Commodity Futures Trading Commission

Agency Financial Report

Fiscal Year
2011

COMMODITY FUTURES TRADING COMMISSION

Gary Gensler
Chairman

Tony Thompson
Executive Director

Mark Carney
Chief Financial Officer

November 2011

The Best Places to Work
IN THE FEDERAL GOVERNMENT 2011

Commodity Futures Trading Commission

Agency Financial Report

Fiscal Year

2011

In the Tradition of Quality Reporting, the Commodity Futures Trading Commission Proudly Presents the FY 2011 Agency Financial Report

COMMODITY FUTURES TRADING COMMISSION

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In recognition of your outstanding efforts in preparing the Commodity Futures Trading Commission Performance and Accountability Report for the fiscal year ended September 30, 2010

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In recognition of your outstanding efforts in preparing the Commodity Futures Trading Commission Performance and Accountability Report for the fiscal year ended September 30, 2010. Awarded PLATINUM in the Government classification, and received overall ranking of 82 out of more than 5,000 total entries worldwide.

Fiscal Year 2011 Commissioners

Back row from left; **Scott D. O'Malia**, *Commissioner*; **Jill E. Sommers**, *Commissioner*; **Bart Chilton**, *Commissioner*

Front row from left; **Michael V. Dunn**, *Commissioner*; **Gary Gensler**, *Chairman*

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Gary Gensler, chairman of the Commodity Futures Trading Commission speaks at the George Washington University Law School on October 23, 2009 in Washington, DC. The law school held a symposium on regulatory reform and the response to the financial crisis.

(Photo by Mark Wilson/Getty Images)

A Message from the Chairman

I am pleased to present the Agency Financial Report for Fiscal Year 2011. It chronicles a critical time in the history of the Commodity Futures Trading Commission (CFTC) as the agency works to implement the historic Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

Three years ago, the financial system failed, and the financial regulatory system failed as well. We are still feeling the after-shocks of these twin failures.

There are many lessons to be learned from the crisis. Foremost, when financial institutions fail, real people's lives are affected. More than eight million jobs were lost, and the unemployment rate remains stubbornly high. Millions of Americans lost their homes. Millions more live in homes that are worth less than their mortgages. And millions of Americans continue struggling each day to make ends meet.

Secondly, it is only with the backing of the public sector that many financial institutions survived the 2008 crisis. A perverse outcome of the crisis may be that people in the markets believe that a handful of large financial firms will – if in trouble – have the backing of taxpayers. But when challenges to firms arise, it is critical that taxpayers are not forced to pick up the bill – financial institutions should be free to fail.

Third, the financial system is very interconnected – both here at home and globally. When one financial institution fails or comes under significant stress in the markets, other financial institutions and our economy also are put at risk.

Lastly, while the crisis had many causes, it is evident that swaps played a central role. Swaps added leverage to the financial system with more risk being backed by less capital. They contributed, particularly through credit default swaps, to the bubble in the housing market. They contributed to a system where large financial institutions were thought to be not only too big to fail, but too interconnected to fail. Swaps – developed to help manage and lower risk for end-users – also concentrated and heightened risk in the financial system and to the public.

Dodd-Frank Reform

In 2010, Congress and the President came together to pass the Dodd-Frank Act. The law gave the Commodity Futures Trading Commission (CFTC) oversight of the $300 trillion domestic swaps market, a market so big there are now more than $22 of swaps for every dollar of goods and services produced in the U.S. economy. At such size and complexity, it is essential that these markets work for the benefit of the American public; that they are transparent, open and competitive; and that they do not allow risk to spread through the economy.

WASHINGTON - JULY 18: (2nd L-R) Chairman of the U.S. Commodity Futures Trading Commission Gary Gensler, Chairman of Federal Reserve Board Ben Bernanke, and U.S. Secretary of the Treasury Timothy Geithner chat at the end of the open session of the Financial Stability Oversight Council (FSOC) meeting July 18, 2011 at the Treasury Department in Washington, DC. The meeting was focused on the one-year anniversary of the Dodd-Frank Wall Street Reform and Consumer Protection Act. (Photo by Alex Wong/Getty Images)

The CFTC has substantially completed the proposal phase of the rule-writing process required by the Dodd-Frank Act. We held 20 public meetings and issued more than 50 proposed rules on the many important areas of reform called for by the new law, including transparency, clearing, market integrity and regulating swap dealers.

The CFTC has benefited from significant public input throughout this process. We have received more than 25,000 comment letters. CFTC staff and Commissioners have met more than 1,100 times with market participants and members of the public to discuss the rules, and have held more than 600 meetings with domestic and foreign regulators. We also have conducted 14 public roundtables on Dodd-Frank.

This summer, the agency turned the corner and began finalizing rules to make the swaps marketplace more open and transparent for participants and safer for taxpayers. To date, we have finished 18 rules, and we have a full schedule of public meetings into next year.

Promoting Transparency

The Dodd-Frank Act will bring needed transparency to the swaps markets. The more transparent a marketplace is, the more liquid it is, and the more competitive it is. When markets are open and transparent, price competition is facilitated, and costs are lowered for companies and their customers. Transparency shifts information from derivatives dealers to the public, which helps promote economic activity throughout the entire economy.

To promote transparency, we have completed rules that, for the first time, give regulators and the public specific information on the derivatives market's scale and risk. These rules will require large traders to give the CFTC data about their swaps activities and establish swap data repositories, which will gather information on all swaps transactions. By contrast, in the fall of 2008, there was no required reporting about swaps trading.

Moving forward, we are working to finish rules relating to the specific data that will have to be reported to regulators. These reforms will provide a window into the risks posed by the system so regulators can effectively police the markets for fraud, manipulation, and other abuses. We are also looking to finalize real-time reporting rules, which will give the public critical information on transactions – similar to what has been working for decades in the securities and futures markets. In addition, we are working on final regulations for trading platforms, such as Designated Contract Markets, Swap Execution Facilities, and Foreign Boards of Trade – all of which will help make the swaps market more open and transparent.

Lowering Risk Through Clearing

Another significant Dodd-Frank reform is lowering risk to the economy by mandating central clearing of standardized swaps. Centralized clearing protects banks and their customers from the risk of the bank failing. Clearinghouses reduce the interconnectedness between financial entities. They have lowered risk for the public in the futures markets since the late 19th century. Last month, we finalized a rule establishing risk management and other regulatory requirements for derivatives clearing organizations.

I am hoping to soon finish a rule that will enhance customer protections regarding where clearinghouses and futures commission merchants can invest their funds. The market events of the last three years have underscored the importance of maximizing protection of customer funds.

We also are looking to finalize rules on segregation for cleared swaps. Segregation of funds is the core foundation of customer protection.

In addition, after the first of the year, we hope to finish rules on client clearing documentation, straight-through processing, and the end-user exemption.

Scott O'Malia and Jill Sommers, commissioners of the U.S. Commodity Futures Trading Commission, left, to right, and Gary Gensler, chairman of the U.S. Commodity Futures Trading Commission, listen to Don Heitman, special counsel of market oversight division with the CFTC, speak during a meeting at the CFTC in Washington, D.C., U.S., on Tuesday, Oct. 19, 2010. The top U.S. commodities regulator today approved a rule that will require traders to report over-the-counter swaps based on raw materials including oil and corn, a prelude to trading limits. *(Andrew Harrer/Bloomberg via Getty Images)*

Market Integrity

To enhance market integrity, we finished a rule giving the Commission more authority to effectively prosecute wrongdoers who recklessly manipulate the markets. We also finalized a rule to reward whistleblowers for their help in catching fraud, manipulation, and other misconduct in the financial markets.

We recently completed speculative position limit rules that, for the first time, limit aggregate positions in the futures and economically equivalent swaps market.

To further support market integrity, we are looking to finalize guidance on disruptive trading practices as well as regulations for trading platforms.

Regulating Dealers

It is also crucial that swap dealers are comprehensively regulated to protect their customers and lower risk to taxpayers. The CFTC is working closely with the Securities and Exchange

Commission and other regulators to finalize a rule further defining the term swap dealer. We are also looking to soon consider final external business conduct rules to establish and enforce robust sales practices in the swaps markets, as well as internal business conduct rules, which will lower the risk that dealers pose to the economy. In addition, the agency has been working closely with other regulators, both domestic and international, on capital and margin.

Agency Reorganization

With an expanded mission due to the Dodd-Frank mandate, the CFTC's new responsibilities called for an agency restructuring, which was implemented on October 9, 2011.

The Commission created a new group for oversight of swap dealers and intermediaries. The Division of Swap Dealer and Intermediary Oversight will facilitate standing up the new regulatory regime for the swaps marketplace.

In addition, technology will play a critical role as the CFTC executes its expanded oversight and surveillance responsibilities. The Commission reorganized its technology programs by establishing a new group, the Office of Data and Technology, which reports to the Chairman's office. The office will focus the Commission's needs and functions, integrate existing analytical capabilities, and facilitate a comprehensive approach to developing advanced technology investments, automation of regulatory functions and improved analysis.

Resources

As the CFTC finalizes these Dodd-Frank rules, the agency needs additional resources consistent with the CFTC's significantly expanded mission and scope. The swaps market is seven times the size of the futures market that we currently oversee. With seven times the population to police, greater resources are needed for the public's protection. Without sufficient funding for the agency, the nation cannot be assured of effective enforcement of new swaps market oversight rules that will promote transparency, lower risk, and protect against another crisis.

With increased funding comes the need for heightened accountability to show results and manage costs. The CFTC places a strong emphasis on being an effective steward of its operating funds. I am pleased that for the seventh consecutive year, the Commission has received an unqualified opinion on its financial statements. For the fifth consecutive year, the auditors disclosed no material instances of noncompliance with laws and regulations. I can also report that the CFTC had no material internal control weaknesses and that the financial and performance data in this report are reliable and complete under Office of Management and Budget guidance.

Conclusion

The current debt crisis in Europe is but a stark reminder of the financial market's interconnectedness. Furthermore, it is precisely during times of heightened market uncertainty that transparency is even more essential. While European leaders are working to avert a deepening crisis, it is critical that we implement the Dodd-Frank Act to protect the American public and strengthen our economy.

We must never forget the eight million lost jobs – the majority of which were lost by people who never used derivatives. We must never forget what the nation went through three years ago, and we continue to recover today. We must never forget the risks are still out there.

Gary Gensler

November 14, 2011

FY 2011 Commissioners

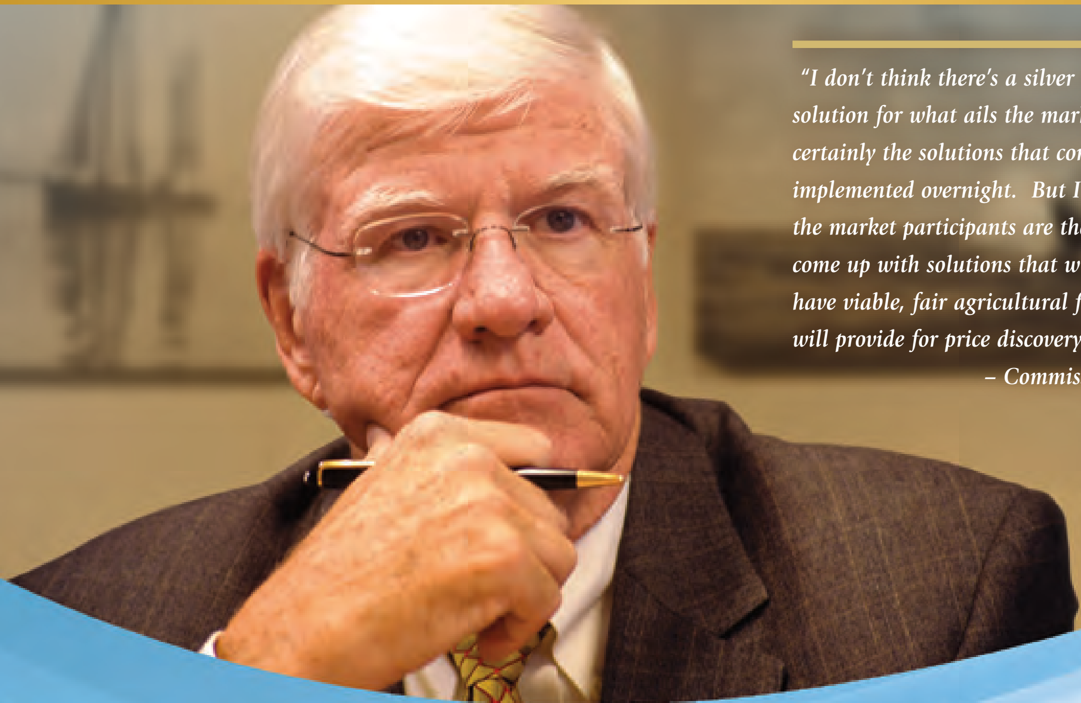
Gary Gensler, Chairman

Gary Gensler was sworn in as the Chairman of the Commodity Futures Trading Commission on May 26, 2009. Chairman Gensler previously served at the U.S. Department of the Treasury as Under Secretary of Domestic Finance (1999-2001) and as Assistant Secretary of Financial Markets (1997-1999). He subsequently served as a Senior Advisor to the Chairman of the U.S. Senate Banking Committee, Senator Paul Sarbanes, on the Sarbanes-Oxley Act, reforming corporate responsibility, accounting and securities laws.

As Under Secretary of the Treasury, Chairman Gensler was the principal advisor to Treasury Secretary Robert Rubin and later to Secretary Lawrence Summers on all aspects of domestic finance. The office was responsible for formulating policy and legislation in the areas of U.S. financial markets, public debt management, the banking system, financial services, fiscal affairs, Federal lending, Government Sponsored Enterprises, and community development. In recognition of this service, he was awarded Treasury's highest honor, the Alexander Hamilton Award.

Prior to joining Treasury, Chairman Gensler worked for 18 years at Goldman Sachs where he was selected as a partner; in his last role he was Co-head of Finance. Chairman Gensler is the co-author of a book, *The Great Mutual Fund Trap*, which presents common sense investment advice for middle income Americans.

He is a summa cum laude graduate from the University of Pennsylvania's Wharton School in 1978, with a Bachelor of Science in Economics and received a Master of Business Administration from Wharton School's graduate division in 1979. He lives with his three daughters outside of Baltimore, Maryland.



"I don't think there's a silver bullet or single solution for what ails the market place. And certainly the solutions that come up cannot be implemented overnight. But I firmly believe that the market participants are the best qualified to come up with solutions that will ensure that we have viable, fair agricultural futures markets that will provide for price discovery and risk mitigation."
– Commissioner Dunn

Agricultural Advisory Committee

CFTC Commissioner Michael V. Dunn chairs the Agricultural Advisory Committee. Committee members include representatives of national farm organizations, major commodity groups, agribusiness concerns, and agricultural bankers.

"I don't think there's a silver bullet or single solution for what ails the market place. And certainly the solutions that come up cannot be implemented overnight," said Commissioner Dunn. "But I firmly believe that the market participants are the best qualified to come up with solutions that will ensure that we have viable, fair agricultural futures markets that will provide for price discovery and risk mitigation."

The Agricultural Advisory Committee was created in 1985 to advise the Commission on issues involving the trading of agricultural commodity futures and options and facilitate communications between the CFTC, the agricultural community, and agriculture-related organizations.

Recent meetings of the Agricultural Advisory Committee addressed various topics, including: agriculture and the Dodd-Frank Bill; implementation of variable storage rates on the Chicago Board of Trade wheat futures contract; convergence trends in the Kansas City wheat futures contract; the delivery point study commissioned by ICE Futures U.S. for the Cotton No. 2 Contract; and issues in livestock reporting.

Michael V. Dunn, Commissioner

Michael V. Dunn was confirmed by the U.S. Senate on November 21, 2004, as a Commissioner of the Commodity Futures Trading Commission. He was sworn in on December 6, 2004, to a term expiring June 19, 2006. On June 16, 2006 Commissioner Dunn was nominated by President Bush to a second term as Commissioner of the CFTC and confirmed by the Senate on August 3, 2006. This marked the sixth time Mr. Dunn had been nominated by a President and confirmed by the Senate for public office.

From January 20, 2009 – May 25, 2009, Commissioner Dunn served as Acting Chairman for the Agency.

Commissioner Dunn additionally serves as Chairman and Designated Federal Official of the Commission's Agricultural Advisory Committee (AAC). The AAC was created to advise the Commission on agricultural issues surrounding the trading of commodity futures and options and to serve as a communications link with the agricultural community.

Prior to joining the CFTC, Mr. Dunn served as Director of the Office of Policy and Analysis at the Farm Credit Administration (FCA). Prior to this position, Mr. Dunn served as a member of the FCA Board.

Mr. Dunn has also served as Under Secretary of Agriculture for Marketing and Regulatory Programs, Acting Under Secretary for Rural Economic and Community Development, and as Administrator of the Farmers Home Administration (FmHA) at the U.S. Department of Agriculture (USDA).

Mr. Dunn has had a long involvement in agricultural credit dating back to the late 1970s, when he was the Midwest Area Director for the FmHA. He has been a loan officer and vice president of the Farm Credit Banks of Omaha and has served as a member of the Professional Staff of the Senate Agriculture Committee, specializing in agricultural credit. At the USDA, Mr. Dunn also served as a member of the Commodity Credit Corporation Board of Directors and President of the Rural Telephone Bank Board. He is a past member of the Iowa Development Commission and has served as the Chairman of the State of Iowa's City Development Board.

A native of Keokuk, Iowa and a current resident of Harpers Ferry, West Virginia, Mr. Dunn received his B.A. and M.A. degrees from the University of New Mexico. Mr. Dunn and his wife Brook, have four sons and two grandsons.

"As futures and option markets have become increasingly global and interconnected over the last decade, the work of the Global Markets Advisory Committee has been critical to the Commission's efforts to ensure the integrity and competitiveness of U.S. markets."
– Commissioner Sommers

Global Markets Advisory Committee

CFTC Commissioner Jill E. Sommers chairs the Commission's Global Markets Advisory Committee. Committee members include industry professionals, representatives of domestic and foreign exchanges and clearinghouses, representatives of industry associations, end users and market participants.

"As futures and option markets have become increasingly global and interconnected over the last decade, the work of the Global Markets Advisory Committee has been critical to the Commission's efforts to ensure the integrity and competitiveness of U.S. markets," said Commissioner Sommers. "Our markets performed very well during the recent financial crisis. It is my hope that, as we navigate through a more highly regulated environment, our continuing discussions and work with Committee members will assist us in avoiding unnecessary regulatory impediments to global business, while preserving core protections for markets and market participants."

The Global Markets Advisory Committee was created in 1998 to advise the Commission on issues that affect U.S. markets and U.S. firms engaged in global business. In September 2010, the Charter of the Global Markets Advisory Committee was renewed for two years to allow the Committee to continue its important work.

Recent meetings of the Global Markets Advisory Committee addressed topics including: international bankruptcy issues post-Lehman Brothers (or international bankruptcy issues arising from the bankruptcy of Lehman Brothers); efforts of the International Organization of Securities Commissions to enhance international regulation and coordination; international issues in the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act; the European Commission Proposal on over-the-counter derivatives, central counterparties, and trade repositories; Japanese legislation relating to clearing of over-the-counter derivatives; and upcoming U.S. efforts to require registration of foreign boards of trade.

Jill E. Sommers, Commissioner

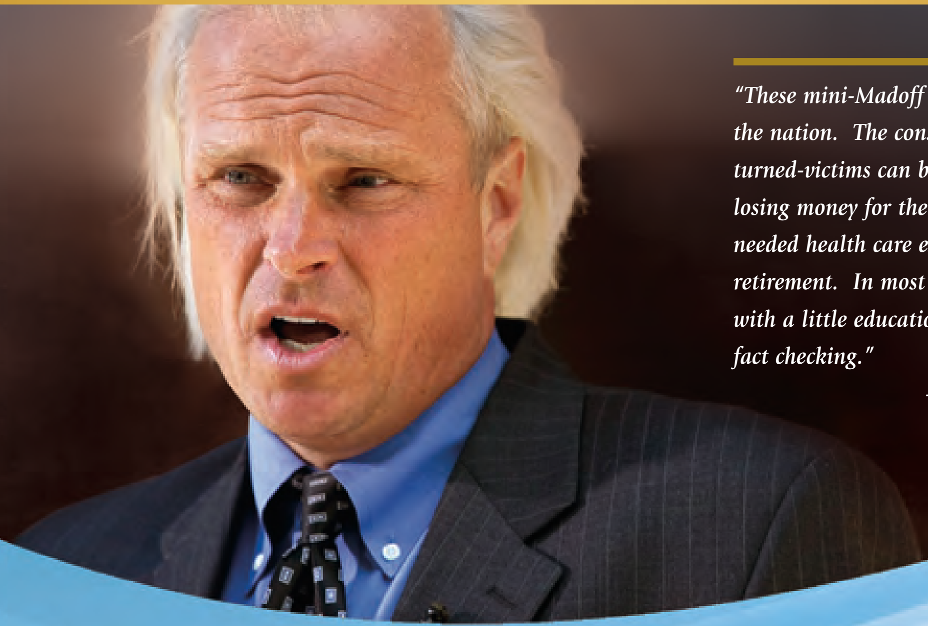
Jill E. Sommers was sworn in as a Commissioner of the Commodity Futures Trading Commission on August 8, 2007 to a term that expired April 13, 2009. On July 20, 2009 she was nominated by President Barack Obama to serve a five-year second term, and was confirmed by the United States Senate on October 8, 2009.

Commissioner Sommers serves as Chairman and Designated Federal Official of the Commission's Global Markets Advisory Committee, which meets periodically to discuss issues of concern to exchanges, firms, market users and the Commission regarding the regulatory challenges of a global marketplace. She also has the opportunity to frequently attend the Technical Committee meetings of the International Organization of Securities Commissions, the global cooperative body which is recognized as the international standard setter for securities and derivatives markets.

Commissioner Sommers has worked in the commodity futures and options industry in a variety of capacities throughout her career. In 2005 she was the Policy Director and Head of Government Affairs for the International Swaps and Derivatives Association, where she worked on a number of over-the-counter derivatives issues. Prior to that, Ms. Sommers worked in the Government Affairs Office of the Chicago Mercantile Exchange (CME), where she was instrumental in overseeing regulatory and legislative affairs for the exchange. During her tenure with the CME, she had the opportunity to work closely with congressional staff drafting the Commodity Futures Modernization Act of 2000.

