Report on the Implementation of SEC Organizational Reform Recommendations

As Required by Section 967 of the

Dodd–Frank Wall Street Reform and Consumer Protection Act

This is a report prepared by the staff of the U.S. Securities and Exchange Commission. The Commission has expressed no view regarding the analysis, findings, or conclusions contained herein.

March 30, 2012

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) directed the U.S. Securities and Exchange Commission (SEC) to engage an independent consultant to conduct a broad and independent assessment of the SEC's internal operations, structure, funding, and the agency's relationship with Self-Regulating Organizations (SROs). Issued in March 2011, the consultant's study provided a portfolio of optimization initiative recommendations designed to increase the SEC's efficiency and effectiveness. This document is the second of four agency reports to Congress on the implementation of the consultant recommendations, as required by Section 967(c) of the Dodd-Frank Act.

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Explanatory Note

This report is provided pursuant to the requirements of section 967(c) of the Dodd-Frank Act. Section 967(c) requires periodic reports on the "implementation of the regulatory and administrative recommendations contained in" a consultant's report required by section 967(b) of the Dodd-Frank Act. The Commission has expressed no view as to whether or how any recommendation contained in that consultant's report should be implemented.

Moreover, no Commissioner other than the Chairman has had any substantive involvement in the "Mission Advancement Program" (MAP) or the activities of the SEC staff and contractors outlined in this report. The Commission has not endorsed any assessment, determination, method, analysis, finding, or conclusion contained herein. The Commission was not consulted on the decision to hire the consultant advising as to the MAP project or the cost and scope thereof.

The MAP is the responsibility of the SEC's Chief Operating Officer, who reports directly to the Chairman. The Commission has not made any determination that this report is accurate or complete. The Commission's vote to provide this report to the Congress does not imply any concurrence in or endorsement of any aspect of this report or the activities it describes.

Executive Summary

Over the last year, staff at the U.S. Securities and Exchange Commission (SEC) have conducted in-depth assessments of potential organizational improvement opportunities across the agency. These assessments cover topics ranging from the fundamental, such as how the agency can improve the support of its regional structure and operations, to the practical, such as how the agency can better hire, train, equip, and support agency staff at all levels.

In the last six months, this initiative, known as the SEC Mission Advancement Program (MAP), has recognized operational improvements in three key areas.

- *Reorganizing critical internal infrastructure*. Following the 2010-2011 reorganizations of the Division of Enforcement and the Office of Compliance Inspections and Examinations

(OCIE), the SEC is restructuring the offices of Financial Management (OFM), Administrative Services (OAS), Information Technology (OIT), and Human Resources (OHR) to align the organizations; better define roles, accountabilities and decision rights; and provide improved services to the program offices.

- *Reviewing key processes for efficiency and effectiveness*. Agency working groups have analyzed a broad array of agency activities in an effort to reduce unnecessary steps, improve the distribution of resources to key activities, insert stronger internal controls, and improve responsiveness within the agency and to the public.
- *Locating cost savings opportunities*. A Continuous Improvement Program (CIP) has been created to identify potential program savings and pay constant attention to costs, to date resulting in the identification of opportunities that are projected to save more than $8.3 million over the next two years.

Having completed the initial stages of review and analysis, it is anticipated that the level of activity related to MAP projects will be reduced in FY 2012. Staff and management time to devote to this initiative will continue to be in short supply, and future phases of implementation are likely to require levels of funding that must be directed at other agency priorities at this time. For this reason, future activity will be focused on a limited number of projects from among those initiatives described below based on an assessment of their relative potential for operational impact or cost savings. In the coming months, the working groups will continue to assess the changes suggested by BCG to refine and identify those that would provide the most benefit to the SEC and the public.

Introduction

The U.S. Securities and Exchange Commission (SEC) is responsible for enforcing the securities laws governing the largest markets in the world in which millions of Americans participate. In order to fulfill our mission of protecting investors, maintaining fair, orderly and efficient markets and facilitating capital formation, the agency must currently oversee 11,700 investment advisers, close to 4,500 broker-dealers with an excess of 160,000 branch offices and 9,700 mutual funds and exchange traded funds. The agency is responsible for the review of more than 9,100 reporting companies, including tens of thousands of disclosure documents filed each year and is tasked with reviewing and monitoring initial public offerings and other public capital markets transactions of corporate issuers, public asset-backed securities offerings, proxy statements, public mergers, and acquisitions and tender offers. The SEC also oversees approximately 450 transfer agents, 15 national securities exchanges, 9 nationally recognized statistical ratings organizations (NRSROs), 8 active clearing agencies, as well as the Public Company Accounting Oversight Board (PCAOB), Financial Industry Regulatory Authority (FINRA), Municipal Securities Rulemaking Board (MSRB), the Securities Investor Protection Corporation (SIPC), and financial markets where more than 5 billion shares of common stock are traded each day. Due to recent changes in the law, smaller investment advisers will transition from SEC to state oversight during 2012, but with the corresponding addition of advisers to private funds, the agency will still oversee an estimated 10,000 investment advisers with about $44 trillion in assets under management. During FY 2012 and FY 2013, the agency also expects to fully implement its new oversight responsibilities with respect to municipal advisors and entities registering in connection with the security-based swap regulatory regime.

Fundamentally, enforcement of the securities laws and oversight of the markets are the agency's core strengths. The agency regularly evaluates the methods that it uses to monitor markets and market participants, implementing changes when necessary that may result in the restructuring of its major program offices. In recent years, this has included significant changes in the organization and focus of the divisions primarily responsible for enforcement and examination of regulated entities.

However, until recently, the agency rarely assessed the strength of its own internal support infrastructure—the critical but less visible processes, procedures and tools that the agency relies upon to ensure basic needs, such as hiring staff that possess the skills the agency requires, are met.

The March 2011 report by the Boston Consulting Group (BCG)[1] mandated by Section 967 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) which recommended a number of improvement initiatives, primarily focused on the agency's support infrastructure. The BCG report discussed a variety of challenges facing the agency and suggested

[1] This report is available online at http://www.sec.gov/news/studies/2011/967study.pdf

approaches to improve support for its mission, ensure the proper mix of skills in its workforce and improve decision-making.

Over the last year, the agency's leadership and staff have used the opportunity presented by the BCG report and other observations by stakeholder groups to focus on organizational improvements. Significant BCG report recommendations have been adopted, centralizing and strengthening the SEC's support functions by merging similar functions and eliminating duplicative offices.

However, SEC staff have gone further by employing an organizational approach directed at continuous improvement, cost savings, responsiveness, and efficiency. Instead of an episodic approach to cost reduction and process improvement, the agency is redesigning processes to be more efficient at identifying and implementing cost savings initiatives. In addition, working groups have implemented enhanced internal risk management controls, outsourced non-core support service responsibilities to other federal government agencies and private-sector organizations that can perform them more efficiently, and spent considerable effort on updating policies and procedures used to govern day-to-day operations. Major divisions and offices are reviewing their work processes to eliminate redundant reviews, shorten turnaround time, or make more informed decisions about how to best use staff time. Divisions and offices are also working to enhance document and data management and more effectively disseminate knowledge across the organization.

The Mission Advancement Program

These improvements as well as proposed improvements reflect consideration by staff working in a coordinated fashion through the Mission Advancement Program (MAP), which provides a framework for systematically evaluating and implementing change throughout the agency.

Under the program, staff from divisions and offices are following a disciplined process to identify potential organizational changes and the impact of those changes on the SEC's mission and operations. To tackle the opportunities for improvement, a number of working groups have been assembled, each led by a senior SEC executive and consisting of cross-organization membership at various levels, supported by consultants. The working groups have analyzed possible improvement initiatives identified by BCG and others and evaluated their feasibility.

The working groups considered choices, such as whether the SEC should undertake the initiative, the cost (financial and human) to move forward, and next steps.

Led by an Executive Steering Committee (ESC) of senior SEC staff management, the working groups have spent the past six months—in addition to all of their regular duties—performing analysis and planning to set priorities, managing the use of financial resources and staff time, and taking a methodical approach to implementing changes.

To efficiently organize and communicate the initiatives, this effort is divided into four "management agenda" categories, each supported by several working groups.

1. *Optimize the agency's organizational structure*: Restructure divisions and offices to align with the SEC's strategic direction, clarify purpose, reduce duplication of effort, and eliminate organizational confusion.
2. *Improve controls & efficiency*: Develop internal mechanisms to locate cost savings, enhance operational and market risk management, gather data, and clarify or streamline business processes within division and offices.
3. *Enhance the workforce*: Identify and improve resources to meet the organization's dynamic need for talent.
4. *Strengthen capabilities*: Provide the organization with the tools to execute its core function of overseeing the markets and market participants.

Figure 1: Initiatives Aligned to Agenda Items (*As of January 2012*)[2]

Agenda Item	Initiatives
Optimize the Agency's Organizational Structure	• Restructure SEC organizations to improve efficiency • Conduct a regional organizational assessment • Reprioritize mission activities • Seek flexibility from Congress on Dodd-Frank-mandated offices
Improve Controls & Efficiency	• Implement a Continuous Improvement Program • Review the Commission / staff interaction process and delegations of authority

[2] For additional information regarding the connection between workstream numbering contained in the SEC's first six-month report on BCG report implementation and the present-day MAP working groups, please see Appendix A.

Agenda Item	Initiatives
	• Enhance the SEC's Operational Risk Management capabilities • Conduct an outcome-oriented performance measures feasibility study • Strengthen oversight of SROs • Centralize and coordinate approach to SRO Interaction • Strengthen processes for SRO Rule Proposals
Enhance the SEC's Workforce	• Perform an analysis of the SEC's workforce • Accelerate roll-out of the SEC's Evidence-Based Performance Management System • Create a plan to respond to shifting workload • Fill vacancies with employees who meet high priority skill needs
Strengthen the SEC's Capabilities	• Develop a capability to monitor and manage market risk • Transform OIT and enhance technology capabilities • Create a "Technology Center of Excellence"[3]

The purpose of this report to Congress, the second of four reports mandated by the Dodd-Frank Act, is to discuss the progress that SEC staff has made in implementing systemic organizational change to increase efficiency and effectiveness. The staff recognize that meaningful organizational improvement is not a "quick fix": change will require prolonged effort over several years, and reconsideration of some of the fundamental methods the organization uses to carry out its work. The intent of this report is to communicate the gains in efficiency, effectiveness, cost savings and customer focus over the last six months, and to describe the challenges, strategy and agenda for future organizational improvement, in keeping with the requirements of the Dodd-Frank Act.

[3] The "Technology Center of Excellence" refers to BCG recommendation 3c, which proposed implementation of a small office, structured as a joint venture between TM, RSFI and OIT, that would catalogue existing and emerging technologies and conduct assessments into the impact of these technologies on market behaviors and structures, with a strong emphasis on identifying any regulatory implications.

Agenda Item 1: Optimize the agency's organizational structure

To improve agency performance, there is a need to rethink division and office organizational structure and appropriately position the agency to respond to shifting regulatory demands. Initial focus has centered on the support services functions, as there is widespread recognition of the need to improve program office support so that other divisions and offices can effectively carry out their core activities. To this end, during the past year, working groups have redesigned the organizational structure and roles and responsibilities for the Offices of Human Resources (OHR), Financial Management (OFM), Administrative Services (OAS), and Information Technology (OIT), and have created a new Office of the Chief Data Officer (OCDO) to coordinate efforts to improve quality, controls, and availability of information across the organization. In all these efforts, particular attention has been placed on improving operational efficiency, removing activity duplication, and instilling a performance-based and customer-focused environment. For example, OHR recently implemented a Human Capital Manager (HCM) pilot program designed to ensure alignment of OHR's efforts with each part of the agency's needs and hiring strategy.

