U.S. SECURITIES AND EXCHANGE COMMISSION

FISCAL YEAR 2021

Agency Financial Report

PROTECT INVESTORS

MAINTAIN MARKETS

FACILITATE CAPITAL FORMATION

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

The SEC's fiscal year (FY) 2020 Agency Financial Report (AFR) received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants (AGA) for the 15th consecutive year. This award is presented to federal government agencies whose annual reports achieve the highest standards in demonstrating accountability and communicating results.

The agency's FY 2020 AFR also received a Best-In-Class award for Creative and Innovative Ways for Readers to Access Information.

at a **glance** . . .

DIVISIONS: **6**
OFFICES: **25**
REGIONAL OFFICES: **11**

ESTABLISHED: **1934**
HEADQUARTERS: **Washington, DC**

SEC STAFF: **4,500+**

MESSAGE FROM THE CHAIR

OUR VISION

To promote capital markets that inspire public confidence and provide a diverse array of financial opportunities to retail and institutional investors, entrepreneurs, public companies and other market participants.

It is a true honor and privilege to have joined the U.S. Securities and Exchange Commission this year. I feel incredibly blessed to be a part of this team: protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.

America's capital markets touch every one of us, in so many ways. Franklin Delano Roosevelt and Congress got this when, in the depths of the Great Depression, they stood up this agency. For nearly 90 years, this agency has stood the test of time. It's been a major part of the American success story.

We are blessed with the largest, most sophisticated, and most innovative capital markets in the world. The U.S. capital markets represent 38 percent of the globe's capital markets.[1] This exceeds even our impact on the world's gross domestic product, where we hold a 24 percent share.[2]

Furthermore, companies and investors use our capital markets more than market participants in other economies do. For example, debt capital markets account for 80 percent of financing for non-financial corporations in the United States. In the rest of the world, by contrast, nearly 80 percent of lending to such firms comes from banks.[3]

It is remarkable what the SEC staff—over 4,500 people across 12 offices—oversees. Our agency covers nearly every part of the $110 trillion capital markets. Those markets touch many Americans' lives, whether they're investing for their future, borrowing for a mortgage, taking out an auto loan, or taking a job with a company that's tapping our capital markets. We engage with companies raising money and with the key parties that sit in between companies and investors, including accountants, auditors, and investment managers.

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1 *See* Securities Industry and Financial Markets Association, "2021 SIFMA Capital Markets Fact Book," *available at* https://www.sifma.org/wp-content/uploads/2021/07/CM-Fact-Book-2021-SIFMA.pdf.
2 *See* World Bank data: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD.
3 Ibid.

Our capital markets are the most robust in the world, but we cannot take this for granted. Technology is forever changing the face of finance, and many other countries and capital markets are innovating as well. The dozens of items on the regulatory agenda encompass the goals of making sure our rules and regulations reflect these ever-evolving and growing markets.

At the heart of this success story is the SEC's remarkable staff. Under the 2020 Federal Employee Viewpoint Survey Response and Results, the SEC continues to meet high scores and improve, including with respect to employee engagement and global satisfaction. In addition, the Partnership for Public Service's *Best Places to Work* rankings recognized the SEC as one of the best agencies in the federal government. This speaks to the commitment of the SEC's talented staff, particularly given the challenges of the past couple of years.

Further, analyses of the agency-wide data suggest we have made significant gains with respect to diversity, inclusion, opportunity, creativity, innovation, and other key metrics. These results are a direct reflection of the work of managers, staff, and union representatives to provide a workplace that supports job satisfaction and engagement, even while operating in a telework posture.

This is a big agency that spans the whole country, but I've so enjoyed meeting so many staff across our headquarters and 11 regional offices, hearing their good ideas, and collaborating together on the SEC's great mission.

They have carried out the agency's mission through many challenges and changing market circumstances—not least of which is this pandemic. I have long known how dedicated and talented this staff is from afar, but seeing it up close these last several months has been nothing short of special. While overseeing the markets and looking after investors, the SEC staff have been homeschooling their kids, working from home, and navigating incredible stresses and—unfortunately, for too many of us—losses of loved ones. I thank them for their dedication through these challenging times.

It is a privilege to present our annual Agency Financial Report, which includes the results of the independent audit of our FY 2021 financial statements. The financial and performance data in this report are also complete and accurate under the Office of Management and Budget guidance. As further discussed within the Management Assurances section of Management's Discussion and Analysis, we reported a material weakness related to risks associated with user access and have taken steps to fully remediate this weakness.

I think most readers will find that the SEC does a lot with our limited resources. Having started at the SEC in the spring, I have been struck by the sheer breadth of the operations of this great agency and remarkable staff, as well as the broad scope of our enforcement and examinations regimes. The SEC's employees oversee 28,000 registered entities, more than 3,700 broker-dealers, 24 national securities exchanges, and 7 clearing agencies. A record 67 million U.S. families held direct and indirect stock holdings in 2019.

I am honored to present this report on behalf of the Commission.

GARY GENSLER
Chair
November 12, 2021

> Investor protection is the focus of these videos and the heart of the SEC's work. I hope that, by speaking directly to investors, we can help inform about our rapidly changing capital markets.

