



**U.S. COMMODITY FUTURES TRADING COMMISSION  
OFFICE OF INSPECTOR GENERAL**

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**TO:** Timothy Massad  
Chairman

**FROM:** A. Roy Lavik  
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**DATE:** October 26, 2015

**SUBJECT:** Inspector General's Assessment of The Most Serious Management Challenges Facing the Commodity Futures Trading Commission (CFTC)

**Summary**

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

In order to identify and describe the most serious management challenges, as well as the Agency’s progress in addressing them, we relied on data contained in the CFTC financial statement audit and Annual Financial Report, representations by agency management, and our knowledge of industry trends and CFTC operations. Since Congress left the determination and threshold of what constitutes a most serious challenge to the discretion of the Inspector General, we applied the following definition in preparing this statement:

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

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<sup>1</sup> Public Law 106-531, sec 3, 114 STAT. 2537 (Nov. 22, 2000), *codified at* 31 USC § 3516(a).

<sup>2</sup> *Id.*

For Fiscal Year (FY) 2016, the most serious management challenges are for CFTC to:

- Minimize information security vulnerabilities in its network. In light of the extent of information security vulnerabilities we identified this period, the Chief Information Security Officer is using his authority and resources to drive actions for effective vulnerability management.
- Stimulate registrants towards enhancing their cyber security controls over vital client information so as to reduce the impact of any future information technology breach.
- Effectively triage oversight tasks in order to execute its strategic plan with limited budgetary resources.

### **CFTC's Progress on Last Year's Challenges**

For FY2015 the OIG identified management challenge was for the CFTC to:

- Deliver on Congressional expectations embedded in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), including expansion of the CFTC's regulatory footprint to the swaps markets, while adhering to government-wide budgetary constraints.

Last year's OIG identified management challenge is being addressed by the agency. We reviewed management's actions taken during FY2015 and note management's diligent effort to address our expressed concerns. On the fifth year anniversary of the passage of the Dodd-Frank Act<sup>3</sup>, it is fitting that we continue to monitor CFTC's progress in implementing this legislation. Fundamentally, the Dodd-Frank Act sought to expand CFTC regulatory oversight to the swaps markets and empower market users with valuable information that could reduce or thwart incidence of fraud towards derivatives market participants. During FY2015, we observed the agency's progress on ensuring centralized clearing of standardized swaps, transparent trading of swaps on a swap execution facility, refining swap dealer registration, continued improvements in operationalizing swap data repositories, rollout of the SmartChek database for investors to verify registrants' background, successfully prosecuting violators of the Commodity Exchange Act, and performing other essential regulatory tasks. Consequently, we are encouraged that stakeholders, e.g. Congress, registrants, and derivatives market users can be assured that Dodd-Frank inspired policies are gaining traction in the industry.

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<sup>3</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. Law 111-203, 124 Stat. 1376 (2010).

## **Fiscal Year 2016 Management Challenges**

Our management follow-up of initial Federal Information Security Management Act (FISMA) audit findings highlighted the extent of vulnerabilities associated with the vast majority of servers and network users, including the Chairman and Commissioners, and that the leadership structure for the Chief Information Security Officer (CISO) could better align to meet FISMA requirements. We recommended the Chief Information Officer provide the CISO the authority and resources to drive actions that mitigate medium, high and critical, vulnerabilities identified and ensure the appropriate leadership structure is in place for effective vulnerability management. CFTC management concurred with both recommendations and is making progress to minimize vulnerabilities identified. My office will continue to assess vulnerabilities in CFTC's network as part of its annual audit program.

Looking forward we also view cybersecurity issues as an ongoing operational threat to the derivatives industry and an immediate challenge to CFTC's oversight<sup>4</sup> should a disruptive technological event occur in the coming year. Currently, over ninety-five<sup>5</sup> percent of futures transactions across all products occur electronically. High frequency automated trades account for over sixty percent<sup>6</sup> of transactions in the more active futures markets. Due to the magnitude of electronic transactions the agency must rely on improved software, knowledgeable analysts, and, when necessary, inter-agency coordination to secure data. Earlier this year, the CFTC launched a roundtable discussion on Cybersecurity and System Safeguards Testing, thus elevating the significance of this operational risk discussion among registrants. My office recognized the significance of this cybersecurity challenge by launching an independent examination of CFTC's policies and procedures for reviewing registrants' cybersecurity policies. The objective of this audit is to identify the current state of cybersecurity readiness and identify opportunities for reducing this risk among CFTC registrants.

A third management challenge for the CFTC is to effectively triage operational tasks in order to deliver on its strategic mission with limited budgetary resources. Management must more efficiently manage its limited financial resources. During the past year, my staff continued to analyze underutilization of leased real estate<sup>7</sup>. Any realized savings

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<sup>4</sup> CFTC Strategic Goal #2 is Financial Integrity and Avoidance of Systemic Risk.

<http://www.cftc.gov/reports/strategicplan/2018/>.

<sup>5</sup> See Automated Trading in Futures Markets Richard Haynes and John S. Roberts March 13, 2015 page 3 regarding futures trading on the Chicago Mercantile Exchange the largest US derivatives exchange

[http://www.cftc.gov/idc/groups/public/@economicanalysis/documents/file/oce\\_automatedtrading.pdf](http://www.cftc.gov/idc/groups/public/@economicanalysis/documents/file/oce_automatedtrading.pdf)

<sup>6</sup> Calculated by OIG staff from Remarks of Chairman Timothy Massad before the Conference on the Evolving Structure of the U.S. Treasury Market Chairman Timothy Massad October paragraph 9 line 4

<sup>7</sup> CFTC-OIG review of NY Lease and Occupancy

[http://www.cftc.gov/idc/groups/public/@aboutcftc/documents/file/oig\\_rny061815.pdf](http://www.cftc.gov/idc/groups/public/@aboutcftc/documents/file/oig_rny061815.pdf)

from renegotiating leases may at-the-margin assist the agency to further deliver expected regulatory oversight services to stakeholders.

### **Conclusion**

The CFTC management challenges for FY2016 are cybersecurity and resource constraints. My office will continue to undertake audits, reviews, and investigations that address these challenges.