In parallel to the restructuring of support service offices, working groups have begun the process of redesigning key program offices. The Office of Compliance Inspections and Examinations (OCIE) has developed a new governance model for its National Examination Program (NEP); created the first nationwide, comprehensive exam manual; established a central Office of Risk Analysis and Surveillance; and appointed new National Associate Directors for key NEP programs to lead collaboration, consistency and knowledge sharing across the home and regional offices. OCIE and the Division of Enforcement have also jointly developed a framework for all major operational functions in the regions to define the future roles and responsibilities of the shared Assistant Director for Regional Operations (ARDO) and have released a new Tips, Complaints and Referrals (TCR) allocation approach, resulting in improved distribution of TCRs across the organization.

As part of an effort to identify and reprioritize critical activities, program divisions and offices are in the process of identifying other activities that warrant further study to determine the appropriate scope of potential changes. Efforts are ongoing to find further efficiencies and cost savings through the potential outsourcing of additional support services functions, such as the leasing and supply management functions. Analysis into the feasibility of other opportunities across all support service functions is ongoing. An impact analysis will be necessary to determine whether to scale up/commence, scale down, stop or externally delegate specific activities. The results of the analysis will help in the consideration of potential improvements to the allocation of scarce resources.

Key initiatives include:

Reorganizing the Office of Administrative Services

The Office of Administrative Services (OAS) is responsible for a wide range of functions, from the simple (e.g., Mail Operations) to the more complex (e.g., Acquisition). A working group conducted a comprehensive organizational analysis of OAS, including a review of the office's organizational structure, workforce, and key business processes and policies that resulted in the development of governance internal controls, recommendations for improved operations, and a corrective action plan. The overarching goal of the analysis was to assess the entire office, then provide and implement recommendations to improve the performance of each function in the organization.

The assessment found key improvement opportunities, particularly within the areas of Acquisition and Facilities Management. Key findings included: OAS has a disparate group of functions from the highly consultative to the very transactional, the workforce profile indicated that nearly half of staff are new to the organization (hired with the last three years), and key skill gaps exist across OAS. In addition, process improvement and internal controls improvement opportunities exist across OAS, specifically in the leasing and acquisition functions, and data management challenges with Acquisition systems have led to decentralized workload management.

The assessment also included an in-depth study of the OAS workforce, analyzing workload (i.e., time spent performing key functions) and organizational skills (i.e., required skills to perform OAS tasks and current skills of the staff in these roles). The organizational skills assessment evaluated staff and identified key areas to focus future training or suggested further investigation of outsourcing opportunities.

The assessment concluded in November 2011 with an organizational analysis and implementation/corrective action plan that recommended a revised organizational design and updated processes to improve internal controls and meet customer requirements. The primary recommendation splits the OAS organization and creates a stand-alone Office of Acquisition (OA), designed to improve senior management oversight and help strengthen the capacity and workforce of the acquisition function. Other key changes include:

- Consolidation of the Office of Real Property functions into two branches, one focused on Real Property to manage the new relationship with the General Services Administration (GSA), and one on Facilities Management, providing clarity to customers on how to access services such as leasing, construction and relocation management.

- Consolidation of OA IT procurement branches, reducing the need for a branch manager and providing clarity to customers who desire information technology purchases.

- Formalization of the OA Intake branch to centralize procurement actions, rationalize spending, gain greater efficiencies, and provide customers with a single point-of-contact in OA.

OAS management is in the process of managing the transition. Full implementation of the new organizational structure is expected by summer 2012.

The working group also reviewed each OAS function for potential cost savings. Opportunities were identified where appropriate based on external benchmarks, current and expected workload, and feasibility of transition to external service providers. One opportunity for savings is transitioning the SEC's Supply Management function to Paperclips, part of the Winston-Salem Industries for the Blind. The decision to use Paperclips has numerous benefits, including creating accountability and control over the consumption of supplies resulting in cost savings, eliminating OAS responsibilities associated with supply management enabling staff to focus on more pressing customer needs (estimated savings of approximately $250,000 per year based on the salaries of three full-time supply technicians), savings associated with only purchasing the supplies the organization actually uses rather than a projection of what offices think they need, and providing job opportunities to the disabled. This transition is expected to occur in 2012.

Another overall cost savings opportunity identified and currently in implementation is OAS negotiating lease extensions for SEC workplaces. SEC has worked with the U.S. General Services Administration (GSA) to review its space allocations for the requirements of its Regional Offices. In order to give GSA time to procure long-term space for the SEC, GSA has recommended that SEC negotiate several short-term leas extensions that will result in lower rental rates at two locations – the Chicago and Denver Regional Offices. Lease extensions for the Chicago and Denver Regional Offices will save $500,000 and $61,000, respectively, in FY 2012. In FY2013 their cumulative savings will be more than $640,000. The working group continues to seek additional opportunities for cost savings and operational efficiencies.

The assessment also validated the need for improvements in both the decision-making and internal controls processes associated with leasing actions. Over the past six months, OAS management has implemented two primary initiatives to address these issues: entering an agreement to transfer leasing actions to GSA and implementing a rigorous governance process to define and approve real property requirements.

- The SEC signed a Memorandum of Understanding (MOU) with the GSA Public Building Service (PBS) on August 1, 2011. Under the agreement, GSA will be responsible for procuring and administering all new leases. OAS will administer existing leases as well as negotiate, procure, and administer any necessary extensions, after formal review and concurrence by GSA. This initiative greatly reduces the operational risk identified with the organization's leasing practices and allows OAS to focus on conducting real property capacity planning that supports the overall SEC mission, rather than executing leasing transactions.

- The working group also created and implemented the Real Property Advisory Council (RPAC) to apply rigorous agency-wide governance to real property recommendations. This governance body seeks to ensure accuracy in scope and scale of all SEC Real Property requirements prior to moving forward with any actions with GSA. These requirements include, but are not limited to: new space, lease renewals, major space configurations, strategic capacity plans, and workplace strategies. The RPAC is chaired by the COO and has representation from every office and division in the SEC. This body will also evaluate real estate requirements prior to initiating any GSA activities associated with new leases. The RPAC met twice in October 2011 to discuss and agree to the recommendations from GSA on the terms of renewals for the four leases expiring in 2012

Reorganizing the Office of Financial Management

OFM administers the financial management and budget functions of the SEC. The office assists in formulating budget and authorization requests, monitors the utilization of agency resources, and develops, oversees, and maintains SEC financial systems. In the third quarter of FY 2012, OFM is moving to a new financial management system that will be hosted, operated, and maintained by the Department of Transportation's Federal Shared Service Provider (FSSP). The FSSP system will provide a modernized technical infrastructure; improve the controls environment; and eliminate the onus on SEC staff for development, maintenance, and ongoing operations, moving it to DOT, an organization that regularly provides the service as a demonstrated competency. The FSSP system will provide better data quality and controls and will remove a significant amount of transactional work, allowing OFM to concentrate on core activities (e.g., financial reporting/analysis, accounts payables and receivables, and data management) and budget management (i.e., planning and execution).

This modernization initiative, as well as additional business process redesign efforts including redesign of the Disgorgement and Penalties and Filing Fee functions, seek to strengthen financial operations and analysis, increase efficiency, enhance internal controls, and create savings in contractor and technology spending.

The organizational assessment found that while OFM has an effective overall organizational design focused on job functions, there are certain areas where roles and responsibilities warrant additional clarification. Further, the management layers and number of direct reports for each manager are inconsistent, leading to communication challenges.

The review of OFM's processes found that many processes are manual and use a disparate set of systems, tools, and non-repeatable searches and queries, resulting in slower report production. Finally, the assessment concluded that the organizational structures of a few key OFM functions, including Disgorgements (which is responsible for returning ill-gotten gains to investors) and Internal Controls, should be changed to reflect their importance to the agency.

The assessment yielded recommendations for a modified organizational structure that was tied more directly to job functions, and clarified roles and responsibilities for each unit. Key changes include:

- Creating consistent management layers across OFM, and revising each manager's number of direct reports. This will clarify reporting responsibilities, remove potential decision-making bottlenecks, improve communications and reduce costs.
- Creating an organizational unit dedicated to distributing disgorged funds to harmed investors, and dedicating other staff members to internal controls, operational risk management, and audit preparedness. These changes will elevate the visibility, focus, and importance of these functions.
- Increasing service to internal customers with dedicated OFM points of contact to support mission-critical objectives.
- Elevating key strategic functions to Branch Chief and Assistant Director levels to clarify accountability.
- Bolstering analytical functions within Budget Execution and Financial Reporting as well as Reporting and Analysis teams.

In addition to these planned changes to the organizational structure, OFM has made improvements to strengthen its operational risk and internal control activities. In FY 2011, the Government Accountability Office (GAO) determined that the SEC had no material weaknesses in internal controls over financial reporting. This is a significant operational risk management achievement for both OFM and the SEC, and demonstrates progress resulting from OFM's remediation efforts.

In partnership with the Division of Enforcement, OFM also completed a Disgorgements and Penalties assessment effort, and has recently formed sub-teams to address the findings. In addition, OFM has improved processes related to filing fees, including eliminating a backlog of reviews paid on registrant filings and reducing the filing fee backlog for inactive accounts.

OFM is moving quickly to implement its reorganization. Given the impending FSSP migration, OFM leadership intends to follow a phased approach to implementation, but plans to have major staffing and workload decisions made during spring 2012, with other components following later in 2012.

Reorganizing the Office of Human Resources

The work of OHR affects every employee across the SEC, with services ranging from hiring new staff to performance evaluations to managing employee compensation. Given OHR's extensive reach across the organization, it is critical that OHR's people management processes be highly effective. A working group conducted a comprehensive organizational assessment of OHR—including a review of the office's organizational structure, workforce, internal controls, key processes and policies—and drew input from managers and internal customers.

The assessment found that:

- OHR lacks documented policies and procedures in important areas, hindering its ability to formally manage process risk, ensure compliance, and provide consistent service.
- Senior-level employees (SK-14 or higher) occasionally perform transactional tasks that could, in the future, be outsourced or delegated to a junior staff member.
- There is a lack of organization-wide consistency in responding to employee queries, producing internal customer dissatisfaction.
- Agency staff want OHR to provide more advanced human capital services, such as workforce planning, succession planning, and analytics.

An appreciation of the challenges with the existing structure has informed a new OHR design that, once implemented, will be more nimble and customer-focused, establish clearer lines of authority and accountability, and utilize staff positions more strategically. The new design seeks to categorize and group staff who perform similar work functions, create greater efficiencies, increase accountability for providing consistent and high quality service, and more clearly define OHR's organization. The new structure seeks to provide greater prominence to the recruiting and hiring functions, better equipping OHR to handle hiring needs and staffing surges stemming from new statutory responsibilities or other emerging events. Furthermore, data on OHR employee skills are being used to identify opportunities to "upgrade the talent within the HR function" as discussed in the BCG report. New, strategic functions that OHR had not previously performed, or had performed on a limited basis (i.e., data analytics, workforce planning and compensation guidance), are included in the new organizational structure and will enable OHR to help managers understand the dynamics of their current workforce, as well as plan for future workforce needs. OHR has begun developing these strategic functions, primarily by:

- Performing a workforce assessment to provide managers with critical information about their workforce to assist with budgeting and staffing decisions.
- Developing the agency's first Human Capital Plan, a key strategic document outlining people-related priorities that link tactical human resource activities to broader mission needs. Implementing the plan should lead to increased employee engagement and satisfaction as measured by the Federal Employee Viewpoint Survey.
- Launching a study to determine how to revamp the existing compensation system, increasing the agency's ability to attract and retain talent by offering competitive salaries, setting consistent pay for new hires, and recognizing and rewarding individual performance. The result of the study will provide a foundation in relinking pay to performance, a need cited in the BCG report.

OHR has taken a number of steps to strengthen customer support for divisions and offices that rely on the hiring pipeline. It is addressing recruiting concerns, such as the ability to quickly obtain needed specialized talent, by creating a policy and process for using the Excepted Service Hiring Authority (ESHA) in appropriate circumstances.

OHR also plans to assign a dedicated recruiter to address "hard to fill, hard to slot" positions. It is launching a pilot program in early 2012 that includes the creation of a customer liaison, or Human Capital Manager, for five divisions and offices. Results from this pilot will help identify types of customer support needed, clarify service expectations and better connect OHR to the needs of the agency's various divisions and offices.