CHAIR GARY GENSLER

office hours with Gary Gensler

INVESTOR EDUCATION IS A PRIORITY AT THE SEC.
From hosting virtual forums and webcasts to publishing investor risk alerts and educational materials, the agency is dedicated to protecting investors. In one of the many outreach campaigns launched in FY 2021, Chair Gary Gensler speaks directly to everyday investors on topics that matter to them.

In a new video series, Office Hours with Gary Gensler, Chair Gensler breaks down various subjects including climate risk disclosure, China and offshore shell companies, cryptocurrencies, and digital engagement practices. These short yet informative videos tackle timely topics on the SEC's annual regulatory agenda.

Videos are available on the SEC's YouTube channel (youtube.com/c/SECViews) and other social media platforms, including twitter.com/garygensler and twitter.com/secgov.

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It is our job to be responsive and innovative in the face of significant market developments and trends. As technological advancements and commercial developments have changed how our securities markets operate, our ability to remain an effective regulator requires us to continuously monitor the market environment and, as appropriate, adjust and modernize our expertise, rules, regulations, and oversight tools and activities.

SEC.GOV/ABOUT/WHAT-WE-DO

INTRODUCTION

The SEC's fiscal year (FY) 2021 Agency Financial Report (AFR) provides detailed financial and performance information that enables the President, Congress, and the public to assess the agency's accomplishments and understand its financial and operational picture. In lieu of a combined Performance and Accountability Report, the SEC will also publish an Annual Performance Report (APR) to provide a more in-depth review of strategic goals and performance results. The APR will be included in the FY 2023 Congressional Budget Justification Report available in 2022.

The FY 2021 AFR satisfies the requirements contained in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, and contains three main sections and supplemental appendices.

Management's Discussion and Analysis

Provides a high-level overview of the SEC—its history, mission, and organizational structure—and the agency's FY 2021 overall performance as related to its strategic goals and initiatives. This section also includes management's assurances on internal controls; an analysis of the SEC's financial position and operations; and the agency's FY 2022 outlook.

Financial Section

Contains audited financial statements and accompanying notes for the SEC and the SEC's Investor Protection Fund, required supplementary information, independent auditor's report on these statements, and management's response to that report.

Electronic copies of this AFR and prior year budget reports are available at SEC.gov/reports.

Other Information

Details the agency's compliance with, and commitment to, specific regulations. Included in this section are performance and management analyses and recommendations from the Office of Inspector General, and the SEC's response to that information in accordance with the Reports Consolidation Act of 2000; a detailed explanation of any significant erroneous payments and overpayments recaptured as required by the Payment Integrity Information Act of 2019; and recent inflationary adjustments made to civil monetary penalties in accordance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended.

Appendices

Offers additional resources related to the agency and this report: a glossary of selected terms, frequently used acronyms and abbreviations, biographies, and contact information.

protecting investors

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides a high-level overview of the agency, its FY 2021 program and financial performance, and FY 2022 outlook.

Mission, Vision, Values, and Goals

Explains the SEC's mission, vision, values, and three strategic goals, as set forth in the agency's Strategic Plan.

History and Purpose

Provides background on the SEC and its responsibility to oversee the nation's securities markets and certain primary participants.

Organizational Structure and Resources

Lists the SEC's office locations, organizational structure, and employment statistics, and summarizes the 10 major programs by responsible divisions and offices.

Our Year in Review and the Year Ahead

Summarizes efforts made by the SEC in pursuit of its strategic goals in FY 2021, and details specific areas that the SEC will continue to focus on as part of its regulatory and oversight responsibilities.

Financial Highlights

Provides an overview of the SEC's financial information, including an analysis of the financial data presented in the audited financial statements, the limitations of the financial statements, and the sources and uses of the SEC's funds.

Performance Highlights

Discusses the SEC's strategic and performance planning framework; the process used to verify and validate the performance results; the FY 2021 performance results by strategic goal; and key performance accomplishments.

Management Assurances and Compliance with Other Laws

Provides management's assessment and assurances on the SEC's internal controls under the Federal Managers' Financial Integrity Act of 1982, and on the compliance of the SEC's financial systems with federal requirements under the Federal Financial Management Improvement Act of 1996. It also addresses the SEC's compliance with the Federal Information Security Modernization Act of 2014 and other laws and regulations.

Our Mission

To protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

Our Vision

To promote capital markets that inspire public confidence and provide a diverse array of financial opportunities to retail and institutional investors, entrepreneurs, public companies and other market participants.

Our Values

INTEGRITY

We inspire public confidence and trust by adhering to the highest ethical standards.

EXCELLENCE

We are committed to excellence in pursuit of our mission on behalf of the American public.

ACCOUNTABILITY

We embrace our responsibilities and hold ourselves accountable to the American public.

TEAMWORK

We recognize that success depends on a skilled, diverse, coordinated team committed to the highest standards of trust, hard work, cooperation, and communication.

FAIRNESS

We treat investors, market participants, and others fairly and in accordance with the law.

