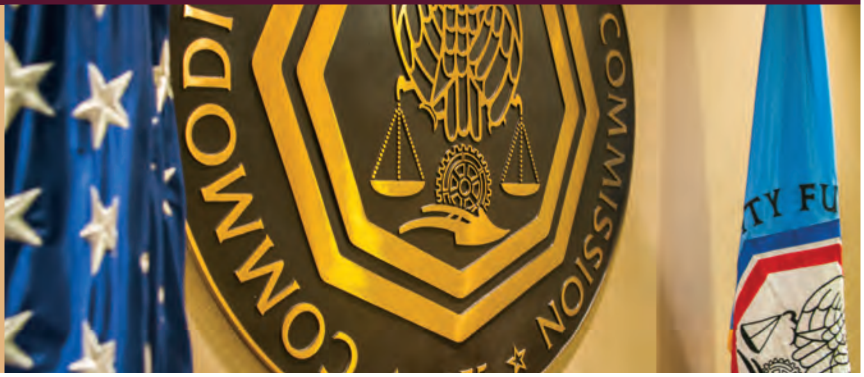
Description: The Commission has a comprehensive program in place to aggregate and conduct risk surveillance of market participants' futures and options positions. The Commission is developing procedures to aggregate swap positions across multiple DCOs and the asset classes for which such DCOs offer clearing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

FY 2015	FY 2016	FY 2017 (as of June 30)
Aggregated the risk of 25 interest rate swap (IRS) and interest rate (IR) futures accounts	Aggregated the risk of 16 IRS and IR futures accounts	Aggregated the risk of 100 IRS and IR futures accounts
Target Aggregate Risk of Market Participants' Interest Rate Swaps and Interest Rate Futures: Met		

Strategic Goal Three: Comprehensive Enforcement

FY 2017 Investment

Net Cost: $116.3 Million
Staffing: 255 FTE



Introduction to Strategic Goal Three

The Commission is committed to prosecuting violations of the CEA and Commission regulations to protect market participants and promote market and financial integrity. The Commission's enforcement investigation and litigation matters are broadly categorized into four areas: 1) manipulation, 2) trade practice,[13] 3) fraud, and 4) supervision and control.

Strategic Goal Three Key Indicator Performance Results

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

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

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

FY 2015	FY 2016	FY 2017 (as of June 30)
Participated in 12 public forums and trade shows	Participated in 18 public forums and trade shows and launched a new website for the CFTC Whistleblower Office	Participated in 16 public forums and trade shows
Target 100%: Met		

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

Objective 3.2: Execute rigorous and thorough investigations

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

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

FY 2015	FY 2016	FY 2017 (as of June 30)
75%	71%	82%
Target 75%: Met		

Strategic Goal Four: Domestic and International Cooperation and Coordination

FY 2017 Investment

Net Cost: $15.1 Million
Staffing: 33 FTE

Introduction to Strategic Goal Four

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

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

Strategic Goal Four Key Indicator Performance Results

Objective 4.4: Robust Domestic and International Enforcement Cooperation and Coordination

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

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

FY 2015	FY 2016	FY 2017 (as of June 30)
Participated in 11 domestic and international cooperative meetings, task forces, etc.	Participated in 12 domestic and international cooperative enforcement meetings, task forces, etc.	Participated in 38 domestic and international cooperative enforcement meetings, task forces, etc.
Target 10 Meetings: Met		

Financial Highlights

The table below presents trend information for each major component of the Commission's balance sheets and statements of net cost for FY 2013 through FY 2017. The table is immediately followed by a discussion and analysis of the Commission's major financial highlights for FY 2017.

5-Year Financial Summary

Highlights	2017	2016	2015	2014	2013
Condensed Balance Sheet Data					
Fund Balance with Treasury	$ 68,549,192	$ 71,891,891	$ 67,246,060	$ 47,070,343	$ 36,467,970
Investments	234,006,240	244,000,000	263,000,000	270,000,000	95,000,000
Accounts Receivable	11,225	13,120	18,614	11,112	13,252
Prepayments	6,866,044	2,847,772	2,473,459	1,712,871	1,541,681
Custodial Receivables, Net	5,282,320	15,089,568	4,696,176	4,218,788	69,744,626
General Property, Plant, and Equipment, Net	41,987,420	48,357,120	50,358,266	54,464,549	58,251,172
Deferred Costs	–	–	28,487	64,201	220,953
TOTAL ASSETS	**$356,702,441**	**$382,199,471**	**$387,821,062**	**$377,541,864**	**$261,239,654**
Accounts Payable	$ 9,758,019	$ 10,589,674	$ 8,607,890	$ 5,483,221	$ 5,092,410
FECA Liabilities	533,575	505,002	498,101	549,734	596,353
Accrued Payroll and Annual Leave	17,647,943	16,647,297	15,004,112	13,007,491	11,651,586
Custodial Liabilities	5,282,320	15,089,568	4,696,176	4,218,788	69,744,626
Deposit Fund Liabilities	360,219	265,828	179,806	134,683	83,997
Deferred Lease Liabilities	26,467,341	28,293,139	25,673,457	25,961,973	25,241,114
Contingent Liabilities	45,500,000	–	300,000	85,000	–
Other	–	–	22,397	11,699	19,600
TOTAL LIABILITIES	**$105,549,417**	**$ 71,390,508**	**$ 54,981,939**	**$ 49,452,589**	**$112,429,686**
Unexpended Appropriations – All Other Funds	50,591,522	53,836,721	50,997,602	35,420,980	25,006,039
Cumulative Results of Operations – Funds from Dedicated Collections	196,336,209	247,550,496	267,612,410	274,315,312	99,904,291
Cumulative Results of Operations – All Other Funds	4,225,293	9,421,746	14,229,111	18,352,983	23,899,638
Total Net Position	**251,153,024**	**310,808,963**	**332,839,123**	**328,089,275**	**148,809,968**
TOTAL LIABILITIES AND NET POSITION	**$356,702,441**	**$382,199,471**	**$387,821,062**	**$377,541,864**	**$261,239,654**
Condensed Statements of Net Cost					
Gross Costs	$ 314,547,758	$ 278,141,094	$ 249,861,126	$ 217,450,008	$ 218,155,538
Earned Revenue	(28,272)	(55,123)	(53,074)	(31,375)	(49,483)
TOTAL NET COST OF OPERATIONS	**$314,519,486**	**$278,085,971**	**$249,808,052**	**$217,418,633**	**$218,106,055**
Net Cost of Operations by Strategic Goal[14]					
Goal One – Market Integrity and Transparency	$ 83,190,404	$ 72,413,587	$ 68,322,502	N/A	N/A
Goal Two – Financial Integrity and Avoidance of Systemic Risk	99,922,841	85,650,480	73,918,203	N/A	N/A
Goal Three – Comprehensive Enforcement	116,309,306	106,506,926	95,501,618	N/A	N/A
Goal Four – Domestic and International Cooperation and Coordination	15,096,935	13,514,978	12,065,729	N/A	N/A
Goal One – Market Integrity	N/A	N/A	N/A	$ 56,746,263	$ 62,225,658
Goal Two – Clearing Integrity	N/A	N/A	N/A	51,963,054	57,470,946
Goal Three – Robust Enforcement	N/A	N/A	N/A	71,530,730	64,123,179
Goal Four – Cross-Border Cooperation	N/A	N/A	N/A	11,740,606	7,306,553
Goal Five – Organizational and Management Excellence	N/A	N/A	N/A	25,437,980	26,979,719
TOTAL NET COST OF OPERATIONS BY STRATEGIC GOAL	**$ 314,519,486**	**$ 278,085,971**	**$ 249,808,052**	**$217,418,633**	**$218,106,055**

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

Key Financial Statement Line Items	2017	2016	$ Change	% Change
Total Assets	$ 356,702,441	$ 382,199,471	$ (25,497,030)	(6.67%)
Total Liabilities	$ 105,549,417	$ 71,390,508	$ 34,158,909	47.85%
Total Net Position	$ 251,153,024	$ 310,808,963	$ (59,655,939)	(19.19%)
Total Net Cost of Operations	$ 314,519,486	$ 278,085,971	$ 36,433,515	13.10%
Total Budgetary Resources	$ 315,951,895	$ 315,215,866	$ 736,029	0.23%
Apportioned	$ 235,313,015	$ 246,556,853	$ (11,243,838)	(4.56%)
Unapportioned	$ (171,970,033)	$ (194,232,932)	$ 22,262,899	(11.46%)
New Obligations and Upward Adjustments	$ 242,650,172	$ 255,227,752	$ (12,577,580)	(4.93%)
Gross Outlays	$ 264,150,445	$ 265,476,500	$ (1,326,055)	(0.50%)
Custodial Receivables/Liabilities	$ 5,282,320	$ 15,089,568	$ (9,807,248)	(64.99%)

Financial Discussion and Analysis

The CFTC prepares annual financial statements in accordance with U.S. generally accepted accounting principles (GAAP) for Federal government entities and subjects the statements to an independent audit.

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

The financial summary as shown on the preceding page highlights changes in financial position between September 30, 2017, and September 30, 2016. This overview is supplemented with brief descriptions of the nature of each required financial statement and its relevance. Significant balances or conditions featured in the graphic presentation are explained in these sections to help clarify their relationship to Commission operations. Readers are encouraged to gain a deeper understanding by reviewing the Commission's financial statements and notes and the accompanying audit report presented in the Financial Section of this report

Understanding the Financial Statements

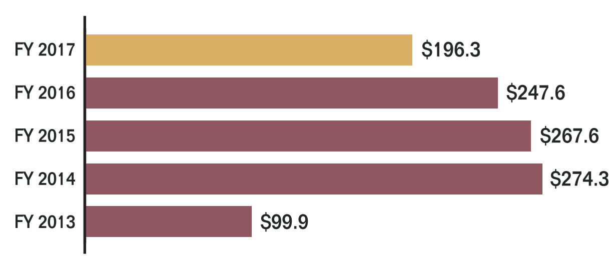
The CFTC presents financial statements and notes in accordance with accounting principles generally accepted in the United States of America and in the form and content requirements of OMB Circular A-136, *Financial Reporting Requirements*, which is revised annually by OMB in coordination with the U.S.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

The table above presents changes in key financial statement line items, as of and for, the fiscal year ended September 30, 2017, compared to September 30, 2016.

To better comprehend the Commission's financial statements and the reasons for changes from year to year, it is important to understand that the Commission's financial statements report on the operations of the Commission as well as its Customer Protection Fund. As discussed in Note 1A to the financial statements, the Customer Protection Fund is available to pay whistleblower awards and fund customer education initiatives to help investors protect themselves against fraud. Amounts in the Fund are invested until needed to fund whistleblower awards, customer education initiatives, or operating expenses of the fund. As shown in the chart below, the balance in the fund can change significantly as a result of large whistleblower awards paid to individuals in exchange

Customer Protection Fund Net Position

($ in millions)



In accordance with the Dodd-Frank Act, when the CFTC Customer Protection Fund balance falls below $100 million, the fund is replenished by the next eligible sanction collected.

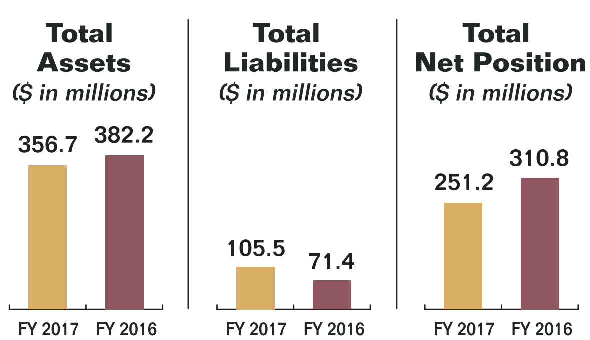
for the voluntary disclosure of information that leads to the successful enforcement by the CFTC of a covered judicial or administrative action in which monetary sanctions exceeding $1 million are imposed.

The large decrease in the net position of the Customer Protection Fund in FY 2017 is due to a contingent liability of $45.5 million for whistleblower awards that are expected to be paid in FY 2018 (disclosed in Note 8—Contingent Liabilities). This contingent liability increases liabilities and decreases net position as of September 30, 2017, but will not result in the obligation of resources and redemption of investments until the awards are issued.

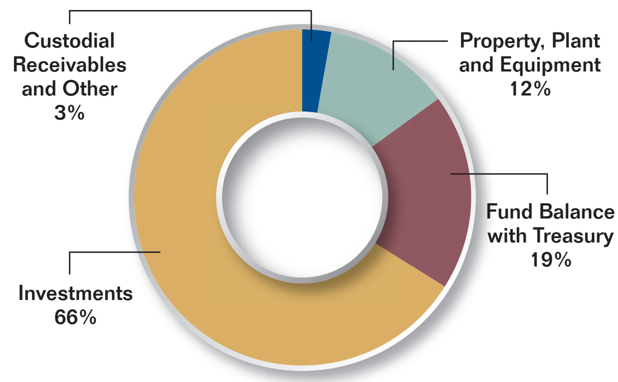
When the balance in the fund falls below $100 million, as it did in FY 2013, the Customer Protection Fund is replenished by the next eligible sanction collected by the Commission in accordance with the provisions of the Dodd-Frank Act. The Customer Protection Fund's individual balance sheets, statements of net cost, and statements of changes in net position are reported separately in Note 12—Funds from Dedicated Collections, and its statements of budgetary resources are reported in the "Customer Protection Fund" column of the combining statements of budgetary resources in the required supplementary information section immediately following the notes to the financial statements.

Balance Sheet

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



FY 2017 Total Assets (Composition)

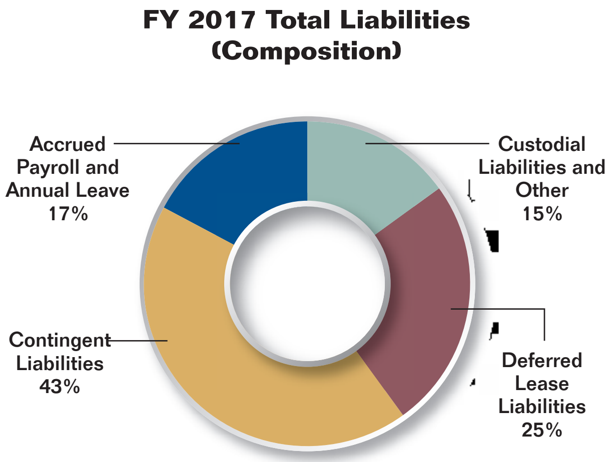


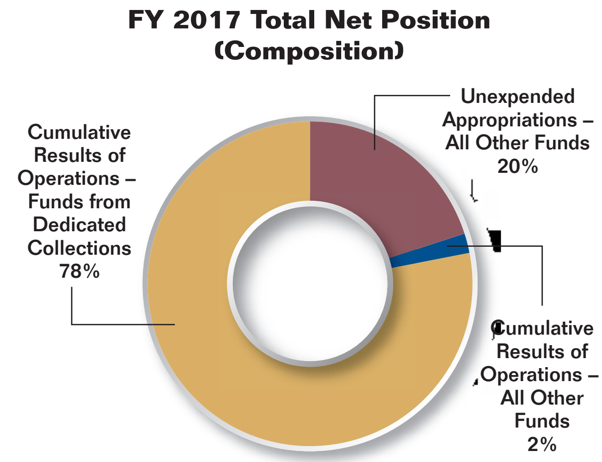
Total Assets: As of September 30, 2017, the Balance Sheet reflects total assets of $356.7 million. This is a decrease of $25.5 million, or 6.7 percent, over FY 2016. The decrease is primarily due to decreases of $10 million in Investments, $9.8 million in Custodial Receivables, and $6.4 million in Property, Plant, and Equipment.

Investments of $234 million comprise approximately 66 percent of the Commission's total assets as of September 30, 2017. This significant asset represents the balance of the Customer Protection Fund that is not needed to pay whistleblower awards or fund customer education initiatives and operating expenses of the fund. The $10 million, or 4.1 percent, decrease in investments is due to the redemption of investments to cover eligible expenses and obligations of the Customer Protection Fund during FY 2017.

The $9.8 million, or 65 percent, decrease in Custodial Receivables is due to a decrease in the number and amount of receivables for civil monetary sanctions that are estimated to be collectible as of September 30, 2017. The number and amount of civil monetary sanctions are driven by enforcement actions in any given fiscal year.

The $6.4 million, or 13.2 percent, decrease in Property, Plant, and Equipment is the result of depreciation and disposals exceeding new asset purchases; flat funding in FY 2017 coupled with an increase in payroll costs required the Commission to reduce its investment in assets in order to cover operating expenses.





Total Liabilities: As of September 30, 2017, the Balance Sheet reflects total liabilities of $105.5 million. This is an increase of $34.2 million, or 47.9 percent, over FY 2016. The increase is primarily due to a $45.5 million increase in Contingent Liabilities, offset by decreases in Custodial Liabilities and Deferred Lease Liabilities of $9.8 million and $1.8 million, respectively.

The $45.5 million Contingent Liability is due to pending whistleblower payments that are expected to be paid in FY 2018 after the claims review and appeal periods have run. These accrued whistleblower awards are $33.6 million, or 282 percent, higher than the $11.9 million in whistleblower awards paid in FY 2016 ($11.6 million awarded in FY 2016 plus $300 thousand accrued as a contingent liability in FY 2015 and subsequently paid in FY 2016). The amount of whistleblower payments in any given year vary depending on the amount of the related sanctions collected and the contribution the whistleblowers made to the cases.

The $9.8 million, or 65 percent, decrease in Custodial Liabilities is directly related to the decrease in Custodial Receivables discussed above. Custodial liabilities are recorded to offset custodial receivables and increase or decrease to reflect outstanding receivables for civil monetary sanctions at any given point in time.