OHR has also updated and replaced old policies to help ensure consistency across HR practices. The new policies will be used by OHR managers to convert complex hiring authorities and civil service laws into practicable processes. The policies will be posted on the SEC's intranet and will serve as a guide for employees and managers, reducing inquiries to OHR and saving staff time.

In agreement with the BCG recommendation to expand and centralize the training function, SEC University has developed programs to address technical knowledge gaps related to Dodd-Frank requirements and enhanced its leadership training program. Highlights of the expanded training include: offering instructor led and online courses (via Practising Law Institute) on new securities products, risk management and capital market structure and operations; bringing SEC experts together to serve as "adjunct professors" to leverage their subject matter expertise in trainings across SEC; developing a mentoring program (iConnect) to capture institutional knowledge across and within Offices/Division; and developing a comprehensive leadership development program for supervisors. The expanded training will help enhance technical capabilities around Dodd-Frank requirements and strengthen the ability of SEC managers to achieve greater employee engagement.

The vacant OHR Director position was filled in January 2012. The new Director will begin to phase in the new organizational structure in 2012, to include new roles, responsibilities and coordination mechanisms. While restructuring is a necessary first step to aligning work and people, OHR will also tackle improvements in other areas (i.e., process, technology, and people) in the coming year.

Creating the Office of the Chief Data Officer

SEC divisions and offices depend on the agency's ability to effectively gather, distribute and make use of diverse information on the markets, institutions, and people it regulates and monitors. However, much of the data the agency currently collects cannot be shared due to incomplete or inconsistent documentation, as well as data integration limitations attributable to varying structures and formats. As a result, staff do not always have sufficient access to accurate and timely information needed to inform analysis and decision-making, sometimes forcing the agency to purchase externally-developed reports that are produced using the SEC's own data. In response to the need for a strong enterprise data management capability, we have established the Office of the Chief Data Officer (OCDO), which is developing integrated data management governance capabilities to include policies, procedures and a prioritized set of recommended initiatives, thereby improving data quality, access, and sharing, as well as containing costs related to report acquisition.

The working group in this arena has made significant process over the last six months, carrying out an organizational analysis that identified a broad spectrum of functions and capabilities necessary to establish and sustain the agency's new data management program, and developing an operating model and transition plan for building out the mission, staffing, roles and responsibilities, and processes needed for a successful OCDO.

The agency's current data management capabilities, priorities, and challenges were assessed using the Data Management Maturity Model, a framework developed for the financial services sector by the Enterprise Data Management Council and Carnegie Mellon's Software Engineering Institute. This analysis included discussions with customers throughout the organization to carry out a structured evaluation of capability gaps, business priorities and challenges across all areas of how data is acquired, managed, stored, used, and disposed. Following this, the working group developed a three-year roadmap with forty (40) prioritized and sequenced recommendations and related implementation plans. Collectively, the activities included in the roadmap will target both short- and long-term results and assist in the evolution of SEC data management capabilities and the data asset infrastructure.

The working group is also planning to recommend the establishment of a Data Governance Council (DGC) composed of senior SEC staff to provide guidance to SEC divisions and offices on agency-wide data management priorities and structuring of individual initiatives; establish organizational metrics for data governance, quality, and use; and make recommendations on major enterprise data initiatives and actions. The DGC will be made up of subject matter experts who will serve as liaisons between the DGC and business owners in divisions and offices, identify data management needs, and develop business cases for specific initiatives.

In addition, the working group is developing a solution called the Data Asset Repository to catalogue and search SEC data assets from both external and internal sources. Housed in a user-accessible central location, the repository will capture metadata, such as topic category, data source, and data owner. The working group also is developing and prioritizing a comprehensive data policy for all facets of data management. Combined, these actions will contribute to improving the ability of agency staff to access and use needed data at all levels of the organization, resulting in time and cost savings, as well as enhanced mission effectiveness.

Conducting a regional organizational assessment

Based on another key BCG recommendation, a Regional Organizational Assessment (ROA) working group was established to: clearly define an SEC office location strategy, clarify the balance of roles between regional and home office staff, and consider options for an optimal regional structure and reporting relationships. The working group is assessing the need for any organizational changes and the impact of possible changes on SEC mission and operations. To support this effort, the working group created four subcommittees to focus on: further enhancing the Enforcement program, increasing the efficiency and effectiveness of OCIE's Exam Program, developing a location strategy for the SEC, and improving regional operational support functions.

Enforcement Subcommittee

In the last six months, the Division of Enforcement continued to see the benefits of its structural reforms made over the past two years, which were detailed in the SEC's previous report. The programmatic reforms—designed to maximize resources and enable the Division to more effectively combat securities fraud—included, among other things:

- The launch of five national specialized investigative units dedicated to high-priority areas of enforcement, including Asset Management (hedge funds, investment advisers and private equity); Market Abuse (high-volume and computer-driven trading strategies, large-scale insider trading by market professionals and others, and market manipulation schemes); Structured and New Products (various derivative products); Foreign Corrupt Practices Act violations; and Municipal Securities and Public Pensions.

- A flattening of the Division's management structure by doubling its front-line staff-to-manager ratio through elimination of the branch chief position, thus adopting a more streamlined organizational structure and reallocating many of these managers back to front-line investigative work.

- Establishment of an Office of Market Intelligence to utilize technology and improved workflow to collect, risk-weight, triage, assign and monitor the tremendous volume of tips, complaints and referrals received by the Division each year.

- Creation of an Office of the Managing Executive with a network of business managers throughout the Division to handle operations such as IT, workflow, budget, HR and project management tasks, thus relieving investigative staff from these tasks so they can focus on their core competency of conducting investigations.

- Improvement of the Division's law enforcement capabilities by streamlining unnecessary processes.

- Recruitment of industry experts, and continued enhancement of expertise of existing SEC staff through targeted training in critical areas.

- Implementation of proactive, risk-based initiatives to increase the Division's ability to identify hidden or emerging threats to the markets and act quickly to halt misconduct and minimize investor harm.

- Utilization of performance metrics designed to capture the nature and level of investigative activity, the number and timeliness of enforcement actions, as well as overall efficiency and performance of the Division.

Continued enhancement of the Enforcement Program's IT infrastructure and expertise, including implementation of data analytics, other state-of-the art investigative tools, and improved forensic capabilities. The BCG study highlighted many of these existing initiatives, concurring that they were proving effective. The division's results in 2011 speak to this: the SEC brought 735 enforcement actions in FY 2011, more than have ever been filed by the Commission in a fiscal year. Eighty-five of those actions were designated National Priority Cases – the Division's most important and complex. In addition to the improvement in the quantity and quality of the filed enforcement actions, the Division obtained orders for $2.8 billion in penalties and disgorgement; utilized enhanced remedies available under the Dodd-Frank Act to bar numerous wrongdoers from future work in the securities industry; and obtained relief that sent a strong deterrent message, including asset freezes, trading suspensions, and penny stock bars.

To continue building on progress to date, an Enforcement Subcommittee was established to identify additional opportunities to further enhance the effectiveness and efficiency of Enforcement functions. In November 2011, the subcommittee completed an analysis of six focus areas: 1) resource allocation; 2) staffing, structure and reporting lines; 3) reducing administrative burdens and identifying opportunities to streamline processes; 4) addressing technology challenges and improving the use of technology; 5) identifying opportunities to improve collaboration and communications with other Divisions and Offices within the Commission; and 6) recognizing and incentivizing excellence in performance by Enforcement personnel. The analysis included identification of current challenges, preliminary recommendations to improve the program's processes and operations, and potential risks and issues for consideration. Based on the subcommittee's recommendations, the Enforcement Program is in the process of establishing an internal Advisory Committee focused on the continuous improvement of the program. The Advisory Committee will include leadership from across the Division who will be responsible for studying and making recommendations for improvements in Division operations, and in implementing approved recommendations. The Director of the Division of Enforcement is currently reviewing other specific recommendations made by the subcommittee.

National Exam Program (NEP) Subcommittee

Over the past 18 months, NEP has implemented a number of initiatives to improve coordination and collaboration across the program. Specifically, the NEP:

- Implemented a new governance model.

- Developed the first nationwide, comprehensive exam manual, which provides the definitive source for the NEP's policies and procedures, as well as a standardized exam workbook system known as TRENDS.

- Improved training through SECU and strengthened the group culture through building a leading practice training program and incorporating mentoring, project-based staffing, and other steps to build a culture of high performance, teamwork, and accountability.

- Established Exam Risk Liaisons in each regional office, who meet monthly with the central NEP Office of Risk Analysis and Surveillance (RAS) to help ensure a two-way flow of information and knowledge.

- Revised procedures relating to the monitoring and review of open examinations, which helped to ensure the NEP was allocating resources to those examinations most in need.

The NEP Subcommittee was established to continue increasing the effectiveness and efficiency of the Exam Program and defining a clear reporting structure for its national program. The subcommittee chose three primary focus areas for improvement: 1) resource allocation, 2) risk assessment process, and 3) clarification of roles and responsibilities between the home office and the regions. To date, the subcommittee has completed an initial analysis of these areas, including identification of current challenges and risks, and an initial set of options to improve NEP processes, operations, and reporting structures. The subcommittee is currently evaluating its findings, including seeking feedback from the NEP Leadership Team, and finalizing its options.

Location Subcommittee

The Location Subcommittee is evaluating the appropriateness of retaining the SEC’s current regional structure. The subcommittee is conducting a cost-benefit analysis, with the following goals for the SEC’s location strategy: 1) optimize the agency’s efficiency, productivity, and mission of investor protection, 2) support the agency’s emphasis on specialization, staffing flexibility, and consistent nationwide programs, and 3) develop a location approach that takes into account the costs and benefits of each regional office and the regional structure as a whole.

To date, the subcommittee has developed an approach and established initial frameworks for its cost-benefit analysis. It has completed the data collection phase of its work, which involved initial analysis of more than 50 data elements, including data for the national programs (Exam and Enforcement), stakeholders (registrants, regulators, and investors), and financial (real estate) costs. The subcommittee researched and analyzed historical trends that influenced the current regional strategy since 1939 to identify effective or ineffective regional strategies in addition to reaching out to other agencies to learn from them.

Regional Operations Subcommittee

The Regional Operations Subcommittee is evaluating the SEC's regional operating model to improve how the SEC manages and supports operational functions (i.e., human capital, financial management, information technology, facilities, and security) throughout its regional offices. Its assessment considers the optimal alignment of responsibilities among regional offices, the Enforcement and Exam national programs, and organizations reporting to the Office of the Chief Operating Officer as well as seeks to clarify the roles and responsibilities of the Assistant Regional Director of Operations (ARDO) position.

To inform the subcommittee's analysis and identify improvement opportunities, it completed a study of the standard business practices of seven other federal government departments/agencies. In January 2012, the subcommittee finalized its Current State Report, which included an assessment of current regional operations across the SEC's regional offices and the effectiveness of 10 operational functions, including more than 200 discrete activities. The report identified existing reporting relationships for each function, issues and/or gaps in roles and responsibilities, ideas for future improvements, and pending organizational changes that could impact regional operations.

Based on its assessment, the subcommittee is identifying potential alternative regional operating models to better align the reporting structure. It is currently evaluating these alternatives to recommend a model designed to improve efficiency and consistency across the regional offices, while also being scalable to variations in size, workload, and location of the SEC's regional offices.

The subcommittee is also working with OCOO and Enforcement and Exam senior leadership to clarify roles and responsibilities between regional offices, home office, and the OCOO. As a result, the subcommittee developed a responsibilities matrix that clearly defined specific roles and responsibilities for the 10 operational support functions. The matrix is currently under review. The subcommittee also completed a high-level assessment of its current and planned intranet capabilities to determine the feasibility of using these capabilities to support implementation of several recommendations, including management of operational guides, creation of communities of practice for ARDOs, and improvements to business processes.