EFFECTIVENESS

We strive for innovative, flexible, and pragmatic regulatory approaches that achieve our goals and recognize the ever-changing nature of our capital markets.

Strategic Goals and Strategic Initiatives

STRATEGIC GOAL 1
Focus on the long-term interests of our Main Street investors.

Strategic Initiative 1.1: Enhance our understanding of the channels retail and institutional investors use to access our capital markets to more effectively tailor our policy initiatives.

Strategic Initiative 1.2: Enhance our outreach, education, and consultation efforts, including in ways that are reflective of the diversity of investors and businesses.

Strategic Initiative 1.3: Pursue enforcement and examination initiatives focused on identifying and addressing misconduct that impacts retail investors.

Strategic Initiative 1.4: Modernize design, delivery, and content of disclosure so investors, including in particular retail investors, can access readable, useful, and timely information to make informed investment decisions.

Strategic Initiative 1.5: Identify ways to increase the number and range of long-term, cost-effective investment options available to retail investors, including by expanding the number of companies that are SEC-registered and exchange-listed.

STRATEGIC GOAL 2

Recognize significant developments and trends in our evolving capital markets and adjust our efforts to ensure we are effectively allocating our resources.

Strategic Initiative 2.1: Expand market knowledge and oversight capabilities to identify, understand, analyze, and respond effectively to market developments and risks.

Strategic Initiative 2.2: Identify, and take steps to address, existing SEC rules and approaches that are outdated.

Strategic Initiative 2.3: Examine strategies to address cyber and other system and infrastructure risks faced by our capital markets and our market participants.

Strategic Initiative 2.4: Promote agency preparedness and emergency response capabilities.

STRATEGIC GOAL 3

Elevate the SEC's performance by enhancing our analytical capabilities and human capital development.

Strategic Initiative 3.1: Focus on the SEC's workforce to increase our capabilities, leverage our shared commitment to investors, and promote diversity, inclusion, and equality of opportunity among the agency's staff.

Strategic Initiative 3.2: Expand the use of risk and data analytics to inform how we set regulatory priorities and focus staff resources, including developing a data management program that treats data as an SEC-wide resource with appropriate data protections, enabling rigorous analysis at reduced cost.

Strategic Initiative 3.3: Enhance our analytics of market and industry data to prevent, detect, and prosecute improper behavior.

Strategic Initiative 3.4: Enhance the agency's internal control and risk management capabilities, including developing a robust and resilient program for dealing with threats to the security, integrity, and availability of the SEC's systems and sensitive data.

Strategic Initiative 3.5: Promote collaboration within and across SEC offices to ensure we are communicating effectively across the agency, including through evaluation of key internal processes that require significant collaboration.

History and Purpose

Prior to the Great Crash of 1929, there was little support for federal regulation of the securities markets. This was particularly obvious during the post-World War I surge of securities activity. Proposals that the federal government require financial disclosure and prevent the fraudulent sale of stock were never seriously pursued.

Tempted by promises of "rags to riches" transformations and easy credit, most investors gave little thought to the systemic risk that arose from widespread abuse of margin financing and unreliable information about the securities in which they were investing. During the 1920s, approximately 20 million shareholders took advantage of post-war prosperity and set out to make their fortunes in the stock market. It is estimated that one-half of the $50 billion in new securities offered during this period became worthless.

When the stock market crashed in October 1929, public confidence in the markets plummeted. Investors and banks lost great sums of money in the ensuing Great Depression, and restoring faith in the capital markets was essential to economic recovery. Congress held hearings to identify problems and search for solutions.

Based on those hearings, Congress passed the Securities Act of 1933[1] (Securities Act)—the first federal law to regulate the issuance of securities—followed by the Securities Exchange Act of 1934[2] (Exchange Act).

The SEC was established to regulate and enforce this legislation.

These laws aim to provide investors and the markets with reliable information, clear rules for honest dealing, and specifically ensure the following:

- A company that publicly offers securities for investment dollars is forthcoming and transparent about its business, the securities it is selling, and the risks involved with investing; and
- A person who sells and trades securities does so in a fair and honest manner.

The SEC is responsible for overseeing the nation's securities markets and certain primary participants, including broker-dealers, investment companies, investment advisers, clearing agencies, transfer agents, credit rating agencies, and securities exchanges, as well as organizations such as the Financial Industry Regulatory Authority, Municipal Securities Rulemaking Board, and the Public Company Accounting Oversight Board. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010[3] (Dodd-Frank Act), the agency's jurisdiction was expanded to include certain participants in the derivatives markets, private fund advisers, and municipal advisors.

Each year, the SEC brings hundreds of civil enforcement actions against individuals and companies for violation of securities laws. Examples of infractions are insider trading, accounting fraud, market manipulation, and providing false or misleading information about securities and/or the issuing companies.