Commissioner Sommers started her career in Washington in 1991 as an intern for Senator Robert J. Dole (R-KS), working in various capacities until 1995. She later worked as a legislative aide for two consulting firms specializing in agricultural issues, Clark & Muldoon, P.C. and Taggart and Associates.

A native of Fort Scott, Kansas, Ms. Sommers holds a Bachelor of Arts degree from the University of Kansas. She and her husband, Mike, currently reside in the Washington, DC area and have three children ages 9, 8, and 7.



> *"These mini-Madoff scams took place all across the nation. The consequences for the investors-turned-victims can be pretty horrific—people losing money for their kids' college funds, for needed health care expenses, or for their own retirement. In most instances it is preventable with a little education and some due diligence fact checking."*
>
> *– Commissioner Chilton*

Customer Education Initiatives – Ponzimonium

New book by Commissioner Chilton: *Ponzimonium—How Scam Artists are Ripping Off America*

Financial scam artists are ripping off Americans more and more according to recent government figures. "We thought all the frauds and Ponzi scams were horrific in the wake of the Madoff scandal, but it is even worse now," says Commissioner Bart Chilton. While Federal, state and local law enforcement are going after the con artists more than ever before, there are basic precautions consumers should take before they part with their hard-earned money.

Commissioner Chilton lays it all out in a new book. In *Ponzimonium—How Scam Artists are Ripping Off America*, he tells the fascinating stories of ten such Ponzi scams that took place in 2009. "These are real cases, real fraudsters, with unfortunately, very real victims," Mr. Chilton writes. The book also captures, in words and pictures, a behind-the-scenes look at the lifestyles of the schemers.

One con artist purchased a fleet of luxury vehicles in colors like lime green and "blue & cream," including multiple Ferraris, Lamborghinis, Porsches, a Bentley, a Maserati, a Lincoln Limousine, and a metallic burnt orange Hummer golf cart. "This guy took hard-working peoples' money and used it for a mansion, nearly 20 plasma televisions, sports and rock and roll memorabilia, and a contingent of body guards," Mr. Chilton said. Another fraudster bought a 269-acre ranch, a fleet of classic sports cars, two airplanes and massive diamonds for ladies he was wooing in New York, Toronto and St. Louis.

"These mini-Madoff scams took place all across the nation," Mr. Chilton notes. "The consequences for the investors-turned-victims can be pretty horrific—people losing money for their kids' college funds, for needed health care expenses, or for their own retirement." "In most instances it is preventable with a little education and some due diligence fact checking."

Designed and written as a consumer education tool, *Ponzimonium* includes a chapter containing the "Red Flags of Fraud" to help people avoid being scammed. The Red Flags are tips like checking to make sure a company is legitimately registered and other due diligence "to do" items before an investment is made. *Ponzimonium* also includes an "Investor Checklist" designed to help citizens ask the right questions prior to investing.

Ponzimonium is a CFTC publication available for sale by the Government Printing Office online at http://bookstore.gpo.gov. It may also be purchased online at http://www.barnesandnoble.com and http://www.amazon.com. Neither Mr. Chilton nor the CFTC, make any profit from the sale.

Bart Chilton, Commissioner

Bart Chilton was nominated by President Bush and confirmed by the U. S. Senate in 2007. In 2009, he was re-nominated by President Obama and reconfirmed by the Senate. He has served as the Chairman of the CFTC's Energy and Environmental Markets Advisory Committee (EEMAC). His career spans 25 years in government service—working on Capitol Hill in the House of Representatives, in the Senate, and serving in the Executive Branch during the Clinton, Bush and Obama Administrations.

Prior to joining the CFTC, Mr. Chilton was the Chief of Staff and Vice President for Government Relations at the National Farmers Union where he represented family farmers. In 2005, Mr. Chilton was a Schedule C political appointee of President Bush at the U. S. Farm Credit Administration where he served as an Executive Assistant to the Board. From 2001 to 2005, Mr. Chilton was a Senior Advisor to Senator Tom Daschle, the Democrat Leader of the United States Senate, where he worked on myriad issues including agriculture and transportation policy.

From 1995 to 2001, Mr. Chilton was a Schedule C political appointee of President Clinton where he rose to Deputy Chief of Staff to U. S. Secretary of Agriculture Dan Glickman. In this role, Mr. Chilton became a member of the Senior Executive Service (SES)—government executives selected for their leadership qualifications to serve in the key positions just below the most senior Presidential appointees. As an SES member, Mr. Chilton served as a liaison between Secretary Glickman and the Federal work force at USDA.

From 1985 to 1995, Mr. Chilton worked in the U. S. House of Representatives where he served as Legislative Director for three different Members of Congress on Capitol Hill and as the Executive Director of the bipartisan Congressional Rural Caucus.

Mr. Chilton previously served on the Boards of Directors of Bion Environmental Technologies and the Association of Family Farms.

Mr. Chilton was born in Delaware and spent his youth in Indiana, where he attended Purdue University (1979—1982). He studied political science and communications and was a collegiate leader of several organizations. Mr. Chilton and his wife, Sherry Daggett Chilton, split their time between Washington, D. C. and Arkansas.

> *"The role of the Technology Advisory Committee is more important than ever as the Commission undertakes the historic task of implementing the Dodd-Frank Act. Because technology is a vital component of the futures and derivatives markets, it is imperative that the Commission deploy state of the art technology to meet its surveillance and enforcement responsibilities. The TAC's recommendations regarding market design, structure, and functionality will provide invaluable information as we move forward."*
>
> *– Commissioner O'Malia*

Technology Advisory Committee

CFTC Commissioner Scott D. O'Malia chairs the Technology Advisory Committee (TAC). Members include representatives of exchanges, clearinghouses, trade repositories, self-regulatory organizations, financial intermediaries, market participants (including trading firms and commercial companies), academia, and consumers. TAC members have been selected for their deep knowledge and expertise in the financial markets and keep the Commission abreast of emerging technological advances and developments.

The TAC was created in 1999 to advise the Commission on the impact and implications of technological innovation in the financial services and commodity markets. Its objectives include making recommendations on appropriate regulatory responses to the application and utilization of new technologies in the marketplace in order to support the agency's mission of ensuring the integrity of the markets. The TAC also advises the Commission on appropriate investment in technology resources to meet its surveillance and enforcement responsibilities.

Under the direction of Commissioner O'Malia, the TAC convened for the first time in five years, and met on July 14, 2010 and October 12, 2010. In its first meeting, "Technological Trading in the Markets," the TAC discussed regulation of high frequency and algorithmic trading, including adoption of risk management and best practices standards. The TAC second meeting, "Technology: Achieving the Statutory Goals and Regulatory Objectives of the Dodd-Frank Act," included panels on disruptive trading practices and the Commission's new anti-manipulation rulemaking authority, discussion of the May 6th "Flash Crash," swap execution facility models, and characteristics of swap data repositories. Key topics examined by the TAC include pre- and post-trade transparency in light of computerized trading strategies, swap oversight and data collection, and the use of technology in surveillance and compliance activities to manage risk. The TAC continues to study these and other issues in order to ensure that the Commission remains able to adapt to technology-driven evolution in the markets.

Scott O'Malia, Commissioner

Scott O'Malia was confirmed by the U.S. Senate on October 8, 2009, as Commissioner of the Commodity Futures Trading Commission, and was sworn in on October 16, 2009. He is currently serving a five-year term that expires in April 2015.

Born in South Bend, Indiana and raised in Williamston, Michigan, Commissioner O'Malia learned about commodity prices firsthand growing up on a small family farm. As a Commissioner of the Commodity Futures Trading Commission (CFTC), he brings both his agricultural background and experience in energy markets, where he has focused his professional career.

Before starting his term at the CFTC, Commissioner O'Malia served as the Staff Director to the U.S. Senate Appropriations Subcommittee on Energy and Water Development, where he focused on expanding U.S. investment in clean-energy technologies, specifically promoting low-cost financing and technical innovation in the domestic energy sector.

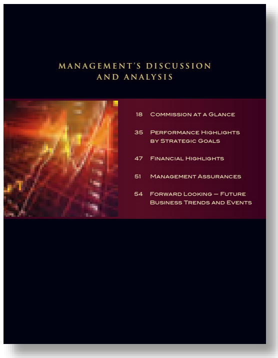
From 2003 to 2004, Commissioner O'Malia served on the U.S. Senate Energy and National Resources Committee under Chairman Pete Domenici (R-N.M.), as Senior Policy Advisor on oil, coal and gas issues. From 1992 to 2001, he served as Senior Legislative Assistant to U.S. Sen. Mitch McConnell (R.-Ky.), now the Senate Minority Leader. During his career, O'Malia also founded the Washington office of Mirant Corp., where he worked on rules and standards for corporate risk management and energy trading among wholesale power producers.

In his time at the CFTC Commissioner O'Malia has advanced the use of technology to more effectively meet the agency's oversight responsibilities and is seeking the reestablishment of the long dormant CFTC Technology Advisory Committee (C-TAC). As Chairman of the newly reinstated Committee, Commissioner O'Malia intends to harness the expertise of the C-TAC membership to establish technological 'best practices' for oversight and surveillance considering such issues as algorithmic and high frequency trading, data collection standards, and technological surveillance and compliance.

Commissioner O'Malia earned his Bachelor's Degree from the University of Michigan. He and his wife, Marissa, currently live in Northern Virginia with their three daughters.

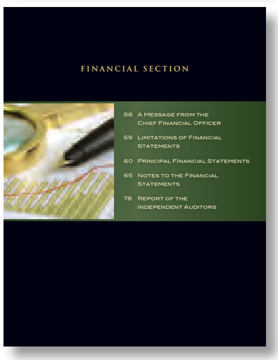
How This Report is Organized

This document consists of two primary sections and supplemental sections:



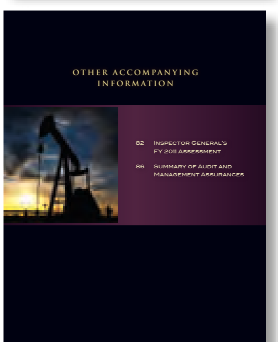
Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) section is an overview of the entire report. The MD&A presents performance and financial highlights for FY 2011 and discusses compliance with legal and regulatory requirements, business trends and events, and management issues.



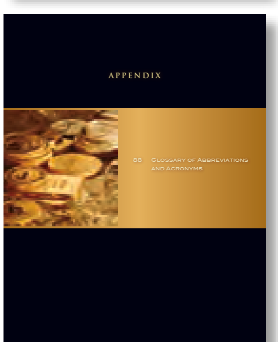
Financial Section

The Financial Section includes the Commission's financial statements and the Independent Auditors' report.



Other Accompanying Information

Other Accompanying Information contains the Inspector General's FY 2011 assessment of management challenges facing the Commission and the Commission's summary of audit and management assurances.



Appendix

The Appendix contains the glossary of abbreviations and acronyms used throughout the report.

For more information on the information presented in this report please contact Mark Carney, Chief Financial Officer, at 202-418-5477.

The CFTC chose to produce the Agency Financial Report (AFR) and Annual Performance Report (APR) in lieu of a Performance and Accountability Report for FY 2011. The FY 2011 APR will be included in the CFTC FY 2013 Congressional Budget Justification in February 2012. An electronic version of the CFTC FY 2011 AFR and the CFTC 2011 – 2015 Strategic Plan are available at *http://www.cftc.gov/about/cftcreports/index.htm.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Commission at a Glance

Mission Statement

To protect market users and the public from fraud, manipulation, abusive practices and systemic risk related to futures, options and swaps and to foster open, competitive, and financially sound markets.

Evolving Mission and Responsibilities

Congress established the CFTC as an independent agency in 1974, after its predecessor operated within the Department of Agriculture. Its mandate was renewed and/or expanded in 1978, 1982, 1986, 1992, 1995, 2000, 2008 and 2010. The CFTC and its predecessor agencies were established to protect market users and the public from fraud, manipulation and other abusive practices in the commodity futures and option markets. After the 2008 financial crises and the subsequent enactment of the Dodd-Frank Act, the CFTC's mission expanded to include oversight of the swaps marketplace.

The Commission administers the Commodity Exchange Act (CEA), 7 U.S.C. section 1, et seq. The 1974 Act brought under Federal regulation futures trading in all goods, articles, services, rights and interests; commodity options trading; leverage trading in gold and silver bullion and coins; and otherwise strengthened the regulation of the commodity futures trading industry. It established a comprehensive regulatory structure to oversee the volatile futures trading complex.

On July 21, 2010, President Obama signed the Dodd-Frank Act. The Dodd-Frank Act amended the CEA to establish a comprehensive new regulatory framework for swaps, as well as enhanced authorities over historically regulated entities. Title VII of the Dodd-Frank Act, which relates to swaps, was enacted to reduce systemic risk, increase transparency, and promote market integrity within the financial system by, among other things:

- Providing for the registration and comprehensive regulation of swap dealers and major swap participants;
- Imposing clearing and trade execution requirements on standardized derivatives products;
- Creating robust recordkeeping and real-time reporting regimes; and

- Enhancing the Commission's rulemaking and enforcement authorities with respect to, among others, all registered entities and intermediaries subject to the Commission's oversight.

Though the Commission has much experience regulating the on-exchange derivatives marketplace—having done so for more than 70 years—the Dodd-Frank Act presents new responsibilities and authorities. The U.S. swaps and futures markets are estimated to have activity approximating $300 trillion and $40 trillion, respectively—that is more than $22 of derivatives for every dollar of goods and services produced in the U.S. economy. That is why it is essential that the Commission ensure that these markets work for the benefit of the American public; that they are transparent, open and competitive; and that they do not allow risk to spread through the economy.

The Dodd-Frank Act gives the CFTC flexibility to set effective dates and a schedule for compliance with rules implementing Title VII of the Act, consistent with the overall deadlines in the Act. The order in which the Commission finalizes the rules does not determine the order of the rules' effective dates or applicable compliance dates. Phasing the effective dates of the Dodd-Frank Act's provisions will give market participants time to develop policies, procedures, systems and the infrastructure needed to comply with the new regulatory requirements.

The focused rule writing efforts required by the Dodd-Frank Act are not being treated as a "Strategic Goal", but as a tactical goal that has an Objective, Strategy, and Performance Measure. The CFTC believes developing and implementing the Dodd-Frank Act rules is one of the most important and difficult efforts it has ever undertaken. The Dodd-Frank Act set a timeframe of 360 days (or less in a few instances) for completion of the rules, but the agency was unable to comply with this for several reasons:

- The Commission operated under a Continuing Resolution for most of FY 2011 and was unable to hire needed staff and apply its critical effort and skills to the completion of this effort;
- To ensure development and implementation of rules that are well balanced between risk mitigation and cost to the industry and public, significant and open interaction with Congress, industry, and the public was necessary and appropriate; and
- While some rules are fairly straight forward, many are intricate and raise interrelated and complex issues. Staff requires appropriate time to analyze, summarize, and consider all comments and aspects of a proposed rule, present and discuss the proposed rule, and considerations with the Commissioners, gain feedback and develop draft final rules for deliberation by the Commission.

The comment and consideration aspects of the rule-making process take an enormous amount of time and the Commission will continue to ensure all appropriate thought is given to rule development. At this point the CFTC anticipates completion of the vast majority of the rules within 24 months of enactment of the Dodd-Frank Act.

The Commission is committed to transparency in the rule-making process. As such, the Commission is posting a list of all of its meetings relating to the implementation of the Dodd-Frank Act, as well as the participants, issues discussed and all materials provided to the Commission, on its website at: *http://www.cftc.gov/LawRegulation/DoddFrankAct/ExternalMeetings/index.htm*.

In February 2011, the Commission published a new strategic plan, *CFTC FY 2011-2015 Strategic Plan*, integrating the expanded responsibilities under the Dodd-Frank Act with its existing mission and goals. The goals of the CFTC largely remain the same with the regulation of swaps being incorporated within the regulatory structure currently applied to the futures and option markets. The CFTC's primary focus will be to write the rules to regulate the swaps markets, implement those rules, test and adjust those rules, and write new rules as necessary to bring effective regulation to all derivatives markets over the next five years.

How the CFTC is Organized and Functions

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

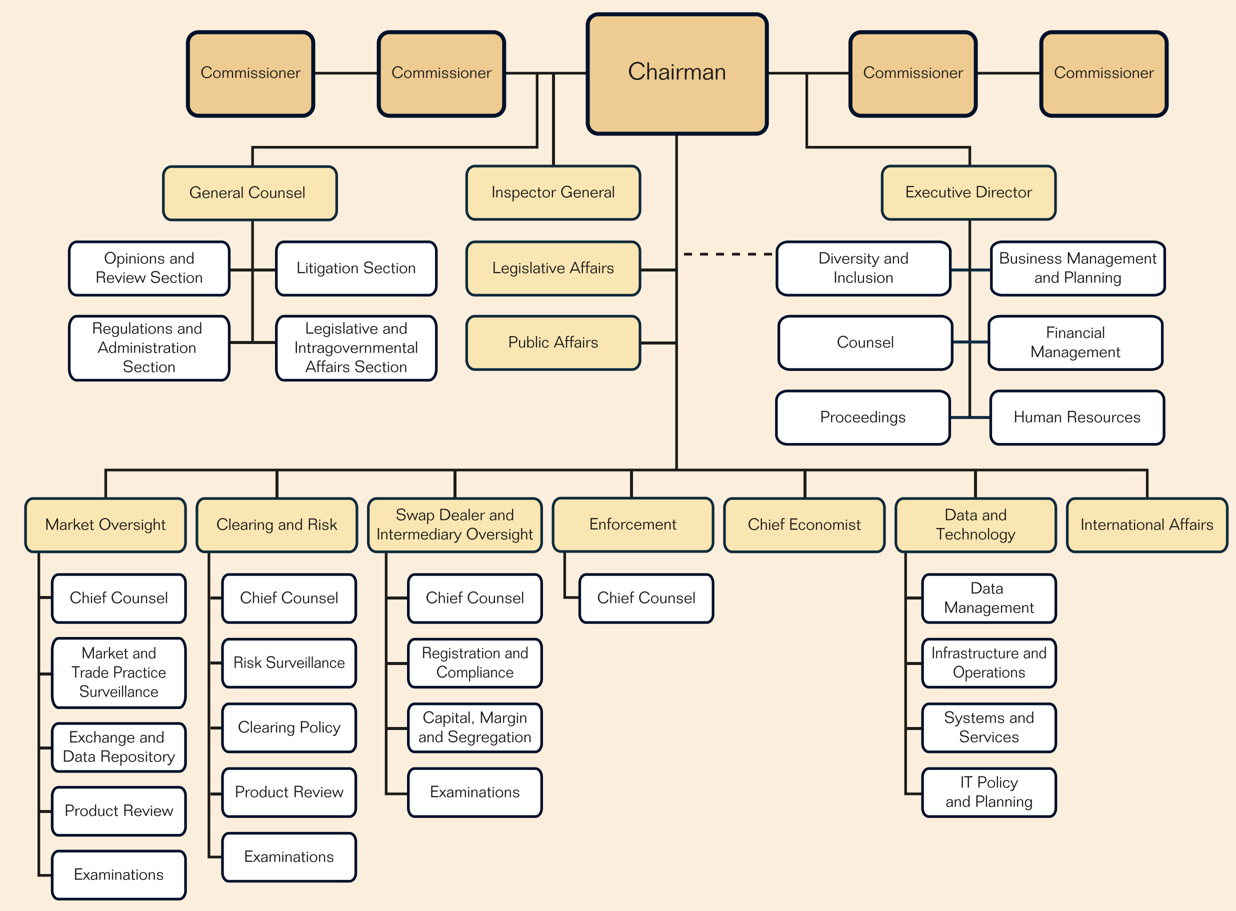
The Office of the Chairman oversees the Commission's principal divisions and offices that administer and enforce the CEA and the regulations, policies, and guidance thereunder.

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

Attorneys across the CFTC's divisions and offices represent the Commission in administrative and civil proceedings, assist U.S. Attorneys in criminal proceedings involving violations of the CEA, develop regulations and policies governing clearinghouses, exchanges and intermediaries, and monitor compliance with applicable rules. In response to the globalization of the derivatives markets, attorneys represent the CFTC internationally in multilateral regula-

Commodity Futures Trading Commission Organization Structure

Headquarters is located in Washington D.C. Regional Offices are located in Chicago, Kansas City and New York.



tory organizations and in bilateral initiatives with individual foreign regulators. Commission attorneys also participate in country dialogues organized by the U.S. Department of the Treasury. Much of the Commission's legal work involves complex and novel issues.

Auditors, risk analysts, trade practice analysts, and attorneys examine records and operations of derivatives exchanges, clearinghouses, and intermediaries for compliance with the provisions of the CEA and the Commission's regulations. Derivatives trading investigators and specialists perform regulatory and compliance oversight to detect potential fraud, market manipulations and trade practice violations. Risk analysts also perform analyses, which include stress testing, to evaluate financial risks at the trader, firm, and clearinghouse levels.

Economists and analysts monitor trading activities and price relationships in derivatives markets to detect and deter price manipulation and other potential market disruptions. These analysts also monitor compliance with position limits. Economists and analysts evaluate filings for new derivatives contracts and amendments to existing contracts to ensure that they meet the Commission's statutory and regulatory standards. Economists also analyze the economic effect of various Commission and industry actions and events, evaluate policy issues and advise the Commission accordingly.

The CFTC is headquartered in Washington, D.C., with regional offices in Chicago, Kansas City, and New York. The organization structure on the previous page was implemented October 9, 2011.

CFTC Organizational Programs

Below are brief descriptions of the organizational programs within the CFTC.

- **The Commission**

  The Offices of the Chairman and the Commissioners provide executive direction and leadership to the Commission. The Offices of the Chairman include: Public Affairs, Legislative Affairs, and Diversity and Inclusion.