Challenges

The working group will continue to face a number of challenges to develop, socialize, and pursue approved recommendations. The working group must coordinate and obtain support from internal and external stakeholders. At the same time, it must ensure its analysis and recommendations are well coordinated with other initiatives already underway within the SEC. In particular, the working group must ensure its recommended regional functional model aligns with the redesign of the OCOO functions (e.g., OIT, OHR, and OFM).

The implementation of several improvement recommendations may require negotiations with the National Treasury Employees Union (NTEU). While the NTEU has been actively engaged in the work of the Location Subcommittee, additional formal negotiations may be required.

Reprioritizing mission activities

The BCG report recommended that the SEC undertake an agency-wide process to evaluate and reprioritize its mission critical activities and realign resources accordingly. This working group has been assessing the impact of potential changes to the prioritization and implementation of current and potential activities, and identifying activities that can be scaled back, stopped or delegated, as well as high-priority activities that should be scaled up. The working group for this project includes representatives from all SEC divisions, the Office of Compliance Inspections and Examinations (OCIE), the Office of the Chief Accountant (OCA), the Office of the General Counsel (OGC), and the Office of International Affairs (OIA). The working group has identified a set of the most complex activities and activities likely to have the greatest impact that warrant further study to determine the appropriate scope of potential changes. Before finalizing and implementing any recommended changes, these activities would undergo impact assessments to evaluate the levels of risk or opportunity the potential changes represent, together with anticipated labor requirements or savings, and projected impact for internal and external stakeholders. Following the completion of these impact assessments, the working group would need to develop specific recommendations on opportunities to scale up/commence, scale down, stop or externally delegate specific activities.

In addition to these assessments, in many areas, divisions and offices have already undertaken initiatives during the course of this review to improve the effectiveness and timeliness of their activities and to make more effective use of SEC resources. Some of these are described below.

Division of Enforcement

- The Division of Enforcement has taken a number of steps to streamline its processes and improve the efficiency of its efforts, which have contributed to more focused investigative activity and better and earlier identification of wrongdoing. This includes reorganizing its Office of Collections, charged with pursuing the collection of disgorgement and penalties awarded in judgments and Commission orders. The reorganization has led to a centralization project to leverage the Office's expertise in this area and allow enforcement staff outside the Office to devote more resources to their core mission of investigating and litigating violations of the federal securities laws. To that end, the Office of Collections took on the work of an additional two regional offices and the centralization effort will continue throughout fiscal year 2012. It also includes revamping the Division's Office of Distributions, which has streamlined processes for funds distribution to harmed investors. Successful distributions require a combination of legal, financial, and logistics expertise, and the Office of Distributions is centralizing this unique work to provide transparency and efficiency to these processes. The improvement initiatives will enable swift execution of distributions, returning money to defrauded investors as quickly as possible.

- The Division of Enforcement also has made additional improvements to how it generates, stores, archives, and manages documents during the lifecycle of an investigation, with the implementation of a new eDiscovery tool with enhanced search, organization, and analysis capabilities. The quality of the Division's investigations and the speed with which it files enforcement actions have been improved by a recently established Cooperation Initiative that provides incentives for individuals and companies to fully and truthfully cooperate and assist with SEC investigations and enforcement actions. The Division has utilized the initiative in dozens of its enforcement matters, allowing it to bring stronger cases and shut down fraudulent schemes earlier than would otherwise be possible. By incentivizing "insiders" and others with knowledge of wrongdoing to come forward early in an investigation and provide critical information, the initiative has also given the Division access to evidence and information that otherwise may not have been available. The Division also is expanding its use of advanced analytic tools and data-based templates in investigations. These risk analytic initiatives use data-driven techniques to not only ferret out fraud but help achieve both prevention and earlier detection of fraud. For example, by identifying abnormal investment performance, the Division has brought a number of enforcement actions against various hedge fund advisory firms and individuals. Finally, the creation of five national specialized investigative units dedicated to developing expertise in high-priority areas has improved the Division's performance and maximized its deterrent impact. The specialized units have enabled the Division to better prioritize its work, by focusing on newly emerging risks and complex markets, transactions, practices, and products that are deserving of enhanced enforcement scrutiny. In addition, the specialized units, including the hiring of industry experts to work in the units, have enabled the SEC to bring better cases.

Office of Compliance Inspections and Examinations

- The Office of Compliance Inspections and Examinations (OCIE) has taken a number of steps recently to maximize the efficiency of its National Examination Program, which conducts regular examinations of registered entities, such as broker-dealers, transfer agents, investment advisers and companies, nationally recognized statistical rating organizations, and self-regulatory organizations. These actions have arisen from OCIE's ongoing implementation of the improvement plan that was a result of OCIE's self-assessment of the best way to improve process, strategy, structure, people and technology. OCIE implemented a project-based staffing model in October 2011 that allows the NEP to maximize staff expertise by more effectively deploying staff to appropriate exam teams. In addition, OCIE has developed an electronic examination workbook, the Tracking and Reporting Examinations National Documentation System ("TRENDS"), for all staff to use when conducting examinations. TRENDS is a web-based program that creates a uniform examination process and record-retention function for the National Examination Program, and streamlines the examination process to enable examiners to more efficiently carry out their examination-related responsibilities. In particular, TRENDS serves to reduce or eliminate redundancies, inconsistencies, excessive narrative, and unnecessary management revisions in the examination process and centralizes the retention of examination work papers. TRENDS captures each examination's purpose, scope, risk assessment, findings, and appropriate statistical data, reducing the additional work examiners had to engage in to draft scope memoranda and examination reports. As a result, TRENDS eliminates an overly burdensome writing process, which required information to be captured multiple times in various places. Similarly, OCIE has implemented a streamlined exam report drafting form. In addition, in January 2012, OCIE implemented a single comprehensive Inspections and Examinations Program Manual. This manual represents the culmination of 15 months of work to review more than 200 policies, identify policies that were no longer in effect or out-of-date, and capture the elements of those policies that were critical for the effective operation of the National Examination Program. OCIE has also sought to more effectively use resources by improving risk monitoring capabilities through activities ranging from the establishment of a central Office of Risk Analysis and Surveillance that identifies high risk firms, and issues and facilitates sharing of risk analytics, to the creation of a group that monitors risk and examination work within large and systemically important institutions. Finally, OCIE has continued to hire senior specialized staff in a variety of areas most beneficial to the examination program such as valuation, quantitative trading strategies, and derivatives. These specialized examiners provided expertise, guidance and consultation to examinations occurring all over the U.S.

Division of Corporation Finance

- The Division of Corporation Finance has taken a number of steps to enhance the effectiveness and efficiency of its disclosure review program. These include changes to the review approach for smaller reporting companies to gain greater efficiencies in these reviews, and changes to the review schedule to increase the frequency of reviews of disclosures of certain larger companies. The staff is implementing this recalibration of the review program in an effort to enhance its review presence with companies that comprise the substantial portion of the public capital markets, while continuing to satisfy the SEC's statutory review obligations for smaller companies in an efficient and effective manner. The Division also created three new offices: 1) the Office of Structured Finance to help address complexities and change in the asset-backed securities market; 2) the Office of Capital Markets Trends, which evaluates trends in securities offerings and in the capital markets to determine if the SEC's rules, regulations, and review approach are adequately addressing capital market needs; and 3) a new disclosure review group that focuses on the largest financial institutions. In addition, the Division streamlined its process for reviewing no-action letter requests regarding Rule 14a-8 shareholder proposals by eliminating a layer of review in advance of the 2012 proxy season, which freed up staff to perform other review and interpretive activities in the Division.

Division of Risk Strategy and Financial Innovation

- The Division of Risk Strategy and Financial Innovation (RSFI) has expanded its efforts to identify economic risks related to new financial products. RSFI, along with other SEC divisions and offices, has developed regulatory strategies for minimizing that risk, including increased scrutiny of security disclosures and investor suitability standards for complex financial products on exchanges.

- In addition, RSFI has been developing a rigorous and consistent framework for conducting cost benefit analysis for SEC rules. The framework highlights, among other things, the nature of market failures, a roadmap for incorporating direct and indirect effects, and the relation between cost-benefit analysis and the concepts of efficiency, competition, and capital formation.

- RSFI has also led improvements in the SEC's Tips Complaints and Referrals (TCR) system, including the development of policies, procedures, and metrics that have resulted in faster and more accurate distribution of TCRs to appropriate staff across the SEC. TCR system backlog has decreased approximately 50 percent between May 2011 and January 2012.

Division of Investment Management

- The Division of Investment Management has made several improvements in how it interacts with mutual funds and investment advisers including enabling private fund advisers to file new Form PF on an Internet-based form using XML, which will be more efficient for many advisers. In addition, the Investment Adviser Registration Depository (IARD) system now permits advisers to auto-complete sections of Form ADV by using a "look-up" function or by automatically duplicating certain text if the adviser instructs the system to do so. These features should save advisers time in completing the form. The Division also led efforts to implement checks in the EDGAR system to detect obvious errors contained in the Forms 13F that are uploaded in EDGAR by institutional investment managers, and clarify instructions to better help filers detect and correct errors in filings prior to submission. The Division also created a new office to concentrate on regulatory issues for private fund advisers headed by an experienced hedge fund attorney, and made other significant hires including an EFT expert. The Division made other changes to improve its business functions including combining its two rulemaking offices to create better efficiencies and use of subject matter expertise. The Division also completed building out the Form N-MFP data base and has a full year of portfolio data from money market funds. That data is being used to more closely monitor the industry, inform policymaking, and leverage the exam program.

Division of Trading and Markets

- The Division of Trading and Markets (TM) reorganized its expanded staff to maintain essential functions while deploying more than 15 teams to develop Commission rule proposals to implement the Dodd-Frank Act. TM established a new Office of Derivatives Policy to address the fundamental legal, definitional, and implementation issues associated with the creation of a regulatory system for the complex and newly regulated over-the-counter (OTC) derivatives market. TM also significantly expanded the clearance and settlement program, dedicating the Office of Clearance and Settlement to implementing the regulations under Dodd-Frank for clearing agencies that clear security-based swaps and overseeing security-based swap data repositories, in addition to that Office's traditional responsibilities in monitoring the activities of clearance and settlement organizations. The Division has also significantly increased staffing of the Office of Market Operations in order to help address the ever-increasing cyber security challenges posed by hackers, organized crime and foreign governments. TM also created an office to analyze the internal statistical models used by broker-dealers, security-based swap dealers, and central counterparties. In addition, TM has expanded its office responsible for risk- monitoring broker-dealers, with an emphasis on monitoring firms that have been approved to use internal statistical models for regulatory purposes and firms that are part of holding company structures and hold significant amounts of customer assets or are significant market makers or dealers in the securities markets. In connection with these organizational changes, TM has hired new economists and financial engineers with industry experience and technical backgrounds in the OTC derivatives markets, financial modeling, and financial institution and clearing agency risk management, among other areas.

Seeking flexibility from Congress on Dodd-Frank-mandated offices

The Dodd-Frank Act requires that the SEC create four new offices that report directly to the Chairman, including the Office of Municipal Securities (OMS), the Office of Credit Ratings (OCR), the Office of the Investor Advocate (OIAD), and the Office of Minority and Women Inclusion (OMWI). As described in the BCG study, the creation of these offices and their reporting to the Office of the Chairman was primarily intended to increase the visibility of the functions that they contain, enhancing the degree of focus and resources accorded to them. The BCG study recommended that the SEC seek the flexibility from Congress to design its organization structure in a manner consistent with the activities required to be performed by the Dodd-Frank-mandated offices, while avoiding unnecessary duplication.

Although the BCG recommendation has been communicated to Congress, Congress has not yet indicated an intention to change the statute consistent with the recommendation. Congress authorized budget reprogramming authority to implement the OMWI, and on January 3, 2012 the agency named OMWI's inaugural director tasked with overseeing diversity in the agency's employment, management, and business activities.

With the passage of the FY 2012 appropriations bill, the SEC is moving forward with the establishment of the Municipal Securities, Credit Ratings and Investor Advocate offices. Absent congressional action to the contrary, the offices will be established in FY 2012 per the statutory mandate, and this working group will be disbanded.