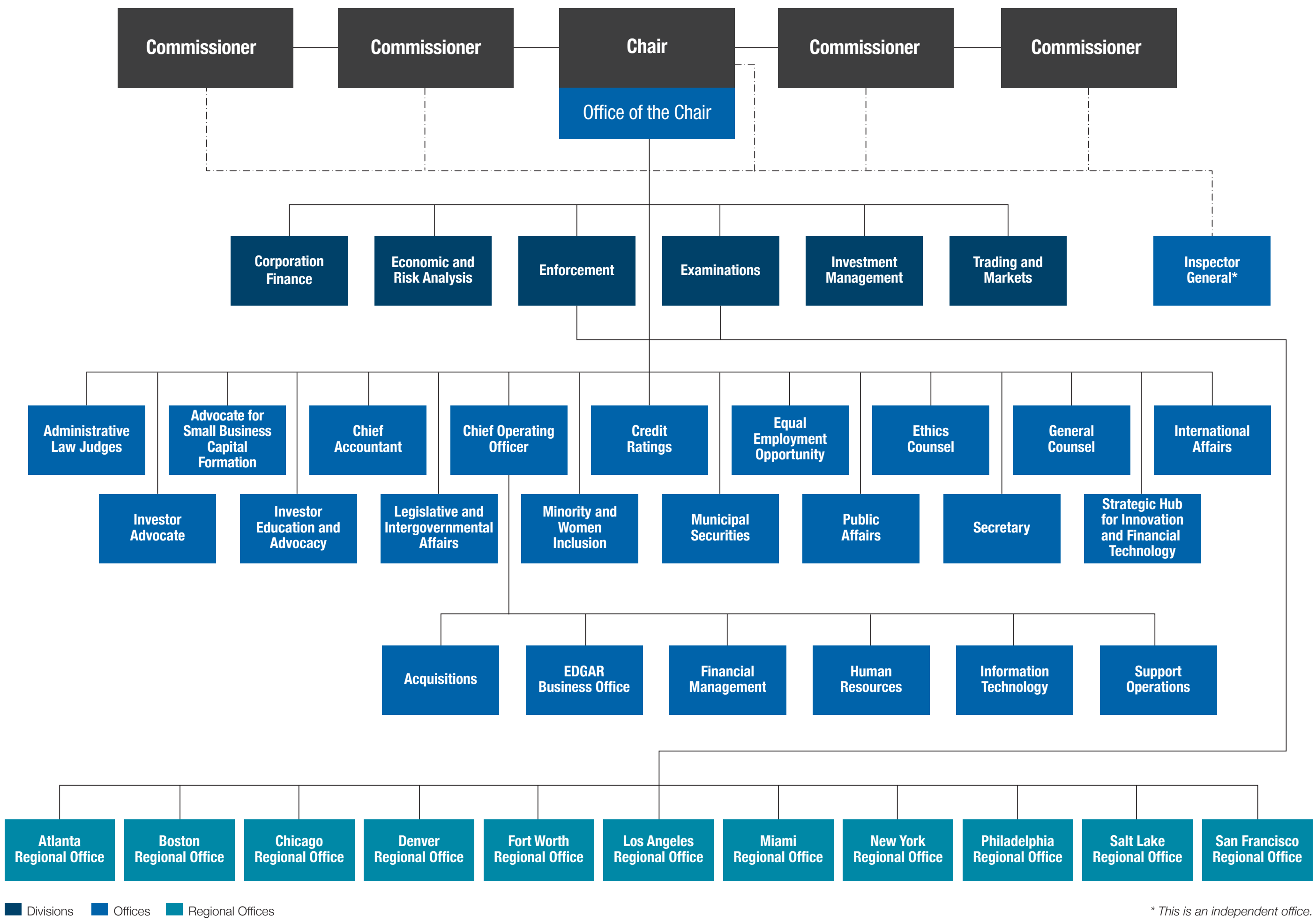
1 More information about the Securities Act of 1933 can be found at SEC.gov/about/laws/sa33.pdf
2 More information about the Securities Exchange Act of 1934 can be found at SEC.gov/about/laws/sea34.pdf
3 More information about the Dodd-Frank Act can be found at SEC.gov/about/laws/wallstreetreform-cpa.pdf

Organizational Structure and Resources

The agency's functional responsibilities are organized into 6 divisions, 25 offices, and 11 regional offices. In FY 2021, the SEC employed 4,459 full-time equivalents.

The following chart is accurate as of September 30, 2021.

Chart 1.1 | Organization Chart



The SEC is an independent federal agency led by a bipartisan, five-member Commission—one of whom is designated as the Chair—with staggered five-year terms.

Each member of the Commission is appointed by the President and confirmed by the Senate (see *Appendix A: Chair and Commissioner Biographies*).