- **Division of Clearing and Risk**

  The DCR program oversees derivatives clearing organizations (DCOs) and other market participants that may pose risk to the clearing process including futures commission merchants, swap dealers, major swap participants and large traders, and the clearing of futures, options on futures, and swaps by DCOs. The DCR staff prepare proposed regulations, orders, guidelines, and other regulatory work products on issues pertaining to DCOs; review DCO applications and rule submissions and make recommendations to the Commission; make determinations and recommendations to the Commission to which types of swaps should be cleared; make determinations and recommendations to the Commission as to the initial eligibility or continuing qualification of a DCO to clear swaps; assess compliance by DCOs with the CEA and Commission regulations, including examining systemically important DCOs at least once a year; and conduct risk assessment and financial surveillance through the use of risk assessment tools, including automated systems to gather and analyze financial information, to identify, quantify, and monitor the risks posed by DCOs, clearing members, and market participants and its financial impact.

- **Division of Enforcement**

  The DOE program investigates and prosecutes alleged violations of the CEA and Commission regulations. Possible violations involve improper conduct related to commodity derivatives trading on U.S. exchanges, or the improper marketing and sales of commodity derivatives products to the general public.

- **Division of Market Oversight**

  The DMO program fosters markets that accurately reflect the forces of supply and demand for the underlying commodities and are free of disruptive activity. To achieve this goal, program staff oversees trade execution facilities, performs market and trade practice surveillance, reviews new exchange applications and examines existing exchanges to ensure their compliance with the applicable core principles. Other important work includes evaluating new products to ensure they are not susceptible to manipulation, and reviewing exchange rules and actions to ensure compliance with the CEA and CFTC regulations.

- **Division of Swap Dealer and Intermediary Oversight**

The DSIO program oversees the registration and compliance activities of intermediaries and the futures industry self-regulatory organizations (SROs), which include the U.S. derivatives exchanges and the National Futures Association (NFA). Program staff develops regulations concerning registration, fitness, financial adequacy, sales practices, protection of customer funds, cross-border transactions, and anti-money laundering programs, as well as policies for coordination with foreign market authorities and emergency procedures to address market-related events that impact intermediaries. With the passage of the Dodd-Frank Act, DSIO also will be responsible for the development of, or monitoring for compliance with, regulations addressing registration requirements, business conduct standards, capital adequacy, and margin requirements for swap dealers and major swap participants.

- **Office of the Chief Economist**

The OCE provides economic support and advice to the Commission, conducts research on policy issues facing the Commission, and educates and trains Commission staff. The OCE plays an integral role in the implementation of new financial market regulations by providing economic expertise and cost-benefit considerations underlying those regulations.

- **Office of Data and Technology**

The ODT is led by the Chief Information Officer. ODT delivers services to CFTC mission divisions and mission support offices through three components: Systems and Services, Data Management, and Infrastructure and Operations. In order to partner effectively with Commission divisions and offices, Systems and Services focuses on several areas: market and financial oversight and surveillance; enforcement and legal support; documents, records, and knowledge management; CFTC-wide enterprise services; and management and administration. In order to manage data as an enterprise asset and apply a data-centric approach to service delivery, Data Management focuses on data analysis activities that support data acquisition, management, reuse, and transparency reporting and also provides data operations support. Infrastructure and Operations organizes delivery of services around network infrastructure and operations, telecommunications, and desktop and customer services. These three service delivery components are unified by an enterprise-wide approach that is driven by the Commission's strategic goals and objectives and incorporates information security, enterprise architecture, and project management.

- **Office of the Executive Director**

The Commission's ability to achieve its mission of protecting the public, derivative market participants, U.S. economy and the U.S. position in global markets is driven by well-informed and reasoned executive direction, strong and focused management, and an efficiently-resourced, dedicated, and productive workforce. These attributes of an effective organization combine to lead and support the critical work of the Commission to provide sound regulatory oversight and enforcement programs for the U.S. public. The Executive Director ensures the Commission's continued success, continuity of operations, and adaptation to the ever-changing markets it is charged with regulating, directs the effective and efficient allocation of CFTC resources, develops and implements management and administrative policy, and ensures program performance is measured and tracked Commission-wide. The OED includes the following programs: Business Management and Planning, Counsel to the Executive Director, Financial Management, Human Resources, Logistics and Operations, Privacy, Records, Proceedings (reparations), Secretariat and the Library.

- **Office of the General Counsel**

The OGC provides legal services and support to the Commission and all of its programs. These services include: 1) engaging in defensive, appellate, and amicus curiae litigation; 2) assisting the Commission in the performance of its adjudicatory functions; 3) providing legal advice and support for Commission programs; 4) drafting and assisting other program areas in preparing Commission regulations; 5) interpreting the CEA; and 6) providing advice on legislative and regulatory issues.

- **Office of International Affairs**

  The OIA advises the Commission regarding international regulatory initiatives; provides guidance regarding international issues raised in Commission matters; represents the Commission in international organizations, such as the International Organization of Securities Commissions (IOSCO); coordinates Commission policy as it relates to policies and initiatives of major foreign jurisdictions, the G20, Financial Stability Board and the U.S. Treasury Department; and provides technical assistance to foreign market authorities.

- **Office of the Inspector General**

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

Commodity Futures Industry

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

Over the years, however, the derivatives industry has become increasingly diversified. The agriculture sector continues to use the futures markets as actively as ever to effectively lock in prices for crops and livestock months before they enter the marketplace. However, highly complex financial contracts based on interest rates, foreign currencies, Treasury bonds, securities indexes and other products have far outgrown agricultural contracts in trading volume. Latest statistics show that approximately nine percent of on-exchange commodity futures and option trading activity occurs in the agricultural sector. Financial commodity futures and option contracts[1] make up approximately 76 percent. Other contracts, such as those on metals and energy products, make up about 15 percent.

The increase in trading activity, the number of participants and complexity, and the number of contracts traded transformed the futures marketplace into a $40 trillion industry in notional amount. The rapid evolution in trading technologies, cross-border activities, product innovation and competition have made the futures markets a significant part of the global economy.

In addition to the rapid growth of the futures marketplace, the global economy saw the development of an over-the-counter (OTC) derivatives market. The first swap transaction took place in 1981. The Office of the Comptroller of the Currency estimates that, as of the second quarter of 2011, swaps entered into by U.S. commercial banks have a notional amount of $300 trillion. Parts of this market were responsible for the global financial crises when existing risk controls for the OTC market proved inadequate in the 2008 global financial meltdown.

Dodd-Frank Reforms

In July 2010, the U.S. Congress addressed the economic risks of swaps when it passed the Dodd-Frank Act. Though the CFTC and its predecessor agencies have regulated derivatives since the 1920s, its jurisdiction was limited to futures. Now, the Commission, along with the SEC, is tasked with bringing its regulatory expertise to the swaps marketplace. There are three critical reforms of the derivatives markets included in the Dodd-Frank Act. First, the Dodd-Frank Act requires swap dealers and major swap participants to come under comprehensive regulation. Second, the Dodd-Frank Act moves the bulk of the swaps marketplace onto transparent trading facilities – either exchanges or swap execution facilities (SEFs). Third, the Dodd-Frank Act requires clearing of standardized swaps by regulated clearinghouses to lower risk in the marketplace.

[1] *A timeline of significant dates in the history of futures regulation before the creation of the CFTC and significant dates in CFTC history from 1974 to the present is located at: http://www.cftc.gov/About/HistoryoftheCFTC/index.htm*

Regulation of Swap Dealers and Major Swap Participants

The Dodd-Frank Act provides for the registration and comprehensive regulation of swap dealers and major swap participants. The regulatory requirements are set forth in new Section 4s of the CEA.

- The Dodd-Frank Act generally prohibits any person from acting as a swap dealer or a major swap participant unless the person is registered with the Commission. A primary purpose of registration is to screen an applicant's fitness to engage as a swap dealer or major swap participant. The applicant for registrant would initiate the registration process by submitting appropriate forms by means of the NFA's online registration system. The NFA would conduct a background check to assess whether the applicant's principals were unfit for registration or subject to a statutory disqualification from registration.

- The Dodd-Frank Act directs the Commission to adopt regulations governing the business conduct standards for swap dealers and major swap participants. Such regulations would require swap dealers and major swap participants to conform with regulations relating to timely and accurate confirmation, processing, netting, documentation, and valuation of all swaps. Swap dealers and major swap participants also would be required to: monitor their trading in swaps to prevent violations of applicable position limits; establish robust and professional risk management systems; designate a chief compliance officer; and implement conflict of interest systems and procedures.

- The Commission also is required to adopt regulations that would require swap dealers and major swap participants to: 1) verify the eligibility of their counterparties; 2) disclose to their counterparties material information about swaps, including material risks, characteristics, incentives and conflicts of interests; and 3) provide counterparties with information concerning the daily mark for swaps. Swap dealers and major swap participants also would be subject to a duty to communicate in a fair and balanced manner based on principles of fair dealing and good faith.

- The Dodd-Frank Act also directs the Commission to adopt regulations imposing capital and margin requirements for all registered swap dealers and major swap participants that are not banks, including non-bank subsidiaries of bank holding companies regulated by the Federal Reserve Board. The Commission is further directed to adopt regulations imposing financial reporting requirements on all swap dealers and major swap participants.

Mandatory Clearing of Standardized Swaps through CFTC registered Derivatives Clearing Organizations

The Dodd-Frank Act requires that standardized swaps be cleared through CFTC-registered DCOs. Clearing has lowered risk in the futures marketplace since the 1890s, and DCOs play an important role in mitigating risk in the markets that the CFTC regulates.

- The Commission on an ongoing basis is required to review each swap, or any group, category, type or class of swaps (collectively, "swaps") to make a determination as to whether the swaps should be required to be cleared, *i.e.*, mandatory clearing, as well as to make a determination as to the eligibility or continuing qualification of a DCO to clear a swap. DCOs that clear swaps must submit the contracts to the CFTC, which must then make a decision as to whether the swaps are subject to the Dodd-Frank Act's clearing requirement. The CFTC has 90 days after the submission, including a 30-day comment period, to make such determinations. Though the CFTC does not yet know the total number of contracts that will be submitted for clearing, and the Commission may be able to group many by class, the largest swaps clearinghouse clears nearly one million unique contracts at any point in time.

- The CEA requires that an entity that seeks to provide clearing services with respect to futures contracts, options on futures contracts, or swaps must first obtain registration as a DCO. A DCO's registration is predicated on its demonstration of compliance with the CEA and Commission regulations pertaining to core principles augmented by the Dodd-Frank Act. The Commission likely will see an increase in the number of DCOs seeking registration, including entities that are located outside the United States. In addition, the Dodd-Frank Act creates a new category of systemically important DCOs. These entities will have to comply with heightened risk management and other prudential standards concerning payment, clearing and settlement supervision, and the Commission will be required to examine systemically important DCOs at least yearly. DCOs play a vital role in the proper functioning of the financial markets and are increasingly important given the mandated central clearing of standardized swaps.

- The additional clearinghouses that will register as DCOs and those DCOs which are designated as systemically important likely will clear many more products that will require Commission review and determinations concerning mandatory clearing. The risk profile of these cleared products will be more complex than traditional futures and options on futures. At the same time, it will require an increase in the Commission's financial and risk oversight of entities that pose a risk to the clearing process. Existing financial and risk surveillance tools and systems will have to be enhanced and modified to identify, monitor and assess the risks posed by DCOs, clearing members, and market participants to enable the Commission to continue to effectively discharge its statutory duty to reduce systemic risk.

Oversight of Swap Execution Facilities and Swaps Trading on Designated Contract Markets

The Commission will implement many new provisions related to the oversight of swaps trading activity. These include procedures for the review and oversight of an entirely new regulated market category, SEFs.

- The Commission currently oversees 16 designated contract markets (DCMs). Based on industry comments, there could be at least 30-40 entities that will apply to become SEFs. This estimate is based on the number of exempt commercial markets (ECMs), exempt boards of trade (EBOTs), interdealer brokers, information service providers and swap dealers who have formally or informally expressed an interest in registering as SEFs. Furthermore, some DCMs that in the past listed only futures will start listing swaps.

- Each SEF must comply with a total of 15 core principles, as adopted by the Dodd-Frank Act, as a condition of obtaining and maintaining registration as a SEF. The SEF also must be in compliance with all implementing regulations and other applicable provisions of the CEA. This will require thorough evaluation by staff before making registration determinations. Registered SEFs will be subject to CFTC examinations for ongoing compliance.

Position Limits

The CFTC currently administers a Commission-set position limit regime for a total of nine DCM-listed agricultural futures contracts. Under the Dodd-Frank Act, the Commission is instructed to implement and enforce new aggregate position limits that will cover not only the futures market, but also some portion of the swaps market. These limits would apply to more than 30 agricultural and exempt (mostly metals and energy) commodities.

Swap Data Repositories and Real Time Reporting of Swaps Data

The Dodd-Frank Act establishes a new registration category for swap data repositories (SDRs). The Dodd-Frank Act requires registrants—including swap dealers, major swap participants, SEF and DCMs—to have robust record-keeping and reporting, including an audit trail, for swaps. Under the Dodd-Frank Act, to register and maintain registration with the Commission, SDRs are required to comply with specific duties and three core principles as well as other requirements that the Commission may prescribe by rule. The CFTC recently adopted rules in this area, effective October 31, 2011, to require SDRs to perform their core function of collecting and maintaining swaps data and making it directly and electronically available to regulators. Initial estimates are that the Commission will receive at least two or three SDR applications upon the general effective date of the rules and some international SDRs intend to register as well. That number could grow significantly to the extent that any DCMs, SEFs or DCOs seek to establish in-house SDRs to facilitate their swap business. In addition, the Commission, as required by the Dodd-Frank Act, anticipates issuing rules that will provide for the real time dissemination of price and other information about swaps trading to promote transparency.

CFTC Surveillance in an Evolving Industry

Surveillance has become dependent on the ability to review large volumes of data and the development of sophisticated analytics to identify trends and/or outlying events that warrant further investigation. To the extent possible, the CFTC is seeking to leverage applications and analytics across the organization through the use of industry standardized data sets. It is anticipated that through the collection of standardized data sets, the Commission will have the unique and essential ability to aggregate data received by all market participants, allowing a more encompassing view of futures, options and swaps transactions. This aggregated data will allow the Commission to conduct market-level surveillance and perform financial risk analyses of market participants. This capability is particularly important with the expansion of the Commission's mandate in the disaggregated swaps markets, as market participants may have swaps data residing in multiple SDRs, multiple DCMs, and multiple SEFs. The Commission's ability to view aggregated data across this industry landscape is essential.

Regulating Foreign Boards of Trade

The Dodd-Frank Act's creation of a new registered foreign board of trade (FBOT) category will obviate the need for the current FBOT no-action letter program, but the substantive requirements that will be imposed on registered FBOTs will likely be more robust than the requirements imposed under the no-action regime. Currently, 20 FBOTs operate in the United States based upon no-action letters dating back to 1999. The Commission expects at least that number of FBOTs will apply to register upon the implementation of the registered FBOT regulations, plus an additional six to 10 FBOTs who have recently expressed an interest in becoming registered.

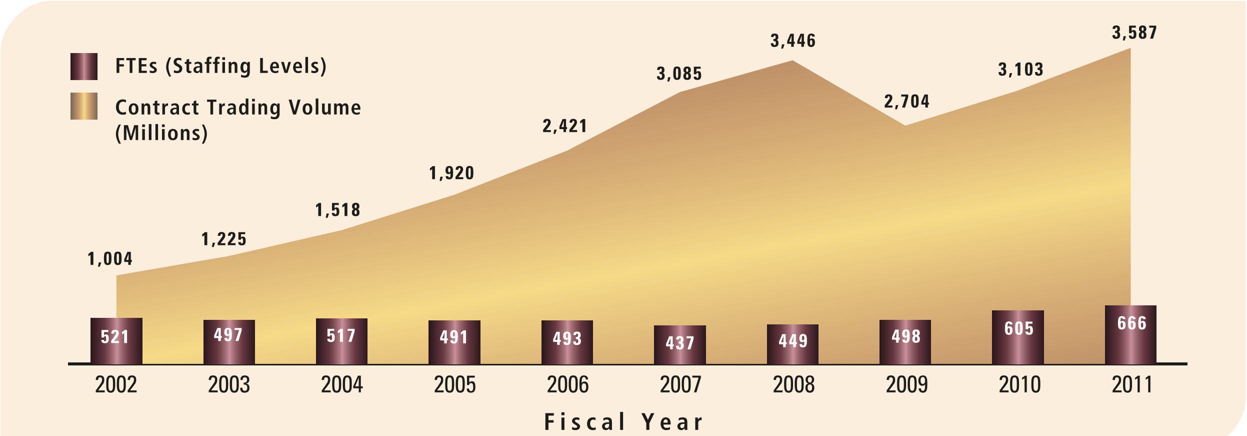
CFTC and Industry Trends

In a marketplace driven by change, it may be helpful to look back at industry and CFTC trends over the past few years. The charts that follow reflect many of those changes affecting the CFTC:

- Industry growth versus staff growth;
- Estimated Annual Swap Volume;
- Growth in actively traded futures and option contracts;
- Notional value of futures/option open contracts;
- Notional value of exchange-traded and OTC contracts;
- Amount of customer funds held at futures commission merchants;
- Aggregate sum of house origin margin on deposit;
- Number of registrants;
- Contract markets designated by the CFTC;
- Number of derivatives clearing organizations registered with the CFTC;
- Exempt commercial markets; and
- Exempt boards of trade.

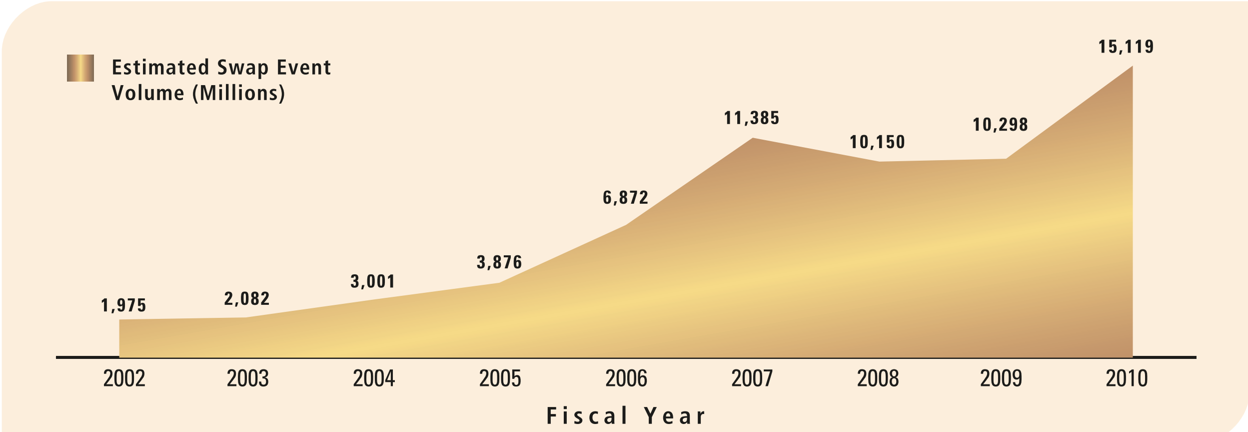
Growth in Volume of Futures & Option Contracts Traded versus CFTC Full-Time Equivalents

This budget assumes continued growth at the rate seen from 2009-2011. Increased activity of high-frequency traders contributed to the increase in volume with commensurate required increase in technology and staff resources for surveillance.



Estimated Annual Swap Event Volume

Events[2] include new trades, innovations and terminations, but exclude intro-company trades and tear-ups. Products include: interest rate derivatives, credit derivatives, equity derivatives, currency options and commodity derivatives.[3]

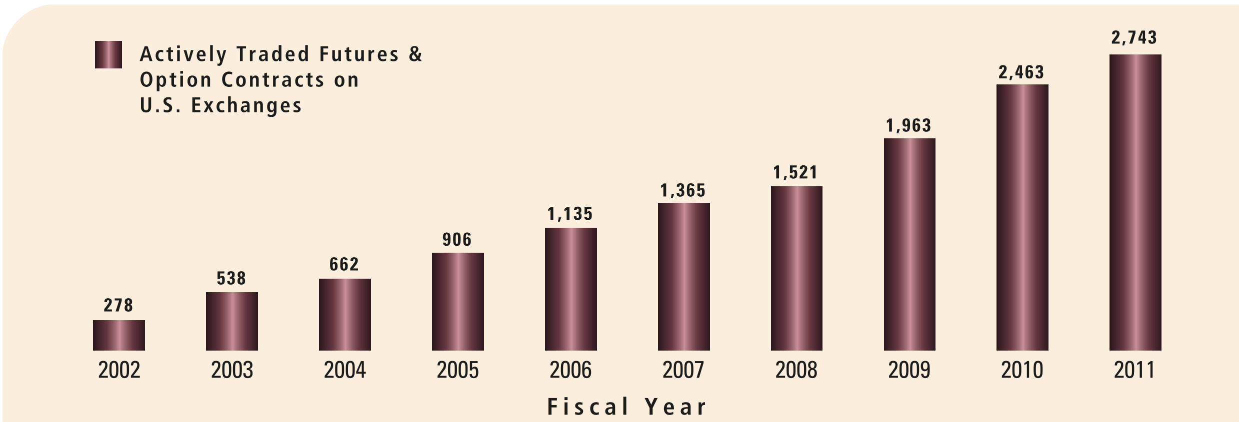


[2] *Swap event volume data for FY 2011 will be available in April 2012.*

[3] *Reported participant monthly average multiplied by 12 months per year, multiplied by the number of participants in the relevant survey year, and divided by two to account for potential double counting for swap transactions between survey participants.*

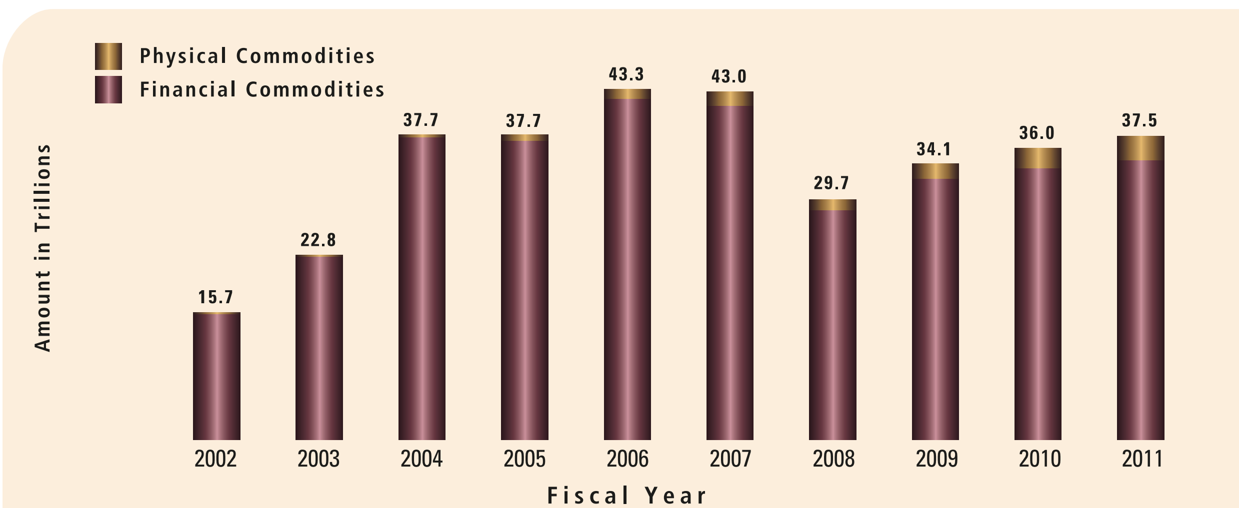
Actively Traded Futures & Option Contracts

The number of actively traded contracts on U.S. exchanges has increased almost ten-fold in the last decade.