Agenda Item 2: Improve controls & efficiency

The BCG report highlighted the need to improve controls and efficiency across a number of areas ranging from the Commission-staff relationship to Self-Regulatory Organization (SRO) oversight, and recommended the creation of a Continuous Improvement Program. The agency has taken steps to address these recommendations in a structured manner. The Division of Trading & Markets has developed a SRO Noteworthy Filings Dashboard to identify issues raised by particular filings that affect the SEC and provide greater insight to Commissioners on staff use of delegated authority. Processes have been developed for divisions and offices to employ when undertaking regular reviews of delegated authority to assess their appropriateness and make recommendations of potential modifications. A staff working group has begun redesigning how memoranda are prepared and submitted for Commission review.

SRO oversight has been strengthened through various efforts, including: improved coordination focused on centralizing communications between SROs and the SEC; commencement of FINRA 964 risk management inspections, which include a review of the substantive areas outlined in Dodd-Frank section 964, including FINRA's governance, exams, executive compensation, arbitration, and other practices; and completion of an SRO roundtable conference in January 2012 that brought SEC and SRO leaders together to discuss ways to improve coordination; the establishment of an SRO working group to consider what disclosures the SROs should be making as well as whether metrics and standards should be established for the SROs. All of the exchange SROs underwent a comprehensive baseline exam in 2011. The purpose of these reviews was to obtain a current snapshot of each exchange in order to understand their business, their internal controls and their governance in order to identify higher priority areas of risk for further review.

In addition, a Continuous Improvement Program has been established, and has identified and prioritized more than 80 savings opportunities, many of which are already underway and are projected to save more than $8.3 million over the next two years.[4]

Key initiatives include:

[4] Cost savings opportunities identified in this section are estimated, and based on the continuing availability of staff to oversee implementation

Implementing a Continuous Improvement Program

Continuous improvement, at its core, is about using available resources as efficiently as possible, systematically finding new ways to do work in less time and at lower cost. This initiative seeks to institutionalize continuous improvement at the SEC.

Quick-Hit Savings Opportunities

Staff are already making strides in this multi-year cross-agency effort, freeing resources that can be allocated to the agency's highest-priority mission-critical activities. Led by the COO, a working group from across the divisions, offices, support organizations, and regions, reached out to employees for ideas and collected more than 150 different possibilities to use resources more efficiently. Many of these ideas are longer term and would require significant investment, but several can be implemented in just a few months and with minimal investment. The working group, known as the Continuous Improvement Program (CIP), has already pursued some of these short-term initiatives, which are projected to reduce spending on telecommunications, subscriptions, and supplies, resulting in estimated cost savings of $554,000 in FY 2012 and $770,000 in FY 2013, totalling approximately $1.3 million in projected cost savings over two years.

Long-Term Savings Opportunities

From the pool of long-term ideas suggested by SEC employees, the cross-functional working group prioritized 14 promising opportunities for additional cost reductions. The CIP is currently pursuing five of these opportunities, which range from streamlining employee on-boarding processes to improving corporate filing confidentiality request processing.

While longer term, these initiatives require low to moderate investment and will provide the organization with valuable lessons and good practices toward future savings initiatives.

The increased emphasis on continuous improvement has prompted a number of employees to identify ways to reduce costs or be more efficient in their own work. For example, in June 2011 an employee in OHR identified an opportunity to close an underused employee health unit while providing a lower-cost alternative for the same services. In November 2011, after four months of close collaboration with NTEU and others, OHR closed the unit. The employee-identified initiative is projected to result in $124,000 in avoided costs in FY 2012. Similar employee-driven cost savings opportunities, such as security guard service contract renegotiation (projected two-year savings of $1.95 million), or the reduction of travel costs through increased use of video teleconferencing (projected two-year savings of $3.76 million), are also under implementation. All told, employee-driven improvement initiatives are projected to avoid $2.9 million in costs in FY 2012 and $4 million in FY 2013, adding more than $6.9 million to a total estimated savings of $8.3 million (which includes the two-year projected $1.3 million in quick-hit savings opportunities) over two years. This type of staff-led continuous improvement and cost-savings initiative signifies the continuing commitment to make prudent use of SEC resources.

As momentum for continuous improvement has grown, so has a challenge: ensuring the success of the various improvement initiatives that are planned or already underway throughout the organization. Recognizing this, the CIP has developed materials that all divisions and offices can use in their improvement initiatives. These include a cost-benefit analysis tool, process mapping standards, and a repository of good examples from successful prior initiatives. These materials are available to staff on a central intranet portal that also highlights success stories from employee-driven initiatives and reports total costs saved to date.

In coming months, the working group expects to build on progress that has been made to date by, among other things, developing a more formal inventory of improvement initiatives across the agency to help initiative sponsors avoid potential duplication of efforts. The CIP will also help managers who plan to launch initiatives develop a clear scope for those initiatives to ensure their initiatives have achievable timelines and the resources required for success, resulting in sustainable, long-term savings initiatives.

Reviewing the Commission/staff interaction process and delegation of authority

The BCG report recommended the SEC review the processes that Commission and agency staff use to interact and make decisions, namely to:

- Provide clarity on delegated authority.
- Increase transparency for the Commission in areas where authority is delegated.

- Increase efficiency in Commission/staff interactions in areas where authority is retained by the Commission.

In response to this recommendation, a small working group met with Commissioner offices and senior staff from major divisions and offices to discuss various approaches for addressing the three components of this recommendation. Based on these discussions, a review of existing delegations of authority, and an analysis of the current processes that have developed in light of these delegations, the working group is evaluating proposed responses to each component of the recommendation for future consideration.

With respect to providing clarity on delegated authority, the working group is considering a process by which each person who holds delegated authority (i.e., the person to whom the authority is delegated) would conduct a periodic review of the delegations. The review would consider, based on uniform criteria, the appropriateness of modifying or repealing existing delegations of authority, as well as the appropriateness of seeking additional delegated authority. During the review, the holder of delegated authority would consult with Commissioners and the Office of the General Counsel and provide the results of the review to the Commission. If, based on the review and consultation, the holder believes that changes to existing delegations of authority should be made, the holder would provide his or her recommendations for further consideration by the Commission.

With respect to increasing transparency for the Commission in areas where authority is delegated, the working group is considering a process by which each person with delegated authority would undertake responsibility for notifying Commissioner counsels of upcoming significant exercises of delegated authority. Working group members are reviewing best practices for providing such notification. This effort is informed by projects currently underway to provide greater transparency for the Commission of the exercise of delegated authority. For example, as discussed above, the Division of Trading & Markets has developed a Noteworthy Filings Dashboard for SRO rule filings that involve potentially novel or controversial issues or are sufficiently high-profile to warrant additional scrutiny. The Dashboard identifies key issues and tracks progress on statutory deadlines and upcoming Commission action dates on the filings, seeking to provide Commissioners with timely important information on rule filing status.

As part of this component of the BCG recommendation, the working group is also considering a process that requires each holder of delegated authority, to the extent that he or she has not already done so, to maintain a log of each exercise of such authority. Many holders of delegated authority currently maintain systems that log the exercise of certain delegations of authority. . For example, the Division of Enforcement uses its HUB case management system to track and provide reports on all formal orders issued since authority to issue such orders was delegated to the Director of Enforcement. On a weekly basis, the Case Management Systems and Reporting group produces a report of all formal orders issued the week prior. This report is sent to Commissioners' counsels and other senior staff. Nevertheless, logs currently are not prepared with respect to the exercise of all of the nearly 400 current delegations of authority. Such logs could assist holders of delegated authority in their periodic assessments of existing delegations and facilitate consultation with the Commissioners in connection with those assessments

Finally, while the BCG report also recommended increasing efficiency in Commission/staff interactions in areas where authority is retained by the Commission (i.e., not delegated), the working group currently does not plan to recommend further action on this component of the BCG recommendation, though individual divisions or offices may come forward with recommendations for consideration.

Ultimately, the working group plans to refine the proposed responses to each component of the recommendation and present them to the ESC for discussion and then to Commission offices for review.

Enhancing the SEC's Operational Risk Management capabilities

Operational risk is the danger of loss resulting from inadequate or failed internal processes and systems, or from external events. Examples of operational risk events include routine processing errors, extraordinary incidents such as major systems failures, and internal or external fraud. Thus, the SEC must maintain a comprehensive control framework designed to provide a well-controlled environment to minimize operational risks and ensure processes are in place to mitigate and manage projected operational risks.

In 2010, the Office of the Chief Operating Officer (OCOO) was created and charged with increasing the agency's organizational effectiveness and efficiency. Since that time, a key focus of the office has been to develop a more effective method to manage enterprise operational risks, improve SEC performance, enhance compliance, remediate material weaknesses, optimize costs, and instill operational confidence. In late spring 2011, the OCOO launched the Operational Risk Management (ORM) Program Office, and has outlined resource requirements, risk management processes, and recommendations for enhanced ORM capabilities that can support all SEC divisions and offices.

Specifically, the intent of the ORM Program Office is to improve the agency's ability to self-identify and correct operational risk. Operational risk capabilities are standard across high performance organizations – in both the public and private sectors – and serve as a critical means of establishing transparency, disclosing operating risks facing the organization, and documenting risk mitigation tools already in place. The ORM Program Office advises senior leadership on operational risks and implements risk management practices. Ultimately, the ORM Program Office will identify management risks across the SEC's operations and will determine the agency's strategy for ongoing risk assessments, risk data capture, and reporting. Properly implemented, this will permit agency management to better understand the impact of the risks facing the organization and determine how to mitigate or adapt to those risks, before they actually occur.

Since its inception, the ORM Program Office has led process improvements to strengthen the SEC's operational risk management and Governance, Risk and Compliance capabilities (GRC).[5] Key ORM Program Office accomplishments are the following.

- In November 2011, the Government Accountability Office (GAO), the SEC's independent auditor, determined that the SEC had no material weaknesses in its internal controls over financial reporting. This is a significant operational risk management achievement for the SEC. It also demonstrates progress resulting primarily from audit

[5] Governance, Risk, and Compliance (GRC) is a process including compliance activities (e.g. OMB A-123, FISMA), enterprise and operational risk management, and effective governance through enhanced internal controls (e.g. oversight committees, policies and procedures).

remediation by OFM and OIT, with accompanying support from the ORM Program Office.

- In 2011, ORM worked to build a formal, structured program for identifying risks in the agency's internal operations, as well as the controls in place to mitigate those risks. As part of this effort, the Office created an automated tool for SEC divisions and offices to capture their operational risks and controls, as part of the annual review of internal controls required under the Federal Managers' Financial Integrity Act (FMFIA). This tool made the FMFIA process more efficient and also provided a structured repository for risks that can be tracked over time.

- The ORM Program Office conducted multiple agency-wide operational risk management training sessions to provide divisions and offices with techniques for identifying and assessing risks and controls.

- Risk assessments were completed for core processes in divisions and offices including OFM, OHR, OAS, RSFI, and OCIE.

The SEC has recently strengthened operational risk management activities, but still faces challenges in terms of resources, processes, and outputs. The OCOO has begun identifying the resources that would be required for a fully-staffed ORM Program Office that applies best practices adopted by peer agencies (i.e., the Federal Reserve Bank of New York and the Federal Deposit Insurance Company (FDIC), two agencies specifically recommended by the BCG report for comparison purposes).

Improving processes within the Division of Investment Management

The Division of Investment Management (IM) works to minimize the financial risks to investors from fraud, mismanagement, self-dealing, and misleading or incomplete disclosure in the investment company and investment adviser segments of the financial services industry, without imposing unnecessary costs and burdens on regulated entities. During the past decade, the number of investment advisers grew by 50 percent, and the funds they manage have increased to $44 trillion. While the size and complexity of the investment management industry has undergone tremendous growth, IM has only recently returned to FY 2006 staffing levels. In the current budget environment, it is imperative that IM accomplish more with its existing resources and perform its work functions in the most efficient and effective manner possible.