The $1.8 million, or 6.5 percent, decrease in Deferred Lease Liabilities is due to the recognition of deferred costs spread over the life of the Commission's leases.

Total Net Position: As of September 30, 2017, the Balance Sheet reflects a total net position of $251.2 million, a decrease of $59.7 million, or 19.2 percent, over FY 2016. The changes in each of the three components of the Commission's net position (Cumulative Results of Operations—Funds from Dedicated Collections, Cumulative Results of Operations—All Other Funds, and Unexpended Appropriations—All Other Funds) are discussed separately below.

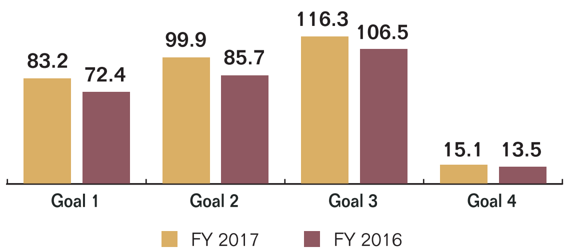
Cumulative Results of Operations—Funds from Dedicated Collections decreased by $51.2 million, or 20.7 percent, due to Customer Protection Fund expenses of $52.7 million offset by interest revenue of $1.5 million. The most significant cause of this decrease was due to the expense accrued for the $45.5 million Contingent Liability discussed above.

Cumulative Results of Operations—All Other Funds decreased by $5.2 million, or 55.2 percent, due to the net cost of operations exceeding total financing sources. The net loss on disposal of fixed assets of $3.2 million was the largest single contributor to the excess of net cost over total financing sources.

Unexpended Appropriations—All Other Funds decreased by $3.2 million, or 6 percent, due primarily to appropriations used of $252.2 million in excess of FY 2017 appropriations received of $250 million due to the timing of actual cash payments. In addition, approximately $1 million in canceling funds were returned to Treasury on September 30. 2017.

Statement of Net Cost

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



This statement is designed to present the components of the Commission's net cost of operations. Net cost is the gross cost incurred less any revenues earned from Commission activities. The Commission experienced a $36.4 million, or 13.1 percent, increase in the total net cost of operations during FY 2017.

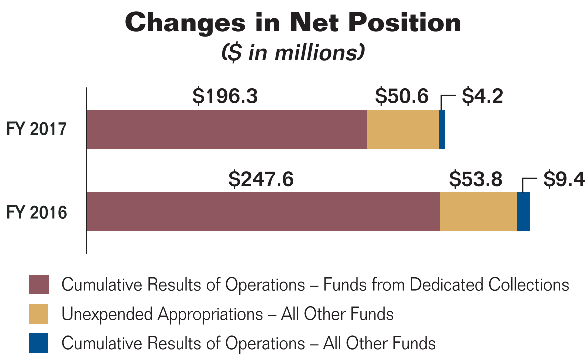
Excluding the increase in gross costs of $33.9 million due to whistleblower awards to be paid from the Customer Protection Fund, total net costs of operations increased by approximately $2.5 million, primarily due to increases of $9.0 million in leases and $779 thousand in payroll, offset by decreases of $6.1 million in depreciation expense, $862 thousand in technology and non-Federal service contracts, and $321 thousand in travel. Despite operating with a flat budget, this $2.5 million increase in expenses is deemed reasonable because CFTC paid more for leases in FY 2017 as a result of increased employee salaries, scheduled rent increases in FY 2017, and the receipt of a $5.8 million credit that was applied against rent in FY 2016. These increases in operating expenses were offset by a reduction in appropriations used for asset purchases of $3.4 million in FY 2017 over FY 2016 ($11.4 million in FY 2016 versus $8.0 million in FY 2017).

In line with its current Strategic Plan, the Commission's Statement of Net Cost is categorized by the following four strategic goals:

- The focus of **Strategic Goal One**, *Market Integrity and Transparency*, is to recognize that derivatives markets provide a means for market users to offset price risks inherent in their businesses and to serve as a public price discovery mechanism. In FY 2017, the Commission committed 26.4 percent of its resources to this goal, an increase of 0.04 percent over FY 2016.
- The focus of **Strategic Goal Two**, *Financial Integrity and Avoidance of Systemic Risk*, is to strive to ensure that Commission-registered DCOs, swap dealers, MSPs, and FCMs have the financial resources, risk management systems and procedures, internal controls, customer protection systems, and other controls necessary to meet their obligations so as to minimize the risk that the financial difficulty of any of these registrants, or any of their customers has systemic implications. In FY 2017, the Commission committed 31.8 percent of its resources to this goal, an increase of 1.0 percent over FY 2016.
- Through **Strategic Goal Three**, *Comprehensive Enforcement*, the CFTC enforces the CEA and Commission regulations, and works to promote awareness of and compliance with these laws. In FY 2017, the Commission committed 37.0 percent of its resources to this goal, a decrease of 1.3 percent over FY 2016.
- The focus of **Strategic Goal Four**, *Domestic and International Cooperation and Coordination*, is on how the Commission interacts with domestic and international regulatory authorities, market participants, and others affected by the Commission's regulatory policies and practices. In FY 2017, the Commission committed 4.8 percent of its resources to this goal, a decrease of 0.1 percent over FY 2016.

As reflected under each strategic goal above, the Commission's strategic focus remained relatively stable from FY 2016 to FY 2017. While the statements of net cost report a $36.4 million increase in gross costs for FY 2017, this increase is due to increases in costs, such as the $33.9 million increase in whistleblower awards that will be paid from the Customer Protection Fund, and not a significant change in the Commission's focus or available resources.

Statement of Changes in Net Position



The Statement of Changes in Net Position presents the Commission's cumulative net results of operations and unexpended appropriations for the fiscal year. The components of the changes in the Commission's Net Position are explained in the Total Net Position discussion in the Balance Sheet section.

Statement of Budgetary Resources

$250.0 MILLION
FY 2017 Appropriation

$264.2 MILLION
FY 2017 Gross Outlays

This statement provides information about the provision of budgetary resources and its status as of the end of the year. Information in this statement is consistent with budget execution information and the information reported in the *Budget of the U.S. Government*, FY 2019.

The Commission's Total Budgetary Resources remained fairly stable for the year ending September 30, 2017, increasing by only $736 thousand. This increase is primarily made up of increases of $952 thousand in Spending Authority from Offsetting Collections and $909 thousand in Recoveries of Prior Year Unpaid Obligations, offset by a $1.4 million decrease in Other Changes in Unobligated Balances.

The increase in Spending Authority from Offsetting Collections resulted because the average Treasury interest rate paid on Customer Protection Fund investments in overnight Treasury securities for FY 2017 was more than three times the average for FY 2016. The $909 thousand increase in Recoveries of Prior Year Unpaid Obligations was the result of several large recoveries in FY 2017. The $1.4 million decrease in Other Changes in Unobligated Balances is primarily due to the lack of a cancelling fund in FY 2016; the FY 2017 cancelling fund balance was approximately $1 million.

Excluding last year's whistleblower obligations of $11.9 million ($11.6 million awarded in FY 2016 plus $300 thousand accrued as a contingent liability in FY 2015 and subsequently obligated and paid in FY 2016), the $726 thousand decrease in New Obligations and Upward Adjustments is primarily made up of decreases of $8.1 million in the salaries and expense fund for other services contracts, offset by increases in the Customer Protection Fund and IT funds for other services of $4.1 million and $3.3 million, respectively.

Excluding last year's whistleblower outlays of $11.9 million ($11.6 million awarded in FY 2016 plus $300 thousand accrued as a contingent liability in FY 2015 and subsequently paid in FY 2016), Gross Outlays increased by approximately $10.6 million, primarily because CFTC outlaid: 1) $6.4 million more for leases in FY 2017 due to scheduled increases in FY 2017 and the receipt of a $5.8 million credit that was applied against rent in FY 2016; 2) $2.2 million more for payroll in FY 2017 due to increased employee salaries; and 3) $2.2 million more for contracts and other services due to the timing of cash payments ($4.9 million increase in IT funds and $1.6 million increase in the Customer Protection Fund, offset by $4.3 million decrease in Salaries and Expenses fund).

The $11.2 million decrease in Apportioned, Unexpired Accounts is primarily due to a decrease in the amounts available for apportionment for the Customer Protection Fund of $10.7 million due to amounts expended by the fund in FY 2017.

The $22.3 million increase in Unapportioned, Unexpired Accounts is largely the result of the $22 million reduction in unfunded lease obligations because current year lease payments were funded by the FY 2017 appropriation. As reported last year, the total Unapportioned, Unexpired Accounts balance is negative because no funds have been appropriated or apportioned to fund the remaining lease obligations for FY 2018 through 2025. These unfunded lease obligations remaining as of September 30, 2017, and 2016, are $172.4 million and $194.4 million, respectively.

Statement of Custodial Activity

Total Cash Collections
($ in millions)

Registration and Filing Fees	$	1.3
Fines, Penalties, and Forfeitures	$	271.7
	$	273[15]

Total Disposition of Collections
($ in millions)

This statement provides information about the sources and disposition of collections. CFTC transfers eligible funds from dedicated collections to the Customer Protection Fund when the balance falls below $100 million and other non-exchange revenue to the Treasury general fund. Collections primarily consist of fines, penalties, and forfeitures assessed and levied against businesses and individuals for violations of the CEA or Commission regulations. They also include non-exchange revenues such as registration, filing, appeal fees, and general receipts. The Statement of Custodial Activity reflects total cash collections for FY 2017 in the amount of $273.0 million, a decrease of $208.4 million, or 43.3 percent, over FY 2016. These custodial collections are driven by enforcement actions in any given fiscal year as well as the violators' ability to pay. Of the $273 million in FY 2017 cash collections, all $273 million was transferred to the Treasury because the Customer Protection Fund balance exceeded $100 million so no collections were eligible to be transferred to it.

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

Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and results of operations for the CFTC for FY 2017 and FY 2016 pursuant to the requirements of Title 31 of the U.S. Code, section 3515 (b).

While these statements have been prepared from the books and records of the Commission in accordance with GAAP for Federal entities and the formats prescribed by OMB Circular A-136, *Financial Reporting Requirements*, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the understanding that they represent a component of the U.S. Federal government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.

[15] *Total cash collections include $1.7 thousand, or <$0.1 in general proprietary receipts.*

Management Assurances

Management Overview

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

- **Control Environment** is the foundation for an internal control system. It represents management's commitment to encourage the highest level of integrity, personal/professional standards, and promotes internal control through our leadership philosophy and operational style.

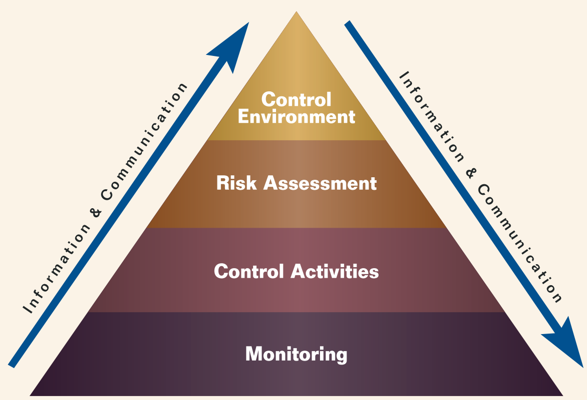
- **Risk Assessment** is the identification and analysis of risks associated with business processes, financial reporting, financial systems, controls and legal compliance in the pursuit of agency goals and objectives.

- **Control Activities** are the actions supported by management policies and procedures to address risk, e.g., performance reviews, status of funds reporting, and asset management reviews.

- **Information and Communication** ensure the agency's control environment, risks, control activities, and performance results are communicated throughout the agency.

- **Monitoring** is the assessment of internal control performance to ensure the internal control processes are properly executed and operating effectively in compliance with agency policies and procedures.

Internal Control Process



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

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

Statement of Assurance

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

Statement of Assurance

"CFTC management is responsible for establishing and maintaining effective internal controls and that the financial management systems meet the objectives of the FMFIA. The CFTC conducted an assessment of its internal controls for effectiveness and efficiency of operations and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of this evaluation, the CFTC can provide reasonable assurance that its internal controls as of September 30, 2017 were operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, the CFTC conducts management and internal control reviews which serve as a means of assessing the effectiveness of internal controls over reporting. These reviews include an assessment of CFTC's safeguarding of assets, the use of budget authority and other laws and regulations that could have a material effect on the financial statements, in accordance with the requirements of Appendix A to OMB Circular A-123, Internal Control Over Reporting. Based on the results of this evaluation, the CFTC provides reasonable assurance that its internal controls over reporting as of September 30, 2017 were operating effectively and no material weaknesses were found in the design or operation of the internal controls over reporting.

The CFTC also reviews the U.S. Department of Transportation Quality Control Review of Controls Over the Enterprise Services Center Report conducted in accordance with the American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements provided by the shared service provider maintaining our financial management system. The report addresses requirements outlined in Appendix D of OMB Circular A-123, Compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) and OMB Circular A-136. Based on the results of these reviews, the CFTC elects to provide reasonable assurance that its financial management systems are in compliance with applicable provisions of the FFMIA as of September 30, 2017."

J. Christopher Giancarlo
Chairman
November 13, 2017

Management Assurances and Other Financial Compliances

During FY 2017, in accordance with the FMFIA, and using the guidelines of the OMB, the Commission reviewed key components of its management and internal control system.

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

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

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

These reviews ensure that the Commission's systems and controls comply with the standards established by FMFIA. Moreover, managers throughout the Commission are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual assurance statements from division and office heads, as well as the Chief Financial Officer serve as a primary basis for the Chairman's assurance that management controls are adequate. The assurance statements are based upon each office's evaluation of progress made in correcting any previously reported problems, as well as new problems identified by the OIG, GAO, other management reports, and the management environment within each office. CFTC has worked vigorously to continually improve its controls program and assess its effectiveness at accomplishing the FMFIA requirements. Below are examples of some of the FY 2017 work performed to confirm compliance with FMFIA:

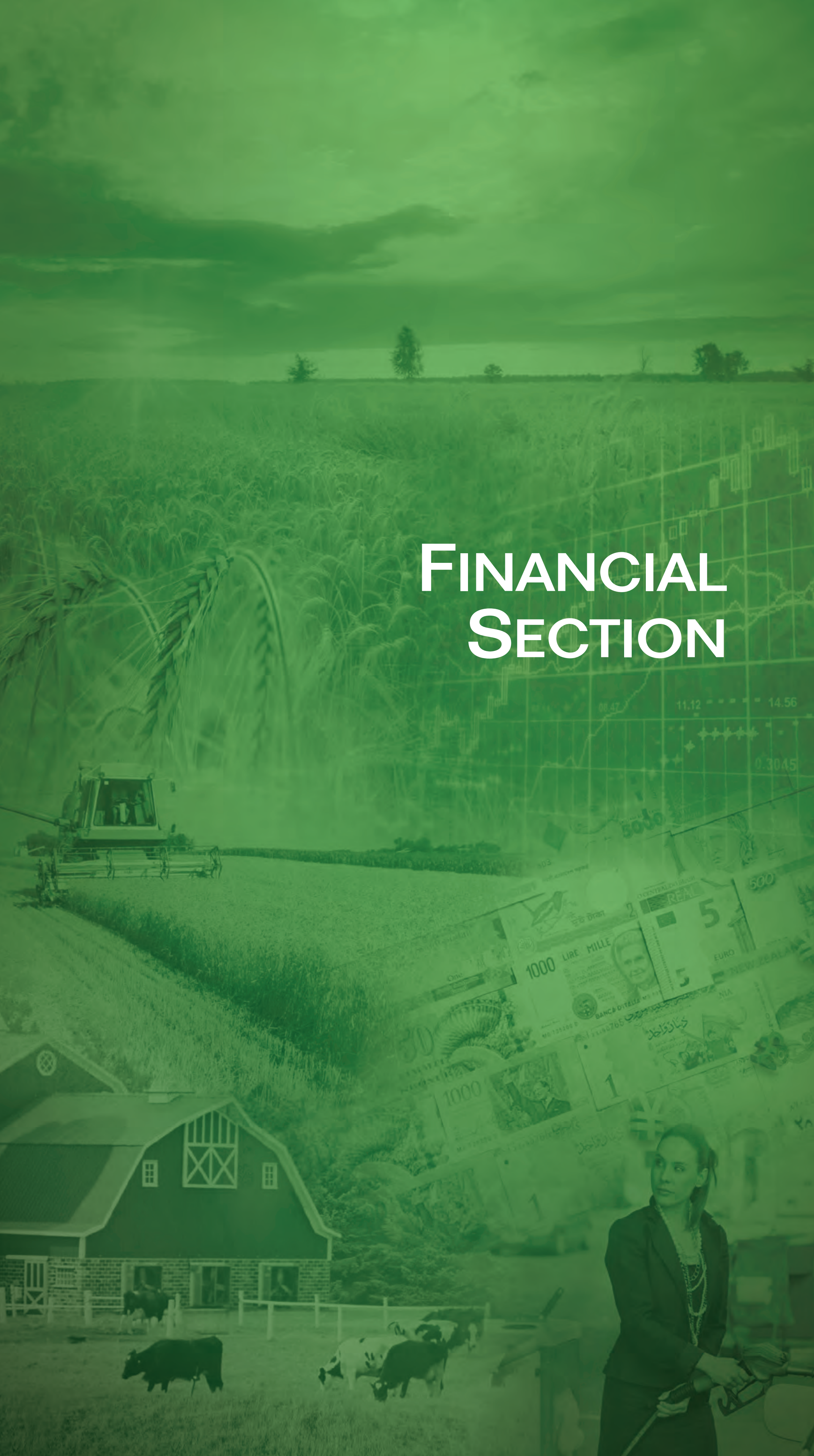
- Pay and benefits assessment based on the authority of Section 10702 of the Public Law 107-171, Farm Security and Rural Investment Act of 2002;
- Management and internal control reviews conducted with the express purpose of assessing internal controls;
- Management control reviews conducted with the express purpose of assessing compliance with applicable laws, regulations, government-wide policies, and laws identified by OMB in Bulletin 17-03, *Audit Requirements for Federal Financial Statements*; and
- Information security compliance as required by the Federal Information Security Management Act (FISMA).