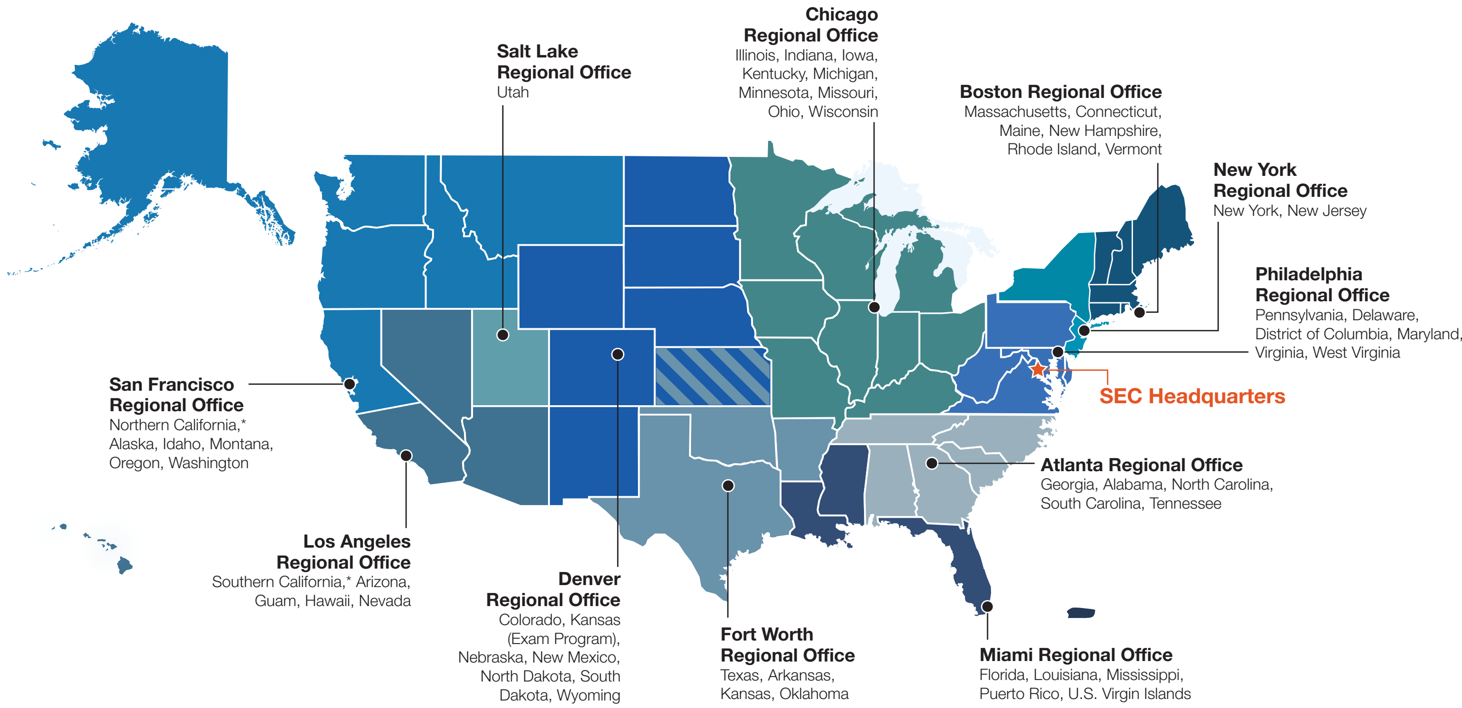
The Chair serves as the chief executive and, by law, no more than three of the Commissioners may belong to the same political party.

The Commission convenes on a regular basis, and meetings are open to the public and the news media unless the discussion pertains to a confidential subject, such as a recommendation regarding an enforcement investigation.

Office Locations

The SEC's headquarters are in Washington, DC. The agency's regional offices, which are responsible for investigating and litigating potential violations of the securities laws, are located throughout the country and have examination staff to inspect regulated entities such as investment advisers, investment companies, and broker-dealers. The following chart illustrates the location of each regional office and their areas of jurisdiction.

Chart 1.2 | Headquarters and Regional Office Locations



* Northern California includes ZIP codes 93600 and above, and 93200–93299; Southern California includes ZIP codes 93599 and below, except 93200–93299

Programs

The SEC organizes its divisions and offices within the 10 major programs outlined below, which aligns with how the SEC presents its costs of operations by programs in the Statements of Net Cost on page 60. This is also consistent with the presentation used by the agency in submitting its budget requests.

Table 1.1 | SEC Programs and Program Descriptions

ENFORCEMENT	
Division of Enforcement	Investigates and brings civil charges in federal district court or in administrative proceedings based on violations of the federal securities laws. An integral part of this program's function is seeking penalties and the disgorgement of ill-gotten gains in order to return funds to harmed investors. Also within this program is the Office of the Whistleblower, which rewards individuals who provide the agency with tips that lead to successful enforcement actions.
EXAMINATIONS	
Division of Examinations	Conducts examinations of registrants such as investment advisers, investment companies, broker-dealers, self-regulatory organizations (SRO), transfer agents, and clearing agencies.
CORPORATION FINANCE	
Division of Corporation Finance	Helps investors gain access to materially complete and accurate information about companies and the securities they offer and sell, to facilitate capital formation and to deter fraud and misrepresentation in the public offering, trading, voting, and tendering of securities.
TRADING AND MARKETS	
Division of Trading and Markets	Supervises major market participants and conducts activities to maintain fair, orderly, and efficient standards that foster investor protection and confidence in the markets.
INVESTMENT MANAGEMENT	
Division of Investment Management	Administers the Investment Company Act of 1940 and Investment Advisers Act of 1940, which includes developing regulatory policy for investment companies and for investment advisers, monitoring for risks and trends, reviewing regulatory and financial disclosures for compliance with regulatory requirements, and providing guidance to relevant market participants.
ECONOMIC AND RISK ANALYSIS	
Division of Economic and Risk Analysis	Provides economic analyses as part of the Commission's rulemaking process and assists its rule review, examination, and enforcement programs with data-driven, risk-based analytical methods.
GENERAL COUNSEL	
Office of the General Counsel	Serves as the chief legal officer of the Commission and provides independent legal analysis and advice to the Chair, Commissioners, and operating divisions on all aspects of Commission activities. This office also defends the Commission in federal district courts.