Notional Value of Futures/Option Open Contracts

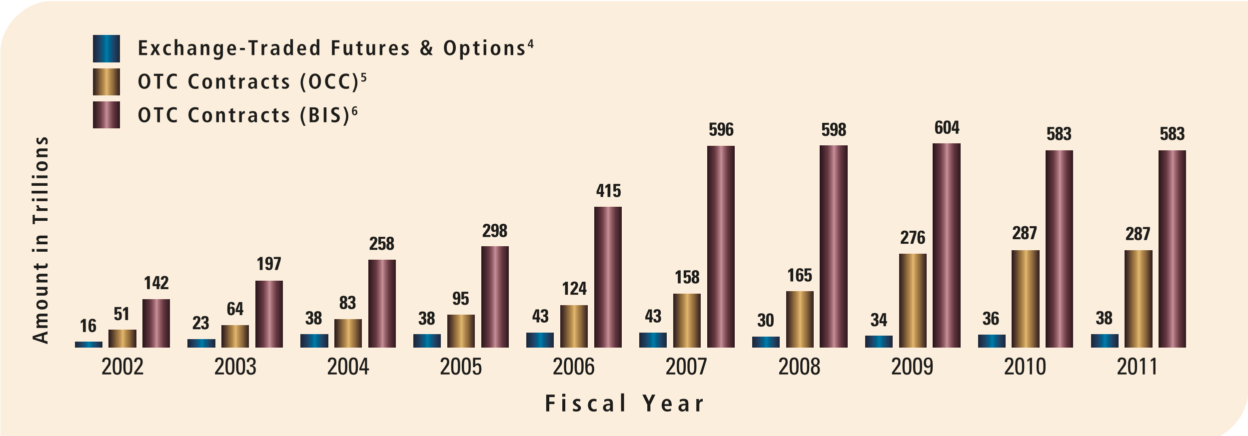
To date physical commodities has experienced price increases that would justify a higher percentage increase in notional value than for financial commodities.



FY	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fin'l	15.5	22.6	37.3	36.9	42.1	41.2	28.3	32.2	33.5	34.5
Phys	0.2	0.2	0.4	0.8	1.2	1.8	1.4	1.9	2.5	3.0

Notional Value of Exchange-Traded and Over the Counter (OTC) Contracts

Currently, the Commission receives swap data on special price discovery contracts (SPDC) under provisions of the Food, Conservation and Energy Act of 2008 (Farm Bill). The estimated annual volume for SPDC in 2011 is about 244 million contracts with an estimated notional value of $147 million on May 2, 2011. The contracts declared SPDCs are a fraction of the commodity swaps market which had an outstanding notional value of $2.9 trillion at the end of first half of 2010 according to the Bank for International Settlements (BIS). Furthermore, the commodity swaps market is the smallest sector of the overall swaps market comprising only 0.4 percent of the $583 trillion total notional value.



Amount of Customer Funds in Futures Commission Merchant Accounts

The amount of customer funds held at futures commission merchants (FCMs) has increased 342 percent since FY 2001, and the $203 billion held by FCMs at September 2011 exceeds the pre-market disruption levels of approximately $201 billion at September 2008.

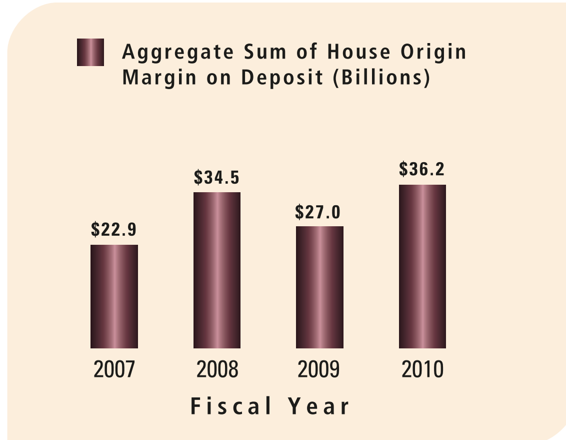
[4] *Exchange-Traded Futures/Options are those traded on CFTC Designated Contract Markets.*

[5] *Office of the Comptroller of the Currency (OCC) data is for the top 25 bank holding companies with the most derivative contracts and "OTC" includes: Forwards, Swaps, Options, and Credit Derivatives.*

[6] *Bank for International Settlements (BIS) OTC data includes "Foreign Exchange", "Interest Rates", "Equity-linked", "Commodity", "Credit Default Swaps", and "Unallocated" contracts.*

Aggregate Sum of House Origin Margin on Deposit

Origin Margin (also referred to as Original or Initial Margin) is the initial deposit of margin money each clearing member firm is required to make according to clearing organization rules based upon positions carried, determined separately for customer and proprietary positions.[7]



Number of Registrants

Companies and individuals who handle customer funds, solicit or accept orders, or give trading advice must apply for CFTC registration through the NFA, a registered futures association and an SRO with delegated authority from the Commission.

The Commission regulates the activities of 65,370 registrants.

Registration Category[8,9]	Number as of September 30, 2011
Associated Persons (APs) (Salespersons)	52,369
Commodity Pool Operators (CPOs)	1,183
Commodity Trading Advisors (CTAs)	2,530
Floor Brokers (FBs)	6,316
Floor Traders (FTs)	1,286
Futures Commission Merchants (FCMs)	137
Retail Foreign Exchange Dealers (RFEDs)	14
Introducing Brokers (IBs)	1,535
Swap Dealers (SDs)[10]	0
Major Swap Participants (MSPs)[11]	0
TOTAL	**65,370**

[7] *Source: Margin on Deposit amounts obtained at month-end from DCOs.*

[8] *A person who is registered in more than one registration category is counted in each category.*

[9] *Source: NFA's Monthly Membership and Registration Report to CFTC as of September 30, 2011.*

[10] *New registration category proposed by the Commission for certain entities engaged in swap transactions at 75 Fed. Reg. 71379 (November 23, 2010).*

[11] *New registration category proposed by the Commission for certain entities engaged in swap transactions at 75 Fed. Reg. 71379 (November 23, 2010).*

Contract Markets Designated by the CFTC

The following DCMs are boards of trade or exchanges that meet the criteria and core principles for trading futures or options by both institutional and retail participants. Currently, 16 DCM participants meet criteria and core principles for trading futures, options and swaps.

Designated Contract Markets	Abbreviation	2006	2007	2008	2009	2010	2011
Cantor Futures Exchange, L.P.	CX					●	●
Board of Trade of the City of Chicago	CBOT	●	●	●	●	●	●
Chicago Climate Futures Exchange, LLC	CCFE	●	●	●	●	●	●
CBOE Futures Exchange, Inc.	CFE	●	●	●	●	●	●
Chicago Mercantile Exchange, L.P.	CME	●	●	●	●	●	●
ELX Futures, L.P.	ELX				●	●	●
Green Exchange, LLC	GREENEX					●	●
ICE Futures US, Inc.[12]	ICE US	●	●	●	●	●	●
Kansas City Board of Trade	KCBT	●	●	●	●	●	●
Minneapolis Grain Exchange, Inc.	MGE	●	●	●	●	●	●
North American Derivatives Exchange, Inc.[13]	NADEX	●	●	●	●	●	●
NASDAQ OMX Futures Exchange, Inc.[14]	NFX/PBOT	●	●	●	●	●	●
New York Mercantile Exchange, Inc. / Commodity Exchange, Inc.	NYMEX (Incl. COMEX Inc.)	●	●	●	●	●	●
NYSE Liffe US, LLC	NYSE LIFFE			●	●	●	●
OneChicago LLC Futures Exchange	OCX	●	●	●	●	●	●
The Trend Exchange	TRENDEX					●	●
US Futures Exchange, LLC	USFE	●	●	●	●		
TOTAL		**12**	**12**	**13**	**14**	**16**	**16**

Number of Derivatives Clearing Organizations Registered with the CFTC

A clearinghouse that seeks to provide clearing services with respect to futures contracts, options on futures contracts, or swaps must register with the CFTC as a DCO. In FY 2011, 17 DCOs were registered with the CFTC.

Derivatives Clearing Organizations	Abbreviation	2006	2007	2008	2009	2010	2011
The Actuarials Exchange, LLC	AE Clearing-house	●	●				
Cantor Clearinghouse L.P.	Cantor Clear-inghouse					●	●
Chicago Board of Trade	CBOT	●	●	●	●	●	●
Clearing Corporation	CCorp	●	●	●	●	●	●

(continued on next page)

[12] *Formerly, New York Board of Trade.*

[13] *Formerly, HedgeStreet Inc.*

[14] *Formerly, Philadelphia Board of Trade.*

Derivatives Clearing Organizations	Abbreviation	2006	2007	2008	2009	2010	2011
Chicago Mercantile Exchange Clearing House	CME Clearing House	●	●	●	●	●	●
Chicago Mercantile Exchange Europe Limited	CME Clearing Europe						●
ICE Clear Credit	ICE Clear Credit						●
ICE Clear Europe Ltd	ICE Clear Europe					●	●
ICE Clear US, Inc.[15]	ICE Clear US	●	●	●	●	●	●
International Derivatives Clearinghouse, LLC	IDC				●	●	●
Kansas City Board of Trade Clearing Corp	KCBT	●	●	●	●	●	●
London Clearing House Clearnet Ltd	LCH.Clearnet	●	●	●	●	●	●
Minneapolis Grain Exchange Clearing House	MGE Clearing House	●	●	●	●	●	●
Natural Gas Exchange Inc.	NGX				●	●	●
New York Portfolio Clearing, LLC	NYPC						●
North American Derivatives Exchange, Inc.[16]	NADEX	●	●	●	●	●	●
NYMEX Clearing House	NYMEX	●	●	●	●	●	●
Options Clearing Corporation	OCC	●	●	●	●	●	●
TOTAL		**11**	**11**	**10**	**12**	**14**	**17**

Exempt Commercial Markets

Electronic trading facilities providing for the execution of principal-to-principal transactions between eligible commercial entities in exempt commodities may operate as ECMs, as set forth under the CEA and the Commission's regulations. An ECM is subject to anti-fraud and anti-manipulation provisions and a requirement that, if performing a significant price discovery function must provide pricing information to the public. A facility that elects to operate as an ECM must give notice to the Commission and comply with certain information, record-keeping, and other requirements. An ECM is prohibited from claiming that the facility is registered with, or recognized, designated, licensed or approved by, the Commission. A total of 37 ECMs have filed notices with the Commission. In FY 2011, 21 ECMs were in business for at least part of the year; one, however, withdrew its ECM notification during the fiscal year.

Exempt Commercial Markets	Abbreviation	2006	2007	2008	2009	2010	2011
Agora-X, LLC	Agora-X				●	●	
Chicago Climate Exchange, Inc.	CCX	●	●	●	●	●	●
Commodities Derivative Exchange, Inc.	CDXchange	●					
ChemConnect, Inc.	ChemConnect	●	●				
CME ECM Inc.	CME ECM						●
DFOX	DFOX				●		
EnergyCross.com	EnergyCross.com				●	●	●

(continued on next page)

[15] *Formerly, HedgeStreet, Inc.*

[16] *Formerly, New York Clearing Cooperation.*

Exempt Commercial Markets *(cont.)*	Abbreviation	2006	2007	2008	2009	2010	2011
EOX Holdings, LLC	EOXLIVE			●	●	●	●
Evolution Markets	Evolution Markets					●	
FCRM Electronic Markets LLC	FCRM				●	●	●
Flett Exchange	Flett		●	●	●		
GFI Group Inc., EnergyMatch	GFI		●	●	●	●	●
Houston Mercantile Exchange	HMX						●
Houston Street Exchange, Inc.	HSE	●	●	●	●	●	●
ICAP Commodity and Commodity Derivatives Trading System	ICAP	●	●	●	●	●	●
ICAP Electronic Trading Community	ICAPture	●	●	●	●	●	●
ICAP Shipping Trading System	ICAP Shipping	●	●	●	●	●	●
ICAP Truequote Multilateral Trading Facility	ICAP Truequote					●	●
IntercontinentalExchange, Inc.	ICE	●	●	●	●	●	●
International Maritime Exchange	IMAREX	●	●	●	●	●	
Liquidity Partners, LP	Liquidity Partners					●	●
LiquidityPort, LLC	LiquidityPort		●	●	●	●	
Natural Gas Exchange, Inc.	NGX	●	●	●	●	●	●
Nodal Exchange, LLC	Nodal		●	●	●	●	●
NetThruPut	NTP	●	●	●	●		
OILX (TFSOIL)	OILX				●	●	●
Optionable, Inc.	OPEX	●	●	●	●		
Parity Energy, Inc.	Parity			●	●	●	●
Spectron Live.com Limited	SL	●	●				
The TradeCapture Exchange (TFSE)	TCX	●	●	●	●		
TFSWeather.com	TFSWeather	●	●	●	●	●	●
tpENERGYTRADE	tpENERGYTRADE				●		
TraditionCoal.Com	TraditionCoal.com			●	●	●	●
Trading OptX LLC	Trading Optx				●	●	
TradeSpark, LP	TS	●					
WorldPulp.com	WORLDPULP	●	●	●	●	●	●
TOTAL		**17**	**19**	**20**	**27**	**24**	**21**

Exempt Boards of Trade

Transactions by eligible contract participants in selected commodities may be conducted on an EBOT as set forth under the CEA and the Commission's regulations. EBOTs are subject only to the CEA's anti-fraud and anti-manipulation provisions. An EBOT is prohibited from claiming that the facility is registered with, or recognized, designated, licensed, or approved by the Commission. Also, if it is performing a price discovery function, the EBOT must provide certain pricing information to the public. To date, 29 EBOTs filed notices with the Commission. In FY 2011, 21 EBOTs were in business during the fiscal year.

Exempt Boards of Trade	Abbreviation	2006	2007	2008	2009	2010	2011
The Actuarials Exchange, LLC	AE	●	●	●	●		
CME Alternative Marketplace, Inc.	CME AM	●	●	●	●	●	●
Concredex LLC	Concredex						●
Countermatch	CTRMTCH					●	●[17]
Currenex, Inc.	Currenex						●
Derivatives Bridge, LLC	Derivatives Bridge			●	●	●	●
ERIS Exchange, LLC	ERIS					●	●
FENICS	FENICS					●	●
FX Alliance	FXAll						●
FX Connect	FX Connect						●
GFI Group, Inc. - ForexMatch	GFI ForexMatch		●	●	●	●	●
Intrade Board of Trade	Intrade	●	●	●	●	●	●
IRESE, Inc.	IRESE			●	●	●	●
LiquidityPort, LLC	LiquidityPort		●	●			
Longitude, LLC	Longitude		●	●	●	●	●
M2 Trading Partners, LLC	M2					●	●
MarketAxess Corporation	MarketAxess						●
MATCHBOXX ATS	MATCHBOXX ATS	●					
ODEX Group, Inc.	ODEX						●
Storm Exchange, Inc.	Storm	●	●	●	●	●[18]	
SurfaceExchange	SURFEX					●	●
Swapstream Operating Services, Ltd.	Swapstream	●	●	●	●	●	●
Tera (Spring Trading)	Tera						●
The American Civics Exchange	TACE				●	●	●
trueBOT Inc.	trueBOT						●
Weather Board of Trade, LLC	WBOT	●	●				
WeatherXchange Limited	WXL	●	●				
YellowJacket Software, Inc.	Yellow Jacket			●			
TOTAL		8	10	11	10	14	21

[17] *This EBOT withdrew its EBOT notification during FY 2011.*

[18] *This EBOT withdrew its EBOT notification during FY 2010.*

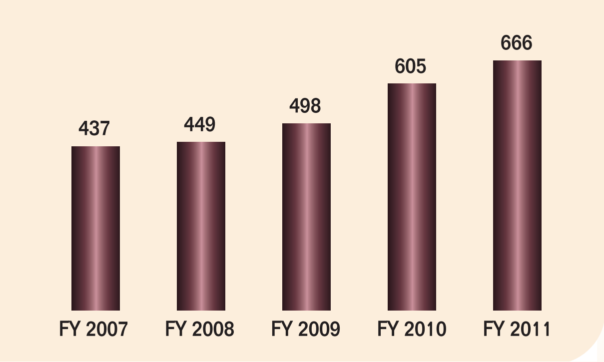
PERFORMANCE HIGHLIGHTS BY STRATEGIC GOAL

Resources at a Glance

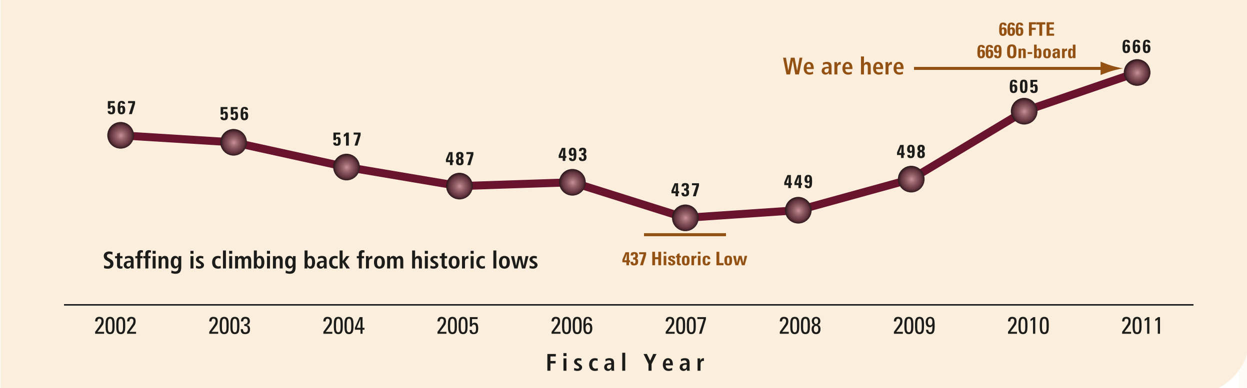
Fiscal Year	Outcomes
2011	$193 Million Actual Obligations Increased Staff by 61
2010	$168 Million Actual Obligations Increased Staff by 107
2009	$146 Million Actual Obligations Increased Staff by 49
2008	$111 Million Actual Obligations Increased Staff by 12
2007	$98 Million Actual Obligations *Decreased Staff by 56*

CFTC Staffing

Workforce 5-Year Staffing Trends



10-Year Staffing Trends



Strategic Plan Overview

The FY 2011 - 2015 Strategic Plan, released in February, 2011, incorporated enactment of the Dodd-Frank Act. Congress gave this swaps oversight responsibility to the CFTC because of its strengths in regulating the futures and options markets. While the swaps marketplace has only been around since the 1980s, the futures marketplace has existed since the 1860s has been regulated by the CFTC and its predecessor agencies since the 1920s.

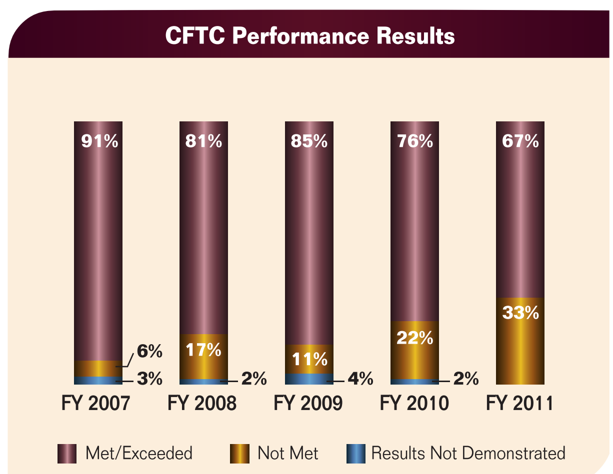
The goals of the CFTC largely remain consistent with prior years with the regulation of swaps being incorporated within the current regulatory structure applied to the futures and options markets.

FY 2011 – 2015 Strategic Goals	
Goal 1	Protect the public and market participants by ensuring market integrity, promoting transparency, competition and fairness and lowering risk in the system.
Goal 2	Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants.
Goal 3	Protect the public and market participants through a robust enforcement program.
Goal 4	Enhance integrity of U.S. markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide.
Goal 5	Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources.

Strategic Goals and Key Results

The following section includes a high-level discussion of each of the five strategic goals, as well as a tactical goal for Dodd-Frank rule making, and the related key results (shortfalls and successes). The selected accomplishments described below demonstrate significant progress made in FY 2011 toward the achievement of the Commission's mission and strategic goals. However, progress in some areas was hampered due to a significant number of staffing resources that were reallocated from existing authorities to implementing the new authorities under the Dodd-Frank Act.