During the most recent reporting period, this workgroup prepared the groundwork for an in-depth analysis of IM’s workflows and business processes. The planning phase of the analysis has been completed and the analysis will be completed in the spring. The goal is to identify ways to use technology to improve mission-critical business functions, including how workload is assigned and shared, management of information and records, and the housing of institutional knowledge across the division.

IM also formed a Knowledge Management Task Force comprised of representatives from across the division to explore ways to collectively and systematically create, share, and apply knowledge to help the Division better achieve its mission objectives. The task force also functions as a governance body for the business analysis project, and will play a key role in managing implementation of recommended solutions.

Conducting an outcome-oriented performance measures feasibility study

In order to assess the feasibility of developing outcome-oriented performance metrics to measure SEC progress in achieving the agency’s mission, and to update the existing SEC Strategic Plan, a Strategic Plan Addendum working group was established. This working group consists of senior staff from 16 of the major divisions and offices with broad understanding of the division/office’s strategic priorities and program initiatives. Consistent with the Government Performance and Results Act (GPRA) Modernization Act of 2010, the working group has been preparing an addendum to the FY 2010 – FY 2015 Strategic Plan identifying enhancements to the performance measurement framework to include outcome-oriented performance metrics. The draft is expected to be presented for consideration by the Commission in coming months.

Specifically, the addendum updated the existing performance measurement framework and identified outcome-oriented metrics to address new reporting requirements. Performance measures were added, modified, and/or removed to increase the agency’s ability to report and measure performance. The Commission recently adopted the revised performance measures related to the agency's Enforcement activities and will soon be provided for consideration with improved draft metrics for other programs.

Strengthening Oversight of SROs; Centralizing and Coordinating SRO Interactions

The rapid and dynamic evolution in the securities markets has heightened the need for effective SEC oversight of, and coordination with, the SROs that are the front line regulators for those markets. Fostering a strong relationship with the SROs will, among other benefits, allow the SEC to better leverage SRO expertise and resources to monitor trends and emerging risks in the securities markets.

To this end, the Commission is actively engaged in several initiatives, including: (1) strengthening SRO oversight by shifting to a risk-based examination approach and convening an internal cross-SEC SRO working group; (2) enhancing oversight of FINRA; and (3) increasing communications and outreach via an SRO Communication Plan, an SRO Outreach Conference, and enhanced SEC participation in important securities market conferences.

Strengthening SRO Oversight

During 2011, OCIE conducted in-depth risk assessments of each national securities exchange to establish a baseline for strengthening OCIE's exam plan and conducting risk-targeted exams at certain exchanges. OCIE staff determined that, in light of the significant recent changes in equity market structure and the staff's focus on other high-priority matters over the past several years, it was necessary to conduct these assessments to create a current "snapshot" of each exchange, including a high-level understanding of the exchange's business lines, regulatory programs, and compliance controls and risk profiles. OCIE staff is using the results of these assessments to determine where it should focus its scarce SRO oversight resources and to inform the oversight initiatives described below.

OCIE staff conducted the assessments of the fifteen exchanges with twenty-four staff members grouped into six teams. The teams gathered information about the exchanges through a variety of sources, including documents produced by the exchanges, on-site visits, and interviews with exchange personnel. During the assessments, OCIE staff sought to engage senior exchange officials and board members in order to obtain their perspectives on the exchange's business operations, regulatory programs, compliance controls, and risks.

The key risk findings of the assessments were presented by OCIE to the SROs at the inaugural SRO Outreach Conference, which was held on January 12, 2012. Over 100 senior leaders from the exchanges, FINRA and the MSRB attended the conference.

More broadly, an SRO working group composed of OCIE and TM staff has been established to conduct a systemic evaluation of the current SRO regulatory structure and oversight. The working group has two task forces, both of which will take into consideration the SRO assessment results:

- One task force is studying the disclosures that SROs make, both to the public and to the SEC, regarding their regulatory operations.
- A second task force is studying the feasibility of using more defined metrics and standards to assist the SEC's oversight of SROs.

Both task forces will prepare recommendations for the Commission and the staff, as appropriate, with the goal of enhancing OCIE examinations and TM's oversight of the rule filing process.

Enhancing Oversight of FINRA

OCIE staff is conducting a review of FINRA focused on the substantive provisions that Dodd-Frank Section 964 addresses regarding national securities associations, including: governance; exams and examiners; executive compensation; arbitration services; advertising review programs; cooperation with and assistance to the states; funding; policies regarding the employment of former employees by registered entities; the effectiveness of rules; the transparency of governance and activities; and other issues that may have an impact on the effectiveness of FINRA performing its mission and dealing fairly with investors and members. Each of these ten areas is being separately examined by different teams drawn from seventeen staff members.

OCIE staff will complete an interim report on the review of FINRA (as well as a final report when the review is completed), and will develop a FINRA oversight action plan based on the report and focused on the key risk areas that are identified by the exams. OCIE staff expects to complete the review of FINRA by the middle of 2012.

Increasing Communication and Outreach

OCIE and TM have jointly developed an SRO Communication Plan to help strengthen the oversight of the SROs and coordinate SRO interactions by organizing an annual SRO Outreach Conference, creating an SRO Contact Team, and convening periodic meetings with each SRO as well as internal staff meetings regarding each SRO.

The SRO Communication Plan was developed in part to respond to concerns expressed to BCG by the SROs regarding communication with SEC staff. In particular, the SROs have raised issues regarding how to determine who the best contact person at the Commission is for a given issue. Consequently, the Communication Plan creates a designated point of contact (POC) in both OCIE and TM for each SRO who will serve as a resource to help facilitate communications between the SRO and other SEC staff. Additional POC responsibilities include coordinating and documenting meetings with the SRO and internal meetings between TM and OCIE staff to discuss the SRO. As the Communication Plan is put in place, the staff intends to reach out to the SROs to assess how well the Plan is addressing the SROs' needs and concerns in this crucial area.

As recommended by BCG, SEC staff also has made a concerted effort to participate in appropriate securities industry events, so as to better inform staff about securities markets trends and enhance the SEC's communications with SROs and other market participants.

Strengthening and Clarifying Processes for SRO Rule Proposals

Under Section 19 of the Securities Exchange Act of 1934 ("Exchange Act"), SROs are required to file their proposed rule changes with the Commission. TM reviews proposed rule changes submitted by SROs for compliance with the Exchange Act. Once a proposed rule change is filed, the Commission is required to publish notice of such proposal for public comment. A proposed rule change may not take effect unless it is approved by the Commission or is otherwise permitted to become immediately effective. The rule filing requirement provides an opportunity for Commission review, informed by public input, of SROs' proposed rule changes for consistency with the Exchange Act.

At various times in the past, the Commission has taken steps to strengthen and clarify the processes for SRO rule proposals. For example, in 2008, the Commission revised the SRO rule filing process to increase the number of proposals that are filed for immediate effectiveness and the speed by which the Commission publishes notice of an SRO's proposals. The percentage of proposed rule changes filed for immediate effectiveness under Section 19(b)(3)(A) increased from approximately 56% in FY 2008 to approximately 77% of in FY 2011. Most recently, the Dodd-Frank Act amended Section 19 to establish new deadlines by which the Commission must publish and act upon proposed rule changes submitted by SROs.

The BCG report contained a number of recommendations that were intended to further strengthen and clarify the SRO rule filing process. In response to the BCG report, TM staff is further examining the SRO rule filing process, and has identified the following four areas of focus: (1) providing additional guidance to SROs on the rule filing process; (2) steps to enhance the Commission's process of reviewing SRO proposed rule changes; (3) ways to enhance and assess the skills and tools available to TM staff that review SRO proposed rule changes; and (4) whether further statutory changes to the rule filing process contained in Section 19 may be appropriate..

SRO Rule Filing Guidance

The first area of focus addresses three specific recommendations from the BCG report: (1) clarify and publish clearer standards for when and under what circumstances an SRO must file a rule change; (2) instill greater transparency by communicating to the SROs the status of specific steps in the review of a given rule and publishing a more detailed process map; and (3) create and publish templates for common rule filings that SROs can use.

The Commission staff utilized the SRO Outreach Conference, highlighted above under the working groups focused on strengthening oversight of SROs and centralizing SRO interactions, as a first step towards providing more consistent and coordinated guidance to the SROs about the rule filing process. As part of the conference, TM provided SROs with a wide range of substantive and specific guidance, including:

- Detailed process maps that outlined the lifecycle of a rule filing, including during the Commission's internal review of the filing, and detailed handouts that provided guidance on specific issues arising in the process.

- A review of Rule 19b-4 under the Exchange Act[6], under which SROs submit their proposed rule changes.

- A panel presentation featuring a detailed step-by-step review of Form 19b-4, the form on which SROs submit each proposed rule change, and the instructions for the preparation of filings. The review also addressed the requirements for Exhibit 1 to the Form, which features a template to guide SROs in the preparation of the notice of the filing that the Commission publishes in the Federal Register.

- Detailed written materials covering topics important to SROs, such as the standards for when a rule change must be filed and the Commission's new rules of practice that govern the conduct of proceedings on a proposed rule change.

- An organizational chart for TM management as well as the POC list described above.

Rule Review Process Enhancement

The second initiative focuses on assessing and reviewing the internal business processes for the SEC's review of SRO proposed rule changes. TM staff has already adopted two revised processes:

- First, TM now circulates to the Commissioners' offices and key senior staff a written Dashboard of Noteworthy SRO Rule Changes on a bi-weekly basis. This document includes key information on selected filings that raise significant issues. TM implemented the Dashboard in part to address the recommendation to develop a robust process for identifying and escalating complex rule filings to senior division leaders and the Commission.

[6] 17 CFR 240.19b-4(b)

- Second, TM has formalized a written procedure for consulting with OCIE when evaluating complex rule filings, which will foster cross-SEC sharing of information and expertise and assist OCIE in planning future SRO examinations.

TM staff anticipates implementing further improvements to its internal SRO rule review process, but is first developing a project plan to assess this process. TM staff also plans to analyze and consider enhancements to the electronic filing system for SRO rule changes.

Staff Skills and Tools

For the third initiative, TM staff has focused on enhancing the skill diversity and tools available to TM staff through the development of an enhanced training program and new metrics for staff review of SRO rules. As an initial step, TM has partnered with the SEC University and is currently developing a new training strategy for staff by the end of 2012. The strategy will be based on an assessment of current training and learning goals, including input from managers and staff to identify training needs. Once that assessment is complete, TM staff will develop a new curriculum for training that addresses topics of broad relevance to TM staff, as well as specialized areas of expertise that are relevant to the review of SRO rule filings.

Statutory Authority

The BCG report recommended that the SEC study whether to stop reviewing certain types of filings and/or recommend that Congress amend the Exchange Act so that some rules may be self-certified by the SROs. The Dodd-Frank Act substantially revised the Exchange Act provisions applicable to SRO proposed rule changes, and in response the SEC has revised the way it reviews and processes proposed rule changes submitted by SROs. Given the substantial changes that have recently been made to the process, TM staff believes that it is appropriate to commence the recommended review of this process after the 2-year anniversary of the statutory changes (i.e., during or after Summer 2012), so that staff can assess and fully evaluate the SEC's and SROs' experience with the new Exchange Act provisions before considering further changes.

Agenda Item 3: Enhance the SEC's workforce

SEC Divisions and offices depend on effective recruiting, training, and retention of the SEC's highly skilled workforce. This need, highlighted in the BCG report as requiring special attention, has been an area of particular focus during the past six months. Working groups have recently completed a profile of the SEC's workforce for planning and recruiting use, identified support service skill and information gaps, defined a model for hard-to-hire mission-critical positions, and are developing a plan to provide adequate staffing in the face of shifting market conditions. Employee performance management is being strengthened through the deployment of the new Evidence Based Performance (EBP) Management system, which departs from the traditional pass/fail assessment to provide stronger differentiation and emphasis on performance outcomes.