Table 1.1 | *Continued from previous page*

OTHER PROGRAM OFFICES	
Office of Administrative Law Judges	Conducts public hearings throughout the United States in a manner similar to non-jury trials in the federal district courts. As independent adjudicators, administrative law judges issue initial decisions on allegations set out in Commission Orders Instituting Proceedings, issue subpoenas, hold prehearing conferences, and rule on motions and the admissibility of evidence.
Office of the Advocate for Small Business Capital Formation	Helps small businesses and investors resolve significant problems incurred with the SEC or SROs, and analyzes the potential impact of current and proposed regulations.
Office of the Chief Accountant	Establishes accounting and auditing policies, and works to improve the professional performance of public company auditors to ensure that financial statements used for investment decisions are presented fairly and have credibility.
Office of Credit Ratings	Administers the rules of the Commission with respect to the practices of nationally recognized statistical rating organizations (NRSRO) in determining ratings; protects the users of credit ratings; promotes accuracy in credit ratings issued by NRSROs; and ensures that such ratings are not unduly influenced by conflicts of interest.
Office of International Affairs	Advances international regulatory, supervisory, and enforcement cooperation; promotes converged high regulatory standards worldwide; and facilitates technical assistance programs in foreign countries.
Office of the Investor Advocate	Helps investors resolve significant problems with the SEC or with SROs, and identifies areas in which investors would benefit from changes to federal laws or to SEC regulations or SRO rules.
Office of Investor Education and Advocacy	Serves investors who complain to the SEC about investment fraud or the mishandling of their investments by securities professionals; ensures the views of retail investors inform the Commission's regulatory policies and disclosure programs; and works to improve investors' financial literacy.
Office of Municipal Securities	Oversees the municipal securities market and administers the agency's rules pertaining to municipal securities brokers and dealers, advisors, investors, and issuers. This office also coordinates with the Municipal Securities Rulemaking Board on rulemaking and enforcement actions.
Strategic Hub for Innovation and Financial Technology	Identifies and analyzes emerging financial technologies that impact the future of the securities industry and its regulation; engages market participants in discussions around technological developments; and cultivates relationships with industry innovators.
AGENCY DIRECTION AND ADMINISTRATIVE SUPPORT	
EDGAR Business Office	Provides direct executive-level oversight for the ongoing transformation of specific functions and programs to include business ownership of the Electronic Data Gathering, Analysis, and Retrieval System (EDGAR) and the EDGAR modernization program initiative.
Office of Acquisitions	Provides advice on acquisition planning, development, and sourcing; awarding contracts and interagency agreements; and ensures contract terms and conditions are met through timely contract closeouts and de-obligation of funds.
Office of the Chair	Oversees all aspects of agency operations. The Chair and Commissioners are responsible for reviewing and approving enforcement cases as well as overseeing the development, consideration, and execution of policies and rules.
Office of the Chief Operating Officer	Provides strategic leadership and operational oversight of the SEC's core mission support activities and compliance with administrative requirements from Congress and the Executive Branch.
Office of Equal Employment Opportunity	Strives to enhance access to employment opportunities for the best and brightest talent, and to foster a fair and equitable work environment in compliance with federal laws and SEC standards.
Office of the Ethics Counsel	Administers the Commission's Ethics Program, and interprets the SEC's Supplemental Ethics Rules as well as government-wide ethics laws, rules, and regulations.

Table 1.1 | *Continued from previous page*

AGENCY DIRECTION AND ADMINISTRATIVE SUPPORT *(CONTINUED)*	
Office of Financial Management	Oversees the agency's financial systems and internal controls over financial reporting; prepares financial statements and reports; manages the formulation and execution of the SEC's annual budget; and coordinates the agency's performance and cost reporting.
Office of Human Resources	Assists with recruitment, staffing, organizational development, leadership and employee development, compensation and benefits administration, position classification, workforce planning, and labor relations.
Office of Information Technology	Maintains responsibility for the Commission's infrastructure operations and engineering; user support; program management; capital planning; cybersecurity; and enterprise architecture.
Office of Legislative and Intergovernmental Affairs	Serves as the liaison between the SEC and Congress, and is responsible for responding to requests from Congress for information related to agency programs and legislation affecting the SEC or its mission.
Office of Minority and Women Inclusion	Develops standards for all agency matters relating to diversity in management, employment, and business activities.
Office of Public Affairs	Assists the Commission in making the work of the SEC is accessible to the public, understandable to investors, and accountable to taxpayers.
Office of the Secretary	Reviews all documents issued by the Commission; schedules and coordinates Commission meetings; prepares and maintains records of Commission actions; and receives and tracks filings in administrative proceedings.
Office of Support Operations	Processes requests under the Freedom of Information Act and the Privacy Act; maintains all agency records in accordance with the Federal Records Act; oversees the security and safety of SEC facilities; and manages property, equipment, and overall building operations.
INSPECTOR GENERAL	
Office of Inspector General	Conducts audits of the SEC's programs and operations, and investigates allegations of misconduct by staff or contractors. This is an independent office whose mission is to detect fraud, waste, and abuse, and promote integrity, economy, efficiency, and effectiveness throughout the agency's programs and overall operations.