Performance measures are rated as: Exceeded, Met, Not Met, or Results not Demonstrated. Of the Commission's 54 performance measures, nine were not measurable in FY 2011 due to their dependence on final rulemakings that have not been completed and are excluded from the following results. Overall results, based on data currently available, for the Commission's performance measures are depicted in the following chart:



The Commission's Annual Performance Report (APR), to be issued in February 2012 as part of its Congressional Budget Justification in conjunction with the President's Budget, will present more detailed analysis of performance results for FY 2011.

Objective 0.1 Financial Reform Legislation

The focused rule writing efforts required by the Dodd-Frank Act are not being treated as a "Strategic Goal", but as a tactical goal that has an Objective, Strategy and Performance Measure. Approximately 20 to 30 percent of the CFTC staff was diverted from their usual functions to work on Dodd-Frank Act related activities throughout FY 2011. The CFTC began preparing for the task of writing rules for the swaps marketplace by identifying 30 areas of rulemaking to implement the Dodd-Frank Act. The CFTC has found that some of these areas only required one rule, while others required more. Staff teams were assigned to each rule grouping. Where proposed and interim final rules have been issued, the Commission is affording as much opportunity as practicable for public comment both through written submissions and through public meetings. The Commission fully considers the comments and continues to offer this opportunity as additional proposed rules are developed. The CFTC has and will continue to work with the SEC and other regulators to maximize consistency, minimize overlap or duplication, and develop the best possible final rules.

Objective 0.1 Key Results

The Dodd-Frank Act set a timeframe of 360 days (or less in a few instances) for completion of the rules, but the Commission was unable to accomplish this for several reasons:

- The Commission operated under a Continuing Resolution for most of FY 2011 and was unable to hire needed staff and apply critical effort and skills to the completion of this objective;
- To ensure development and implementation of rules that are well balanced between risk mitigation and cost to the industry and public, significant and open interaction with Congress, industry, and the public was necessary and appropriate; and
- While some rules are fairly straight forward, many are intricate and raise interrelated and complex issues. Staff requires appropriate time to analyze, summarize, and consider all comments and aspects of a proposed rule, discuss the proposed rule and comments with the Commissioners, gain feedback, and develop draft final rules for deliberation by the Commission.

Despite the above limitations, the Commission was able to accomplish the following Dodd-Frank Act related rulemaking tasks within the 360 day time frame:

- Issued 54 proposed rules and issued seven final rules,
- Received, reviewed and analyzed over 27,000 comments,
- Held a second comment period for more than 25 rules,
- Held more than 14 technical conferences, and
- Through October 2011, nine additional final rules have been issued and four more proposed rules.

As of this writing, the CFTC anticipates completion of the vast majority of the rules by March 2012 and essentially all rules by July 2012 - within 24 months of enactment of the Dodd-Frank Act.

Strategic Goal One

Strategic Goal One

Protect the public and market participants by ensuring market integrity, promoting transparency, competition and fairness and lowering risk in the system.

FY 2011 INVESTMENT
Net Cost: $48.4 Million
Staffing: 172 FTE

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

The Commission strives to assure that Goal One is effectively met through the combined use of four oversight strategies: 1) the review of new contracts and rules and changes to contracts and rules; 2) continual surveillance of trading activity in the futures and swaps markets; 3) the review of regulated exchanges, DCMs and SEFs, to ensure that they are fulfilling their self-regulatory obligations; and, 4) the adoption of policies and strategies to promote market transparency.

Goal One Key Results

- During FY 2011, the Commission completed reviews of 57 new product certifications, nine exempt market filings, 317 rule filings and one FBOT no-action request.
- In fulfillment of a charge from the Financial Stability Board Chief, the Commission drafted two important IOSCO reports: the Report on OTC Derivatives Data Reporting and Aggregation Requirements, and the Report on Trading of OTC Derivatives.
- In order to enhance the Commission's surveillance program, it created three new automated alerts and three new reports as well as enhanced four trade practice alerts already in production for more effective market and trade surveillance.
- Performance targets for reviewing contracts in a timely manner and completing DCM regulatory reviews were not met due to the reallocation of staff to Dodd-Frank rulemaking activities.

Strategic Goal Two

Strategic Goal Two

Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants.

FY 2011 INVESTMENT
Net Cost: $43.7 Million
Staffing: 155 FTE

In fostering financially sound markets, the Commission's main priorities are to avoid disruptions to the system for clearing and settling contract obligations and to protect the funds that customers entrust to FCMs. Clearing organizations and FCMs are integral to the financial integrity of derivatives transactions – together, they protect against the financial difficulties of one trader becoming a systemic problem. Several aspects of the regulatory framework that contribute to the Commission achieving Goal Two are: 1) requiring that market participants post margin to secure their ability to fulfill financial obligations; 2) requiring participants on the losing side of trades to meet their obligations, in cash, through daily (sometimes intraday) margin calls; 3) requiring FCMs to maintain minimum levels of operating capital; and, 4) requiring FCMs to segregate customer funds from their own funds.

The Commission works with the exchanges and the NFA to closely monitor the financial condition of the FCMs themselves, who must provide the Commission, exchanges and NFA with various monthly and annual financial reports. The exchanges and NFA conduct routine, periodic audits and daily financial surveillance of their respective member FCMs. As a regulator, the Commission reviews the audit and financial surveillance programs of the exchanges and NFA and also monitors the financial condition of FCMs directly, as appropriate. This includes reviewing each FCM's exposure to risk from large customer positions that it carries. The Commission also conducts extensive daily surveillance of risks posed by traders, firms and DCOs and periodically reviews clearing organization procedures for monitoring risks and protecting customer funds.

The Commission works with the NFA to ensure that those seeking registration as intermediaries meet high qualification and fitness standards through the registration process. The Commission also drafts and interprets rules that apply to the conduct of business by these intermediaries.

With the implementation of the Dodd-Frank Act, the Commission has substantially greater responsibilities, including oversight of newly registered derivatives dealers, as well as implementation of enhanced compliance requirements for intermediaries and new core principle requirements for DCOs. The Commission also will be responsible for determining the initial eligibility or the continuing qualification of a DCO to clear swaps, as well as for the review of swaps submitted to the Commission for a determination as to whether the swaps are required to be cleared. The Commission also will be implementing new statutory provisions regarding review of new rules and rule amendments submitted by DCOs. In addition, the scope of the Commission's reviews of DCOs, designated self-regulatory organizations, and intermediaries will be expanded to include swap transactions and swap intermediaries.

Goal Two Key Results

- Partnering with DMO, DCR, and DSIO; ODT continued refining and extending automated surveillance systems to improve staff's ability to conduct market, trade practice, and financial and risk oversight. Market and trade practice surveillance systems were modified to profile market activity warranting review and to alert staff to potential front running and position concentrations.
- Financial oversight systems were enhanced to increase usability and to process bank and mutual fund data, variation margin data, and credit default swap data for currently-registered DCOs.
- A web-based online comment system was implemented to facilitate industry and public participation in the Dodd-Frank rulemaking process. It was integrated with CFTC eLaw technology, which provides legal support for enforcement activities and increases rulemaking staff productivity by providing powerful document search, tagging, and analysis capabilities.
- The Commission completed the migration of Trade Capture Report data to an open industry standard. CFTC had been receiving this data from futures exchanges in disparate, legacy formats. The result is much-improved data quality and the effectiveness of automated alert systems. Data transparency has also been improved, increasing the effectiveness of data analysis for market and trade practice surveillance and for economic research. The Commission began systematically receiving Time and Sales data, and started a preliminary analysis of the potential receipt of order message data, to improve surveillance. These enhancements will also be applied to the receipt of swaps data.
- The Commission met its target to perform risk analysis and stress-testing on 500,000 large trader and clearing member positions to ascertain those with significant risk and confirm that such risks are being appropriately managed.
- The performance target for annual DCO reviews for compliance with core principles and Commission requirements was not met due to the diversion of staff to Dodd-Frank rulemaking activities.

STRATEGIC GOAL THREE

Strategic Goal Three

Protect the public and market participants through a robust enforcement program.

FY 2011 INVESTMENT
Net Cost: $61.1 Million
Staffing: 217 FTE

An increasing segment of the population has money invested in the derivatives markets, either directly or indirectly through pension funds or ownership of shares in publicly held companies that participate in the markets. Commission staff works to protect market users and the public by promoting compliance with and deterring violations of the CEA and Commission regulations. The range of available enforcement actions (including manipulation, disruptive trading practices and anti-fraud for example) will broaden beginning July 2011 when relevant provisions of the Dodd-Frank Act become effective. By providing a formalized structure and government oversight, the commodity laws carefully balance the desire for open, accessible and competitive markets with the need to protect market users.

This third strategic goal is to ensure that firms and individuals who come to the marketplace to fulfill their business and trading needs are in compliance with laws and regulations. In addition, market users and others must be protected from possible wrongdoing that may affect or tend to affect the integrity of the markets. The derivatives markets provide a great benefit to the U.S. economy; preserving the integrity of the markets ensures their continued vibrancy and promotes public confidence. Continuing IT investment in the eLaw program will support all Goal Three objectives by improving staff productivity, providing staff with a level IT playing field with those it investigates and effective tools to collaborate internally with oversight and clearing staff as well as with other regulators, and facilitating the use of information to identify high impact enforcement actions.

Goal Three Key Results

- The Commission filed 99 enforcement actions in FY 2011, the highest yearly tally in the agency's history and a 74 percent increase over the prior fiscal year. The CFTC charged individuals and companies in these cases for manipulating commodity prices, perpetrating Ponzi schemes and other fraud, supervision and accounting failures, trading abuses, registration deficiencies, and committing other violations of the CEA and regulations.
- The Commission also opened more than 450 investigations in FY 2011, another program high.

- Overall, the performance target for concluding enforcement investigations within 1 year was exceeded by 16 percent (81 percent completed vs. a target of 65 percent).

- Fighting Fraud and Other Regulatory Violations: The Commission's mission to protect market participants from fraud is reflected by the 55 fraud actions filed in fiscal year 2011 alone, and by the numerous Federal court orders obtained by the Commission against more than 75 defendants, imposing civil monetary penalties and restitution and disgorgement obligations. In one notable fraud case, *CFTC vs. Walsh, et al*, the Court ordered an initial distribution and return of approximately $792 million to commodity pool investors stemming from an alleged $1.3 billion Ponzi scheme that was the subject of CFTC and SEC charges in a prior fiscal year.

- The Commission also took action against so-called gatekeepers, charging an accounting firm and two of its partners in two separate cases, for failing to apply generally accepted auditing standards (GAAS) when conducting audits of FCMs that had produced misstated financial statements. *See In the Matter of G. Victor Johnson II, McGladrey & Pullen, LLP and Altshuler, Melvoin & Glasser, LLP,* CFTC Docket No. 11-01 (October 4, 2010) and *In the Matter of David Shane and McGladrey & Pullen, LLP,* CFTC Docket No. 11-23 (September 22, 2011).

- Foreign Exchange Currency (Forex) Enforcement: The Commission filed 23 actions enforcing new regulations that resulted from the Dodd-Frank Act and that require foreign exchange dealers and introducing brokers to register with the Commission. Separately, and as part of the Commission's prosecution of retail forex fraud, the Commission prevailed in a Federal jury trial in the United States District Court for the Middle District of Florida, which imposed more than $17 million in sanctions and other relief against Capital Blu Management, LLC and several other defendants.

- Cooperating with Law Enforcement Partners: The Commission continues to actively engage in cooperative enforcement with Federal and state criminal and civil law enforcement authorities. During FY 2011, more than 70 indictments and convictions were obtained in criminal cases related to CFTC enforcement actions.

Strategic Goal Four

Strategic Goal Four

Enhance integrity of U.S. markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide.

FY 2011 INVESTMENT
Net Cost: $8.4 Million
Staffing: 30 FTE

The Commission recognizes that markets are global as the result of electronic access, linkages, mergers, and cooperative business arrangements. The CFTC historically has supported programs that facilitate cross-border access to markets and products, such as our recognition program for intermediaries and our registration category for foreign boards of trade. Both of these programs are based on recognition of foreign home country regulators that comparably and comprehensively provide oversight, allowing the CFTC to rely on this foreign regulation. These programs reflect our understanding that no one regulator alone will have all of the information or authority to supervise global business.

Effective regulation requires international coordination and necessitates that the Commission cooperate with foreign market authorities to supervise U.S. markets and protect U.S. customers. Additionally, the Commission works closely with relevant international organizations to promote high-quality derivatives regulation worldwide and convergence where possible. The CFTC also provides technical assistance to emerging and recently-emerged markets to help these jurisdictions in establishing and implementing laws and regulations that foster global market integrity.

The Dodd-Frank Act increases the need for international outreach. Section 752 of the Act states that the Commission "shall consult and coordinate" with foreign authorities to establish "consistent international standards" regarding regulation of swaps. Many of the new entities subject to regulation under the Dodd-Frank Act are located abroad and the Commission will closely coordinate with foreign regulators in order to supervise these global entities.

Goal Four Key Results

- Coordinated Dodd-Frank outreach: Coordinated staff and Chairman's engagement with the European Commission and Parliament with the objective of encouraging harmonization of European regulatory development with Dodd-Frank policies. Initiated similar discussions with other foreign regulators.
- Created international working groups: The CFTC exceeded its performance target for international

working group participation as it began technical level working groups on OTC derivatives with the European Commission, European Securities Markets Authority (ESMA), and regulatory authorities in Japan, Singapore, and Hong Kong. Additionally, the Office of International Affairs organized a joint CFTC-SEC roundtable on the cross-border application of Dodd-Frank.

- Participated in internal Dodd-Frank policy development: Coordinated a review of cross-border arrangements that will be needed under Dodd-Frank and developed draft Memorandum of Understanding (MOU) on the supervision of dually-regulated cross-border clearinghouses. Participated in rule development where there were international implications.

- Led the effort within the IOSCO Task Force on commodity futures markets to develop a final report on "Principles for the Regulation and Supervision of Commodity Derivatives Markets," as requested by IOSCO and the G-20. IOSCO determined to convert the task force into a permanent standing committee.

- Coordinated Commission policy within the IOSCO Technical Committee and Standing Committee 2 on secondary markets, Standing Committee 3 on intermediaries, the OTC derivatives task force, and the task force on implementation of the IOSCO Principles, which revised the IOSCO Methodology.

- Represented the Commission in U.S. Treasury-led dialogues, such as China Strategic and Economic dialogue, India, NAFTA, and Europe. Participated in a G-20 study groups on commodities and on fossil fuel volatility and coordinated policy with the National Security Council on agricultural commodity volatility.

- Requests and referrals to and from foreign authorities continued to grow during FY 2011. In FY 2011, the Division handled over 530 international requests and referrals, an approximate 20 percent increase over FY 2010.

- The performance target of training at least 60 non-U.S. regulators was met in FY 2011.

- Planned the annual international regulatory conference at Boca Raton, Florida and the annual symposium for foreign regulators in Chicago. Coordinated staff technical assistance mission to Ethiopia and a second program for the Korean Financial Supervisory Service.

STRATEGIC GOAL FIVE

Strategic Goal Five

Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources.

FY 2011 INVESTMENT
Cost: $25.9 Million
Staffing: 92 FTE

Commission excellence reflected in the achievement of the agency's strategic mission and goals depends on clear executive direction, strong and focused management, and a well-resourced, dedicated and productive workforce. These attributes of a high-performing organization combine to support and drive the critical work of the Commission to provide a sound regulatory oversight and enforcement program for the American people. To ensure the Commission's continued success, continuity of operations and adaptation to the ever-changing markets it is charged with regulating, the Commission must maintain a well-qualified workforce supported by a modern information technology infrastructure and working environment.

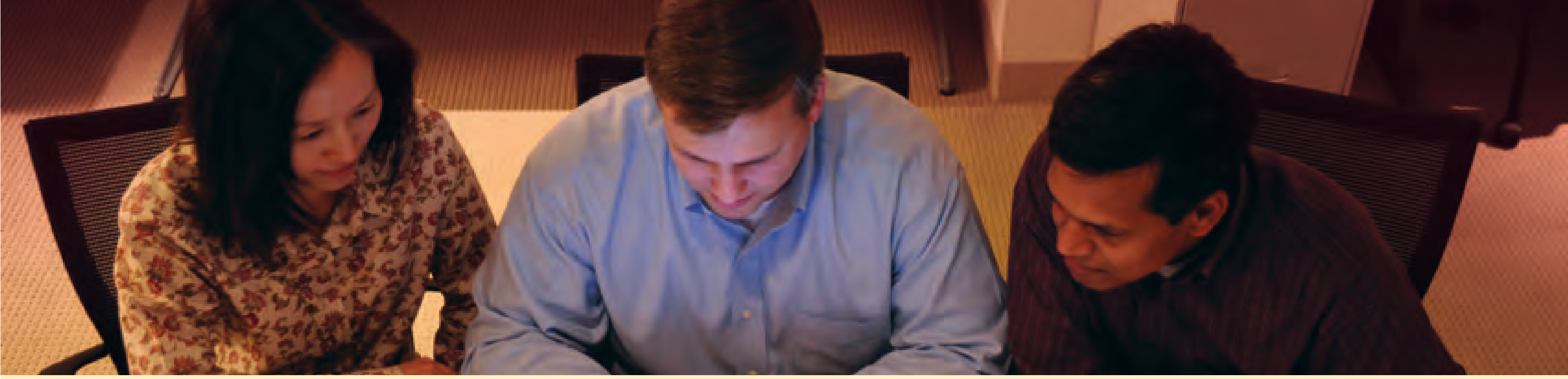
During the next five years, the Commission will develop and implement a host of rules many of which address the Dodd-Frank requirements and many of which will also alter and expand the Commission's mission and operation. To successfully develop, implement and manage these rules, the Commission requires unambiguous and timely direction, the right quantity and quality of staff, aligned in an optimal operating structure supported by the necessary training and development, tools and resources.

Goal Five Key Results

- The Commission met its performance target by approving and adopting a reorganization, which established DSIO and ODT, in order to ensure that the Commission is structured, aligned and streamlined to successfully carry out its mission while flexible and adaptable to changes to its mission and available resources.
- In response to the Dodd-Frank Act authority for oversight of the swaps marketplace, the reorganization created the Division of Swaps and Intermediary Oversight and realigned a number of existing functions to accommodate the Commission's expanded scope.
- In order to effectively incorporate Dodd-Frank Act with the Commission's existing responsibilities, a new Strategic Plan was developed with the aide of interdivisional leadership forums and released in February 2011.
- The Commission began implementing a Management Framework Approach and developed a Planning Process manual. While currently under review, many

of the guidelines in the manual have already been successfully implemented. It effectively develops and implements a resource management program to support the optimal operation and maintenance of the growing agency (scope and staff) with the capability and tools to achieve its mission.

- In addition to hiring a number of talented new staff, Commission developed a CFTC-wide learning strategy to ensure all staff receives enriched training and development opportunities throughout the employee lifecycle.
- The Commission met its performance target by reducing the time to hire by over 10 percent in FY 2011.
- The Commission substantially completed the first phase of a three-phase effort to improve business continuity. The Commission established an Alternate Computing Facility (ACF) and will complete Phase 1 with the replication of mission critical and mission essential data to the ACF. The second phase will implement the capability to restore mission critical and mission essential systems from the ACF in accordance with recovery time and recovery point objectives. Phase 3, which will begin in FY 2013, will implement recovery capability for all Commission systems.
- In support of Commission transparency initiatives, the CFTC.gov public website was moved to a new hosting facility. As a result, time-sensitive information is posted much more rapidly. The new site will also better support future improvements to online services for industry and the public. Also, the 'This Month in Futures Report' was redesigned to improve usability, increase transparency, and reduce report preparation time.
- The CFTC designed, developed, and implemented a Budget Process Activity Code repository to better manage and report the Commission's financial and human resources.



Financial Highlights

The following table is an overview of the Commission's financial position, preceding a discussion of the agency's financial highlights for FY 2011:

	2011	2010
Condensed Balance Sheet Data		
Fund Balance with Treasury	$ 81,785,717	$ 44,321,898
Accounts Receivable	59,226	4,836
Prepayments	1,109,626	641,957
Other (Custodial)	2,574,173	2,319,934
General Property, Plant and Equipment	42,346,895	25,203,787
Deferred Costs	6,254,873	6,303,367
TOTAL ASSETS	**$ 134,130,510**	**$ 78,795,779**
FECA Liabilities	$ 528,512	$ 256,801
Accounts Payable	7,092,349	7,650,033
Payroll, Benefits and Annual Leave	15,464,338	14,460,136
Custodial Liabilities	2,574,173	2,319,934
Depost Fund Liabilities	57,127	22,226
Deferred Lease Liabilities	21,974,782	12,174,352
Other	19,649	7,226
Total Liabilities	**47,710,930**	**36,890,708**
Cumulative Results of Operations - Earmarked	23,755,000	–
Cumulative Results of Operations	17,998,424	11,455,579
Unexpended Appropriations	44,666,156	30,449,492
Total Net Position	**86,419,580**	**41,905,071**
TOTAL LIABILITIES AND NET POSITION	**$ 134,130,510**	**$ 78,795,779**
Condensed Statements of Net Cost		
Total Cost	$ 187,648,360	$ 169,540,777
Net Revenue	(88,720)	(71,840)
TOTAL NET COST OF OPERATIONS	**$ 187,559,640**	**$ 169,468,937**
Net Cost by Strategic Goal		
Goal One - Market Integrity	$ 48,390,387	$ 43,172,212
Goal Two - Clearing Integrity	43,701,396	39,081,231
Goal Three - Protect Market Users and Public	61,144,442	54,902,851
Goal Four - Cross-Border Cooperation	8,440,184	7,488,832
Goal Five - Organizational and Management Excellence	25,883,231	24,823,811
	$ 187,559,640	**$169,468,937**

Financial Discussion and Analysis

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

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

The financial summary as shown on the preceding page highlights changes in financial position between September 30, 2011 and September 30, 2010. This overview is supplemented with brief descriptions of the nature of each required financial statement and its relevance. Certain significant balances or conditions featured in the graphic presentation are explained in these sections to help clarify their relationship to Commission operations. Readers are encouraged to gain a deeper understanding by reviewing the Commission's financial statements and notes to the accompanying audit report presented in the Financial Section of this report.