FMFIA Section 2, Management Control

The Commission has no declared material weaknesses under FMFIA for FY 2017 in the area of reporting that hinders preparation of timely and accurate financial statements.

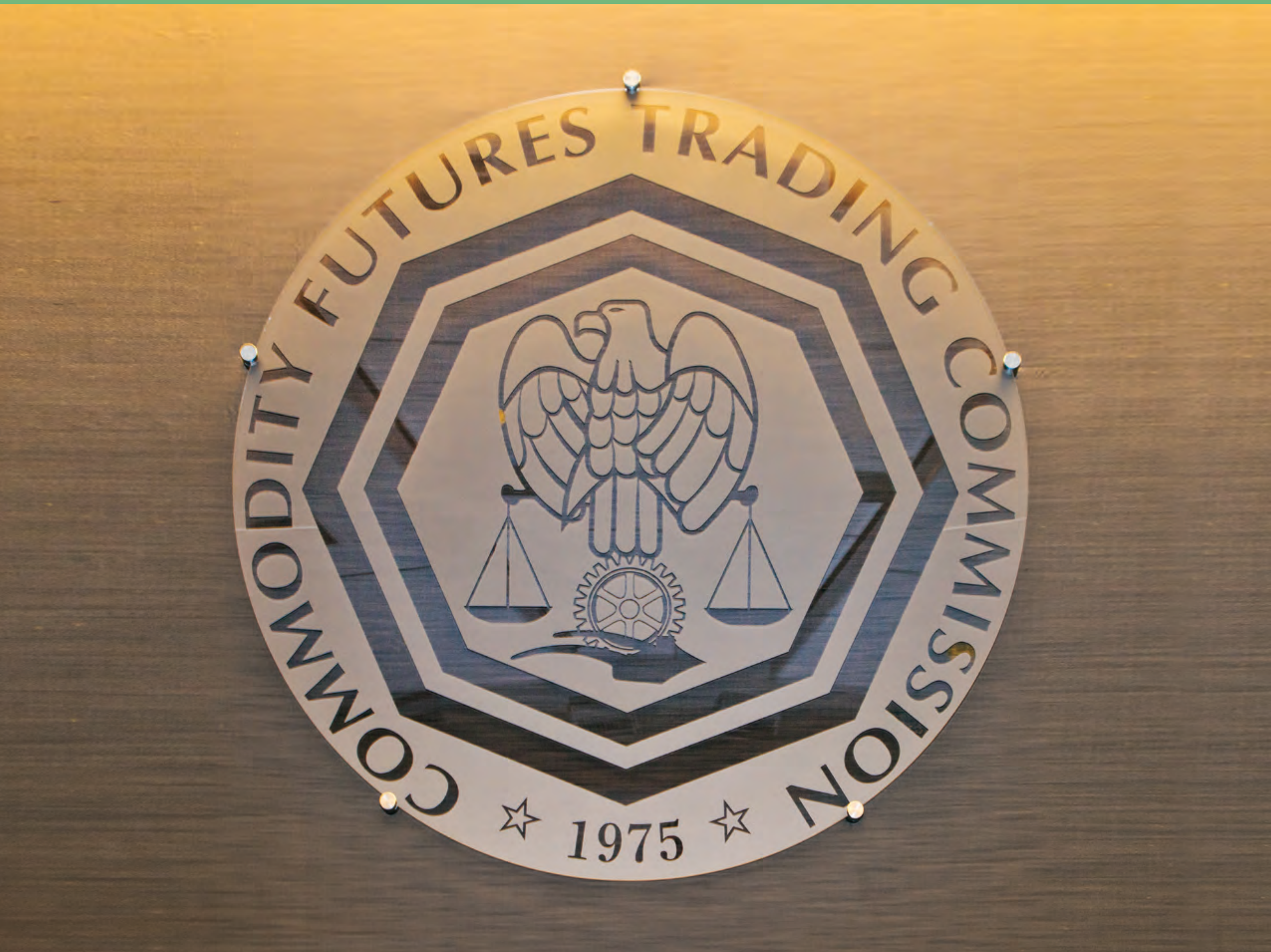
FMFIA Section 4, Financial Management Systems

The Commission declared no nonconformance within our financial systems under FMFIA during FY 2017 and FY 2016. The independent auditors' reports for FY 2017 and FY 2016 disclosed no instances of noncompliance or other matters within our financial systems that were required to be reported under generally accepted government auditing standards (GAGAS) and OMB Bulletin 17-03, *Audit Requirements for Federal Financial Statements*.



Financial Section

INSIDE


COMMODITY FUTURES TRADING COMMISSION
1975

A Message from the Chief Financial Officer

It is an honor to join Chairman Giancarlo in presenting the FY 2017 Agency Financial Report for the Commodity Futures Trading Commission (CFTC or Commission).

A cornerstone of fulfilling our mission is being good stewards of the public purse. The Commission's Financial Management staff, as well as staffs from other divisions and offices, has worked diligently to assure accountability and transparency in the execution of their fiduciary duties. Although we face many challenges, including resource constraints, we are committed to achieving our mission with excellence.

I am pleased to report that our independent auditor has issued an unmodified opinion on our FY 2017 financial statements, which means that the Commission's financial statements are presented fairly, in all material respects and are in conformity with generally accepted accounting principles for federal entities. This year's unmodified opinion represents the eleventh for the Commission. Also in FY 2017, the Commission was recognized with the distinguished Certificate of Excellence in Accountability Reporting from the Association of Government Accountants for its FY 2016 Agency Financial Report.

Since FY 2007, the CFTC has leveraged a financial management systems platform operated by the U.S. Department of Transportation's Enterprise Services Center, an Office of Management and Budget (OMB) designated financial management service provider. I am excited to report that CFTC will be implementing an end to end procurement management system, which will allow for a timelier, efficient, and consistent contract management process and will facilitate required Digital Accountability and Transparency Act reporting. The Commission's financial management systems strategy for FY 2018 includes the continued monitoring, evaluation and oversight of the financial management system operated by its shared service provider. As a result, the CFTC is able to accumulate, analyze, and present reliable financial information, and provide timely information for managing current operations and reporting of financial information to central agencies.

The CFTC takes pride in providing timely, reliable and meaningful information to its many stakeholders. This report provides financial and performance information to the American taxpayer, Congress, and market participants to enable them to understand and evaluate how the Commission accomplishes its mission.

The audit results reflected in this report are a culmination of the dedicated efforts of CFTC employees. They have set a high standard for excellence for themselves and have sought to achieve that standard in every job, every task, every day. They are proof that our biggest asset is not listed on our Balance Sheet.

Mary Jean Buhler
Chief Financial Officer
November 13, 2017

Principal Financial Statements

Commodity Futures Trading Commission

Balance Sheets

As of September 30, 2017 and 2016

	2017	2016
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 68,549,192	$ 71,891,891
Investments (Note 3)	234,006,240	244,000,000
Accounts Receivable, Net (Note 4)	3,692	2,000
Prepayments (Note 1H)	4,277,447	1,241,933
Total Intragovernmental	**306,836,571**	**317,135,824**
Custodial Receivables, Net (Note 4)	5,282,320	15,089,568
Accounts Receivable, Net (Note 4)	7,533	11,120
General Property, Plant and Equipment, Net (Note 5)	41,987,420	48,357,120
Prepayments (Note 1H)	2,588,597	1,605,839
TOTAL ASSETS	**$ 356,702,441**	**$ 382,199,471**
LIABILITIES		
Intragovernmental		
Accounts Payable	$ 370,370	$ 1,314,250
Custodial Liabilities	5,282,320	15,089,568
Employer Contributions and Payroll Taxes Payable	1,205,971	1,110,434
FECA Liabilities (Note 1N)	84,270	83,713
Total Intragovernmental	**6,942,931**	**17,597,965**
Accounts Payable	9,387,649	9,275,424
Actuarial FECA Liabilities (Note 1N)	449,305	421,289
Accrued Payroll	5,681,232	5,479,736
Annual Leave	10,760,740	10,057,127
Deposit Fund Liabilities	360,219	265,828
Deferred Lease Liabilities (Note 7)	26,467,341	28,293,139
Contingent Liabilities (Note 8)	45,500,000	–
Total Liabilities	**$ 105,549,417**	**$ 71,390,508**
NET POSITION		
Unexpended Appropriations – All Other Funds	$ 50,591,522	$ 53,836,721
Cumulative Results of Operations – Funds from Dedicated Collections	196,336,209	247,550,496
Cumulative Results of Operations – All Other Funds	4,225,293	9,421,746
Total Net Position	**251,153,024**	**310,808,963**
TOTAL LIABILITIES AND NET POSITION	**$ 356,702,441**	**$ 382,199,471**

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

Commodity Futures Trading Commission

Statements of Net Cost

For the Years Ended September 30, 2017 and 2016

	2017	2016
NET COST BY GOAL (NOTE 10)		
GOAL 1: MARKET INTEGRITY AND TRANSPARENCY		
Gross Costs	$ 83,197,882	$ 72,427,941
Less: Earned Revenue	(7,478)	(14,354)
NET COST OF OPERATIONS – GOAL ONE	**$ 83,190,404**	**$ 72,413,587**
GOAL 2: FINANCIAL INTEGRITY AND AVOIDANCE OF SYSTEMIC RISK		
Gross Costs	$ 99,931,823	$ 85,667,457
Less: Earned Revenue	(8,982)	(16,977)
NET COST OF OPERATIONS – GOAL TWO	**$ 99,922,841**	**$ 85,650,480**
GOAL 3: COMPREHENSIVE ENFORCEMENT		
Gross Costs	$116,319,761	$106,528,039
Less: Earned Revenue	(10,455)	(21,113)
NET COST OF OPERATIONS – GOAL THREE	**$116,309,306**	**$106,506,926**
GOAL 4: DOMESTIC AND INTERNATIONAL COOPERATION AND COORDINATION		
Gross Costs	$ 15,098,292	$ 13,517,657
Less: Earned Revenue	(1,357)	(2,679)
NET COST OF OPERATIONS – GOAL FOUR	**$ 15,096,935**	**$ 13,514,978**
GRAND TOTAL		
Gross Costs	$314,547,758	$278,141,094
Less: Earned Revenue	(28,272)	(55,123)
TOTAL NET COST OF OPERATIONS	**$314,519,486**	**$278,085,971**

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

Commodity Futures Trading Commission

Statements of Changes in Net Position

For the Years Ended September 30, 2017 and 2016

		2017	
CUMULATIVE RESULTS OF OPERATIONS	DEDICATED COLLECTIONS	ALL OTHER FUNDS	CONSOLIDATED TOTAL
Beginning Balances, October 1	**$ 247,550,496**	**$ 9,421,746**	**$ 256,972,242**
Budgetary Financing Sources			
Appropriations Used	–	252,223,793	252,223,793
Nonexchange Interest Revenue (Note 3)	1,538,309	–	1,538,309
Other Financing Sources			
Imputed Financing Sources (Note 1M)	–	4,346,644	4,346,644
Total Financing Sources	1,538,309	256,570,437	258,108,746
Net Cost of Operations	**(52,752,596)**	**(261,766,890)**	**(314,519,486)**
Net Change	**(51,214,287)**	**(5,196,453)**	**(56,410,740)**
TOTAL CUMULATIVE RESULTS OF OPERATIONS, SEPTEMBER 30	**$ 196,336,209**	**$ 4,225,293**	**$ 200,561,502**
UNEXPENDED APPROPRIATIONS			
Beginning Balances, October 1	**$ –**	**$ 53,836,721**	**$ 53,836,721**
Budgetary Financing Sources			
Appropriations Received	–	250,000,000	250,000,000
Other Adjustments (+/-)	–	(1,021,406)	(1,021,406)
Appropriations Used	–	(252,223,793)	(252,223,793)
Total Budgetary Financing Sources	–	(3,245,199)	(3,245,199)
Total Unexpended Appropriations, September 30	**$ –**	**$ 50,591,522**	**$ 50,591,522**
NET POSITION	**$ 196,336,209**	**$ 54,816,815**	**$ 251,153,024**

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

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

Commodity Futures Trading Commission

STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2017 and 2016

	2017	2016
BUDGETARY RESOURCES		
Unobligated Balance Brought Forward, October 1	$ 59,988,114	$ 59,758,110
Recoveries of Prior Year Unpaid Obligations	5,357,282	4,448,160
Other Changes in Unobligated Balance	(846,985)	507,747
Unobligated Balance from Prior Year Budget Authority, Net	64,498,411	64,714,017
Appropriations	250,000,000	250,000,000
Spending Authority from Offsetting Collections	1,453,484	501,849
TOTAL BUDGETARY RESOURCES	**$ 315,951,895**	**$ 315,215,866**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Note 9A)	$ 242,650,172	$ 255,227,752
Unobligated Balance, End of Year		
Apportioned, Unexpired Accounts	235,313,015	246,556,853
Unapportioned, Unexpired Accounts	(171,970,033)	(194,232,932)
Unexpired Unobligated Balance, End of Year	63,342,982	52,323,921
Expired Unobligated Balance, End of Year	9,958,741	7,664,193
Unobligated Balance, End of Year (Total)	73,301,723	59,988,114
TOTAL BUDGETARY RESOURCES	**$ 315,951,895**	**$ 315,215,866**
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 61,258,161	$ 60,290,903
Unfunded Lease Obligations Brought Forward, October 1 (Note 9)	194,378,658	210,042,824
Total Unpaid Obligations Brought Forward, October 1	255,636,819	270,333,727
New Obligations and Upward Adjustments	242,650,172	255,227,752
Outlays (Gross)	(264,150,445)	(265,476,500)
Recoveries of Prior Year Unpaid Obligations	(5,357,282)	(4,448,160)
Unpaid Obligations, End of Year	228,779,264	255,636,819
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	(83,245)	(76,660)
Change in Uncollected Payments, Federal Sources	1,145	(6,585)
Uncollected Payments, Federal Sources, End of Year	(82,100)	(83,245)
Memorandum Entries:		
Obligated Balance, Start of Year	**$ 255,553,574**	**$ 270,257,067**
Obligated Balance, End of Year	**$ 228,697,164**	**$ 255,553,574**
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross	$ 251,453,484	$ 250,501,849
Actual Offsetting Collections	(1,734,762)	(1,036,307)
Change in Uncollected Payments, Federal Sources	1,145	(6,585)
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	174,421	507,747
BUDGET AUTHORITY, NET	**$ 249,894,288**	**$ 249,966,704**
Outlays, Gross	$ 264,150,445	$ 265,476,500
Actual Offsetting Collections	(1,734,762)	(1,036,307)
Outlays, Net	262,415,683	264,440,193
Distributed Offsetting Receipts	(1,658)	(2,387)
AGENCY OUTLAYS, NET	**$ 262,414,025**	**$ 264,437,806**

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

Commodity Futures Trading Commission

Statements of Custodial Activity

For the Years Ended September 30, 2017 and 2016

	2017	2016
REVENUE ACTIVITY		
Sources of Cash Collections:		
Registration and Filing Fees	$ 1,267,960	$ 1,444,842
Fines, Penalties, and Forfeitures	271,681,269	479,905,668
General Proprietary Receipts	1,658	2,387
Total Cash Collections	**272,950,887**	**481,352,897**
Change in Custodial Receivables	**(9,807,248)**	**10,393,392**
TOTAL CUSTODIAL REVENUE	**$ 263,143,639**	**$ 491,746,289**
DISPOSITION OF COLLECTIONS		
Amounts Transferred to:		
Department of the Treasury	(272,950,887)	(481,352,897)
Total Disposition of Collections	**(272,950,887)**	**(481,352,897)**
Change in Custodial Liabilities	9,807,248	(10,393,392)
NET CUSTODIAL ACTIVITY	$ –	$ –

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

Notes to the Financial Statements

As of and For the Fiscal Years Ended September 30, 2017 and 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

B. Basis of Presentation

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

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

The books and records of the agency served as the source of information for preparing the financial statements in the prescribed formats. All agency financial statements and reports used to monitor and control budgetary resources are prepared from the same books and records. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

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

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

C. Budgetary Resources and Status

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

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

The CFTC's budgetary resources for FY 2017 consist of:

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

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

D. Entity and Non-Entity Assets

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

E. Fund Balance with Treasury

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

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

F. Investments

The CFTC has the authority to invest amounts deposited in the Customer Protection Fund in short-term market-based Treasury securities. Market-based Treasury securities are debt securities that the Treasury issues to Federal entities without statutorily determined interest rates. Although the securities are not marketable, the terms (prices and interest rates) mirror the terms of marketable Treasury securities. Investments are carried at their historical cost basis which approximates fair value due to their short-term nature.

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

G. Accounts Receivable, Net

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

H. Prepayments

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

I. General Property, Plant and Equipment, Net

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

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

J. Liabilities

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

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

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

K. Accounts Payable

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

L. Accrued Payroll and Benefits and Annual Leave Liability

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

The agency's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

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

M. Retirement Plans and Other Employee Benefits

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

Full costs include pension and ORB contributions paid out of the CFTC's appropriations and costs financed by OPM. The amount financed by OPM is recognized as an imputed financing source. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of OPM.

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

N. FECA Liabilities

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

In addition, the Commission's actuarial FECA liability represents the liability for future workers compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The Commission records an estimate for the FECA actuarial liability using the DOL's FECA model. The model considers the average amount of benefit payments incurred by the Commission for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid ratio for the whole FECA program.