continuing operations through covid-19

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Our staff has been intently focused on continuing to display the level of professionalism and dedication on which our investors and markets have come to rely. We recognize the importance of our mission to America’s investors and our markets and believe it is a privilege to serve.

SINCE THE OUTSET OF THE NATIONAL PUBLIC HEALTH AND ECONOMIC THREATS CAUSED BY COVID-19, the SEC’s operational efforts have centered, first and foremost, on the health and safety of its employees, the employees and customers of its registrants, and individuals in general. Continuing our mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation remained our top priority, and to ensure success, the SEC shifted to a mandatory telework posture in March 2020.

In August 2021, vaccinated employees were given the option to return to the workplace on a voluntary basis. The SEC anticipates remaining in a voluntary return to workplace status through at least January 3, 2022.

As the agency contemplates additional stages of its return to the workplace, we are focused on a number of key considerations to help employees and their families remain safe. Implementing vaccination requirements and updating workplace safety protocols will be at the forefront of agency operations for FY 2022.

For more information about our ongoing efforts, please visit SEC.gov/sec-coronavirus-covid-19-response.

OUR YEAR IN REVIEW AND THE YEAR AHEAD

During FY 2021, the agency continued to wrestle with the impacts of the COVID-19 pandemic on our work, on the markets, and on our society writ large. The following pages summarize the impact of the pandemic on that work; provide an overview of enforcement and examinations regimes; discuss policy initiatives; describe ongoing investor education and other outreach activities; and provide an overview of data and operations at the agency.

In FY 2022, the SEC will continue to monitor the scientific data about COVID-19 and national, state, and local guidance to determine the appropriate operating posture for the agency's workforce. The agency also expects to work closely with the National Treasury Employees Union on longer-term telework rules and work schedule flexibilities that will help advance the agency's mission and capture the lessons learned from the pandemic.

COVID-19

Operations

The pandemic continued to make a significant impact on the SEC's work, both within the agency and outside of it. In March of 2020, the agency shifted to a primarily remote workforce and, in the interest of the health and safety of both our workforce and our communities, has remained in that posture through 2021. After closely monitoring conditions surrounding our 11 regional offices and our Washington, DC, headquarters, the SEC permitted fully vaccinated employees to return to the office on a voluntary basis in August.

Throughout FY 2021, the agency continued its commitment to SEC employees as they adapted to long-term work from home. The agency sustained work schedule flexibilities and implemented updated COVID-19 leave programs to support employees through the unpredictable challenges of the pandemic environment. The agency also continued work-life and employee assistance programs to help employees maintain a safe and effective work space at home, and provided training and communications designed to maintain collaboration and support employee engagement in a primarily virtual environment.

Market Function, Market Monitoring, and Regulatory Coordination

During the course of the pandemic, there has been a substantial increase in the number of retail investors who engage in direct investing via mobile phones. The Commission continued to work to protect these investors throughout this period of growth.

The Commission has provided guidance to investors and targeted regulatory assistance and relief to businesses; provided investor education; engaged with small businesses through the Office of the Advocate for Small Business Capital Formation (OASB); and suspended trading and undertaken enforcement and examination initiatives related to COVID-19.

The SEC staff also studied the impact of COVID-19 on our markets to help it better understand the impact of such economic shocks. In October 2020, SEC staff released a report on *U.S. Credit Markets: Interconnectedness and the Effects of the COVID-19 Economic Shock* (SEC.gov/files/US-Credit-Markets_COVID-19_Report.pdf), which focused on the origination, distribution, and secondary market flow of credit across U.S. markets. As a follow-up, the SEC staff hosted a roundtable on *Interconnectedness and Risk in the U.S. Credit Markets* (SEC.gov/dera/announcement/dera_event-100520-roundtable_on_interconnectedness) to further discuss the issues raised in the report.

Investor Protection, Education, and Outreach

Division of Enforcement

The Division of Enforcement (ENF) protects millions of investors and instills confidence in the integrity of our markets by deterring misconduct and punishing wrong-doers. ENF investigates and recommends a diverse mix of cases targeting fraud and other wrongdoing.

The SEC's whistleblower program, created to incentivize individuals to report high-quality tips to the Commission, had an incredibly successful year. Since the program's inception more than 10 years ago, whistleblowers have made meaningful contributions to numerous actions. The Commission, in turn, has awarded more than $1 billion to whistleblowers over the life of the program. In FY 2021, ENF continued to accelerate the evaluation of claims for whistleblower awards, with the most awards granted in a single year since the beginning of the program. In addition, in FY 2021, the Commission issued the two largest awards in the program's history.