Key initiatives include:

Performing an in-depth analysis of the SEC's workforce

The Office of Human Resources (OHR) conducted a workforce analysis effort to provide the agency with a better understanding of the gap between division or office workload and the workforce available to fulfill it, especially in a rapidly changing environment. The analysis identified potential workforce risks, including higher than desired attrition, loss of institutional knowledge due to retirement eligible employees, and delays in delivering quality work product due to resource or budget constraints. OHR is tasked with resolving these risks by developing recruiting strategies to hire for critical positions that perform primary work functions across the organization, and by targeting future succession planning to promote the transfer of knowledge to existing/new staff. When complete, the workforce solutions will detail how divisions and offices can proactively address workforce risks and support the divisions and offices in making workforce decisions. OHR will also assist in the development of a new workforce planning function that will provide strategy; organizational structure, roles, and responsibilities; and guidance on enterprise-level processes and technology so the organization can more nimbly conduct workforce planning efforts in the future.

In late 2011, the working group completed a detailed workforce profile of the SEC's personnel data and organizational structure that provided a snapshot of the current workforce composition (i.e., number and type of mission-critical occupations, education, tenure, and supervisory status), and historical and current workforce trends (i.e., on-boarding and new hire levels, attrition and separation rates, and retirement eligibility) to better plan for workforce risks. With detail to the individual office level, workforce profile data is now available to analyze the workforce from all levels and identify key workforce risk trend areas. This report permits coordination between the SEC's divisions and offices and OHR, enabling collaboration on potential workforce risks as well as proposed mitigation techniques to ensure the SEC meets its mission.

Key workforce risk findings included:

- The complexity of managing the SEC's mission expanded significantly since 2005, but the total on-board workforce available to execute the SEC's mission during much of that time remained rather static, as the number of people leaving the SEC was similar or slightly higher than people joining the agency. Having an understanding of the relationship between current employees, separations, and hiring trends will allow offices to: 1) compare the duties of exiting and entering employees; 2) determine if there is a gap in the work performed; and 3) decide whether additional resources or reprioritization of work is required to meet strategic goals.

- A fifth of the agency's workforce is retirement-eligible in the next five years, emphasizing the need for a strategy to prevent organizational knowledge loss. Since FY 2005, 48.7 percent of retirement eligible staff commenced their retirement within two years of becoming eligible, which may represent an immediate attrition risk or an opportunity to restructure the organization to meet new strategic direction. In either instance, offices can work with OHR to determine whether succession planning and knowledge management practices are potential options or develop organizational structure changes and hiring strategies to mitigate risks. A key benefit of this work is that the organization now has the data available to have these discussions and to plan strategically for its future workforce.

- Certain workforce segments have exhibited short agency tenure, potentially decreasing continuity for executing long-term division and office strategic goals. For example, shorter tenure is common at the senior staff level, particularly for SO-01 and SO-03 senior officers, who only stay at the agency between 4 and 5.8 years on average, respectively[7]. Having stable senior leadership tenure typically helps organizations to execute long-term strategic goals consistently and successfully. Understanding the reasons behind shorter leadership tenure can lead to developing meaningful leadership development programs for higher retention.

These agency-wide findings along with the office-by-office workforce profile information were also used by OHR to develop the FY 2012 Human Capital Strategic Plan, designed to enable the organization to identify the FY 2012 hiring priorities based on budgetary constraints, respond to Congressional inquiries, and support and inform the OHR, OAS and OFM organizational restructuring working groups in documenting the current and proposed future organizational structures. In addition, the workforce profile serves as a key step for formalizing a process that can be executed and maintained for workforce decision-making.

While the workforce profile provided statistical analysis of SEC resources, OHR also assessed total workload, documenting and quantifying how current federal and contractor staff members spend their time and what is driving their work. The working group is examining workforce trend risks detected in the workforce profile and the current workload across the SEC to help identify opportunities to allocate resources more effectively. Opportunities include: identifying primary, common, and distinct work functions (e.g., conduct investigations, conduct examinations, and disclosure review) and drivers (e.g., number of TCRs, number of examination types, and number of registration statements). With this assessment, the organization will be better positioned to anticipate and plan for changes to the work, match resources to meet workforce needs, and justify additions or reallocation of resources. Final analysis and recommendations should be completed by May 2012. The working group is also conducting a quantitative and qualitative analysis of workforce equal employment opportunity (EEO) and diversity-related disparities, identifying barriers and recommending mitigation actions. That analysis should be completed by April 2012.

Ending in June 2012, the working group will develop a workforce planning implementation plan to provide a roadmap for implementation of recommendations to mitigate workforce trends and

[7] A small number of these leaders occupy Schedule C political appointments and therefore turnover is likely due to changes in the political environment.

workload risks. The implementation plan will outline the approach to establish a continuous workforce planning function residing in the newly-redesigned OHR. The plan will guide ongoing engagement between OHR and the divisions / offices to utilize workforce planning as a technique in budget and human capital planning.

Accelerating the roll-out of the SEC's Evidence-Based Performance management system

The agency implemented an Evidence-Based Performance (EBP) management system for all non-supervisory staff in fall 2011. The system is designed to recognize and engage top performers while addressing poor performance. It seeks to improve the agency's previous performance management process by moving from a pass/fail rating scale to a five-point rating scale that allows for a stronger differentiation.

Agency managers, supervisors, and senior officers attended mandatory four-hour, in-person training sessions (97 percent attendance) to ensure they were properly prepared to perform all performance management responsibilities in a fair manner. OHR also developed a variety of online resources, such as training modules for employees, sample Performance Work Plans (PWPs), and frequently asked questions (FAQs), which are all shared on the agency's intranet. The EBP working group is also implementing new technology that automates the EBP process, linking directly to OHR's training function. This will enable OHR to identify common areas of employee development, then create and deploy the appropriate training.

The implementation of EBP, along with pending new compensation structure changes, will provide a critical foundation for implementing pay-for-performance in the future by recognizing and rewarding employees based on their performance.

During 2012, OHR plans to conduct a third-party evaluation of the system—per an agreement with the NTEU—and refine EBP based on this feedback and lessons learned from the recent performance assessment cycle. The EBP working group will work closely with the OHR restructuring working group to ensure the successful implementation of a new Performance Management function within OHR.

Creating a plan to respond to shifting workload

Historically, the agency has experienced sudden sharp increases in workload as a result of events outside of its control, such as major legislative changes or market events. Noting these conditions, the BCG report discussed the need for the agency to develop the ability to quickly scale its workforce up and down to ensure it has adequate capacity to flexibly respond to changing mandates or market conditions. This working group focused on responding to "an event requiring temporary or short-term reprogramming or supplementing resources in order for the SEC to execute its regulatory duties" (i.e., a "surge") and developed a Surge Response Plan (SRP). The working group also explored options for, and elements of, long-term capacity enhancement initiatives, creating recommendations to be undertaken if future resources permit. The SRP equips the agency with the ability to respond to market events and Congressional mandates that increase workload, which would otherwise put pressure on the agency's ability to execute its mission.

Over the past six months, the working group has performed a comprehensive analysis of both the causes of, and responses to, surges by analyzing events occurring over the past 10 years. Based on the insight gained from the analysis of the past, the working group identified both the skills required to respond to common types of surges and the structural impediments to effective responses. The analysis concluded that there is a need for:

- Better coordination with support offices during the critical start-up phases of a surge response.
- Simplified processes to expedite access to necessary resources.
- Better systems to quickly identify staff with needed expertise and coordination between offices and divisions to share identified resources.
- More accessible information for senior officers to know the full range of hiring and contracting authorities available to them.

The SRP was developed for senior staff within both program and support offices. It outlines alternate protocols to be invoked when responding to a surge event that will streamline interactions and coordinate the agency-wide response. The SRP:

- Clearly defines the roles and responsibilities of each support and mission organization throughout the phases of responding to an event that causes a surge.
- Contains a guide to the full range of tools available to hiring managers to access internal and/or external resources rapidly.
- Provides a comprehensive list of relevant hiring authorities with an overview of potential pros and cons.

The SRP and capacity development recommendations were refined through working sessions with key senior staff from across the SEC, and through interviews with other federal agencies, ensuring that best practices were utilized and all known needs were addressed. Combined, these tools and activities better equip the divisions and offices to respond to surges and recruit diverse talent with appropriate skill sets when required to quickly scale up the workforce.

Filling vacancies with employees who meet high-priority skill needs

The BCG report also discussed several areas where the agency would benefit from increasing organizational capacity, building new capacity, and improving individual competencies. The working group assigned to this issue has two focus areas: to hire and acclimate staff with high priority skills, building both capacity and capabilities across the agency; and to improve administrative support services of the SEC, increasing capacity and individual competencies.

To enhance the agency's ability to hire staff with high priority skills, the working group conducted an analysis of barriers in hiring people from industry[8]. The working group interviewed recruiters, hiring managers from across the agency, existing market practitioners, and other federal government agencies (e.g., the Internal Revenue Service (IRS), FDIC and the Office of the Comptroller of the Currency (OCC)), as well as reviewed recruitment and hiring policies and procedures. The analysis focused on barriers to recruitment and hiring. Key findings included that:

[8] For the purposes of the analysis, people from industry are considered those who have experience in non-legal areas of capital markets including portfolio management, risk management, trading, and service providers to the industry.

- Comparatively low compensation rates compared to the private sector, varying value to future career development, and an on-boarding process described by many as “lengthy, cumbersome, and intrusive” when comparing it to their experience in private industry, formed barriers to both sourcing candidates and maintaining the candidates interest throughout the recruitment process.

- Hiring managers needed more assistance in both the selection of candidates and processing their hiring paperwork. Due to the fact that candidates with high priority skills are expensive to hire, scarce, and are frequently retained using different hiring authorities, most hiring managers would benefit from having more active support in the process.

- While an on-boarding and acclimation process currently exists, recruits with high priority skills frequently have different needs during the process and require a more focused program to minimize the time between being hired and actually commencing work. For example, a corporate securities lawyer from private practice, who knows the structure and rules of the SEC in detail, needs a very different orientation to the SEC than a trader from Wall Street who has never interacted directly with the agency.

While the barriers appear significant, the appeal of providing public service, the benefits of a better work/life balance, and increased job security continue to provide powerful incentives to attract experienced people with high priority skills to the organization.

To address the barriers, the analysis recommends OHR create a position focused on facilitating the hiring process for industry experts. Moving forward, OHR expects to assign the position responsibilities to a staff member, and will develop the supporting policies, procedures, materials, and technologies.

The working group also focused on addressing the need, as identified by the BCG report, to improve administrative support services across the organization. To do this, the working group undertook an extensive analysis of the necessary skill areas and existing expectations for administrative staff. It is now prioritizing administrative services, identifying opportunities to gain efficiencies in administrative support, and finding ways to shift more tasks from professional to support staff. Surveys, focus groups, and interviews with managers, administrative staff, and the professional staff whom they support, as well as learning from other federal government agencies, are all being used to determine the most efficient and effective way to expand the capacity of SEC divisions and offices through improving administrative support services.

Agenda Item 4: Strengthen the SEC's capabilities

As documented in the 2011 Performance and Accountability Report (PAR), OFM and OIT have significantly improved their internal financial controls, and the agency has implemented risk management and governance tools to improve risk identification and documentation. As discussed above, these actions resulted in a vastly improved 2011 Government Accountability Office (GAO) Audit Opinion and laid the groundwork for migration of the agency's financial management and reporting system to a federal shared service provider, designed to further reduce the agency's operational risk and direct more attention to the agency's core responsibilities of protecting investors, maintaining market integrity and facilitating capital formation.

Progress has been made in addressing critical gaps in the agency's ability to access and make effective use of data and information across the agency. This includes completion of a comprehensive data management assessment and the development of an implementation roadmap with forty (40) aligned recommendations.

Key initiatives include:

Developing a capability to monitor and manage market risk

The SEC's mission requires it to understand, monitor, and respond to market risks across the broader financial system it regulates and oversees. Through the Market Risk Management working group and parallel efforts, the agency has focused on improving cross-division market risk monitoring and response capabilities. This has included cataloguing current risk management efforts and improving specific risk management capabilities. The Market Risk Management working group is focused on developing an agency-wide "risk IQ" capability—as cited in the BCG report—to better evaluate, coordinate and assess risk in markets the SEC oversees.