O. Leases

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

P. Deposit Funds

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

Q. Net Position

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

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

R. Revenues

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

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

S. Net Cost of Operations

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

The mission statement of the CFTC is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive, and financially sound futures and option markets. For FY 2017, the mission was accomplished through the following four strategic goals, each focusing on a vital area of regulatory responsibility:

- **Goal 1: Market Integrity and Transparency.** The focus of Market Integrity and Transparency is to recognize that derivatives markets provide a means for market users to offset price risks inherent in their businesses and to serve as a public price discovery mechanism.
- **Goal 2: Financial Integrity and Avoidance of Systemic Risk.** The focus of Financial Integrity and Avoidance of Systemic Risk is to strive to ensure that Commission-registered derivatives clearing organizations, swap dealers, major swap participants, and futures commission merchants have the financial resources, risk management systems and procedures, internal controls, customer protection systems, and other controls necessary to meet their obligations so as to minimize the risk that the financial difficulty of any of these registrants, or any of their customers has systemic implications.
- **Goal 3: Comprehensive Enforcement.** Through the goal of Comprehensive Enforcement, the CFTC enforces the CEA and Commission regulations, and works to promote awareness of and compliance with these laws.
- **Goal 4: Domestic and International Cooperation and Coordination.** Domestic and International Cooperation and Coordination focuses on how the Commission interacts with domestic and international regulatory authorities, market participants, and others affected by the Commission's regulatory policies and practices.

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

T. Custodial Activity

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

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

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

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

U. Use of Management Estimates

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

V. Reconciliation of Net Obligations and Net Cost of Operations

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

W. Funds from Dedicated Collections

The Customer Protection Fund was established to operate a whistleblower program and support customer education initiatives. See Note 1A for a description of the purpose of the Customer Protection Fund and its authority to use revenues and other financing sources. Deposits into the Customer Protection Fund are credited from monetary sanctions collected by the Commission in a covered judicial or administrative action where the full judgment is in excess of $1,000,000 and the collection is not otherwise distributed to victims of a violation of the Dodd-Frank Act or the underlying rules and regulations, unless the balance of the Customer Protection Fund at the time the monetary judgment is collected exceeds $100 million. No new legislation was enacted as of September 30, 2017, that significantly changed the purpose of the fund or redirected a material portion of the accumulated balance.

Note 2. Fund Balance with Treasury

A. Reconciliation to Treasury

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

B. Fund Balance with Treasury

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

Fund Balance with Treasury at September 30, 2017, and 2016, consisted of the following:

	2017	2016
Appropriated Funds	$ 60,627,981	$ 66,140,651
Customer Protection Fund	7,560,992	5,485,412
Deposit Fund	360,219	265,828
TOTAL FUND BALANCE WITH TREASURY	**$ 68,549,192**	**$ 71,891,891**

C. Status of Fund Balance with Treasury

Status of Fund Balance with Treasury at September 30, 2017, and 2016, consisted of the following:

	2017	2016
Appropriated Funds		
Unobligated Fund Balance		
Available	$ 857,475	$ 1,395,955
Unavailable	9,940,610	7,726,675
Obligated Balance Not Yet Disbursed	49,829,896	57,018,021
Total Appropriated Funds	**60,627,981**	**66,140,651**
Customer Protection Fund		
Unobligated Fund Balance		
Available	$ 965,023	$ 1,245,271
Obligated Balance Not Yet Disbursed	6,595,969	4,240,141
Total Customer Protection Fund	**7,560,992**	**5,485,412**
Deposit Fund	**360,219**	**265,828**
TOTAL FUND BALANCE WITH TREASURY	**$ 68,549,192**	**$ 71,891,891**

Obligated and unobligated balances reported for the status of Fund Balance with Treasury differ from the amounts reported in the Statement of Budgetary Resources due to the fact that budgetary balances are supported by amounts other than Fund Balance with Treasury. These amounts include Customer Protection Fund investments, uncollected payments from Federal sources, and unfunded lease obligations.

Note 3. Investments

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

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

The Commission's investments as of September 30, 2017, and 2016, were $234 million and $244 million, respectively. Related nonexchange interest revenue for the years ended September 30, 2017, and 2016, was $1,538,309 and $489,668, respectively.

Intragovernmental Investments in Treasury Securities

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

Treasury securities provide the Commission with authority to draw upon the Treasury to pay future claims or other expenditures. When the Commission requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same manner in which the Government finances all expenditures.

Note 4. Accounts Receivable, Net

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

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

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

Accounts receivable, net consisted of the following as of September 30, 2017, and 2016:

	2017	2016
Custodial Receivables, Net:		
Civil Monetary Penalty Interest	$ 1,458,695	$ 1,275,201
Civil Monetary Penalties, Fines, and Administrative Fees	338,681,938	629,255,325
Less: Allowance for Loss on Interest	(1,457,730)	(1,273,722)
Less: Allowance for Loss on Penalties, Fines, and Administrative Fees	(334,581,938)	(615,436,261)
Registration and Filing Fees	1,181,355	1,269,025
NET CUSTODIAL RECEIVABLES	**$ 5,282,320**	**$ 15,089,568**
OTHER ACCOUNTS RECEIVABLE	**11,225**	**13,120**
TOTAL ACCOUNTS RECEIVABLE, NET	**$ 5,293,545**	**$ 15,102,688**

Note 5. General Property, Plant and Equipment, Net

Property, Plant and Equipment as of September 30, 2017, and 2016, consisted of the following:

2017 Major Class	Service Life and Method	Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	5 Years/Straight Line	$ 38,277,620	$ (24,535,838)	$ 13,741,782
IT Software	5 Years/Straight Line	31,677,532	(22,312,853)	9,364,679
Software in Development	Not Applicable	1,619,913	–	1,619,913
Leasehold Improvements	Remaining Life of Lease/Straight Line	30,647,193	(14,054,759)	16,592,434
Construction in Progress	Not Applicable	668,612	–	668,612
		$102,890,870	**$ (60,903,450)**	**$ 41,987,420**

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

Depreciation and amortization expense for the years ended September 30, 2017 and 2016, totaled $9,333,610 and $15,439,945, respectively.

Note 6. Liabilities not Covered by Budgetary Resources

As of September 30, 2017, and 2016, the following liabilities were not covered by budgetary resources:

	2017	2016
Intragovernmental – FECA Liabilities	$ 84,270	$ 83,713
Intragovernmental – Custodial Liabilities	5,282,320	15,089,568
Annual Leave	10,760,740	10,057,127
Actuarial FECA Liabilities	449,305	421,289
Contingent Liabilities	45,500,000	–
Deposit Fund Liabilities	360,219	265,828
Deferred Lease Liabilities	26,467,341	28,293,139
TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES	**$ 88,904,195**	**$ 54,210,664**

Liabilities not covered by budgetary resources of $88,904,195 and $54,210,664 represented 84.23 and 75.94 percent of the Commission's total liabilities of $105,549,417 and $71,390,508 as of September 30, 2017, and 2016, respectively.

Note 7. Leases

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

As of September 30, 2017, future estimated minimum lease payments continue through FY 2025 and are as follows:

Fiscal Year	Dollars
2018	$ 20,352,643
2019	20,715,734
2020	21,087,399
2021	21,419,962
2022	20,088,229
Thereafter	54,723,082
Total Future Scheduled Rent Payments	$ 158,387,049
Future Lease-Related Operating Costs *(Estimated)*	13,966,351
TOTAL FUTURE MINIMUM LEASE PAYMENTS	**$ 172,353,400**

CFTC recognizes leases expenses on a straight-line basis because the Commission's lease payment amounts vary at negotiated times and reflect increases in rental costs, and in some cases, allowances or credits from landlords. Consistent with the utility of its office space, the Commission records deferred lease liabilities representing expense amounts in excess of payments to date. The deferred lease liabilities at September 30, 2017, and 2016, were $26,467,341 and $28,293,139, respectively.

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

Buildings

LOCATION	LEASE TERMS
Washington, D.C.	Lease of office space from October 5, 1995, through September 30, 2025, subject to annual escalation amounts[1] and including allowances for leasehold improvements and rent offsets.
New York	Lease of office space from November 16, 2001, through April 30, 2022, with no escalation clauses or option to renew.
Kansas City	Lease of office space from April 1, 2011, through April 14, 2021, including allowances for leasehold improvements and rent offsets.
Chicago	Lease of office space from March 10, 2002, through June 30, 2022, including proportionate share of operating expenses and taxes for premises and allowances for leasehold improvements and rent offsets.

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

Multifunction Devices

LOCATION	LEASE TERMS
Washington, D.C., New York, and Kansas City	Two-year rental of multifunction printers through the U. S. Government Printing Office with three one-year options to renew.

Note 8. Contingent Liabilities

The CFTC records contingent liabilities for legal cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, including judgments that have been issued against the agency and which have been appealed. Additionally, the Commission discloses legal matters in which an unfavorable outcome is reasonably possible. In FY 2017, the Commission was involved in two cases where an unfavorable outcome is reasonably possible. The potential loss in these two cases is estimated to be $100,000.

As mentioned in Note 1.A. Reporting Fund, the Customer Protection Fund will be used to pay awards to whistleblowers if they voluntarily provide original information to the CFTC that leads to the successful enforcement by the CFTC of a covered judicial or administrative action in which monetary sanctions exceeding $1 million are imposed. Whistleblowers are entitled to appeal any decisions by the Commission in regards to claims made against the Fund. As of September 30, 2017, the Commission has determined that it is probable that it will make whistleblower awards of approximately $45.5 million as a result of valid whistleblower claims on Commission-imposed sanctions that have already been collected.

Note 9. Statements of Budgetary Resources

As disclosed last year, the Commission corrected a violation of the recording statute in FY 2016 by recording its obligations for all future building lease payments in accordance with OMB Circular A-11. The recording of these previously unrecorded obligations resulted in negative unobligated balances in its salaries and expenses general expenditure funds for both FY 2017 and 2016 because budgetary resources have not been made available to the Commission to fund these multi-year leases (see the Combining Statements of Budgetary Resources in the Required Supplementary Information section immediately following the notes). The effect on the status of the Commission's budgetary resources and reconciliation to the U.S. Budget is highlighted in each of the note disclosures below.

A. Apportionment Categories of New Obligations and Upward Adjustments

Category A funds are those amounts that are subject to quarterly apportionment by OMB, meaning that a portion of the annual appropriation is not available to the agency until apportioned for a particular quarter. Category B funds represent budgetary resources distributed by a specified time period, activity, project, object, or a combination of these categories. The Commission's Category B funds represent amounts apportioned at the beginning of the fiscal year for the Commission's Customer Protection Fund and reimbursable activities. For the years ended September 30, 2017, and 2016, the Commission incurred obligations against Category A and Category B funds as follows:

	2017	2016
Direct Obligations		
Category A	$ 230,442,612	$ 235,270,772
Category B – Customer Protection Fund	12,177,314	19,899,491
Total Direct Obligations	242,619,926	255,170,263
Reimbursable Obligations – Category B	30,246	57,489
TOTAL NEW OBLIGATIONS AND UPWARD ADJUSTMENTS	**$ 242,650,172**	**$ 255,227,752**

continued on next page

Note 9 continued from previous page

B. Undelivered Orders

The amount of budgetary resources obligated for undelivered orders as of September 30, 2017, and 2016, consisted of the following:

	2017	2016
Undelivered Orders	$ 219,000,088	$ 241,304,749

The amount of undelivered orders represents the value of unpaid and paid obligations recorded during the fiscal year, and upward and downward adjustments of obligations that were originally recorded in a prior fiscal year. These undelivered orders include the Commission's unfunded future lease payments as of September 30, 2017, and 2016, as follows:

	2017	2016
Unfunded Lease Obligations Brought Forward, October 1	$ 194,378,658	$ 210,042,824
Change in Unfunded Lease Obligations	(22,025,258)	(15,664,166)
TOTAL REMAINING UNFUNDED LEASE OBLIGATIONS	**$ 172,353,400**	**$ 194,378,658**

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

The CFTC had material differences between the amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the U.S. Government for FY 2016 related to unrecorded obligations for operating leases (see table below). Recording the obligation on the Statements of Budgetary Resources results in negative amounts reported for the "Unobligated Balance Brought Forward, Oct 1" and "Obligations Incurred, Expired Accounts" line items. The negative balance reported as "Unobligated Balance Brought Forward, October 1" will decrease each year until the Commission's active lease obligations are fully liquidated in FY 2025. The negative activity reported as "Obligations Incurred, Expired Accounts" consists of the amount of prior year unfunded lease deficiency liquidated with current year appropriations. While negative obligations incurred is abnormal activity, the Commission concluded that it was more appropriate to offset the obligations recorded in its unexpired account with the related decrease in unfunded lease obligations than to report the amount of the liquidation of the prior year lease obligation as a recovery.

	Unobligated Balance Brought Forward October 1	Unpaid Obligations Brought Forward October 1	Obligations Incurred, Expired Accounts
CFTC FY 2016 Statement of Budgetary Resources, as adjusted	**$ (204,493,269)**	**$ 266,042,520**	**$ (14,382,811)**
Less Unfunded Lease Obligations Brought Forward, October 1	(210,042,824)	210,042,824	–
Less Change in Unfunded Lease Obligations	–-	–	(15,664,166)
Less Amount in Expired Accounts	5,007,383	–	–
Plus Rounding to Nearest Million (+/-)	(542,172)	304	(281,355)
BUDGET OF THE U.S. GOVERNMENT	**$ –**	**$ 56,000,000**	**$ 1,000,000**

The Budget of the U.S. Government with actual numbers for FY 2017 has not yet been published. The expected publish date is February 2018. A copy of the Budget can be obtained from OMB's website.

Note 10. Intragovernmental Cost and Exchange Revenue by Goal

As required by GPRA, the agency's reporting has been aligned with the major goals presented in CFTC's Strategic Plan as reported in Note 1S. The Net Cost of Operations is derived from transactions between the Commission and public entities, as well as with other federal agencies. The details of the intragovernmental costs and revenues, as well as those with the public, for the years ended September 30, 2017, and 2016, are as follows:

	2017	2016
GOAL 1: MARKET INTEGRITY AND TRANSPARENCY		
Intragovernmental Gross Costs	$ 10,897,258	$ 10,817,024
Less: Earned Revenue	(213)	(380)
Intragovernmental Net Cost of Operations	**$ 10,897,045**	**$ 10,816,644**
Gross Costs with the Public	$ 72,300,624	$ 61,610,917
Less: Earned Revenue	(7,265)	(13,974)
Net Cost of Operations with the Public	**$ 72,293,359**	**$ 61,596,943**
TOTAL NET COST OF OPERATIONS – GOAL ONE	**$ 83,190,404**	**$ 72,413,587**
GOAL 2: FINANCIAL INTEGRITY AND AVOIDANCE OF SYSTEMIC RISK		
Intragovernmental Gross Costs	$ 13,089,070	$ 12,794,329
Less: Earned Revenue	(255)	(449)
Intragovernmental Net Cost of Operations	**$ 13,088,815**	**$ 12,793,880**
Gross Costs with the Public	$ 86,842,753	$ 72,873,128
Less: Earned Revenue	(8,727)	(16,528)
Net Cost of Operations with the Public	**$ 86,834,026**	**$ 72,856,600**
TOTAL NET COST OF OPERATIONS – GOAL TWO	**$ 99,922,841**	**$ 85,650,480**
GOAL 3: COMPREHENSIVE ENFORCEMENT		
Intragovernmental Gross Costs	$ 15,235,563	$ 15,909,831
Less: Earned Revenue	(297)	(559)
Intragovernmental Net Cost of Operations	**$ 15,235,266**	**$ 15,909,272**
Gross Costs with the Public	$ 101,084,198	$ 90,618,208
Less: Earned Revenue	(10,158)	(20,554)
Net Cost of Operations with the Public	**$ 101,074,040**	**$ 90,597,654**
TOTAL NET COST OF OPERATIONS – GOAL THREE	**$ 116,309,306**	**$ 106,506,926**
GOAL 4: DOMESTIC AND INTERNATIONAL COOPERATION AND COORDINATION		
Intragovernmental Gross Costs	$ 1,977,574	$ 2,018,845
Less: Earned Revenue	(39)	(71)
Intragovernmental Net Cost of Operations	**$ 1,977,535**	**$ 2,018,774**
Gross Costs with the Public	$ 13,120,718	$ 11,498,812
Less: Earned Revenue	(1,318)	(2,608)
Net Cost of Operations with the Public	**$ 13,119,400**	**$ 11,496,204**
TOTAL NET COST OF OPERATIONS – GOAL FOUR	**$ 15,096,935**	**$ 13,514,978**
GRAND TOTAL		
Intragovernmental Gross Costs	$ 41,199,465	$ 41,540,029
Less: Earned Revenue	(804)	(1,459)
Intragovernmental Net Cost of Operations	**$ 41,198,661**	**$ 41,538,570**
Gross Costs with the Public	$ 273,348,293	$ 236,601,065
Less: Earned Revenue	(27,468)	(53,664)
Net Cost of Operations with the Public	**$ 273,320,825**	**$ 236,547,401**
TOTAL NET COST OF OPERATIONS	**$ 314,519,486**	**$ 278,085,971**

Note 11. Reconciliation of Net Obligations and Net Cost of Operations

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

	2017	2016
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments	$ 242,650,172	$ 255,227,752
Less: Spending Authority from Offsetting Collections and Recoveries	(7,090,900)	(5,491,053)
Obligations Net of Offsetting Collections and Recoveries	$ 235,559,272	$ 249,736,699
Less: Offsetting Receipts	(1,658)	(2,387)
Net Obligations After Offsetting Receipts	$ 235,557,614	$ 249,734,312
Other Resources		
Imputed Financing from Costs Absorbed by Others	$ 4,346,644	$ 5,566,143
Total Resources Used to Finance Activities	**$ 239,904,258**	**$ 255,300,455**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided before Adjustments	$ 22,303,516	$ 17,669,632
Resources that Fund Expenses Recognized in Prior Periods	–	(300,000)
Offsetting Receipts	1,658	2,387
Nonexchange Interest Revenue (excluding interest receivable)	1,532,069	489,668
Resources that Fund the Acquisition of Fixed Assets	(8,010,578)	(11,371,444)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ 15,826,665**	**$ 6,490,243**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL REQUIRE OR GENERATE RESOURCES IN FUTURE PERIODS		
Increase in Unfunded Liabilities	$ 46,232,185	$ 275,190
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	**$ 46,232,185**	**$ 275,190**
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES		
Depreciation and Amortization	$ 9,333,610	$ 15,439,945
(Gain)/Loss on Disposal	3,220,873	552,325
Other	1,895	27,813
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**$ 12,556,378**	**$ 16,020,083**
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Year	**$ 58,788,563**	**$ 16,295,273**
TOTAL NET COST OF OPERATIONS	**$ 314,519,486**	**$ 278,085,971**

Note 12. Funds from Dedicated Collections

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

The Dodd-Frank Act provides that whistleblower awards shall be paid under regulations prescribed by the Commission. An important prerequisite to implementation of the whistle-blower awards program is the issuance of rules and regulations describing its scope and procedures. The Commission issued revised rules effective July 31, 2017.