Understanding the Financial Statements

The CFTC presents financial statements and notes in the format required for the current year by OMB Circular A-136, *Financial Reporting Requirements*, which is revised annually by OMB in coordination with the U.S. Chief Financial Officers Council. The CFTC's current year and prior year financial statements and notes are presented in a comparative format.

Balance Sheet

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

For the year ended September 30, 2011, the Balance Sheet reflects total assets of $134.1 million. This is a 70 percent increase from FY 2010. The increase is primarily due to large increases in Commission funds held by the U.S. Department of the Treasury and in the Plant, Property, and Equipment balance.

The CFTC litigates against defendants for alleged violations of the CEA and Commission regulations. Violators may be subject to a variety of sanctions including civil monetary penalties, injunctive orders, trading and registration bars and suspensions, and orders to pay disgorgement and restitution to customers. Section 748 of the Dodd-Frank Act amended the CEA by adding Section 23, entitled "Commodity Whistleblower Incentives and Protection." Among other things, Section 23 establishes a whistleblower program that requires the Commission to pay an award, under regulations prescribed by the Commission and subject to certain limitations, to eligible whistleblowers who voluntarily provide the Commission with original information about a violation of the CEA that leads to the successful enforcement of a covered judicial or administrative action, or a related action. The Commission's whistleblower awards are to equal, in the aggregate amount, at least 10 but not more than 30 percent of the monetary sanctions actually collected in the Commission's action or a related action. To provide funding for the Commission's whistleblower award program, the Dodd-Frank Act established the Commodity Futures Trading Commission Customer Protection Fund. In addition, the Fund can be used to finance customer education initiatives. As of September 30, 2011, the Fund had a balance of $23.8 million. In FY 2011, the Commission, for the first time, received a two-year appropriation to ensure fiscal certainty in the implementation of the Dodd-Frank Act. The Commission carried over $9.9 million of its FY 2011 /

2012 appropriation and is using these funds to continue operations during the first quarter of FY 2012.

The Commission's General Property, Plant and Equipment balance was $17.1 million more in FY 2011 than it was at the end of FY 2010. The increase was attributable to technology modernization and space renovations made in Kansas City, MO. and Washington, D.C.

The Commission enters into commercial leases for its headquarters and regional offices. In FY 2011, the agency entered into a new lease agreement in Kansas City, MO and expanded its Washington, DC lease. These leasing arrangements allowed for monthly rent payments to be deferred until future years as well as provided for landlord contributions to space renovations. These amounts are reflected as a Deferred Lease Liability on the Balance Sheet. Additionally, as should be expected from a small regulatory agency; payroll, benefits, accounts payable and annual leave make up the majority of the remaining CFTC liabilities.

Statement of Net Cost

This statement is designed to present the components of the Commission's net cost of operations. Net cost is the gross cost incurred less any revenues earned from Commission activities. The Statement of Net Cost is categorized by the Commission's five strategic goals which were revised in FY 2011 to add a new goal: Enhance the integrity of U.S. Markets by engaging in cross-border cooperation to promote strong international regulatory standards. Moreover, for clarity, management realigned most DCR and DSIO work into Strategic Goal Two and most DOE work into Goal Three. The comparative presentation in the financial statements uses an allocation to reclassify FY 2010 to conform to the FY 2011 presentation.

The Commission experienced a 10.7 percent increase in the total net cost of operations during FY 2011.

Strategic Goal One, which tracks activities related to market oversight, continues to require a significant share of Commission resources at 26 percent of net cost of operations in FY 2011. The $48.4 million reflects a continuation of management's effort to address market volatility.

Strategic Goal Two is representative of efforts to protect market users and the public. In FY 2011, the net cost of operations for this goal was $43.7 million or 23 percent. The funding for this goal is primarily to support DOE with new and ongoing investigations in response to market activity. Investigations into crude oil and related derivative contracts, and suspected Ponzi schemes have been extremely resource intensive.

Strategic Goal Three is representative of efforts to ensure market integrity. In FY 2011, the net cost of operations for this goal was $61.1 million or 33 percent, an increase of eight percent from FY 2010. The increase is reflective of the emphasis necessary to develop concrete measures that will bring transparency, openness and competition to the swaps markets while lowering the risk they pose to the American public.

Strategic Goal Four is representative of efforts to increase cross-border cooperation to promote strong international regulatory standards. The net cost of this work, in prior years was subsumed within Goal Five. In FY 2011, the net cost of operations for this goal was $8.4 million or four percent. CFTC is dramatically expanding its cross-border presence through cooperative agreements and active participation on international standards setting organization committees.

Strategic Goal Five is representative of efforts to achieve organizational excellence and accountability. Included in this goal are the efforts of the Chairman, Commissioners, and related staff to ensure more transparency in the commodity markets, and lay the groundwork for the future. Additionally, these costs are reflective of the planning and execution of human capital, financial management, and technology initiatives. In FY 2011, the net cost of operations for this goal was $25.9 million or 14 percent.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents the agency's cumulative net results of operation and unexpended appropriations for the fiscal year. CFTC's Net Position increased by $44.5 million, or 106 percent, in FY 2011. The dramatic increase is primarily attributed to cumulative net results of operations which rose by

$30.3 million (the earmarked funds of Consumer Protection Fund accounted for $23.8 million of that balance) and Total Unexpended Appropriations which reflects a yearly increase of $14.2 million in the cumulative amount of Unexpended Appropriations as of September 30, 2011. This is not unexpected as the earmarked funds for the Customer Protection Fund were not deposited until late September. The Commission had also been operating under a continuing resolution for about seven months and obligated most of its non-compensation and benefit budget in the fourth quarter of the fiscal year.

Statement of Budgetary Resources

This statement provides information about the provision of budgetary resources and its status as of the end of the year. Information in this statement is consistent with budget execution information and the information reported in the *Budget of the U. S. Government, FY 2011*.

The $202.7 million appropriation received in FY 2011 represented a 20 percent increase for the Commission. This permitted the Commission to continue to fund benefits and compensation, lease expenses, printing, services to support systems users, telecommunications, operations, and maintenance of information technology (IT) equipment. In FY 2011, gross outlays were in line with the gross costs of operations due to increased hiring, space renovations, and technology spending.

Statement of Custodial Activity

This statement provides information about the sources and disposition of collections. With the inception of the CFTC Customer Protection Fund, CFTC transfers earmarked funds to it and Non-exchange revenue to the Treasury general fund. Collections are primarily represented by fines, penalties, and forfeitures assessed and levied against businesses and individuals for violations of the CEA or Commission regulations. They also include non-exchange revenues include registration, filing, appeal fees, and general receipts. The Statement of Custodial Activity reflects total cash collections in the amount of $13.5 million. Of which $7.7 million was transferred to Treasury and $5.8 was transferred into the Customer Protection Fund. This amount represents a decrease of $62.4 million from FY 2010, when the Commission collected $75.9 million.

Historical experience has indicated that a high percentage of custodial receivables prove uncollectible. The methodology used to estimate the allowance for uncollectible amounts related to custodial accounts is that custodial receivables are considered 100 percent uncollectible unless deemed otherwise. An allowance for uncollectible accounts has been established and included in the accounts receivable on the Balance Sheet. The allowance is based on past experience in the collection of accounts receivables and an analysis of outstanding balances. Accounts are re-estimated quarterly based on account reviews and a determination that changes to the net realizable value are needed.

Limitations of Financial Statements

Management has prepared the principal financial statements to report the financial position and operational results for the CFTC for FY 2011 and FY 2010 pursuant to the requirements of Title 31 of the U.S. Code, section 3515 (b).

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

The statements should be read with the realization that they are a component of the U.S. government, a sovereign entity.

Management Assurances

Management Overview

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

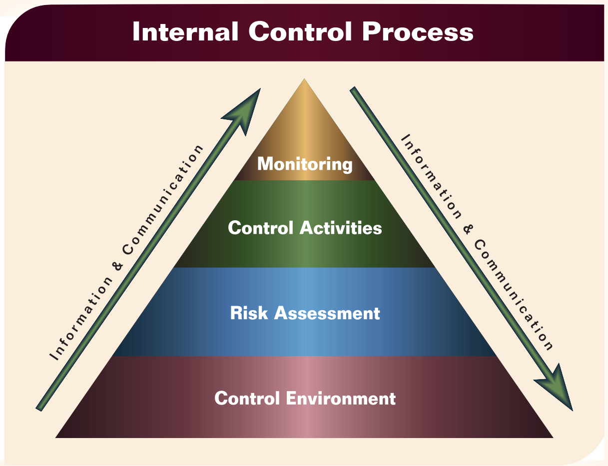
Control Environment is the commitment to encourage the highest level of integrity and personal and professional standards, and promotes internal control through leadership philosophy and operation style.

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

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

Monitoring is the assessment of internal control performance to ensure the internal control processes are properly executed and effective.

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



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

- Ensure that its divisions and mission support offices achieve the intended results efficiently and effectively; and
- Ensure the maintenance and use of reliable, complete, and timely data for decision-making at all levels.

Statement of Assurances

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

Statement of Assurance

"CFTC management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The CFTC conducted its assessment of the internal control over effectiveness and efficiency of operations, and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the CFTC can provide reasonable assurance that its internal control over operations, and compliance with applicable laws and regulations, as of September 30, 2011 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

The CFTC also conducts reviews of its financial management systems in accordance with OMB Circular A-127, Financial Management Systems. Based on the results of these reviews, the CFTC can provide reasonable assurance that its financial management systems are in compliance with applicable provisions of FMFIA as of September 30, 2011.

In addition, the CFTC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations governing the use of budget authority and other laws and regulations that could have a material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the CFTC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2011 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting".

Gary Gensler
Chairman
November 14, 2011

During FY 2011, in accordance with FMFIA, and using the guidelines of OMB, the Commission reviewed key components of its management and internal control system.

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

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

The efficiency of the Commission's operations is evaluated using information obtained from reviews conducted by Government Accountability Office (GAO) and the Office of Inspector General (OIG), specifically, requested studies, or observations of daily operations.

These reviews ensure that the Commission's systems and controls comply with the standards established by FMFIA. Moreover, managers throughout the Commission are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual assurance statements from division and office heads serve as a primary basis for the Chairman's assurance that management controls are adequate. The assurance statements are based upon each office's evaluation of progress made in correcting any previously reported problems, as well as new problems identified by the OIG, GAO, other management reports, and the management environment within each office. The items presented below are illustrative of the work performed during FY 2011:

- Pay and benefits assessment based on the authority of Section 10702 of the Public Law 107-171, Farm Security and Rural Investment Act of 2002 (FSRIA);
- Remediation of management letter matters identified in the FY 2010 audit of the agency's financial statements and related internal controls;
- Management control reviews conducted with the express purpose of assessing internal controls;
- Management control reviews conducted with the express purpose of assessing compliance with applicable laws, regulations, government-wide policies, and laws identified by OMB in Memorandum M-09-33 Technical Amendments to OMB Bulletin No. 07-04 Audit Requirements for Federal Financial Statements;
- Information security as required by the Federal Information Security Management Act (FISMA); and
- Implementation of the CFTC's Property Inventory Management System to maintain an inventory and monitor the agency's accountable assets.

FMFIA Section 2, Management Control

The Commission has no declared material weakness under FMFIA for FY 2011 and FY 2010 in the area of financial reporting that hinders preparation of timely and accurate financial statements.

FMFIA Section 4, Financial Management Systems

The Commission declared no systems nonconformance under FMFIA during FY 2011 and FY 2010. The independent auditors' reports for FY 2011 and FY 2010 disclosed no instances of noncompliance or other matters that were required to be reported under *Generally Accepted Government Auditing Standards* (GAGAS) and OMB Bulletin 07-04, *Audit Standards for Federal Financial Statements.*

Forward Looking – Future Business Trends and Events

CFTC Implements the Dodd-Frank Act

In September 2008, our economy fell into a downward spiral when one large financial institution after another teetered on the brink of failure, threatening our financial system and the well-being of the American public.

We are still feeling the aftershocks of this financial crisis. More than eight million jobs were lost and the unemployment rate remains stubbornly high. Millions of Americans lost their homes or are now in homes worth less than their mortgages. And millions of Americans continue struggling each day to make ends meet.

While the crisis had many causes, it is evident that unregulated derivatives, called swaps, heightened risk on Wall Street and played a central role in the financial crisis. Developed in the 1980s, swaps, along with the regulated futures market, help producers, merchants, and other companies to lower their risk by locking in the price of a commodity or an interest rate, currency or other financial index. The public buys gasoline and groceries from companies that rely upon futures and swaps to hedge their commodity price risks. The public keeps their savings with banks and pension funds that use swaps to manage their interest rate risks. Our nation's economy relies on a well-functioning derivatives market – an essential piece of a healthy American financial system.

Over the last thirty years, however, the swaps market had remained unregulated and grew in size and complexity that far outstrips the futures market; it is now seven times the size. Swaps added leverage to the financial system – with more risk backed by less capital.

Swaps contributed significantly to the interconnectedness between banks, investment banks, and hedge funds, among other financial entities. Large financial institutions, were regarded not only as too big to fail, but also too interconnected to fail. When AIG, Bear Stearns and others collapsed, taxpayers were made to pick up the bill to prevent the economy from diving deeper into a depression. The financial system failed. Moreover, the regulatory system that was put in place to protect the public failed as well.

Just over a year ago, Congress and the President came together and passed an historic law: the Dodd-Frank Act. For the first time, the CFTC and SEC will have oversight of the swaps and security-based swaps markets.

The Dodd-Frank Act includes many important provisions, but includes two overarching goals of reform: bringing transparency to the swaps market and lowering the risks of this market to the overall economy. Both of these reforms will better protect taxpayers from again bearing the brunt of a financial crisis and will cut costs for businesses and their customers.

The first overarching goal of reform brings critical transparency to the derivatives marketplace. The more transparent a marketplace is the more liquid it is and the more competitive it is. In short, when markets are open and transparent, costs are lower for companies and the people who buy their products. They are safer and more sound.

The Dodd-Frank Act promotes both pre-trade and post-trade transparency. It moves certain standardized swaps transactions to exchanges or swap execution facilities. This will allow buyers and sellers to meet in an open marketplace where prices are publicly available, rather than in the shadows of the financial system. The Dodd-Frank Act also requires the real-time reporting of the price and volume of transactions. Furthermore, it requires that once a swap transaction is arranged, its valuation must be shared on a daily basis with the counterparty. These measures of transparency and openness reduce some of the information advantages that dealers currently have over Main Street.

The second overarching goal of reform is equally as important. The law lowers risk to the overall economy by directly regulating dealers for their swaps activities as well as moving standardized swaps into central clearing. Clearinghouses mitigate the risks that arise from the interconnectedness in the financial system by standing between counterparties and guaranteeing the obligations of the parties in case of default. They have lowered risk for the public in the futures markets since the late-19th Century – through world wars, the Great Depression, and financial crises. It's time to modernize the swaps market and provide the same protections for taxpayers.

This spring, the CFTC largely completed the proposal phase of its rule-writing process. This summer, the agency turned an important corner, as we began finalizing rules to make the swaps marketplace more open and transparent for participants and safer for taxpayers.

Among the regulations we have completed is a rule giving the Commission new authority to effectively prosecute wrongdoers who recklessly manipulate the markets. Also, we will soon begin rewarding whistleblowers for their help in catching fraud, manipulation or other misconduct in the financial markets.

The Commission also finished rules that, for the first time, will give regulators and the public specific information on the derivatives market's scale and risk. These rules require dealers, clearing members and clearinghouses to give the CFTC data about their swaps activities and establish swap data repositories that will receive information on all swaps transactions. By contrast, in the fall of 2008, there was no required reporting about swaps trading: no one knew how big a problem this market posed to the economy because so much of the trading happened in the dark.

Next in queue of the final rules will be the consideration of critical regulations related to speculative position limits, as well as risk management for clearinghouses.

While U.S. regulators work to implement the Dodd-Frank Act here at home, the Commission also is actively consulting and coordinating with international regulators to promote robust and consistent standards in swaps oversight. The Commission also anticipates seeking public input on the application of Section 722(d), which says that the law does not apply to activities outside the United States unless those activities have a direct and significant connection with or effect on U.S. commerce.

Twenty-first century finance, though, knows no true geographic borders as money and risk can move around the globe with a touch of a button. Sober evidence of this can be seen through AIG's swaps affiliate, AIG Financial Products, which had its major operations in London. When it failed, the U.S. economy, and taxpayers shouldered the greatest burden.

Economists have agreed for decades that transparency in markets actually reduces costs and makes markets more efficient. Furthermore, the U.S. financial system remains interconnected through the swaps market here, in Europe and in Asia. Thus, the current debt crisis in Europe is but a stark reminder of why completing financial reform is so necessary for the U.S. economy and to protect taxpayers. Dodd-Frank is about transparency and ensuring the public does not bear the risks of the financial system.

In 2008, if Dodd-Frank had been in place, greater transparency would have allowed regulators to see the simmering problems at large financial institutions, such as AIG. In 2008, our nation had a difficult decision: rescue institutions or risk a depression. At its core, Dodd-Frank lowers the risk that the American people will ever be put in that position again.

At the CFTC, commissioners and staff are working day and night to put up the necessary street lamps to bring the swaps market out of the shadows and the traffic signals to protect the public from another financial crash. Until these reforms are complete, however, the public remains at risk.

The agency is taking on a significantly expanded scope and mission. So far, staff and commissioners have held more than 1,000 meetings with the public, and received over 25,000 comments on its proposed rules. As the Commission continues to finalize rules, market participants will increasingly seek guidance from the CFTC. Without sufficient funding, though, it will not have the resources to be as responsive to the public as it should be.

The agency must be adequately resourced to ensure the new swaps market rules will be strictly enforced – rules that promote transparent markets, lower costs for consumers and protect taxpayers. Without sufficient funding, the Commission will not have the resources to put enough cops on the beat for the public's protection.

Other Existing Challenges

Systemic Risks

The financial crisis prompted multilateral organizations, such as IOSCO, to emphasize the identification of systemic risks as a new principle for its member regulatory agencies. The 2010 financial legislation similarly stressed the need for a more comprehensive approach to the identification of systemic risk through the creation of a new risk council composed of the U.S. financial regulators. The Commission will need to develop internal mechanisms and acquire new competencies and approaches to risk identification to address this new policy objective. Addressing systemic risks will also involve greater international cooperation and the development of new global mechanisms for the ongoing evaluation of, and sharing of concerns regarding, emerging global financial risks. The challenge will be to develop internal, domestic and global mechanisms that can understand, identify and address novel, emerging forms of risk.

Impact of Technology on Market Structure

The May 2010 "flash crash" has focused attention on the activities of high frequency, algorithmic-driven traders. High frequency trading challenges regulators to understand how this form of trading has transformed markets and poses new questions concerning what constitutes abusive trading practices. As part of addressing this issue, the Commission will continue its participation with the SEC in the Joint Advisory Committee on Emerging Regulatory Issues. Because trading takes place globally, the CFTC expects to cooperate with other international authorities that are examining these issues as well. The Commission also will continue to conduct its own research in this area.

Energy and Agricultural Futures Markets

The continued concerns that have been expressed with respect to contract specifications in several agricultural futures contracts raise issues that go to the core of the commodity markets and their continued viability for hedging. The Commission will remain engaged in these critical issues, both through the Commission's Agricultural Advisory Committee and the deployment of staff to analyze these problems on a priority basis.

Global shortages, increasing consumer demands and a variety of fundamental factors that affect and possibly distort supply and demand make it likely that there will be continued periods of price volatility in strategically important energy and agricultural commodities. Most recently these concerns have been expressed by the G20 Group of Financial Ministers, and the Commission expects that these concerns will continue to be expressed in the years ahead.

The Commission has contributed to the U.S. response to these G20 concerns through its co-chairing of an IOSCO Task Force on Commodity Futures Markets. Work within the Task Force helped focus attention on the need for greater transparency in OTC and cash markets as means to match the transparency that already exists in futures markets. The Commission expects to share its expertise concerning techniques used to: identify and make public, through its Commitments of Traders (COT) reports, large concentrations of positions, the use of position limits as a means to address what the CEA terms excessive speculation, and the application of aggressive enforcement programs that target conduct that may involve futures, OTC and cash markets. The continued "linkage" of U.S. and European markets through dually-regulated intermediaries, exchanges, clearing-houses and soon-to-be registered trade repositories will undoubtedly require closer cooperation and coordination with European authorities.

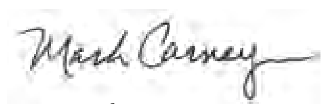
FINANCIAL SECTION

A Message From the Chief Financial Officer

The public accounting firm, KPMG LLP, on behalf of the Inspector General, reported that the Commission's financial statements were presented fairly, in all material respects, and were in conformity with U.S. generally accepted accounting principles.

For the fifth consecutive year the Commission had no material weaknesses, and was compliant with laws and regulations. This includes substantial compliance with the Federal Information Security Management Act (FISMA). No significant deficiencies in the controls over financial reporting were identified during the last four fiscal years.

The CFTC leverages a financial management systems platform operated by the U.S. Department of Transportation's (DOT) Enterprise Service Center, an Office of Management and Budget (OMB) designated financial management service provider. As a consequence, the CFTC is able to accumulate, analyze, and present reliable financial information, or provide reliable, timely information for managing current operations and timely reporting of financial information to central agencies. Furthermore, our system is in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (although CFTC is not required to comply with FFMIA, it has elected to do so).



Mark Carney
Chief Financial Officer
November 14, 2011

Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the CFTC for FY 2011 and FY 2010 pursuant to the requirements of Title 31 of the U.S. Code, section 3515 (b).