In addition, individual divisions and offices risk management capabilities are being enhanced. This has included the Division of Enforcement's development of new risk-based initiatives to help identify emerging fraud and other threats. It also includes the creation of an Office of Risk Assessment and Surveillance within OCIE to improve targeting of firms for examination, and the implementation of a large-firm monitoring group to profile and prioritize key risks and examination activities within institutions that have unique impact on investor protection and market integrity. RSFI has supported the development and implementation of models used for risk assessments and has provided data analysis in support of new initiatives.

Moving forward, the working group will develop a report of findings, recommendations, and provide a roadmap on how to embed risk capabilities successfully in the operating divisions. Based on this analysis and under the guidance of the working group members, RSFI's Office of Quantitative Research will formulate a strategy to close these gaps, utilizing a distributed risk management model that incorporates best practices and agency priorities.

Transforming the Office of Information Technology and enhancing the SEC's technology capabilities

While the BCG report noted the agency's "promising" momentum with regard to technological sophistication, it also recommended that the SEC devote attention to the development of a technology strategy that understands the technology needs of the agency, and provides the staff with the technology it requires to perform most effectively. The two main objectives are to improve the Information Technology (IT) offerings from the Office of Information Technology (OIT) and improve the effectiveness of OIT organization.

The reorganization of OIT began in January 2011 and was completed in June 2011. The reorganization was designed to improve communication and strengthen collaboration between OIT and other SEC divisions. In FY 2012, the GAO Audit Team cited the significant improvement in the management of the agency's network, systems and IT Security in support of SEC financial systems and removed the IT Systems Material Weakness Finding. The Office of Inspector General (OIG) IT Audit Staff have also complimented OIT on their improved compliance performance. Positive written and verbal customer feedback from SEC divisions and improving service metrics validate the significant progress that OIT has made in improving technology service delivery.

Through an SEC Technology Infrastructure Refresh Program, OIT is deploying network, server, and information security systems to support the current and future mission of the SEC. Significant focus was placed on implementing IT Industry Best Practices such as Information Technology Infrastructure Library (ITIL) Version 3, an international IT Best Practice; and Capability Maturity Model (CMM) Level 3, a similar best practice indicating successful process improvement methodology implementation, for software development. ITIL Version 3 performance measurements, operations, Service Desk enhancements, and governance framework were introduced in May 2011. In FY 2011 EDGAR and Financial Systems Development Teams achieved CMM Level 3 Certifications.

Automated and comprehensive metrics collection was introduced to improve the efficiency and management oversight of our operations staff and contractors. Significant and measurable improvements in network, system and application availability and reliability have been achieved through the successful deployment of operational metrics systems. This improved operational monitoring to detect IT system events is projected to save $3.65 million over five years. Analysis and revision of existing OIT policies resulted in the elimination of 619 policies (a 92% reduction). Several business process redesign efforts have been implemented to improve the efficiency and effectiveness of OIT processes. The SEC Clinger Cohen CPIC Technology Acquisition[9] review process was made more transparent through a comprehensive business process redesign effort. Finally, OIT has embarked on several "spend to save" initiatives, investing in improved technology that will result in longer-term savings. For instance, power configuration modification in the agency's alternate data center is expected to create annual savings of $380,000, and an initial investment to upgrade aging data storage systems is projected to result in three year savings of nearly $1.4 million in maintenance costs.

Several IT systems were placed into production in order to improve the operational efficiency of the Division of Enforcement, Office of Compliance Inspections and Examinations, Trading & Markets, and other divisions. A state-of-the-art automated business process workflow system was deployed to improve the intake and resolution of Tips, Complaints and Referrals (TCR). The

[9] The Clinger-Cohen Act of 1996 requires federal government agencies to utilize the Capital Planning and Investment Control (CPIC) process to make investment decisions, assess investment process effectiveness, and refine investment-related policies and procedures.

HUB system leverages many of the TCR system components to provide a more efficient case management system for the Division of Enforcement. In early August, the TRENDS and DART Examiner Investigation systems were deployed in support of the OCIE National Exam Program. The SEC is successfully utilizing the EDGAR Filer System for the collection and storage of new statutorily mandated filing documents in order to minimize system development and on-going operational costs.

In FY 2012, OIT will begin to modernize SEC.gov and the EDGAR Filing Systems and databases. A Central Staging Area for the Intake of Data and a Central Data Warehouse will be deployed to support the sharing of data across our primary Trading & Markets, Corporation Finance, Enforcement, Investigation and Examination systems.

Creating a Technology Center of Excellence[10]

This working group seeks to help the agency better understand the technologies employed by market participants and venues, while also supplying an awareness of emerging technologies relevant to the securities markets. The working group is studying technology innovations and will identify strong candidates for internal adoption in partnership with all divisions and the OIT. The Technology Center of Excellence will develop and maintain a multi-year technology strategy, informed by business needs.

SEC divisions and offices are deriving significant and measurable performance improvements in core operations by leveraging innovative technology to facilitate the ability of the staff to work smarter. Significant progress has been made in deploying knowledge management tools to improve the way our employees find and use information they need to perform their work. The introduction of a several automated business process systems in 2011 has resulted in greater empowerment of our frontline employees, improvements in business processes and application of consistent business rules. Prominent examples of these new systems are the TCR Intake

[10] The “Technology Center of Excellence” refers to BCG recommendation 3c, which proposed implementation of a small office, structured as a joint venture between TM, RSFI and OIT, that would catalogue existing and emerging technologies and conduct assessments into the impact of these technologies on market behaviors and structures, with a strong emphasis on identifying any regulatory implications.

System for submitting and investigating Tips, Complaints and Referrals and Whistleblower complaints, the HUB System for tracking Enforcement actions, TRENDS and DART examination systems for OCIE investigations and audits.

Improvements in analytical data modeling through new programs such as the Market Data Analytics Program and National Exam Program are designed to increase the agency's use of analytical evidence in the decision making process. A Technology Roadmap and Architecture Plan have been developed to facilitate the acquisition of new technology and deployment of systems, applications, remote access, desktop and mobile computing.

Challenges to Consider

The first year of analysis of the BCG study has provided the SEC with valuable insights into how the agency should assess its current operations. Given the broad scope of the BCG study recommendations—which touch on virtually every aspect of the agency's operations and offices—the agency will determine the appropriate course and extent of action to take in response. Implementing those actions would require continued careful internal coordination and prioritization, as well as a significant commitment of staff and other resources. Identified during the agency's first six-month report to Congress, this continues to be a theme. The agency has identified three key challenges: financial resources, limited staff time, and constraints on the organization's ability to absorb change.

Financial Resources

A continuing challenge facing SEC senior staff is determining how to best implement meaningful changes within its appropriated resources, especially when substantial additional work is dictated by Dodd-Frank Act deadlines and the agency's other ongoing obligations. Having completed the initial stages of review and analysis, it is anticipated that the level of activity related to MAP-identified projects will be reduced in FY 2012 and focused on a limited number of projects with the greatest potential for operational impact or cost savings. In FY 2013, the workgroups will continue to assess the changes suggested by BCG to refine and implement those that would provide the most benefits to the SEC and the public. Finally, the SEC will continue to provide Congressional committees, members, and staff regular updates on progress and accomplishments in this area. With resources for federal government programs constrained generally and with demand on those resources increasing, the SEC, like other agencies, must set priorities and do what is most critical. The BCG report suggested that recommended initiatives will lead to efficiencies over the long-term; however it acknowledged that substantial up-front costs would be required to implement the recommendations, estimating expenditures of between $42 million and $55 million over approximately two years. The agency has expended $8.561 million from program inception in May 2011 through January 2012, which includes approximately $2 million associated with staffing a Program Management Office as recommended by the BCG report, and approximately $6.5 million for consulting and staffing support for the majority of the working groups charged with developing and implementing the accomplishments outlined in this report. On the other hand, the program has already identified cost savings opportunities projected to save $13 million by the end of FY 2013.

Since the study recommendations were released outside of the standard budgeting request cycle, the agency has funded recommendation analysis and implementation planning through its existing budget. Other operational improvement opportunities have been identified that would require some degree of additional investment, but are aimed at realizing significant longer-term savings.

Staff Time

As discussed in the agency's first report to Congress, the SEC has entrusted management of the many working groups evaluating BCG recommendations to senior SEC staff. This degree of senior staff oversight was designed to ensure that proper guidance and scope was provided to each working group, and to demonstrate the agency's commitment to meaningful analysis and effective implementation planning. However, this also resulted in a significant workload increase for many managers, not only to lead analysis and propose action within their working group, but also to coordinate with other senior staff, all in addition to their regular primary duties in protecting investors, maintaining market integrity and facilitating capital formation. To better balance the additional workload and provide needed functional and subject matter expertise, the agency procured program management and technical consulting services to support senior SEC managers in analysis and planning activities. The contractors assisted various working groups and brought expertise in various skill areas, such as organizational restructuring, process efficiency and effectiveness, labor union and employee relations, and cost/benefit analysis. Even with the contractor support, successful future implementation activity would require extended staff commitment to oversee and execute next steps, and staff time will continue to be in significant demand.

Ability to absorb change

Similarly, restructuring is rarely effective when mere "boxes on an organizational chart" are modified. While true restructuring and process redesign can produce significant gains in efficiency and notable cost savings, both often require staff retraining, agency-wide communication (particularly for processes that cross organizational units, which is common within the agency), and alignment with external service providers. All of this change has the potential to cause disruption to normal operations, and must be carefully calibrated to ensure that the agency continues to fulfill its mission while steadily, carefully modifying certain practices. For that reason, the agency is being careful and pragmatic about how it phases in achievable BCG recommendations. It is neither feasible nor practical to do everything at one time. In spite of the difficulty of achieving this task, change can be implemented through careful prioritization that supports ongoing core mission needs while implementing improvements that support better mission achievement.

Conclusion

The BCG report provided the SEC with an opportunity to assess and implement fundamental improvements to the agency's core internal infrastructure: redesigning organizations, enhancing risk management capabilities and internal controls, strengthening the agency's understanding of its workforce, improving processes to improve customer service and conserving resources, and building valuable capabilities. The last six months have seen notable progress as agency staff have worked to solve problems and initiate tangible improvements in people, process and technology domains. However, the agency faces an extraordinary workload and resource demands in the coming months and will necessarily be selective in pursuing further only those initiatives that will result in measureable efficiency and effectiveness gains or cost savings.

Appendix A: BCG Recommendation / MAP Workstream Reference Guide

Agenda Item	Ref. #	Workstream
Optimize the Agency's Organizational Structure	*1A/B*	Reprioritize mission activities
	2A	Systemically redesign the organization
		OAS Organizational Assessment
		OFM Organizational Assessment
		Restructure OHR (Organizational Design Component)
		Chief Data Officer (CDO) Organization Stand Up & Strategy
	2B	Conduct a Regional Organizational Assessment
	2C	Seek flexibility from Congress on Dodd-Frank-mandated offices
Strengthen the SEC's Capabilities	*3A*	Transform OIT and Enhance Technology Capabilities
	3C	Create a Technology Center of Excellence
	3G	Market Risk Management
Improve Controls & Efficiency	*2D*	Review Commission / Staff interaction processes and Delegations of Authority
	2E	Implement a continuous cost improvement program
	3G	Operational Risk Management
	4A	Strengthen Oversight of SROs
	4B	Centralize and Coordinate approach to SRO Interaction
	4C	Strengthen / Clarify processes for SRO Rule Proposals
	5A	Conduct Outcome-Oriented Performance Measures feasibility study
Enhance the SEC's Workforce	*3D*	Restructure OHR (Workforce Planning Component)
	3E	Accelerate roll out of the SEC's EBPM system
	3F	Create a surge capacity plan
	3H	Hire staff to build high-priority staff skills