No eligible collections have been transferred into the fund since it reached its legislative maximum during FY 2014. The following chart presents the Fund's balance sheets, statements of net costs, and statements of changes in net position as of and for the years ended September 30, 2017, and 2016:

	2017	2016
BALANCE SHEETS		
Fund Balance with Treasury	$ 7,560,992	$ 5,485,412
Investments	234,006,240	244,000,000
Prepayments	2,557,174	4,369
General Property, Plant, and Equipment, Net	136,055	179,020
TOTAL ASSETS	**$ 244,260,461**	**$ 249,668,801**
Accounts Payable	2,169,637	1,932,814
Accrued Payroll	130,256	99,697
Accrued Annual Leave	124,359	85,794
Contingent Liabilities	45,500,000	–
TOTAL LIABILITIES	**$ 47,924,252**	**$ 2,118,305**
Cumulative Results of Operations – Funds from Dedicated Collections	196,336,209	247,550,496
TOTAL NET POSITION	**$ 196,336,209**	**$ 247,550,496**
TOTAL LIABILITIES AND NET POSITION	**$ 244,260,461**	**$ 249,668,801**
STATEMENTS OF NET COST		
Gross Costs	$ 52,752,596	$ 20,551,582
TOTAL NET COST OF OPERATIONS	**$ 52,752,596**	**$ 20,551,582**
STATEMENTS OF CHANGES IN NET POSITION		
Beginning Cumulative Results of Operations, October 1	$ 247,550,496	$ 267,612,410
Nonexchange Interest Revenue	1,538,309	489,668
Net Cost of Operations	(52,752,596)	(20,551,582)
Net Change	(51,214,287)	(20,061,914)
TOTAL NET POSITION, SEPTEMBER 30	**$ 196,336,209**	**$ 247,550,496**

Required Supplementary Information
(Unaudited)

Commodity Futures Trading Commission

Combining Statements of Budgetary Resources by Major Account
For the Years Ended September 30, 2017 and 2016

	2017			
	CUSTOMER PROTECTION FUND	SALARIES AND EXPENSES	INFORMATION TECHNOLOGY	COMBINED
BUDGETARY RESOURCES				
Unobligated Balance Brought Forward, October 1	$ 245,160,899	$(191,214,440)	$ 6,041,655	$ 59,988,114
Recoveries of Prior Year Unpaid Obligations	279,083	2,577,387	2,500,812	5,357,282
Other Changes in Unobligated Balance	85,914	(934,238)	1,339	(846,985)
Unobligated Balance from Prior Year Budget Authority, Net	245,525,896	(189,571,291)	8,543,806	64,498,411
Appropriations	–	200,000,000	50,000,000	250,000,000
Spending Authority from Offsetting Collections	1,426,356	27,128	–	1,453,484
TOTAL BUDGETARY RESOURCES	**$ 246,952,252**	**$ 10,455,837**	**$ 58,543,806**	**$ 315,951,895**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Note 9A)	$ 12,177,314	$ 177,824,210	$ 52,648,648	$ 242,650,172
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	234,455,541	658,942	198,532	235,313,015
Unapportioned, Unexpired Accounts	319,397	(172,353,400)	63,970	(171,970,033)
Unexpired Unobligated Balance, End of Year	234,774,938	(171,694,458)	262,502	63,342,982
Expired Unobligated Balance, End of Year	–	4,326,085	5,632,656	9,958,741
Total Unobligated Balance, End of Year	234,774,938	(167,368,373)	5,895,158	73,301,723
TOTAL BUDGETARY RESOURCES	**$ 246,952,252**	**$ 10,455,837**	**$ 58,543,806**	**$ 315,951,895**
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 4,240,141	$ 30,988,807	$ 26,029,213	$ 61,258,161
Unfunded Lease Obligations Brought Forward, October 1 (Note 9)	–	194,378,658	–	194,378,658
Total Unpaid Obligations Brought Forward, October 1	4,240,141	225,367,465	26,029,213	255,636,819
New Obligations and Upward Adjustments	12,177,314	177,824,210	52,648,648	242,650,172
Outlays (Gross)	(9,542,403)	(205,025,169)	(49,582,873)	(264,150,445)
Recoveries of Prior-Year Unpaid Obligations	(279,083)	(2,577,387)	(2,500,812)	(5,357,282)
Unpaid Obligations, End of Year	6,595,969	195,589,119	26,594,176	228,779,264
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	–	(83,245)	–	(83,245)
Change in Uncollected Payments, Federal Sources	–	1,145	–	1,145
Uncollected Payments, Federal Sources, End of Year	–	(82,100)	–	(82,100)
Memorandum Entries:				
Obligated Balance, Start of Year	**$ 4,240,141**	**$ 225,284,220**	**$ 26,029,213**	**$ 255,553,574**
Obligated Balance, End of Year	**$ 6,595,969**	**$ 195,507,019**	**$ 26,594,176**	**$ 228,697,164**

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

Commodity Futures Trading Commission

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

For the Years Ended September 30, 2017 and 2016

	2017			
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget Authority, Gross	$ 1,426,356	$ 200,027,128	$ 50,000,000	$ 251,453,484
Actual Offsetting Collections	(1,617,983)	(115,439)	(1,340)	(1,734,762)
Change in Uncollected Payments, Federal Sources	–	1,145	–	1,145
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	85,914	87,167	1,340	174,421
BUDGET AUTHORITY, NET	**$ (105,713)**	**$ 200,000,001**	**$ 50,000,000**	**$ 249,894,288**
Outlays, Gross	$ 9,542,403	$ 205,025,169	$ 49,582,873	$ 264,150,445
Actual Offsetting Collections	(1,617,983)	(115,439)	(1,340)	(1,734,762)
Outlays, Net	7,924,420	204,909,730	49,581,533	262,415,683
Distributed Offsetting Receipts	–	(1,658)	–	(1,658)
AGENCY OUTLAYS, NET	**$ 7,924,420**	**$ 204,908,072**	**$ 49,581,533**	**$ 262,414,025**

	2016			
	CUSTOMER PROTECTION FUND	SALARIES AND EXPENSES	INFORMATION TECHNOLOGY	COMBINED
BUDGETARY RESOURCES				
Unobligated Balance Brought Forward, October 1	$ 264,251,379	$(210,105,977)	$ 5,612,708	$ 59,758,110
Recoveries of Prior Year Unpaid Obligations	235,289	3,397,185	815,686	4,448,160
Other Changes in Unobligated Balance	117,351	390,396	–	507,747
Unobligated Balance from Prior Year Budget Authority, Net	264,604,019	(206,318,396)	6,428,394	64,714,017
Appropriations	–	200,000,000	50,000,000	250,000,000
Spending Authority from Offsetting Collections	456,371	45,478	–	501,849
TOTAL BUDGETARY RESOURCES	**$ 265,060,390**	**$ (6,272,918)**	**$ 56,428,394**	**$ 315,215,866**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Note 9A)	$ 19,899,491	$ 184,941,522	$ 50,386,739	$ 255,227,752
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	245,160,899	711,192	684,762	246,556,853
Unapportioned, Unexpired Accounts	–	(194,232,932)	–	(194,232,932)
Unexpired Unobligated Balance, End of Year	245,160,899	(193,521,740)	684,762	52,323,921
Expired Unobligated Balance, End of Year	–	2,307,300	5,356,893	7,664,193
Total Unobligated Balance, End of Year	245,160,899	(191,214,440)	6,041,655	59,988,114
TOTAL BUDGETARY RESOURCES	**$ 265,060,390**	**$ (6,272,918)**	**$ 56,428,394**	**$ 315,215,866**

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

Commodity Futures Trading Commission

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

For the Years Ended September 30, 2017 and 2016

	2016			
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 4,291,207	$ 34,765,102	$ 21,234,594	$ 60,290,903
Unfunded Lease Obligations Brought Forward, October 1 (Note 9)	–	210,042,824	–	210,042,824
Total Unpaid Obligations Brought Forward, October 1	4,291,207	244,807,926	21,234,594	270,333,727
New Obligations and Upward Adjustments	19,899,491	184,941,522	50,386,739	255,227,752
Outlays (Gross)	(19,715,268)	(200,984,798)	(44,776,434)	(265,476,500)
Recoveries of Prior-Year Unpaid Obligations	(235,289)	(3,397,185)	(815,686)	(4,448,160)
Unpaid Obligations, End of Year	4,240,141	225,367,465	26,029,213	255,636,819
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	–	(76,660)	–	(76,660)
Change in Uncollected Payments, Federal Sources	–	(6,585)	–	(6,585)
Uncollected Payments, Federal Sources, End of Year	–	(83,245)	–	(83,245)
Memorandum Entries:				
Obligated Balance, Start of Year	**$ 4,291,207**	**$ 244,731,266**	**$ 21,234,594**	**$ 270,257,067**
Obligated Balance, End of Year	**$ 4,240,141**	**$ 225,284,220**	**$ 26,029,213**	**$ 255,553,574**
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget Authority, Gross	$ 456,371	$ 200,045,478	$ 50,000,000	$ 250,501,849
Actual Offsetting Collections	(607,019)	(429,288)	–	(1,036,307)
Change in Uncollected Payments, Federal Sources	–	(6,585)	–	(6,585)
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	117,351	390,396	–	507,747
BUDGET AUTHORITY, NET	**$ (33,297)**	**$ 200,000,001**	**$ 50,000,000**	**$ 249,966,704**
Outlays, Gross	$ 19,715,268	$ 200,984,798	$ 44,776,434	$ 265,476,500
Actual Offsetting Collections	(607,019)	(429,288)	–	(1,036,307)
Outlays, Net	19,108,249	200,555,510	44,776,434	264,440,193
Distributed Offsetting Receipts	–	(2,387)	–	(2,387)
AGENCY OUTLAYS, NET	**$ 19,108,249**	**$ 200,553,123**	**$ 44,776,434**	**$ 264,437,806**

Report of the Independent Auditors

A/C

ALLMOND & COMPANY, LLC — CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the U. S. Commodity Futures Trading Commission (CFTC), which comprise the balance sheet as of September 30, 2017 and 2016, and the related statements of net cost, statement of changes in net position, statement of custodial activity, and combined statements of budgetary resources for the year ended, and the related notes to the financial statements (hereinafter referred to as the financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the fiscal year 2017 and 2016 financial statements of CFTC based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity' s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity' s internal control. Accordingly, we express no such opinion.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Commodity Futures Trading Commission as of September 30, 2017 and 2016, and its net costs, changes in net position, custodial activity, and budgetary resources for the year then ended in conformity with generally accepted accounting principles in the United States of America

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2017, we considered CFTC's internal control over financial reporting by obtaining an understanding of CFTC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of control to determine auditing procedures for the purpose of expressing our opinion on the financial statements, but not to provide an opinion on the effectiveness of CFTC's internal control over financial reporting. Accordingly, we do not express an opinion on CFTC's internal controls over financial reporting. We limited internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 17-03. We did not test all internal control relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Independent Auditors' Report

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected, and corrected, on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose as described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be a material weakness or significant deficiency and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our fiscal year 2017 audit, we did not identify any deficiencies in internal control over financial reporting we considered to be a material weakness, as defined above.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CFTC's fiscal year 2017 financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws and regulations, with which noncompliance could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws specified in OMB Bulletin No.17-03. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance as described in the preceding paragraph, disclosed an instance of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 17-03 and which are described in Exhibit I.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by Government Auditing Standards section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of CFTC's internal control or on compliance. This communication is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering in internal controls and compliance with laws and regulations which could have a material effect on CFTC's financial statements. Accordingly, this communication is not suitable for any other purpose.

Allmond & Company, LLC

November 13, 2017
Landover, MD

Independent Auditors' Report

Exhibit I
Compliance and Other Matters

Anti-Deficiency Act (ADA)

Various management reviews and OIG investigations are ongoing within the agency, which have or may identify ADA violations, as follows:

- In response to a GAO FY 2016 report, CFTC completed a review of budgetary obligations incurred for multi-year contracts to lease real property and the acceptance of voluntary services. Subsequently, CFTC prepared and submitted a package to officially report a violation of the ADA to the President.

- In FY 2014, CFTC did not freeze the pay of certain senior official pursuant to an FY 2014 government wide appropriation provision that has remained in each subsequent appropriation including FY 2017 appropriation. This issue is under management review.

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

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

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

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

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

MANAGEMENT'S RESPONSE

Management concurs with the recommendation.

Independent Auditors' Report

Exhibit II
Status of Prior Year Findings and Recommendations

The following table provides the fiscal year (FY) 2016 status of all recommendations included in the Independent Auditors' Report on the Commodity Futures Trading Commissions FY 2016 Financial Statements (November 11, 2016).

FY 2016 Finding	FY 2016 Recommendation	FY 2017 Status
Potential Anti-Deficiency Act Violation	**Recommendation:** (a) Complete the investigation into the potential ADA violation noted.	Open

Other Information

INSIDE

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TO: J. Christopher Giancarlo, Chairman
Sharon Y. Bowen, Commissioner
Brian D. Quintenz, Commissioner
Rostin Behnam, Commissioner

FROM: A. Roy Lavik, Inspector General ARL

DATE: September 25, 2017

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

Summary

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

To complete our assessment we relied on data contained in the CFTC financial statement audit and Annual Financial Report, representations by agency management, and our knowledge of industry trends and CFTC operations. The Government Performance and Results Modernization Act of 2010 defines major management challenges as "programs or management functions, within or across agencies, that have greater vulnerability to waste, fraud, abuse, and mismanagement (such as issues identified by the Government Accountability Office as high risk or issues identified by an Inspector General) where failure to perform well could seriously affect the ability of an agency to achieve its mission or goals."[3]

CFTC's Progress on Last Year's Challenges

For FY2016 the OIG identified management challenges in the areas of cybersecurity, budget limitations, and lease obligations; CFTC has attempted to address the latter generally, but so far without success. CFTC continues to pay for empty offices, especially in its Kansas City regional office.

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[1] P.L. 106-531, § 3, 114 STAT. 2537 (Nov. 22, 2000), codified at 31 USC § 3516(a).
[2] Id.
[3] P.L. 111-352, § 3, 124 STAT. 3870 (Jan. 4, 2011), codified at 31 U.S.C. § 1115(h)(5).

We previously recommended[4] that CFTC develop an anonymous information-sharing program with registrants. At that time, management considered existing arrangements with the U.S. Treasury sufficient. Under new leadership, the Commission has supported registrants through information sharing and compliance discussions in several areas including cybersecurity. These efforts are in addition to systems safeguard regulations already in place which recognize the dynamic nature of threats. To better protect customers, we believe CFTC will need to increase its leadership position through automated risk analysis and information sharing to alert and educate participants of incidents, threats, and defensive measures in real time. This active and collaborative approach may assist compliance with NIST Special Publication 800-150.[5] It may also assist compliance with guidelines[6] issued pursuant to the Cybersecurity Information Sharing Act of 2015.[7]

For a third year (FY2015, FY2016, FY 2017) CFTC budget's was flat at $250 million while certain operational costs increased. While the CFTC requested another $31.5 million for FY 2018 using a zero-based principle, it is possible CFTC will be funded at $248 million for FY 2018.[8] Therefore, the agency must continue to effectively triage its budgetary resources to meet its oversight responsibilities.

Fiscal Year 2017 Management Challenges

We reiterate our FY 2016 recommendations for FY2017. We also add two management challenges for FY 2017 as follows:

- Management's ability to conduct effective cost-benefit analysis. In June 2017, we highlighted the importance of thorough consideration of costs and benefits in connection with rulemakings. However, we noted the CFTC lacks an institutional commitment to robust cost-benefit consideration. Management "agree[d] with the OIG's claim that rigorous economic research and improved data will benefit the Commission and the public," and "believes that it has made affirmative efforts to improve the Commission's data infrastructure, and intends to maintain these efforts into the future."[9]

[4] Commodity Futures Trading Commission's Policies and Procedures for Reviewing Registrants' Cybersecurity Policies (October 11, 2016).
[5] NIST Special Publication 800-150, *Guide to Cyber Threat Information Sharing* (Oct. 2016).
[6] Department of Homeland Security and Department of Justice, *Privacy and Civil Liberties Final Guidelines: Cybersecurity Information Sharing Act of 2015* (June 15, 2016). Sharing of Cyber Threat Indicators and Defensive Measures by the Federal Government under the Cybersecurity Information Sharing Act of 2015 (February 16, 2016).
[7] P.L. 114-113, 129 STAT. 2935 (December 18, 2015).
[8] House Committee on Appropriations, Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (115th Congress), Press Release, July 11, 2017.
[9] CFTC Management Response to the OIG Report Dated April 6, 2017, *Review of the Cost-Benefit Consideration for the Margin Rule for Uncleared Swaps* (see page 41 of the .pdf).