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

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

Commodity Futures Trading Commission

Balance Sheets

As of September 30, 2011 and 2010

	2011	2010
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 81,785,717	$44,321,898
Prepayments (Note 1l)	90,107	6,449
Total Intragovernmental	81,875,824	44,328,347
Custodial Receivables, Net (Note 3)	2,574,173	2,319,934
Accounts Receivable (Note 3)	59,226	4,836
General Property, Plant and Equipment, Net (Note 4)	42,346,895	25,203,787
Deferred Costs (Note 5)	6,254,873	6,303,367
Prepayments (Note 1l)	1,019,519	635,508
TOTAL ASSETS	**$ 134,130,510**	**$ 78,795,779**
LIABILITIES		
Intragovernmental:		
FECA Liabilities	$ 91,175	$ 45,012
Accounts Payable	693,987	426,691
Total Intragovernmental	785,162	471,703
Accounts Payable	6,398,362	7,223,342
Accrued Funded Payroll	7,346,675	6,835,767
Annual Leave	8,117,663	7,624,369
Actuarial FECA Liabilities (Note 8)	437,337	211,789
Custodial Liabilities	2,574,173	2,319,934
Deposit Fund Liabilities	57,127	22,226
Deferred Lease Liabilities (Note 9)	21,974,782	12,174,352
Other	19,649	7,226
Contingent Liabilities (Note 10)	–	–
Total Liabilities	**$ 47,710,930**	**$ 36,890,708**
NET POSITION		
Cumulative Results of Operations - Earmarked	$ 23,755,000	$ –
Cumulative Results of Operations - Other	17,998,424	11,455,579
Unexpended Appropriations	44,666,156	30,449,492
Total Net Position	**86,419,580**	**41,905,071**
TOTAL LIABILITIES AND NET POSITION	**$ 134,130,510**	**$ 78,795,779**

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

Commodity Futures Trading Commission

Statements of Net Cost

For the Years Ended September 30, 2011 and 2010

	2011	2010
NET COST BY GOAL (NOTE 14)		
GOAL 1: PROTECT THE PUBLIC AND MARKET PARTICIPANTS BY ENSURING MARKET INTEGRITY; PROMOTING TRANSPARENCY, COMPETITION, AND FAIRNESS; AND LOWERING RISK IN THE SYSTEM.		
Gross Costs	$ 48,413,277	$ 43,190,513
Less: Earned Revenue	(22,890)	(18,301)
NET COST OF OPERATIONS – GOAL ONE	**$ 48,390,387**	**$ 43,172,212**
GOAL 2: PROTECT THE PUBLIC AND MARKET PARTICIPANTS BY ENSURING THE FINANCIAL INTEGRITY OF DERIVATIVES TRANSACTIONS, MITIGATION OF SYSTEMIC RISK, AND THE FITNESS AND SOUNDNESS OF INTERMEDIARIES AND OTHER REGISTRANTS.		
Gross Costs	$ 43,722,068	$ 39,097,798
Less: Earned Revenue	(20,672)	(16,567)
NET COST OF OPERATIONS – GOAL TWO	**$ 43,701,396**	**$ 39,081,231**
GOAL 3: PROTECT THE PUBLIC AND MARKET PARTICIPANTS THROUGH A ROBUST ENFORCEMENT PROGRAM.		
Gross Costs	$ 61,173,365	$ 54,926,125
Less: Earned Revenue	(28,923)	(23,274)
NET COST OF OPERATIONS – GOAL THREE	**$ 61,144,442**	**$ 54,902,851**
GOAL 4: ENHANCE INTEGRITY OF U.S. MARKETS BY ENGAGING IN CROSS-BORDER COOPERATION, PROMOTING STRONG INTERNATIONAL REGULATORY STANDARDS, AND ENCOURAGING ONGOING CONVERGENCE OF LAWS AND REGULATION WORLDWIDE.		
Gross Costs	$ 8,444,176	$ 7,492,007
Less: Earned Revenue	(3,992)	(3,175)
NET COST OF OPERATIONS – GOAL FOUR	**$ 8,440,184**	**$ 7,488,832**
GOAL 5: PROMOTE COMMISSION EXCELLENCE THROUGH EXECUTIVE DIRECTION AND LEADERSHIP, ORGANIZATIONAL AND INDIVIDUAL PERFORMANCE MANAGEMENT, AND EFFECTIVE MANAGEMENT OF RESOURCES.		
Gross Costs	$ 25,895,474	$ 24,834,334
Less: Earned Revenue	(12,243)	(10,523)
NET COST OF OPERATIONS – GOAL FIVE	**$ 25,883,231**	**$ 24,823,811**
GRAND TOTAL		
Gross Costs	$ 187,648,360	$ 169,540,777
Less: Earned Revenue	(88,720)	(71,840)
TOTAL NET COST OF OPERATIONS	**$ 187,559,640**	**$ 169,468,937**

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

Statements of Changes in Net Position
For the Years Ended September 30, 2011 and 2010

2011				
CUMULATIVE RESULTS OF OPERATIONS		EARMARKED FUNDS	ALL OTHER FUNDS	CONSOLIDATED TOTAL
Beginning Balances, October 1	$	–	$ 11,455,579	$ 11,455,579
Appropriations Used		–	187,513,010	187,513,010
Other Financing Sources				
Transfers - In/Out Without Reimbursement (Note 16)		23,755,000	–	23,755,000
Imputed Financing Sources		–	6,589,475	6,589,475
Total Financing Sources		23,755,000	6,589,475	30,344,475
Net Cost of Operations		–	(187,559,640)	(187,559,640)
Net Change		23,755,000	6,542,845	30,297,845
TOTAL CUMULATIVE RESULTS OF OPERATIONS, SEPTEMBER 30		$ 23,755,000	$ 17,998,424	$ 41,753,424
UNEXPENDED APPROPRIATIONS				
Beginning Balances, October 1	$	–	$ 30,449,492	$ 30,449,492
Budgetary Financing Sources				
Appropriations Received		–	202,675,000	202,675,000
Less: Other Adjustments (Recissions, etc.)		–	(945,326)	(945,326)
Appropriations Used		–	(187,513,010)	(187,513,010)
Total Budgetary Financing Sources		–	14,216,664	14,216,664
Total Unexpended Appropriations, September 30	$	–	$ 44,666,156	$ 44,666,156
NET POSITION		$ 23,755,000	$ 62,664,580	$ 86,419,580

2010				
CUMULATIVE RESULTS OF OPERATIONS		EARMARKED FUNDS	ALL OTHER FUNDS	CONSOLIDATED TOTAL
Beginning Balances, October 1	$	–	$ 491,751	$ 491,751
Appropriations Used		–	172,621,037	172,621,037
Other Financing Sources				
Transfers - In/Out Without Reimbursement		–	–	–
Imputed Financing Sources		–	7,811,728	7,811,728
Total Financing Sources		–	7,811,728	7,811,728
Net Cost of Operations		–	(169,468,937)	(169,468,937)
Net Change		–	10,963,828	10,963,828
TOTAL CUMULATIVE RESULTS OF OPERATIONS, SEPTEMBER 30	$	–	$ 11,455,579	$ 11,455,579
UNEXPENDED APPROPRIATIONS				
Beginning Balances, October 1	$	–	$ 35,199,297	$ 35,199,297
Budgetary Financing Sources				
Appropriations Received		–	168,800,000	168,800,000
Less: Other Adjustments (Rescissions, etc.)		–	(928,768)	(928,768)
Appropriations Used		–	(172,621,037)	(172,621,037)
Total Budgetary Financing Sources		–	(4,749,805)	(4,749,805)
Total Unexpended Appropriations, September 30	$	–	$ 30,449,492	$ 30,449,492
NET POSITION	$	–	$ 41,905,071	$ 41,905,071

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

Commodity Futures Trading Commission

Statements of Budgetary Resources

For the Years Ended September 30, 2011 and 2010

	2011	2010
BUDGETARY RESOURCES		
Unobligated Balance, October 1	$ 2,944,832	$ 2,893,603
Recoveries of Prior Year Unpaid Obligations	1,448,576	812,898
Total Prior Resources	**4,393,408**	**3,706,501**
Budget Authority:		
Appropriation	202,675,000	168,800,000
Spending Authority from Offsetting Collections		
Collected	24,031,598	207,298
Change in Receivables from Federal Sources	218	(10,600)
Change in Unfilled Customer Orders		
Advance Received	12,422	(286)
Without Advance from Federal Sources	39,401	(10,171)
Total New Resources	**$ 226,758,639**	**$ 168,986,241**
Permanently Not Available:		
Cancellation of Expired Accounts	(539,976)	(928,768)
Enacted Reduction	(405,350)	–
TOTAL BUDGETARY RESOURCES	**$ 230,206,721**	**$ 171,763,974**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct		
Obligations Incurred, Direct	192,773,375	168,760,472
Obligations Incurred, Reimbursable	$ 77,156	$ 58,670
Total Obligations Incurred (Note 12)	**192,850,531**	**168,819,142**
Unobligated Balance		
Apportioned:		
Unobligated Balance Apportioned	9,880,055	460,075
Unobligated Balance Not Available	27,476,135	2,484,757
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 230,206,721**	**$ 171,763,974**
CHANGE IN OBLIGATED BALANCES		
Net Obligated Balance, October 1		
Unpaid Obligations	$ 41,365,242	$ 40,957,240
Uncollected Customer Payments from Federal Sources	(10,403)	(31,174)
Net Obligated Balance, October 1	**$ 41,354,839**	**$ 40,926,066**
Gross Obligations Incurred, Net	192,850,530	168,819,142
Gross Outlays	(188,304,270)	(167,598,242)
Recoveries of Prior Year Unpaid Obligations	(1,448,576)	(812,898)
Change in Receivables from Federal Sources	(39,619)	20,771
	$ 44,412,904	**$ 41,354,839**
Net Obligated Balance, September 30		
Unpaid Obligations	$ 44,462,925	$ 41,365,242
Uncollected Customer Payments from Federal Sources	(50,021)	(10,403)
Net Obligated Balance, September 30	**$ 44,412,904**	**$ 41,354,839**
NET OUTLAYS		
Gross Outlays	$ 188,304,270	$ 167,598,242
Offsetting Collections Received	(24,044,020)	(207,011)
Distributed Offsetting Receipts	(2,219)	(2,985)
NET OUTLAYS	**$ 164,258,031**	**$ 167,388,246**

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

Statements of Custodial Activity
For the Years Ended September 30, 2011 and 2010

	2011	2010
REVENUE ACTIVITY		
Sources of Cash Collections:		
Registration and Filing Fees	$ 2,059,411	$ 676,649
Fines, Penalties, and Forfeitures	11,433,774	75,177,834
General Proprietary Receipts	2,219	2,985
Total Cash Collections	**13,495,404**	**75,857,468**
Change in Custodial Receivables	**254,239**	**616,714**
Total Custodial Revenue	**$ 13,749,643**	**$ 76,474,182**
DISPOSITION OF COLLECTIONS		
Amounts Transferred to:		
Department of the Treasury	(7,740,404)	(75,857,468)
CFTC Customer Protection Fund	(5,755,000)	–
Change in Custodial Liabilities	(254,239)	(616,714)
NET CUSTODIAL ACTIVITY	$ –	$ –

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Commodity Futures Trading Commission (CFTC) is an independent agency of the executive branch of the Federal Government. Congress created the CFTC in 1974 under the authorization of the Commodity Exchange Act (CEA) with the mandate to regulate commodity futures and option markets in the United States. The agency's mandate was renewed and expanded under the Futures Trading Acts of 1978, 1982, and 1986; under the Futures Trading Practices Act of 1992; under the CFTC Reauthorization Act of 1995; under the Commodity Futures Modernization Act of 2000; and under the Dodd-Frank Act of 2010. Congress passed the Food, Conservation, and Energy Act of 2008 (Farm Bill), which reauthorized the Commission through FY 2013. Since its inception, the CFTC has continuously operated through authorized appropriations.

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

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

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations for the CFTC, as required by the Chief Financial Officers' Act of 1990 along with the Accountability of Tax Dollars Act of 2002, and the Government Management Reform Act of 1994. They are presented in accordance with the form and content requirements contained in Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements," as amended.

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

The financial statements report on the CFTC's financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities. The books and records of the agency served as the source of information for preparing the financial statements in the prescribed formats. All agency financial statements and reports used to monitor and control budgetary resources are prepared from the same books and records. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

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

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

C. Budgetary Resources and Status

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

Congress annually enacts appropriations that provide the CFTC with the authority to obligate funds within the respective fiscal year for necessary expenses to carry out mandated program activities. In addition, Congress enacted a permanent indefinite appropriation that is available until expended. All appropriations are subject to quarterly apportionment as well as Congressional restrictions.

The CFTC's budgetary resources for FY 2011 consist of:

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

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

D. Entity and Non-Entity Assets

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

E. Fund Balance with Treasury

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

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

F. Accounts Receivable

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

G. General Property, Plant and Equipment

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

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

H. Deferred Costs

The Commission has received lease incentives, Tenant Improvement Allowances (TIA), from the landlords on its operating leases. These allowances can be used for construction, asset purchases, or rent expense, and are classified as deferred costs on the balance sheets. These costs are reallocated either to leasehold improvements, equipment, or expensed when used for rent. The TIA is also amortized with the deferred lease liability over the life of the lease.

I. Prepayments

Payments to federal and non-federal sources in advance of the receipt of goods and services are recorded as prepayments and recognized as expenses when the related goods and services are received. Intragovernmental prepayments reported on the Balance Sheet were made primarily to the Department of Transportation (DOT) for transit subsidy services. Prepayments to the public were primarily for software maintenance and subscription services.

J. Liabilities

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

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

- Intragovernmental Federal Employees Compensation Act (FECA) liabilities,
- Annual leave benefits which will be funded by annual appropriations as leave is taken,
- Actuarial FECA liabilities,
- Custodial liabilities for custodial revenue transferred to Treasury at fiscal yearend,
- Contingent liabilities,
- Deposit funds,
- Deferred lease liabilities, and
- Advances received for reimbursable services yet to be provided.

K. Accounts Payable

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

L. Accrued Payroll and Benefits and Annual Leave Liability

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

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

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

M. Leases

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

N. Deposit Funds

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

O. Net Position

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

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

P. Revenues

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

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

Q. Net Cost of Operations

Net cost of operations is the difference between the CFTC's expenses and its earned revenue. The presentation of program results by strategic goals is based on the CFTC's current Strategic Plan established pursuant to the Government Performance and Results Act of 1993. The Commission implemented a new strategic plan in FY 2011. The FY 2010 net costs have been reclassified from four to five strategic goals to enhance comparability. (Note 14)

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

- Protect the public and market participants by ensuring market integrity; promoting transparency, competition, and fairness; and lowering risk in the system,
- Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants,
- Protect the public and market participants through a robust enforcement program,
- Enhance integrity of U.S. markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide, and
- Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources.

R. Custodial Activity

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

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

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

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

S. Use of Management Estimates

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

T. Reconciliation of Net Obligations and Net Cost of Operations

In accordance with OMB Circular No. A-136, the Commission reconciles its change in budgetary obligations with its net cost of operations.

U. Earmarked Funds

The Commission's Customer Protection Fund (CPF) is earmarked to operate a whistleblower program and support customer education initiatives. See Note 1.A. for a description of the purpose of the CPF and its authority to use revenues and other financing sources. Deposits into the CPF are credited from monetary sanctions collected by the Commission in a covered judicial or administrative action where the full judgment is in excess of $1,000,000 and the collection is not otherwise distributed to victims of a violation of the Dodd-Frank Act or the rules and regulations underlying such action, unless the balance of the CPF at the time the monetary judgment is collected, exceeds $100 million. No new legislation was enacted as of September 30, 2011 that significantly changed the purpose of the earmarked fund or redirected a material portion of the accumulated balance.

Note 2. Fund Balance with Treasury

A. Reconciliation to Treasury

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

B. Fund Balance with Treasury

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

Fund Balance with Treasury at September 30, 2011 and 2010 consisted of the following:

	2011	2010
APPROPRIATED FUNDS	$ 58,014,096	$ 44,299,672
Customer Protection Fund	23,755,000	–
Deposit Fund	16,621	22,226
TOTAL FUND BALANCE WITH TREASURY	**$ 81,785,717**	**$ 44,321,898**

C. Status of Fund Balance with Treasury

Status of Fund Balance with Treasury at September 30, 2011 and 2010 consisted of the following:

	2011	2010
APPROPRIATED FUNDS		
Unobligated Fund Balance		
Available	$ 9,880,057	$ 460,075
Unavailable	27,426,114	2,474,355
Obligated Balance Not Yet Disbursed	44,462,925	41,365,242
Total Appropriated Funds	**81,769,096**	**44,299,672**
Deposit Fund	**16,621**	**22,226**
TOTAL FUND BALANCE WITH TREASURY	**$ 81,785,717**	**$ 44,321,898**

Note 3. Accounts Receivable

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

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

Historical experience has indicated that a high percentage of custodial receivables prove uncollectible. The Commission considers all custodial receivables to be 100% uncollectible unless deemed otherwise. An allowance for uncollectible accounts has been established and included in accounts receivable on the balance sheets. The allowance is based on past experience in the collection of accounts receivable and analysis of outstanding balances. Accounts are re-estimated quarterly based on account reviews and the agency determination that changes to the net realizable value are needed.

Accounts receivable, as of September 30, 2011 and 2010, consisted of the following:

	2011	2010
Custodial Receivables, Net:		
Civil Monetary Penalty Interest	$ 776,139	$ 519,602
Civil Monetary Penalties, Fines, and Administrative Fees	463,508,290	192,490,613
Less: Allowance for Loss on Interest	(776,121)	(519,602)
Less: Allowance for Loss on Penalties, Fines, and Administrative Fees	(462,710,547)	(192,219,935)
Registration and Filing Fees	1,776,412	2,049,256
NET CUSTODIAL RECEIVABLES	**$ 2,574,173**	**$ 2,319,934**
OTHER ACCOUNTS RECEIVABLE	**59,226**	**4,836**
TOTAL ACCOUNTS RECEIVABLE, NET	**$ 2,633,399**	**$ 2,324,770**

Note 4. General Property, Plant and Equipment

Equipment and information technology (IT) assets are capitalized annually if they have useful lives of at least two years and an individual value of $25,000 or more. Bulk or aggregate purchases are capitalized when the individual useful lives are at least two years and a value of $25,000 or more. Depreciation for equipment and software is computed on a straight-line basis using a 5-year life. Leasehold improvements are amortized over the remaining life of the lease. Property, Plant and Equipment as of September 30, 2011 and 2010 consisted of the following:

2011 Major Class	Service Life and Method	Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	5 Years/Straight Line	$ 23,845,759	$ (7,582,852)	$ 16,262,907
IT Software	5 Years/Straight Line	10,061,707	(4,942,862)	5,118,845
Software in Development - Cost	Not Applicable	3,513,454	–	3,513,454
Leasehold Improvements	Remaining Life of Lease/Straight Line	15,345,533	(1,427,205)	13,918,328
Construction In Progress	Not Applicable	3,533,361	–	3,533,361
		$ 56,299,814	**$(13,952,919)**	**$ 42,346,895**

2010 Major Class	Service Life and Method	Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	5 Years/Straight Line	$ 16,216,141	$ (3,676,813)	$ 12,539,329
IT Software	5 Years/Straight Line	7,942,333	(3,230,165)	4,712,168
Software in Development - Cost	Not Applicable	1,778,364	–	1,778,364
Leasehold Improvements	Remaining Life of Lease/Straight Line	6,043,344	(653,766)	5,389,577
Construction In Progress	Not Applicable	784,349	–	784,349
		$ 32,764,531	**$ (7,560,744)**	**$ 25,203,787**

Note 5. Deferred Costs

The Commission receives Tenant Improvement Allowance (TIA) from its landlords. These allowances are used to cover the costs of building renovations, asset purchases, or rent expenses. The TIA is initially recorded as deferred costs on the balance sheet and is amortized with the deferred lease liability over the life of the lease.

The Commission received approximately $6.7 million and $6.6 million in TIA for the years ended September 30, 2011 and 2010, respectively. Of the total $13.3 million allowance received, $6.5 million was used to fund leasehold improvements, and an additional $500 thousand was used to cover rental payments in FY 2011. The remaining, unused balance of $6.3 million is reflected as deferred costs on the balance sheet.

Deferred Costs (TIA)	2011	2010
Beginning Balance	$ 6,303,367	$ –
TIA received	6,701,194	6,629,880
TIA used	(6,749,688)	(326,513)
BALANCE AS OF SEPTEMBER 30	**$ 6,254,873**	**$ 6,303,367**

Note 6. Liabilities Not Covered by Budgetary Resources

As of September 30, 2011 and 2010, the following liabilities were not covered by budgetary resources:

	2011	2010
Intragovernmental – FECA Liabilities	$ 91,175	$ 45,012
Annual Leave	8,117,663	7,624,369
Actuarial FECA Liabilities	437,337	211,789
Custodial Liabilities	2,574,173	2,319,934
Deposit Fund Liabilities	57,127	22,226
Deferred Lease Liabilities	21,974,782	12,174,352
Other	19,649	7,226
TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES	**$ 33,271,906**	**$ 22,404,908**

Note 7. Retirement Plans and Other Employee Benefits

The CFTC imputes costs and the related financing sources for its share of retirement benefits accruing to its past and present employees that are in excess of the amount of contributions from the CFTC and its employees, which are mandated by law. The Office of Personnel Management (OPM), which administers federal civilian retirement programs, provides the cost information to the CFTC. The CFTC recognizes the full cost of providing future pension and Other Retirement Benefits (ORB) for current employees as required by Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government".

Full costs include pension and ORB contributions paid out of the CFTC's appropriations and costs financed by OPM. The amount financed by OPM is recognized as an imputed financing source. This amount was $6,589,475 for the year ended September 30, 2011 and $7,811,728 for the year ended September 30, 2010. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of OPM.

Liabilities for future pension payments and other future payments for retired employees who participate in the Federal Employees Health Benefits Program and the Federal

Employees Group Life Insurance Program are reported by OPM rather than CFTC.

Note 8. Actuarial FECA Liabilities

FECA provides income and medical cost protections to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims against the CFTC and subsequently seeks reimbursement from the CFTC for these paid claims. Accrued FECA liabilities represent amounts due to DOL for claims paid on behalf of the agency. Accrued FECA liabilities at September 30, 2011 and September 30, 2010 were $91,175 and $45,012, respectively.

Actuarial FECA liability represents the liability for future workers compensation (FWC) benefits, which includes the expected liability for death, disability, medical, and miscellaneous cost for approved cases. The liability is determined using a formula provided by DOL annually as of September 30th using a method that utilizes historical benefits payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefits payments are discounted to present value using OMB's economic assumptions for ten-year Treasury notes and bonds. To provide more specifically for effects of inflation on the liability for FWC benefits, wage inflation factors (Consumer Price Index-Medical) are applied to the calculation of projected future benefits. These factors are also used to adjust historical payments so benefits are stated in current-year constant dollars. Actuarial FECA liabilities at September 30, 2011 and September 30, 2010 were $437,337 and $211,789, respectively.