- Management’s ability to enhance its business operations to lower cost. In September 2017, we reported through a case study the importance of project management, standard operating procedures and work time, and efficient staffing mix to increase productivity and/or reduce costs. The Chairman conveyed that “before we can ask the people's representatives for more of our citizen's hard-earned dollars, we must first know where we're spending every nickel and dime and how we might manage to save a few”. CFTC plans to review additional opportunities to maximize the effective use of resources.

My office will continue to undertake work that addresses these challenges.

Cc: Anthony Thompson, Executive Director
Michael Gill, Chief of Staff
Petal Walker, Chief Counsel
Kevin Webb, Chief of Staff
John Dunfee, Acting Special Counsel
Judith Ringle, Deputy Inspector General and Chief Counsel
Miguel Castillo, Assistant Inspector General, Auditing

Management's Response to Inspector General's Assessment

In 2017, the CFTC Office of Inspector General (OIG) identified what it believed are the most serious management and performance challenges facing the Commission. These were conducting effective cost-benefit analyses, lowering costs and increasing productivity, stimulating registrants to enhance cybersecurity protections, minimizing information security vulnerabilities in its network, dealing with limited budgetary constraints, and addressing lease obligations. The Commission has taken and will continue to take many actions in response to the OIG's findings and recommendations. Highlights are summarized below.

Challenge Summary	Management's ability to conduct effective cost-benefit analysis.
Actions Taken in FY 2017	The Commission continued to prioritize improvements in its ability to conduct rigorous economic analysis. The Commission's FY 2018 Budget Request included a significant increase for the Office of the Chief Economist (OCE), in order to expand its core expertise and capacity and to provide appropriate coverage, conduct in-depth studies of economic issues impacting all areas of Commission and regulatory interest. With respect to the Commission's commitment to improve its data environment, the agency deployed a virtual "Big Data" environment using Greenplum for faster processing, deployed improvements to locally stored swap data repository (SDR) data, made significant data quality enhancements to our largest market transaction data set (futures and options transaction data), and made available to analysts a commercial off-the-shelf (COTS) tool, which provides Futures Order Book market information in a highly intuitive user interface. The Commission also undertook several steps in FY 2017 to improve swaps data, including: 1) revisions adopted to reporting regulations on cleared swaps; 2) a comprehensive review of all reporting regulations; 3) international harmonization efforts to standardize product identifiers, transaction identifiers, and reportable data elements; 4) enforcement actions against swap dealers for reporting failures; and 5) direct outreach to reporting parties to resolve reporting issues.
Actions Remaining	The Commission will continue to foster a culture of economic analysis supporting its actions. In particular, the OCE will partner with CFTC divisions and offices to integrate economic reasoning, empirical findings, and cost-benefit analysis into rules and other actions and into policy coordination with other regulatory agencies. The Commission will also: ■ Facilitate staff presentations of research papers at various universities, regulatory bodies, and professional conferences, in order to disseminate the information to users of derivatives markets and to validate and refine the analyses based upon expert feedback; ■ Partner with academic experts to execute research of interest to the Commission and the public; and ■ Continue to deploy additional datasets to the virtual "Big Data" environment using Greenplum, increase the scope and volume of data deployed to the locally stored SDR data, participate in international data harmonization efforts for swaps data, and deploy the full set of Futures Order Book market data.

Challenge Summary	Management's ability to enhance its business operations to lower costs.
Actions Taken in FY 2017	Given the Commission's budgetary constraints, the Commission has taken the following key actions to streamline its business operations to effectively lower its operating costs: ■ Conducted a study of CFTC's business management structure and operations initiated in FY 2016 followed by initial implementation planning and union discussions during FY 2017 to realign Division business management staff under a unified single organization, the Business Management Unit (BMU), within the Office of the Executive Director (OED). ■ Conducted a quality review of the information technology (IT) operating plan to streamline the number of line items and clarify line item titles to improve Plan utility for monitoring resource levels and making funding decisions. ■ Established recurring meeting schedule with CFTC's division directors to validate project priorities and provide a dedicated forum for exchanging information. This enhanced communication decreases the potential for expending resources on low priority projects. ■ Funded a major project management training initiative that will reinforce and expand knowledge of important cost and risk management skills within the IT specialist workforce. ■ Management continues to coordinate when planning for examinations that evaluate compliance with system safeguards regulations for those registrants that are both a DCO and designated contract market (DCM). Coordination of scope and methodology occurred, as well, as jointly held fieldwork sessions. ■ Examined two registrants jointly, saving the registered entities significant time and money as both Division of Clearing and Risk (DCR) and Division of Market Oversight (DMO) examined the entities just once during the fiscal year. ■ Initiated a process of automating some of DCR's stress testing and basic risk surveillance functions. This will reduce the amount of time staff spends on these tasks.
Actions Remaining	The Commission will: ■ Continue to implement the BMU realignment in FY 2018 based on reassignment of staff from the CFTC divisions to the OED, final agreements with union representatives, and formalization of the new organization structure. ■ Provide direct support to implement a CFTC IT Procurement and Investment Review Board, comprised of division directors and other senior leaders, to better coordinate IT resource information and decision-making on projects/priorities. Collectively, the additional information sharing and collaboration will better identify project priorities, scope and objectives, and reduce potential duplication. ■ Continue to coordinate DMO and DCR examination functions jointly when planning for examinations that evaluate compliance with system safeguards for those registrants that are both a DCO and a DCM. Coordination of scope and methodology will occur as well as a plan for coordinated fieldwork sessions. ■ Complete automation of some of DCR's stress testing and basic risk surveillance functions.

Challenge Summary	Stimulate registrants towards enhancing their cybersecurity controls over vital client information so as to reduce the impact of any future information technology breach.

Actions Taken in FY 2017

Effective cybersecurity information sharing of the type addressed in this challenge is already in place for CFTC registered entities and registrants.

For several years, U.S. financial regulatory agencies including CFTC have strongly supported anonymized cybersecurity information sharing by financial markets, clearing houses, and market participants through the Financial Services—Information Sharing and Analysis Center (FS-ISAC). FS-ISAC is a private sector organization that is part of the Financial Services Sector Coordinating Council (FSSCC), the private sector organization that coordinates critical infrastructure and homeland security activities within the financial services industry. Through the FS-ISAC, markets, clearing houses, and market participants, including those registered with CFTC, share appropriately anonymized cyber incident and threat information in real time, on an automated basis. The information shared includes malware hashes, attacker tactics/techniques/procedures, IP addresses used for attacks, timely information on vulnerabilities that can be exploited by attackers and on patches and other remedies for such vulnerabilities, information on current cybersecurity threats and recommended measures to increase preparedness and resilience with respect to such threats, and other similar information. Through FS-ISAC, financial entities worldwide receive timely notification and authoritative information specifically designed to help protect critical systems and assets from physical and cybersecurity threats.

Chartered under the President's Working Group on Financial Markets, the Financial and Banking Information Infrastructure Committee (FBIIC) is charged with improving coordination and communication among financial regulators, promoting public-private partnerships within the financial sector, and enhancing the resiliency of the financial sector overall. CFTC is a founding and active member of the FBIIC, which consists of 18-member organizations from across the financial regulatory community, both Federal and state. FBICC is chaired by the Treasury as the sector-specific agency for the financial sector.

FBIIC provides key tools for CFTC oversight of registered entity cybersecurity, including: 1) coordination and communication and information sharing between Federal financial regulators concerning the cybersecurity and automated system resilience of the U.S. financial sector; 2) a long-standing and effective public-private partnership with the FSSCC on these topics; 3) communication, and coordination with the intelligence community and Federal law enforcement agencies concerning current cybersecurity threats and recommended countermeasures, together with sharing of current cyber threat intelligence and alert information provided through Treasury's Cyber Intelligence Group, which FBIIC members including CFTC pass on to registered entities as appropriate; 4) extensive and highly effective financial sector cybersecurity exercises; and 5) coordinated cybersecurity interaction with other sectors on which the financial sector has critical dependencies.

Significantly for cybersecurity information sharing, CFTC regulations require DCMs, swap execution facilities (SEFs), DCOs, and SDRs to notify CFTC promptly of all electronic trading halts and significant system malfunctions, all cybersecurity incidents or targeted threats that actually or potentially jeopardize automated system operation, reliability, security, or capacity, and all activations of the entity's business continuity or disaster recovery plans. Pursuant to a FBIIC memorandum of understanding, CFTC shares relevant information concerning such matters through the FBIIC with other Federal financial regulators and with Federal intelligence and law enforcement agencies, as appropriate and as permitted under the CEA. In such situations, when requested by an affected registered entity, CFTC arranges assistance through the FBIIC for the entity from appropriate Federal law enforcement and intelligence agencies with relevant cybersecurity expertise and resources.

CFTC regulations for DCMs, SEFs, DCOs, and SDRs already require compliance by these entities with generally accepted standards and best practices concerning cybersecurity. This includes the standards and best practices set out in the National Institute of Standards and Technology (NIST) Cybersecurity Framework and NIST Special Publication 800-150 and in the Cybersecurity Information Sharing Act of 2015.

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Actions Taken in FY 2017 *(continued)*	FS-ISAC is the appropriate venue for timely, automated, anonymized cybersecurity information sharing in the financial sector. CFTC and the other Federal financial regulatory agencies do not have a defined mission function and supporting resources to gather and transmit such information. Moreover, involving regulators in such information sharing would undesirably inhibit information sharing by private financial sector entities both with each other and with government agencies, and harm the existing and effective public-private partnership concerning financial sector cybersecurity. In addition, where sharing of intelligence-derived information is appropriate and useful, Federal law enforcement and intelligence agencies already share cybersecurity threat information and recommended measure to enable effective response, recovery, and resilience through the FS-ISAC. This sharing is supplemented by sharing of relevant alerts with registered entities by FBIIC members including CFTC. This challenge seems to be based on incomplete information concerning, or a misunderstanding of, the already-existing and effective financial sector public-private partnership for cybersecurity information sharing, and of the appropriate role for CFTC in this area.
Actions Remaining	The Commission will continue to: ■ Participate in public and private sector cybersecurity exercises. ■ Attend FBIIC meetings, subcommittees, work streams, as well as participation in regular conference calls pursuant to the activation of FBIIC protocols in the event of a specific emergency. ■ Participate in the Committee on Payments and Market Infrastructures-International Organization of Securities Commissions (CPMI-IOSCO) working group on information sharing. ■ Chair the IOSCO Board Task Force on Cybersecurity. ■ Evaluate compliance with enhanced system safeguard regulations which includes testing of vulnerabilities, penetration, controls, security incident response plans, and enterprise technology risk assessment during upcoming examinations. These regulations were effective in all parts in September of 2017. ■ Evaluate compliance with business continuity and disaster recovery plans and their related testing results.

Challenge Summary	**Effectively triage oversight tasks in order to execute its strategic plan with limited budgetary resources.**
Actions Taken in FY 2017	The Commission continued to triage oversight responsibilities in light of the budgetary constraints to carry out its responsibility to promote open competitive markets that are free from fraud, manipulation, and other abuses. The CFTC divisions continue to coordinate examination functions jointly when planning for examinations that evaluate compliance with system safeguards for those registrants that are both a DCO and a DCM. Coordination of scope and methodology will occur as well as a plan for coordinated fieldwork sessions. The following are examples of management actions implemented by the Commission: ■ Established quarterly budget process meetings as a new collaborative process for monitoring the progress of major IT procurement actions and discussing acquisition issues/process of mutual interest. This process was very effective in navigating through the fiscal year and achieving CFTC's goal of more effectively obligating agency IT resources; ■ Established a new, internal "unfunded" process to better document emerging resource requirements and to provide a ready mechanism for Office of Data and Technology (ODT) leadership to compare and prioritize requests to make more informed decisions; and ■ Conducted a "zero based" in level budget review of CFTC's IT resources to identify areas where funding should be increased/reduced to meet CFTC priorities. The results of this review were used to form the starting point for the FY 2018 IT spend and for forecasting spending requirements in FY 2019.

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Actions Remaining	The Commission will provide direct support to implement a CFTC IT Procurement and Investment Review Board, comprised of division directors and other senior leaders, to better coordinate IT resource information and decision-making on projects/priorities. Collectively, the additional information sharing and collaboration will better identify project priorities, scope and objectives, and reduce potential duplication.

Challenge Summary	**Lease Obligations for Empty Offices in the Kansas City Regional Office**
Actions Taken in FY 2017	In July 2014, CFTC engaged the landlord for the purpose of its 6th floor space (7,922 rentable square feet). The landlord advised that it would seek tenants interested in leasing the space. In March 2017, the CFTC received an offer to vacate the 5th floor and retain the 6th floor. Based upon an analysis of the buyout proposal, it was not financially beneficial to the Commission and CFTC rejected the offer. In April 2017, the landlord sent a tentative, contingent offer to vacate the 6th floor, which the CFTC accepted. However, the landlord has not arranged an agreement with the prospective tenant, and at this time the CFTC cannot move forward with the proposed buyout. CFTC continues to follow-up with the landlord on the status of their agreement with the prospective tenant.
Actions Remaining	CFTC continues to follow-up with the landlord on the status of their agreement with the prospective tenant.

Summary of Audit and Management Assurances

Summary of FY 2017 Financial Statement Audit

Audit Opinion:	Unmodified				
Restatement:	No				
MATERIAL WEAKNESS	**BEGINNING BALANCE**	**NEW**	**RESOLVED**	**CONSOLIDATED**	**ENDING BALANCE**
	0				0

Summary of Management Assurances

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

COMPLIANCE WITH SECTION 803(A) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	Compliance noted	
2. Applicable Federal Accounting Standards	Compliance noted	
3. USSGL at Transaction Level	Compliance noted	

DEFINITION OF TERMS

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

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

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

Consolidation: The combining of two or more findings.

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

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

Combined Schedule of Spending

The following Schedule of Spending (SOS) presents a more detailed summary of the New Obligations and Upward Adjustments line presented on the Statement of Budgetary Resources (SBR). In addition, the SOS shows how these amounts agreed to be spent compare to the CFTC's total resources after factoring out amounts available but not agreed to be spent, as well as amounts not available to be spent.

Total Resources on the SOS represents the total amount available to CFTC for spending. This amount ties to the Total Budgetary Resources on the SBR and represents new budget authority (including direct spending authority provided in existing statute and obligation limitations), and unobligated balances of budget authority provided in previous years.

The Amount Available but Not Agreed to be Spent represents amounts that the CFTC was allowed to spend but did not take action to spend by the end of the fiscal year. This amount ties to the Apportioned, Unexpired Accounts on the SBR. As shown in the Required Supplementary Information, Combining SBR, the amount in Apportioned, Unexpired Accounts is primarily composed of the Customer Protection Fund with $234.5 million and $245.2 million as of September 30, 2017, and 2016, respectively. The balance in the Customer Protection Fund is available only for whistleblower awards, customer education initiatives, and other eligible expenses of the Customer Protection Fund.

The Amount Not Available to be Spent represent amounts that the CFTC was not approved to spend during the current fiscal year. This amount ties to the sum of the Unapportioned, Unexpired Accounts and the Expired Unobligated Balance, End of Year on the SBR. These amounts include remaining resources in expired accounts that are not available for apportionment and unapportioned amounts in unexpired funds. The Amount Not Available to be Spent is negative because no funds have been appropriated or apportioned to fund the Commission's remaining lease obligations for FY 2018 through 2025. These unfunded lease obligations remaining as of September 30, 2017, and 2016, are $172.4 million and $194.4 million, respectively.

Total Amounts Agreed to be Spent represents amounts that CFTC has made arrangements to pay for goods or services through contracts or other legally binding agreements of the federal government. The CFTC's Total Amounts Agreed to be Spent are categorized by major program and object class and agree to the New Obligations and Upward Adjustments line on the SBR.

CFTC's most significant spending is for personnel compensation and benefits, making up 65 percent and 61 percent of total spending for the years ending September 30, 2017, and 2016, respectively. CFTC's second most significant spending category is contractual services and supplies, making up 28 percent and 27 percent of total spending for the years ending September 30, 2017, and 2016, respectively.

The Commission updates its spending information quarterly at *http://www.USAspending.gov*. The major difference between information presented on the SBR and SOS versus *http://www.USAspending.gov* is that the SBR and SOS present all obligations incurred for the fiscal year; whereas *http://www.USAspending.gov* reports only a subset of those obligations related to various types of financial assistance and contracts. Obligations included in the SBR and SOS that are not included on *http://www.USASpending.gov* are: 1) personnel compensation and benefits, 2) leases, 3) interagency agreements, 4) individual travel and training, and 5) bankcard purchases below the micro-purchase threshold. Differences may also exist due to timing lags between obligations reported in CFTC's financial reporting system and data transmitted to *http://www.USASpending.gov* through the central Federal Procurement Data System.

Commodity Futures Trading Commission

Combined Schedule of Spending

For the Years Ended September 30, 2017 and 2016 *($ in thousands)*

	2017	2016
WHAT MONEY IS AVAILABLE TO SPEND?		
Total Resources	$ 315,952	$ 315,216
Less Amount Available but Not Agreed to be Spent	235,313	246,557
Less Amount Not Available to be Spent	(162,011)	(186,569)[1]
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 242,650**	**$ 255,228**
HOW WAS THE MONEY SPENT/ISSUED?		
Salaries & Expenses Funds		
Personnel Compensation and Benefits	$ 154,539	$ 153,798
Contractual Services and Supplies	18,166	26,174
Rent, Communications, and Utilities	3,003	2,338
Travel and Transportation	1,416	1,754
Acquisition of Assets	71	186
Printing and Reproduction	629	692
Total Salaries and Expenses Funds	**$ 177,824**	**$ 184,942**
Information Technology Funds		
Contractual Services and Supplies	$ 41,546	$ 38,283
Rent, Communications, and Utilities	2,611	2,602
Acquisition of Assets	8,492	9,502
Total Information Technology Funds	**$ 52,649**	**$ 50,387**
Customer Protection Fund		
Whistleblower Awards to Individuals	$ –	$ 11,851[2]
Personnel Compensation and Benefits	2,628	2,467
Contractual Services and Supplies	9,434	5,323
Rent, Communications, and Utilities	2	116
Travel and Transportation	113	125
Printing and Reproduction	–	17
Total Customer Protection Fund	**$ 12,177**	**$ 19,899**
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 242,650**	**$ 255,228**

[1] *The "Amount Not Available to be Spent" balances are negative due to the Commission's unfunded prior year lease obligations remaining as of September 30, 2017, and 2016, of $172.4 million and $194.4 million, respectively; no funds have been appropriated or apportioned to fund these remaining lease obligations for FY 2018 through 2025.*

[2] *At the end of FY 2017, $45.5 million for whistleblower awards was recorded as a contingent liability which will not be funded with budgetary resources (and reported on this schedule) until FY 2018.*

Payment Integrity[3]

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

I. Payment Reporting

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

Based on the results of transaction testing applied to a sample of FY 2017 vendor payments, consideration of risk factors, and reliance on the internal controls in place over the payment and disbursement processes, the Commission has determined that none of its programs and activities carried out in the normal course of business are susceptible to significant improper payments at or above the threshold levels set by OMB. In addition, while the Commission expects to disburse at least $45.5 million in whistleblower payments during FY 2018, the review of each individual award by the Commission's Claims Review Staff limits the likelihood that the whistleblower award program would be susceptible to significant improper payments.

Significant erroneous payments are defined as annual erroneous payments in the program exceeding both $10 million and 1.5 percent, or $100 million of total annual program payments. In accordance with Appendix C of Circular A-123, the Commission is not required to determine a statistically valid estimate of erroneous payments or develop a corrective action plan if the program is not susceptible to significant improper payments.

II. Recapture of Improper Payments Reporting

The Commission does not administer grant, benefit or loan programs. Implementation of recapture auditing, if determined to be cost-effective, would apply to the Commission's contract payments because payments to vendors total more than $1 million annually. The Commission determined that implementing a payment recapture audit program for contract payments is not cost-effective. In making this determination, the Commission considered its low improper payment rate based on testing conducted over the previous three years and

[3] *More detailed information on government-wide improper payments may be found at https://paymentaccuracy.gov.*

determined that benefits or recaptured amounts associated with implementing and overseeing the program would not exceed the costs of a payment recapture audit program, including staff time and payments to contractors.

The Commission utilizes cost-efficient matching techniques to review all vendor payments to identify significant overpayments at a low cost per overpayment. For the four years prior to FY 2017, the Commission identified two improper vendor payments totaling $1,375 that were paid and recaptured. In FY 2017, the Commission identified one improper vendor payment in the amount of $8,100 that was paid and recaptured in FY 2017. This FY 2017 improper payment was a foreign payment involving a payment process outside of the Commission's financial system. The circumstances surrounding the duplicate payment were isolated in nature and not indicative of a systemic issue.

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

In June 2015, the Commission transitioned to a new travel system through its shared services provider. Shortly after implementation of the new system, the Commission identified an inherent limitation in the electronic preparation of travel vouchers through the travel voucher post-audit process. Prior to FY 2017, this limitation enabled some travelers to request reimbursement for airfare that had already been paid by the centrally billed travel account, resulting in 29 overpayments to employees for airfare totaling $12,375, of which all $12,375 was recaptured. There were no additional overpayments of this nature in FY 2017. While the Commission has identified these travel-related improper payments, travel payments are not susceptible to significant improper payments because total travel costs are only $1,417,886 and $1,738,701 as of September 30, 2017, and 2016, respectively. In addition, travel vouchers undergo post-audits that are specifically designed to detect improper payments. In FY 2017, the Commission identified and recaptured $689 in overpayments to five travelers as a result of travel voucher post-audits.

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

Table 1. Overpayment Payment Recaptures with and without Recapture Audit Programs (*$ in Thousands*)

Overpayments Recaptured through Payment Recapture Audits			Overpayments Recaptured Outside of Payment Recapture Audits	
Contracts	Other	Total	Amount Identified	Amount Recaptured
N/A[4]	N/A	N/A	$8.8	$8.8

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

III. Agency Improvements of Payment Accuracy with the Do Not Pay Initiative

The Do Not Pay (DNP) solution is a government-wide initiative mandated by the Improper Payments Elimination and Recovery Improvement Act of 2012 to screen payment recipients before a contract award or payment is made in order to eliminate payment errors before they occur. An important part of the Commission's efforts designed to prevent, identify, and reduce improper payments is integrating the Treasury's DNP Business Center into its existing processes. The Commission's shared services provider utilizes the DNP Business Center, on the Commission's behalf, to perform online searches and screen payments against the DNP databases to augment data analytics capabilities.

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

Using the DNP Business Center has helped the Commission improve the quality and integrity of information within our financial system. In FY 2015, the Commission engaged the DNP Analytics Services to match its vendor records with the Death Master File. The review identified high-risk vendor records possibly associated with deceased individuals and enabled the Commission to classify the vendor records into risk-based categories for further evaluation. The Commission deactivated the highest risk vendor records, thereby decreasing the likelihood of improper payments to deceased individuals. In FY 2016, the Commission completed the full deactivation of vendor records that matched against the Death Master File for high to low risk categories.

In FY 2017, the Commission's shared services provider implemented a vendor maintenance process to deactivate profiles with no activity within 18 months, and no active invoices or purchase orders. This process decreases the likelihood of making improper payments by having old vendors continue to remain active in the financial system. The Commission's shared services provider also implemented a software tool to help identify potential duplicate payments more effectively and timely. This has allowed for daily review and even potential to prevent duplicate payments due to the automated processing of information.

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

Based on the results of the reviews to date, the DNP initiative has not identified any improper payments.

Table 2. Results of the Do Not Pay Initiative in Preventing Improper Payments (*$ in Thousands*)

Number (#) of Payments Reviewed for Possible Improper Payments	Dollars ($) of Payments Reviewed for Possible Improper Payments	Number (#) of Payments Stopped	Dollars ($) of Payments Stopped	Number (#) of Potential Improper Payments Reviewed and Determined Accurate	Dollars ($) of Potential Improper Payments Reviewed and Determined Accurate
4,804	$100,702	0	$ –	0	$ –

Fraud Reduction Report

Fraud Reduction and Risk Management

The Fraud Reduction and Data Analytics Act of 2015 requires agencies to annually report on the progress of the agency in implementing financial and administrative controls to identify and assess fraud risks and design and implement control activities in order to prevent, detect, and respond to fraud, including improper payments.

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, states that management has overall responsibility for establishing internal controls to manage the risk of fraud. *The Standards for Internal Control in the Federal Government* issued by the Government Accountability Office (the Green Book, GAO-14-704G, September 2014) sets internal control standards for federal entities. The Commission uses the framework established in the Green Book as the foundation of its internal controls program to design, implement, operate, and assess internal controls to achieve operational, reporting, and compliance objectives.

As defined in the Green Book, fraud involves obtaining something of value through willful misrepresentation. Types of fraud include fraudulent financial reporting, misappropriation of assets, and corruption. Whether an act is fraud is a determination to be made through the judicial or other adjudicative system and is beyond management's professional responsibility for assessing risk. Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person considers reasonable and necessary in operational practice given the facts and circumstances. This includes the misuse of authority or position for personal gain or for the benefit of another. Waste and abuse do not necessarily involve fraud or illegal acts. Under Principle 8—Assess Fraud Risk (one of the 17 principles of internal control), the Green Book states that management should consider the potential for fraud when identifying, analyzing, and responding to risks.

In FY 2016 and 2017, the Commission performed a qualitative risk assessment to assess fraud risk for each transaction cycle and sub-process within the cycle as part of our annual internal control review. The fraud risk was assessed as low for both years. In addition to assessing fraud risk, the Commission also conducted tests of transactions in FY 2016 and FY 2017 to detect fraudulent activity, such as:

- Selecting purchase card transaction samples based on unusual merchant names;
- Selecting random samples for various control activities in the human resources transaction cycle to include time and attendance records and Special Payment Processing System transactions; and
- Performing testing for various control activities in the procurement transaction cycle to include completeness, accuracy and validity of contract awards, invoices, and contract closeouts.

The results of the Commission's testing identified areas for improvement in the design and/or operation of internal controls, but did not detect any fraudulent activity. In FY 2018, the Commission will respond to the related recommendations that arose from its testing and continue to strengthen its internal controls posture to ensure the risk of fraud remains at the lowest level possible.

Reduce the Footprint

There are no plans for expanding CFTC space in the near term, and efforts are currently underway to increase utilization of existing space with an emphasis on disposing of any excess space. The CFTC continues to work with the landlords of the Kansas City, Missouri and New York, New York regional office locations to return excess space and decrease CFTC's lease costs. Additionally, the CFTC will be engaging with the GSA to provide real estate support and solutions for continuing requirements of the Commission's three regional offices in FY 2021 and FY 2022; and headquarters in FY 2025. The CFTC is committed to efficient use of space as a new space utilization plan is implemented.

Operation and Maintenance Costs – Direct Lease Buildings (Including Pass-Through and Utilities Where Applicable)[5]

$ in thousands

Facility	FY 2013 Est. Actual	FY 2014 Est. Actual	FY 2015 Est. Actual	FY 2016 Est. Actual	FY 2017 Est. Actual
Washington, DC	$ 14,588	$ 14,569	$ 15,319	$ 9,610[6]	$17,350
Chicago	2,096	2,246	2,370	2,389	2,386
New York	1,892	2,258	2,300	2,478	2,512
Kansas City	451	443	578	581	578
COOP Site	89	92	93	94	148[7]
TOTAL	**$ 19,116**	**$ 19,608**	**$ 20,660**	**$ 15,152**	**$22,974**
Change from FY 2013 Baseline:		-$492	+$1,544	-$3,964	+$3,858

Rentable Square Feet

in square feet

Facility	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual
Washington, DC	288,395	289,295	289,295	289,295	289,295
Chicago	60,412	60,412	60,412	60,412	60,412
New York	61,510	61,510	61,510	61,510	61,510
Kansas City	24,362	24,362	24,362	24,362	24,362
TOTAL	**434,679**	**435,579**	**435,579**	**435,579**	**435,579**
Change from FY 2013 Baseline:		+900	+900	+900	+900

[5] *In addition to the base rent, the tenant also pays a proportionate share of building operating costs incurred by the landlord, which may not be billed for two years past the fiscal year reported. Additional pass-through costs, such as per rata property taxes, can take several years to finalize based on appeals.*

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

[7] *Increase in cost due to estimated termination costs allowed for under the Federal Acquisition Streamlining Act.*

Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act of 1990 (FCPIA) requires agencies to periodically adjust civil penalties for inflation if either the amount of the penalty or the maximum penalty is set by law. The Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 amended the FCPIA and required the Commission to: make an initial "catch-up" inflation adjustment in FY 2016, and make adjustments for inflation going forward under guidance of the OMB, potentially on an annual basis.

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

- Section 6(c) of the CEA, 7 U.S.C. 9—*Prohibition Regarding Manipulation and False Information*;
- Section 6b of the CEA, 7 U.S.C. 13a—*Non-Enforcement of Rules of Government or Other Violations; Cease and Desist Orders, Fines and Penalties, Imprisonment, Misdemeanor, Separate Offenses*; and
- Section 6c of the CEA, 7 U.S.C. 13a-1—*Enjoining or Restraining Violations*.

Details about the current penalty level and the date of the most recent inflationary adjustment for each civil monetary penalty within the jurisdiction of the Commission are reflected in the table below[8].

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($ Amount)	Location for Penalty Update Details
MANIPULATION OR ATTEMPTED MANIPULATION VIOLATIONS					
CIVIL MONETARY PENALTIES IMPOSED BY THE COMMISSION IN AN ADMINISTRATIVE ENFORCEMENT ACTION					
For a civil penalty against any person (other than a registered entity, as that term is defined in Section 1a(4) of the CEA)	Section 6(c) of the Commodity Exchange Act (7 U.S.C. 9)	8/1/2016	1/23/2017	For penalties imposed by the Commission in administrative enforcement proceedings that are initiated on or after January 23, 2017, not more than the greater of $154,734 (for non-manipulation violations) or $1,116,156 (for manipulation or attempted manipulation violations) or triple the monetary gain to such person for each such violation.	Federal Register Vol. 82, Page 7643 (January 23, 2017) *http://www.cftc.gov/idc/groups/public/@lrfederalregister/documents/file/2017-00488a.pdf*
For a civil monetary penalty against any registered entity or any director, officer, agent, or employee of any registered entity, as that term is defined in Section 1a(40) of the CEA	Section 6b of the Commodity Exchange Act (7 U.S.C. 13a)	8/1/2016	1/23/2017	For penalties imposed by the Commission in administrative enforcement proceedings that are initiated on or after January 23, 2017, not more than the greater of $852,360 (for non-manipulation violations) or $1,116,156 (for manipulation or attempted manipulation violations) or triple the monetary gain to such person for each such violation.	Federal Register Vol. 82, Page 7643 (January 23, 2017) *http://www.cftc.gov/idc/groups/public/@lrfederalregister/documents/file/2017-00488a.pdf*
CIVIL MONETARY PENALTIES IMPOSED BY A DISTRICT COURT IN A CIVIL INJUNCTIVE ENFORCEMENT ACTION					
For a civil monetary penalty assessed against any person	Section 6c of the Commodity Exchange Act (7 U.S.C. 13a-1)	8/1/2016	1/23/2017	For penalties imposed by a District Court in civil injunctive enforcement proceedings that are initiated on or after January 23, 2017, not more than the greater of $170,472 (for non-manipulation violations) or $1,116,156 (for manipulation or attempted manipulation violations) or triple the monetary gain to such person for each such violation.	Federal Register Vol. 82, Page 7643 (January 23, 2017) *http://www.cftc.gov/idc/groups/public/@lrfederalregister/documents/file/2017-00488a.pdf*

[8] *Criminal authorities may also seek fines for criminal violations of the CEA (See Sections 6(d), 9, 7 U.S.C. 13, 13(c), 13 (d), 13 (e), and 13b. The FCPIA does not affect criminal penalties.*

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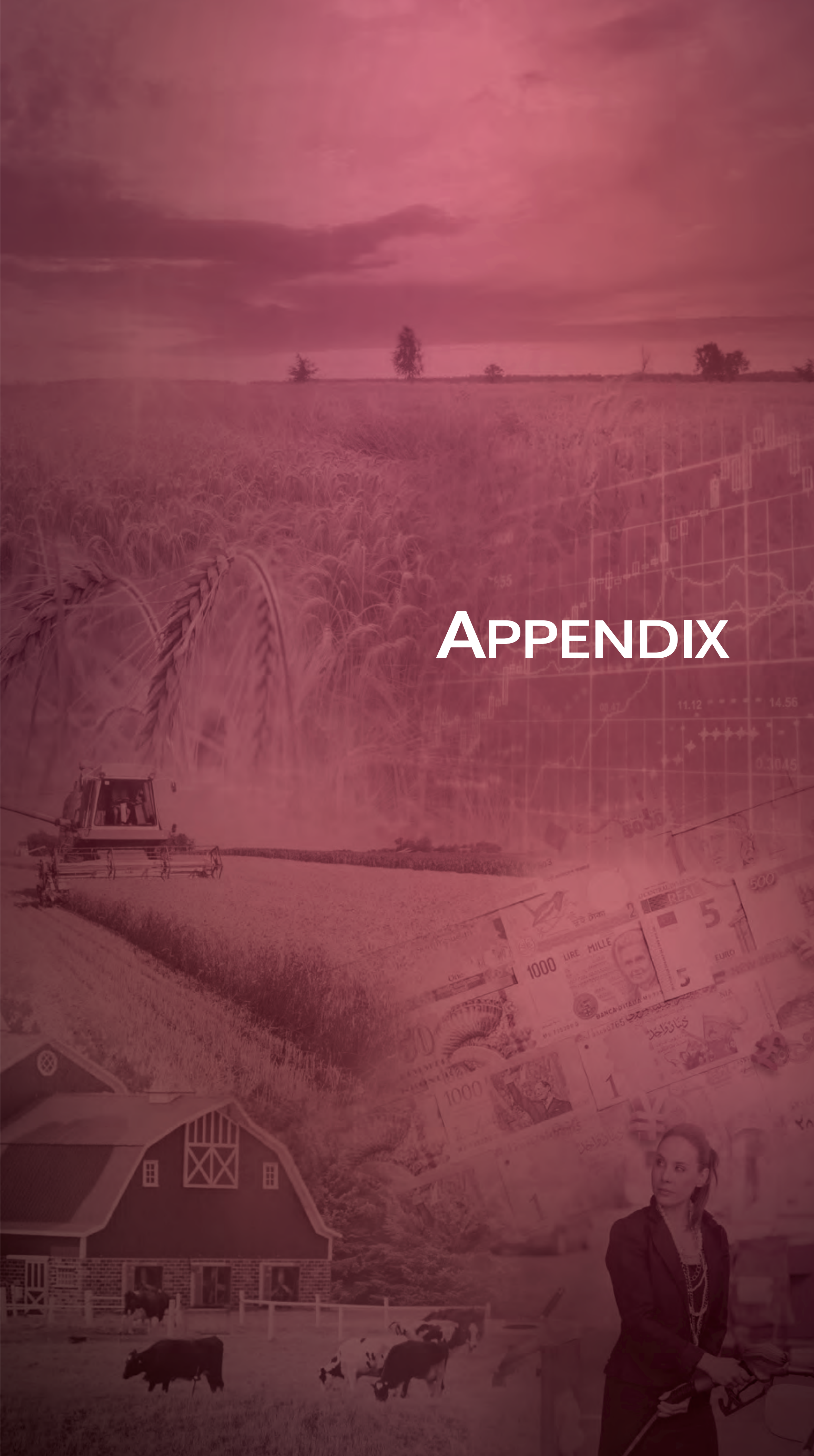


Appendix

INSIDE

Customer Protection Fund

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

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

A detailed description of the Customer Protection Fund is presented in the Management's Discussion and Analysis, Financial Highlights section of this report.