Note 9. Leases

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

As of September 30, 2011, future estimated minimum lease payments are as follows:

Fiscal Year	Dollars
2012	$ 17,040,876
2013	16,179,500
2014	16,508,689
2015	16,652,592
2016	17,275,726
2017 and thereafter	165,205,706
Total Future Minimum Lease Payments	$ 248,863,089
Add: Amount representing estimated executory costs (taxes, maintenance, and insurance)	37,526,229
TOTAL MINIMUM LEASE PAYMENTS, INCLUDING ESTIMATED EXECUTORY COSTS	**$ 286,389,318**

Lease expense is recognized on a straight-line basis because lease payment amounts vary, and in some cases, CFTC receives periods of up-front free rent, or incentive contributions (TIA) paid by the landlord. As of September 30, 2011, the Commission had received $13,331,074 in incentive awards for the renovation of space in Washington D.C., Chicago, and Kansas City. A deferred lease liability representing expense amounts in excess of payments to date has been recorded. The deferred lease liabilities at September 30, 2011 and September 30, 2010 were $21,974,782 and $12,174,352 respectively.

Note 10. Contingent Liabilities

The CFTC records commitments and contingent liabilities for legal cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, including judgments that have been issued against the agency and which have been appealed. Additionally, the Commission discloses legal matters in which an unfavorable outcome is reasonably possible. In FY 2011, the Commission was involved in two civil matters, which it believes the chance of an unfavorable outcome to be reasonably possible. The potential losses in these cases are estimated to be between $150,000 and $775,000 plus attorney fees.

Note 11. Undelivered Orders

The amount of budgetary resources obligated for undelivered orders as of September 30, 2011 and 2010 consisted of the following:

	2011	2010
Undelivered Orders	$ 31,133,527	$ 27,521,399

The amount of undelivered orders represents the value of unpaid and paid obligations recorded during the fiscal year, upward adjustments of obligations that were originally recorded in a prior fiscal year, and recoveries resulting from downward adjustments of obligations that were originally recorded in a prior fiscal year.

Note 12. Apportionment Categories of Obligations Incurred

Obligations incurred and reported in the Statements of Budgetary Resources in FY 2011 and FY 2010 consisted of the following:

	2011	2010
Direct Obligations, Category A	$ 192,773,375	$ 168,760,472
Reimbursable Obligations, Category A	77,156	58,670
TOTAL OBLIGATIONS INCURRED	**$ 192,850,531**	**$ 168,819,142**

Note 13. Explanation of Differences between the Statement of Budgetary Resources and Budget of the United States Government

The CFTC had no material differences between the amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the U.S. Government for FY 2010. The Budget of the U.S. Government with actual numbers for FY 2011 has not yet been published. The expected publish date is February 2012. A copy of the Budget can be obtained from OMB's Internet site at *http://www.whitehouse.gov/omb/*.

Note 14. Intra-governmental Cost and Exchange Revenue by Goal

As required by the *Government Performance and Results Act of 1993*, the agency's reporting has been aligned with the following major goals presented in the 2007 – 2012 CFTC Strategic Plan.

1. Protect the public and market participants by ensuring market integrity; promoting transparency, competition, and fairness; and lowering risk in the system.
2. Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants.
3. Protect the public and market participants through a robust enforcement program.
4. Enhance integrity of U.S. markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide.
5. Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources.

The Net Cost of Operations is derived from transactions between the Commission and public entities, as well as with other federal agencies. The details of the intra-governmental costs and revenues, as well as those with the public, are as follows:

	2011		2010	
GOAL 1: PROTECT THE PUBLIC AND MARKET PARTICIPANTS BY ENSURING MARKET INTEGRITY; PROMOTING TRANSPARENCY, COMPETITION, AND FAIRNESS; AND LOWERING RISK IN THE SYSTEM				
Intragovernmental Gross Costs	$	8,543,266	$	7,945,685
Less: Earned Revenue	$	(18,783)	$	(9,517)
Intragovernmental Net Cost of Operations	**$**	**8,524,483**	**$**	**7,936,168**
Gross Costs with the Public	$	39,870,011	$	35,244,828
Less: Earned Revenue	$	(4,107)	$	(8,784)
Net Cost of Operations with the Public	**$**	**39,865,904**	**$**	**35,236,044**
TOTAL NET COST OF OPERATIONS – GOAL 1	**$**	**48,390,387**	**$**	**43,172,212**
GOAL 2: PROTECT THE PUBLIC AND MARKET PARTICIPANTS BY ENSURING THE FINANCIAL INTEGRITY OF DERIVATIVES TRANSACTIONS, MITIGATION OF SYSTEMIC RISK, AND THE FITNESS AND SOUNDNESS OF INTERMEDIARIES AND OTHER REGISTRANTS				
Intragovernmental Gross Costs	$	7,715,430	$	7,192,755
Less: Earned Revenue	$	(16,963)	$	(8,615)
Intragovernmental Net Cost of Operations	**$**	**7,698,467**	**$**	**7,184,140**
Gross Costs with the Public	$	36,006,638	$	31,905,043
Less: Earned Revenue	$	(3,709)	$	(7,952)
Net Cost of Operations with the Public	**$**	**36,002,929**	**$**	**31,897,091**
TOTAL NET COST OF OPERATIONS – GOAL 2	**$**	**43,701,396**	**$**	**39,081,231**
GOAL 3: PROTECT THE PUBLIC AND MARKET PARTICIPANTS THROUGH A ROBUST ENFORCEMENT PROGRAM				
Intragovernmental Gross Costs	$	10,794,979	$	10,104,665
Less: Earned Revenue	$	(23,734)	$	(12,102)
Intragovernmental Net Cost of Operations	**$**	**10,771,245**	**$**	**10,092,563**
Gross Costs with the Public	$	50,378,386	$	44,821,460
Less: Earned Revenue	$	(5,189)	$	(11,172)
Net Cost of Operations with the Public	**$**	**50,373,197**	**$**	**44,810,288**
TOTAL NET COST OF OPERATIONS – GOAL 3	**$**	**61,144,442**	**$**	**54,902,851**
GOAL 4: ENHANCE INTEGRITY OF US MARKETS BY ENGAGING IN CROSS-BORDER COOPERATION, PROMOTING STRONG INTERNATIONAL REGULATORY STANDARDS, AND ENCOURAGING ONGOING CONVERGENCE OF LAWS AND REGULATION WORLDWIDE				
Intragovernmental Gross Costs	$	1,490,105	$	1,403,556
Less: Earned Revenue	$	(3,276)	$	(1,681)
Intragovernmental Net Cost of Operations	**$**	**1,486,829**	**$**	**1,401,875**
Gross Costs with the Public	$	6,954,071	$	6,088,451
Less: Earned Revenue	$	(716)	$	(1,494)
Net Cost of Operations with the Public	**$**	**6,953,355**	**$**	**6,086,957**
TOTAL NET COST OF OPERATIONS – GOAL 4	**$**	**8,440,184**	**$**	**7,488,832**
GOAL 5: PROMOTE COMMISSION EXCELLENCE THROUGH EXECUTIVE DIRECTION AND LEADERSHIP, ORGANIZATIONAL AND INDIVIDUAL PERFORMANCE MANAGEMENT, AND EFFECTIVE MANAGEMENT OF RESOURCES				
Intragovernmental Gross Costs	$	4,569,654	$	4,568,730
Less: Earned Revenue	$	(10,047)	$	(5,472)
Intragovernmental Net Cost of Operations	**$**	**4,559,607**	**$**	**4,563,258**
Gross Costs with the Public	$	21,325,820	$	20,265,604
Less: Earned Revenue	$	(2,196)	$	(5,051)
Net Cost of Operations with the Public	**$**	**21,323,624**	**$**	**20,260,553**
TOTAL NET COST OF OPERATIONS – GOAL 5	**$**	**25,883,231**	**$**	**24,823,811**
NET COST OF OPERATIONS	**$**	**187,559,640**	**$**	**169,468,937**

Note 15. Reconciliation of Net Obligations and Net Cost of Operations

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

	2011	2010
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 192,850,531	$ 168,819,142
Less: Spending Authority from Offsetting Collections and Recoveries	(25,532,215)	(999,139)
Obligations Net of Offsetting Collections and Recoveries	167,318,316	167,820,003
Less: Offsetting Receipts	(2,219)	(2,985)
Net Obligations After Offsetting Receipts	167,316,097	167,817,018
Other Resources		
Transfers In from from Disgorgements, Fines and Penalties	23,755,000	–
Imputed Financing from Cost Absorbed by Others	6,589,475	7,811,728
Total Resources Used to Finance Activities	**$ 197,660,572**	**$ 175,628,746**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided before Adjustments	$ (3,560,305)	$ 4,801,033
Offsetting Receipts	2,219	2,985
Resources that Fund the Acquisition of Fixed Assets	(16,997,172)	(18,589,398)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ (20,555,258)**	**$ (13,785,380)**
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT YEAR		
Increase in Unfunded Liabilities	765,005	1,245,643
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	**$ 765,005**	**$ 1,245,643**
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES		
Depreciation and Amortization	9,542,857	6,324,519
(Gain)/Loss on Disposal	160,131	52,635
Other	(13,667)	2,774
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**$ 9,689,321**	**$ 6,379,928**
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Year	**$ 10,454,326**	**$ 7,625,571**
NET COST OF OPERATIONS	**$ 187,559,640**	**$ 169,468,937**

Note 16 Earmarked Funds

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

The Dodd-Frank Act provides that whistleblower awards shall be paid under regulations prescribed by the Commission. An important prerequisite to implementation of the whistleblower awards program is the issuance of rules and regulations describing its scope and procedures. The Commission issued final rules implementing the Act on August 25, 2011. These rules became effective on October 24, 2011. The Commission plans to establish the Whistleblower Office in FY 2012.

At the end of FY 2011, the fund had a balance of $23,755,000. During FY 2011, $18 million was recovered from the Treasury Department for eligible collections returned at the end of FY 2010 and $5,755,000 was transferred from eligible collections in FY 2011.

Note 17 Subsequent Event

The Commission negotiated a new lease agreement with the New York landlord effective October 19, 2011. The new lease expands the office space and extends the lease through FY 2022. CFTC received $2.86 million in tenant improvement allowance from the New York landlord.

Report of the Independent Auditors

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

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

We have audited the accompanying balance sheets of the Commodity Futures Trading Commission (CFTC) as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2011 audit, we also considered CFTC's internal control over financial reporting and tested CFTC's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that CFTC's financial statements as of and for the years ended September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on CFTC's financial statements; our consideration of CFTC's internal control over financial reporting; our tests of CFTC's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of the Commodity Futures Trading Commission as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commodity Futures Trading Commission as of September 30, 2011 and 2010, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

Page 2 of 3

The information in the Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the Other Accompanying Information section is for purposes of additional analysis and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which CFTC's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to CFTC.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2011 and 2010 financial statements of CFTC based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CFTC's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2011 audit, we considered CFTC's internal control over financial reporting by obtaining an understanding of CFTC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CFTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CFTC's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether CFTC's fiscal year 2011 financial statements are free of material misstatement, we performed tests of CFTC's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts, applicable to CFTC. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of CFTC's management, CFTC's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2011

OTHER ACCOMPANYING INFORMATION

Inspector General's FY 2011 Assessment

U.S. COMMODITY FUTURES TRADING COMMISSION
Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
Telephone: (202) 418-5110
Facsimile: (202) 418-5522

Office of the
Inspector General

MEMORANDUM

TO: Gary Gensler
Chairman

FROM: A. Roy Lavik
Inspector General ARL

DATE: November 10, 2011

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

Introduction

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

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

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

This memorandum summarizes the results of the CFTC's current financial statement audit, describes the Agency's progress on last year's management challenges, and finally discusses the most serious management challenges that we have identified:

- Implementation of the Dodd-Frank Act
- Human Resource Expansion and Management

- Efficient Deployment of Information Technology Resources
- Expanding Delivery of Customer Protection Resources and Consumer Education

CFTC Financial Statement Audit Results

In accordance with the *Accountability of Tax Dollars Act*, CFTC, along with numerous other federal entities, is required to submit to an annual independent financial statement audit by the Inspector General, or by an independent external auditor as determined by the Inspector General. The results of the Fiscal Year 2011 financial statement audit will be discussed in the Annual Financial Report, and the financial statement audit is expected to result in an unqualified audit opinion.

CFTC's Progress on Last Year's Challenges

Last year, we identified two of the most serious management challenges:

- Implementation of the Dodd-Frank Act; and,
- Human Resource Expansion and Management.

CFTC made progress on both challenges, but due to ongoing implementation of the Dodd-Frank Act these challenges remain significant. Following is our statement made last year followed by an update.

OIG Statement 2010

Implementation of the Dodd-Frank Act

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act" or "Dodd-Frank"), Pub. L. 111-203, 124 Stat. 1376 (2010). Title VII of the Dodd-Frank Act amended the Commodity Exchange Act to establish a comprehensive new regulatory framework for swaps and security-based swaps. In order to implement the Dodd-Frank Act, the Commission has identified 30 areas where rules will be necessary. Many of these rules will require or result in cooperative efforts with the Securities and Exchange Commission or other federal agencies. In addition, the Dodd-Frank Act calls for numerous studies and other undertakings by the Commission, some also with cooperation from other agencies. The Commission recognizes that many of the new rules required under Dodd-Frank must be adopted within 180 days. The magnitude of this undertaking under a compressed timeline during FY 2011 presents a serious management challenge.

Update

During the past year CFTC staff and Commissioners have met more than 1,000 times with members of the public to discuss rules proposed under Dodd-Frank, and have conducted 14 public roundtables. Additionally, the Commission has received more than 25,000 comment letters pertaining to Dodd-Frank. The Commission has held 20 public meetings to vote on various Dodd-Frank matters, and more meetings are scheduled this year and into next year. The Commission has issued nearly 60 proposed rules, notices, or other requests seeking public comment, as well as 22 final rules, interim final rules, and exemptions, but implementation is not yet complete.

In order to address the new regulatory mandates stated in the Dodd-Frank Act, the Agency has reorganized into 4 Divisions and 7 operating offices. Operational challenges associated with Dodd-Frank implementation remain, in our view, a serious management challenge.

OIG Statement 2010

Human Resource Expansion and Management

The Commission's new responsibilities under Dodd-Frank significantly increased its workload. By the end of Fiscal Year 2010, the Commission had on-board 687 employees, which is 58 below the 745 FTE CFTC requested to carry out our pre-Dodd-Frank authorities. To fully implement the Dodd-Frank reforms, the Commission states it requires an additional 398 FTEs. Rather than 398, the President's FY 2011 Budget provided for hiring only 238 additional positions. CFTC is requesting an additional 160 FTEs for FY 2012 to staff areas of critical need. However, the current budgetary limits imposed by the government-wide continuing resolution will significantly impact the CFTC's ability to hire any additional employees during FY2011. Should Congress lift the continuing resolution, the CFTC will need to dramatically expand its Human Resource function to meet and manage the CFTC's need for additional staff and training to address the requirements of Dodd-Frank Act. We view the possibility of a rapid and dramatic increase (35% staff increase in FY11) in new employees to address new rules over newly regulated markets, such as swaps, a significant management challenge during Fiscal Year 2011.

Update

During Fiscal Year 2011 the agency secured additional appropriations and staff. The CFTC's 2011 spending plan accommodated 717 FTEs. It is our understanding, based on the President's Budget Submission, that CFTC may increase to 983 staff years – an increase of over 200 staff years – for FY 2012 and, accordingly, we restate *Human Resource Expansion and Management* as a serious and continuing management challenge in the coming fiscal year.

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Most Serious Management Challenges for the coming year

Two new issues that are likely to challenge CFTC management in the coming year are:

Efficient Deployment of Information Technology Resources

According to current data, over eighty percent of futures and options trading on the Chicago Mercantile Exchange are transacted electronically. We believe that expanded jurisdiction over swaps will increase the volume of electronic trading the Agency will monitor. As a result of this structural shift in futures trading (from floor based open outcry to electronic platforms), the CFTC has requested from Congress and received additional resources to facilitate electronic surveillance.

Congress in FY 2011 authorized a minimum of $37.2 million for "the highest priority information technology activities of the Commission." In response to this congressional directive as well as the Agency's added responsibility over the swaps marketplace, the Agency in FY 2011 allocated over $42 million dollars towards technological modernization (21% of FY 2011 appropriations). Approximately two thirds of this budgeted commitment was targeted towards automated data processing systems to modernize the Agency's systems for capturing and processing market related data. We identify efficient deployment of information technology resources as a serious management challenge for the coming year.

Expanding Delivery of Customer Protection Resources and Consumer Education

Section of 748(g) of the Dodd-Frank Act added section 23(g) to the Commodity Exchange Act to establish within the Treasury of the United States a revolving fund that will be available to the Agency for the payment of whistleblower awards and education initiatives. The new Customer Protection Fund may be funded -- up to $100 million -- by civil monetary penalties collected through the Commission's enforcement program that are not otherwise distributed to victims. At the end of FY2011 the Customer Protection Fund totaled over $23 million dollars. On October 24, 2011, an initial Office of the Inspector General financial statement audit of the Customer Protection Fund resulted in an unqualified opinion on the financial statements, which is encouraging.

Increasingly, the Customer Protection Fund's resources and commitments will demand significant management attention. This new commitment to whistleblower protection and education will challenge the Agency to effectively manage decisions regarding additions to and awards from the CPF, develop its organizational structure, and prudently manage significant additional resources. We are encouraged that the agency will soon select management for the startup Customer Protection Fund and Consumer Education initiatives, but nevertheless we count the creation of this new program among the most serious management challenges facing the Commission in the coming year.

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Summary of Audit and Management Assurances

Summary of FY 2011 Financial Statement Audit

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

Summary of Management Assurances

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

COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
Overall Substantial Compliance	**AGENCY**	**AUDITOR**
	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

APPENDIX

Glossary of Abbreviations and Acronyms

The CFTC Glossary

A Guide to the Language of the Futures Industry

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

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

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

Glossary of Acronyms

U.S. Federal Law

CEA ....Commodity Exchange Act of 1936
Dodd Frank Act................Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
FARM BILL ....Food, Conservation, and Energy Act of 2008
FECA................................Federal Employees' Compensation Act
FFMIA ....Federal Financial Management Improvement Act
FISMA..............................Federal Information Security Management Act
FMFIA ....Federal Managers' Financial Integrity Act
FSRIA...............................Farm Security and Rural Investment Act
GPRA...............................Government Performance and Results Act

CFTC Divisions and Offices

DCR.................................Division of Clearing and Risk
DMO................................Division of Market Oversight
DOE.................................Division of Enforcement
DSIO ....Division of Swap Dealer and Intermediary Oversight
OCE.................................Office of the Chief Economist
ODT.................................Office of Data and Technology
OED.................................Office of the Executive Director
OGC ....Office of the General Counsel

OIA ....Office of International Affairs
OIG ....Office of the Inspector General

U.S. Federal Departments and Agencies

CFTC ................................U.S. Commodity Futures Trading Commission
DOL .................................U.S. Department of Labor
DOT .................................U.S. Department of Transportation
FCA..................................Farm Credit Administration
FmHA...............................Farmers Home Administration
GAO.................................Government Accountability Office
IRS ....Internal Revenue Service
OCC ....Office of the Comptroller of the Currency
OMB ....Office of Management and Budget
OPM ....Office of Personnel Management
SEC..................................U.S. Securities and Exchange Commission
USDA...............................U.S. Department of Agriculture

Other Abbreviations

AAC ....Agricultural Advisory Committee
ACF..................................Alternate Computing Facility
AFR ....Agency Financial Report
AP ....Associated Person
APR..................................Annual Performance Report
BIS ....Bank for International Settlements
CME.................................Chicago Mercantile Exchange
COT ....Commitments of Traders
CPF..................................CFTC Customer Protection Fund
CPO.................................Commodity Pool Operator
CSRS ....Civil Service Retirement System
CTA..................................Commodity Trading Advisor
DCM ....Designated Contract Market
DCO ....Derivatives Clearing Organization
EBOT ....Exempt Boards of Trade
ECM.................................Exempt Commercial Market
EEMAC ....Energy and Environmental Markets Advisory Committee
FASAB ....Federal Accounting Standards Advisory Board
FB ....Floor Broker
FBOT ....Foreign Board of Trade
FCM.................................Futures Commission Merchants
FERS ....Federal Employees' Retirement System

FOREX .... Foreign Exchange Currency
FT..................................... Floor Trader
FTE................................... Full-time Equivalent
FWC .... Future Workers Compensation
FY .... Fiscal Year
GAAP................................ U.S. Generally Accepted Accounting Principles
GAAS................................ Generally Accepted Auditing Standards
GAGAS .... Generally Accepted Government Auditing Standards
GMAC............................... Global Markets Advisory Committee
IB .... Introducing Broker
IOSCO.............................. International Organization of Securities Commissions
IT...................................... Information Technology
MD&A............................... Management's Discussion and Analysis
MOU................................. Memorandum of Understanding
NFA.................................. National Futures Association
ORB................................. Other Retirement Benefits
OTC .... Over-the-Counter
RFED .... Retail Foreign Exchange Dealer
SD.................................... Swap Dealer
SDR .... Swap Data Repository
SEF .... Swap Execution Facility
SES.................................. Senior Executive Service
SPDC................................ Special Price Discovery Contract
SRO .... Self-Regulatory Organization
SFFAS............................... Statement of Federal Financial Accounting Standards
TAC.................................. Technology Advisory Committee
TIA .... Tenant Improvement Allowance
U.S................................... United States

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Acknowledgements

This Agency Financial Report was produced with the energies and talents of Commission staff. To these individuals, the Office of Financial Management would like to offer our sincerest thanks and acknowledgement.

We would also like to acknowledge the Office of the Inspector General and KPMG LLP for the professional manner in which they conducted the audit of the Fiscal Year 2011 Financial Statements.

We offer our special thanks to The DesignPond, in particular Sheri Beauregard and Michael James, for their outstanding contribution to the design of this report.

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