FY 2017 Highlights of the Whistleblower Program

The Commission finalized new rules that govern how the Whistleblower Program is administered and strengthened anti-retaliation protections for whistleblowers. The Commission also continued its efforts to inform market participants about the program—making updates to its website, *https://www.whistleblower.gov/*, which was launched last year, and attending conferences and other industry gatherings to reach traders as well as hedgers, farmers, ranchers, producers, and commercial end users. All these efforts brought additional attention to the program and should continue to drive new records in whistleblower tips and award applications year after year.

Amended Whistleblower Rules

After public comments, rules were published in the *Federal Register* on May 30, 2017 and went into effect July 31, 2017. The amendments strengthen anti-retaliation protections for whistleblowers and add transparency to the Commission's process of deciding whistleblower award claims. Listed below are some of the key changes or clarifications made by the amendments:

Final Rules Regarding Retaliation and Improper Employer Confidentiality Agreements

- A person may not take any action to impede an individual from communicating directly with the Commission's staff about a possible violation of the CEA, including by enforcing, or threatening to enforce, a confidentiality agreement or pre-dispute arbitration agreement with respect to such communications. [Rule 165.19]

- The Commission has authority to bring an action against an employer who retaliates against a whistleblower, irrespective of whether the whistleblower qualifies for an award. A whistleblower continues to have the right to pursue a private cause of action against such an employer. [Rule 165.20; Appendix A to Part 165]

- Actions that an employer took after a whistleblower reported internally but before providing information to the Commission may be relevant to whether prohibited retaliation occurred. [Rule 165.20(b)]

Final Rules Regarding Award Claims Review

- The required Form WB-APP may be submitted electronically through the Commission's website at *http://www.cftc.gov* or the Commission's Whistleblower Program website at *https://www.whistleblower.gov*. A Form WB-APP must be received by the Commission within 90 days of the date of the Notice of Covered Action or 90 days following the date of a final judgment in a Related Action. [Rule 165.7(b)(1)]

- The Commission will replace the Whistleblower Award Determination Panel with a Claims Review Staff and introduce additional steps in the claims review process. [Rule 165.15(a)(2); Rule 165.7(f) – (l)]
  - The enhanced review process is similar to that established under the U.S. Securities and Exchange Commission's (SEC) whistleblower rules and includes issuance of a Preliminary Determination by the Claims Review Staff setting forth a preliminary assessment as to whether an award claim should be granted or denied.
  - A whistleblower will have an opportunity to contest the Preliminary Determination before the Commission issues a Final Determination.

- The Commission will handle facially ineligible award claims that do not relate to a Notice of Covered Action, a final judgment in a Related Action, or a previously filed Form TCR (Tip, Complaint, or Referral) through a streamlined process. [Rule 165.7(e)]

- A whistleblower may withdraw a Form WB-APP at any point in the review process by submitting a written request to the Whistleblower Office. [Rule 165.7(d)]

- The Director of Enforcement has general authority to administer the whistleblower program. [165.15(b)]

Final Rules Regarding Contents of Record for Award Determinations

- Any documents or materials received or obtained by the Whistleblower Office to assist the Commission in resolving a whistleblower's award claim pertaining to a Related Action may be included in the record, as long as the entity bringing the Related Action has authorized the Commission to share the information with the whistleblower. [Rule 165.10(a)]

- The record on appeal includes the Preliminary Determination and Final Order of the Commission, but not any pre-decisional or internal deliberative process materials that are prepared to assist the Commission or the Claims Review Staff in deciding a claim. [Rule 165.10(b); 165.13(b)]

- A whistleblower may request a copy of the record after the Preliminary Determination has been issued and prior to the Commission issuing a Final Determination on the whistleblower's claim. A whistleblower must enter into a confidentiality agreement if requested by the Whistleblower Office. [Rule 165.7(g)(2)]

Final Rules Regarding Whistleblower Identifying Information

- The Director of Enforcement may disclose whistleblower identifying information when deemed necessary or appropriate to the authorities listed in Section 23 of the CEA to accomplish the customer protection and law enforcement goals of the whistleblower program. [Rule 165.4(a); 165.15(a)(3)]

Whistleblower Program Outreach

The Whistleblower Program launched a website, *https://www.whistleblower.gov*, in January 2016. That website serves as a one-stop-shop for information about the Whistleblower Program and affords a convenient way for the public to submit whistleblower tips and award applications—on Form TCR and Form WB-APP, respectively.

Throughout the year, the Commission participated in numerous events to inform key stakeholders about the program. The Commission exhibited at more than a dozen industry conferences and trade shows to reach various participants in the commodity futures and derivatives markets, including traders, farmers, ranchers, producers, and commercial end users.

Whistleblower Awards

While the notice-and-comment process on the amended Whistleblower Rules progressed to its conclusion in FY 2017, the processing of whistleblower award applications was on hold. The Commission did not pay out any whistleblower awards during FY 2017.

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

FY 2017 Highlights of the Customer Education and Outreach Program

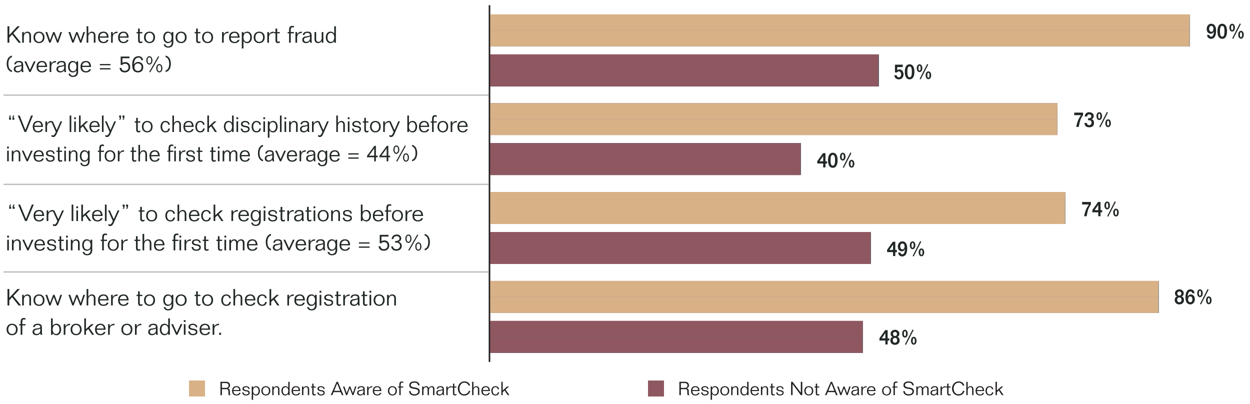
The Commission administers education and outreach to customers through a variety of channels, including, the SmartCheck antifraud campaign. These activities align with the purpose of the Customer Protection Fund, which is to be used for "the funding of customer education initiatives designed to help customers protect themselves against fraud or other violations of this [the CEA], or the rules and regulations thereunder."[1]

SmartCheck Anti-Fraud Program

The primary goal of the CFTC SmartCheck initiative is to encourage investors commonly targeted by fraud to check the registrations of the people and companies making sales pitches as a means of avoiding fraud. The CEA requires that certain individuals and firms selling to the public be registered with the CFTC. These registrations are recorded by the NFA and are searchable on the NFA's Background Affiliation Status Information Center (BASIC) database. Many frauds involving precious metals, binary options, forex trading and other

[1] *7 U.S.C. § 26(g)(2)(B)*

Respondents Aware and Not Aware of CFTC SmartCheck



Source: Office of Customer Education and Outreach, CFTC

This chart demonstrates that there is a positive correlation between awareness of the CFTC SmartCheck campaign and other target behaviors.

markets or products regulated by the CFTC are conducted by unregistered actors, and the majority of commonly targeted victims fail to check registrations and backgrounds of financial professionals before investing.[2]

Investment fraud research indicates that common victims of investment fraud tend to be men and women over age 50 with higher household incomes, higher levels of financial literacy, and a willingness to accept investment risks.[3] The CFTC SmartCheck initiative attempts to reach potential victims where they are, before they fall victim to fraud, to educate them on the importance of checking registrations and encourage them to conduct registration checks using BASIC, or BrokerCheck, a database maintained by the Financial Industry Regulatory Authority (FINRA) that includes broker dealers and investment advisers. Outreach includes online advertising, media outreach and in-person events. All outreach activities are honed to specifically reach those investors identified as most at-risk.

As part of the initiative's ongoing efforts to measure effectiveness, Commission staff fielded an impact survey from November 18 to December 5, 2016. More than 1,500 investors were surveyed. The results were weighted and are representative of all U.S. adults ages 50-65 with household incomes of at least $60,000. The results indicated that 13 percent of respondents were aware of the CFTC SmartCheck initiative and 21 percent were aware of the initiative's website, *https://www.SmartCheck.gov*. This compared to 20 percent who were aware of BrokerCheck.org, FINRA's registration website, and 26 percent who were aware of the SEC's website, *https://www.investor.gov/*.

The data in the chart above show that awareness of the campaign also correlates to more positive behaviors. This is the first time a study using this methodology was conducted, so it serves as a baseline for future results. Future results may also be affected by level of advertising, media choice for advertising, amount of press outreach, press interest, and participation in direct-outreach events.

Advertising outreach in 2017 was decreased from the previous year to focus on an online-only approach, which is more cost effective and easier to optimize than other forms of media. Strong awareness efforts through online engagement, primarily through email and social media, helped keep the initiative in front of potential fraud victims. For the year, *https://www.SmartCheck.gov* recorded more than 315,000 visitor sessions from more than 222 million media

[2] *The 2007 FINRA Foundation Senior Fraud Risk Survey indicated that 79 percent of all respondents ages 50-64 didn't check their brokers for previous law violations, and 65 percent didn't check their brokers' registrations.*

[3] *Investor Fraud Study, NASD Investor Education Foundation, 2006, The Consumer Fraud Research Group. AARP Foundation National Fraud Victim Study, 2011, Doug Shadel and Karla Pak. A more recent AARP Investment Fraud Vulnerability Study, 2017, Shadel and Pak, is also consistent with the 2006 and 2011 studies. However, it did indicate that victims are aging, with more victims over age 70 than the rest of the investing population, and that more victims preferred unregulated investments than the general investing population.*

impressions. Visitors to the site can conduct a check action, which includes going to BASIC or BrokerCheck, checking the CFTC Registration Deficient List, conducting an online search to learn more about a broker or firm, or taking other key actions on the *https://www.SmartCheck.gov/check* web page. The initiative also exceeded its targets for email subscription growth and social media followers.

A big driver for much of the attention the initiative received was the release of an educational video that featured a fraud victim who shared his story about how he was lured into a silver scam. The video illustrates common fraud tactics and offers tips on how to avoid similar scams. The video debuted in July and in the two months following the release, became the CFTC's most viewed video.

The Office also maintained a rigorous event schedule, participating in in-person educational events throughout the year, conducting antifraud presentations, and distributing nearly 44,000 printed brochures.

Talking To App Stores About Fraud

In 2017, the Commission worked to educate Apple and Google app stores about binary options fraud, and explained that many foreign entities that appeared on the CFTC Registration Deficient (ReD) List were also selling apps on their platforms. Websites that appear on the ReD List are foreign entities that have been identified as acting in a capacity that appears to require registration, but they are not appropriately registered with the Commission. The majority of the sites on the ReD List claim they provide binary option or forex trading platforms. The goal of the ReD List is to warn the public about foreign entities that are acting in an unregistered capacity.

Because of this outreach effort, both app stores agreed to investigate and remove apps that violated their terms and conditions. In June 2017, Apple, of its own volition, went a step further and stated that it would no longer accept binary option apps in its App Store.

Binary options can be traded in registered and supervised U.S. designated contract markets. However, unregistered foreign entities, like those on the ReD List, have used this instrument to pose as legitimate financial trading platforms and steal millions of dollars from people across the United States and around the world. Common frauds include excessive fees, selling insurance against potential losses, identity theft, and failure to remit earnings or deposits. Victims are commonly lured in by the frauds' low cost of entry, online accessibility, and aggressive sales tactics. Apple's decision to no longer permit these apps in its store prevents exposure to these frauds by millions of App Store customers.

CONSUMER ADVISORY AND PUBLIC SERVICE ANNOUNCEMENT

SUSPECT FRAUD OR MANIPULATION? CALL CFTC

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

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

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

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

- Call **866.FON.CFTC**
  (866.366.2383)
- Blow the whistle, visit:
  http://www.whistleblower.gov
  Always Check Registrations
- Write to:
  CFTC, Office of Cooperative Enforcement
  Washington DC 20581

Know the Risks Before You Trade

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

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

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

Common Fraud Areas

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

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

Know the Red Flags of Fraud

- Guarantees of high returns
- Statements promising low risks or no risks
- Limited-time offers or high-pressure sales tactics
- Exploiting friendships or trusted relationships
- Exclusive offers, special discounts, or favors
- Claims of special credentials or uncommon knowledge

Always Check Registrations

Visit *https://www.SmartCheck.gov* to make sure your broker or firm is registered and has a clean disciplinary history.

CONSUMER ADVISORY AND PUBLIC SERVICE ANNOUNCEMENT

WHISTLEBLOWER PROGRAM

Commodity Futures Trading Commission

Whistleblower Office

1155 21st Street, NW

Washington, DC 20581

Whistleblower Hotline:
866.873.5675

Fax:
202-418-5975

www.whistleblower.gov

The CFTC is the Federal government agency that regulates the U.S. derivatives markets, including futures, options, and swaps trading markets. As part of that responsibility, the CFTC has instituted a Whistleblower Program.

The CFTC's Whistleblower Program provides monetary incentives to individuals who report possible violations of the CEA that lead to a successful enforcement action, as well as privacy, confidentiality, and anti-retaliation protections for whistleblowers.

FILE FORM TCR

- To be eligible for an award, you must complete and submit a Form TCR electronically, by mail, or by facsimile.
- To submit a Form TCR electronically, or to learn more about the Whistleblower Program, visit *https://www.whistleblower.gov*

OVERVIEW OF THE CFTC WHISTLEBLOWER PROGRAM

- The program pays monetary awards to persons who voluntarily provide the CFTC with original information on a Form TCR about violations of the CEA, if that information leads to a successful CFTC enforcement action resulting in more than $1 million in monetary sanctions.
- The CFTC can also pay awards based on monetary sanctions collected by other authorities in actions that are related to CFTC enforcement actions, and are based on information provided by a CFTC whistleblower.
- For whistleblowers who meet all eligibility criteria, the CFTC will pay between 10 and 30 percent of the monetary sanctions collected in the CFTC action and any related actions, with limited exceptions.
- For more information go to *www.whistleblower.gov* and click on:
  - FAQs
  - Things To Know
  - Statutes and Rules

FILING A FORM TCR AND BECOMING ELIGIBLE FOR AN AWARD

- To be eligible for a whistleblower award, a person or group of persons must submit to the CFTC a Form TCR that contains information about a potential violation of the CEA.
- Individuals can choose to submit a Form TCR anonymously so long as they provide some means of contact such as a phone number or an email address.
- The whistleblower must provide "original information" not already known to the CFTC—derived from the whistleblower's independent knowledge or independent analysis.
- The whistleblower must voluntarily provide information to the CFTC. This means that the information must be submitted before the CFTC or certain other authorities send the whistleblower, the whistleblower's lawyer, or the whistleblower's employer a request for the information.

HOW THE CFTC KEEPS INFORMATION CONFIDENTIAL

- As a general rule, the CFTC treats information learned during the course of an investigation—including the identity of the CFTC's sources—as non-public and confidential.
- There are limits on the CFTC's ability to shield the whistleblower's identity. The CFTC will not disclose information that could reasonably identify a whistleblower without the consent of the whistleblower, except in the following circumstances:
  - In an administrative or court proceeding, the CFTC may be required to produce documents or other information that would reveal the whistleblower's identity.
  - As part of the CFTC's ongoing investigatory responsibilities, the CFTC may use information that the whistleblower provided during the course of the investigation. In appropriate circumstances, the CFTC may also provide information, subject to confidentiality requirements, to other governmental or regulatory entities.

FACTORS THE CFTC CONSIDERS IN DETERMINING THE AWARD AMOUNT

- The significance of the information to the success of a CFTC action or related action.
- The degree of assistance the whistleblower provided to Commission staff.
- The CFTC's interest in deterring violations of commodities laws by making awards to whistleblowers who provide information that leads to the successful enforcement of those laws.
- Whether, and the extent to which, the whistleblower participated in the company's internal compliance systems.
- Whether the whistleblower was involved in, or culpable for, the conduct he/she reported.
- Whether the whistleblower interfered with his/her company's internal compliance and reporting systems.

PROTECTIONS FOR EMPLOYEES

- The Dodd-Frank Act prohibits any action taken to impede an individual from communicating directly with the CFTC's staff about a possible violation of the CEA, as well as any retaliation by employers against whistleblowers.
- The Commission has the authority to bring an action against an employer who retaliates against a whistleblower.
- Employees who are retaliated against have a private right of action and may bring an action in the appropriate district court of the United States.

Additional copies of the
Commodity Futures Trading Commission
FY 2017 Agency Financial Report
are available by contacting the following:

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