During FY 2021, the market for special purpose acquisition companies (SPAC) attracted significant public attention and investor funds. In response, the Commission has brought several enforcement actions involving SPACs, reflecting our interest in protecting investors when wrongdoing is discovered. For example, the SEC recently charged the founder of a purported electric-truck manufacturer (SEC.gov/news/press-release/2021-141) with fraud, alleging that he had repeatedly disseminated false and misleading information, typically through social media, about the company's products and technological accomplishments.

In FY 2021, the Commission took significant enforcement actions to ensure public companies and registrants are taking cybersecurity risks and related disclosures seriously. What's more, as the digital assets space continues to evolve, the Commission has vigorously addressed misconduct and emerging risks in digital asset securities products and services. For example, in August 2021 the Commission brought its first enforcement action involving securities using decentralized finance, or "DeFi," technology (SEC.gov/news/press-release/2021-145). The Commission also took several enforcement actions directed at trading platforms that illegally facilitate or tout trading in crypto assets.

Division of Examinations

The recently renamed Division of Examinations (EXAMS)—formerly the Office of Compliance Inspections and Examinations—is responsible for conducting examinations of regulated entities to promote compliance, prevent fraud, identify risk, and inform policy. During the past year, EXAMS continued to prioritize reviews of certain practices, products, and services that present heightened risks to investors or the integrity of the U.S. capital markets, with a particular emphasis on retail investors.

EXAMS focused considerable attention on compliance with new standards of conduct rules, including Regulation Best Interest and Form CRS. The division continued its efforts to inform investors and promote stronger industry compliance program through Risk Alerts (SEC.gov/exams), which are intended to raise awareness of critical compliance and industry risks.

The staff also focused on the investments and services marketed to retail investors, the appropriateness of recommendations, disclosures regarding conflicts of interest, as well as other areas of enhanced risk.

Additional significant priority areas included information security and operational resiliency, financial technology and innovation, anti-money laundering programs, and market infrastructure. EXAMS also remained flexible and agile in its risk-based approach in order to respond to various market events and challenges during the year, such as the "meme stock" events of winter 2021. The division has also enhanced and continues to train its machine learning models, along with other models, for examination targeting.

TERMS TO KNOW

MEME STOCK

A stock that has seen an increase in retail investor attention volume not because of how well the company performs, but rather because of discussions on social media and online forums.

Office of Investor Education and Advocacy

The SEC promotes informed investment decision-making through education initiatives aimed at providing retail investors with a better understanding of our capital markets and the opportunities and risks associated with the array of investment choices presented to them. Our Office of Investor Education and Advocacy (OIEA) spearheads these efforts, and participation extends throughout our divisions and offices.

the rulemaking process

What is Rulemaking?

Rulemaking is the process that federal agencies use to make rules. Some rulemaking implements laws passed by Congress and signed by the President; other rulemaking updates rules under existing laws or creates new rules within an agency's existing authority that the agency believes are needed. The process is designed to give members of the public an opportunity to provide their opinions.

As of publication, notable areas for proposed and final rulemaking include:

- Disclosure relating to climate risk, human capital, and cybersecurity risk;
- Market structure modernization within equity markets, treasury markets, and other fixed-income markets;
- Transparency around stock buybacks, short sale disclosure, securities-based swaps ownership, and the stock loan market;
- Investment fund rules, including money market funds, private funds, and ESG funds; and
- Rule 10b5-1 affirmative defense provisions.

PROPOSING RELEASE OR RULE PROPOSAL. The rulemaking process usually begins with a proposal, which is published for public notice and comment. A proposing release typically contains the text of the proposed new or amended rule along with a discussion of the issue or problem the proposal is designed to address. The SEC considers the public's input on the proposal as it determines its next steps.

CONCEPT RELEASE. Sometimes the SEC seeks public input with a concept release before issuing a proposed rule. A concept release typically outlines the topic of concern, identifies different potential approaches, and raises a series of questions inviting public comment on the matter. The public's feedback is taken into consideration as the SEC decides which approach, if any, is appropriate.

ADOPTING RELEASE OR RULE ADOPTION. The adopting release and final rule reflect the SEC's consideration of the public comments. The new rule or rule amendment becomes part of the official SEC rules.

"I look forward to collaborating with my fellow commissioners and the dedicated staff to propose and finalize rules that will strengthen our markets, increase transparency, and safeguard investors.

CHAIR GARY GENSLER

In FY 2021, OIEA unveiled a new public service campaign (PSC) to educate investors on the benefits of investing and encourage them to use the free financial planning tools and information on Investor.gov. One of the important goals of the PSC is to reach new investors, particularly those who are traditionally underserved, to ensure they are aware of the free resources available to help them make informed financial and investment decisions.

The PSC, in combination with OIEA's other outreach efforts, resulted in a record 25.5 million page views on Investor.gov in FY 2021, an increase of 117 percent compared to FY 2020.

In FY 2021, OIEA issued a record 36 Investor Alerts and Investor Bulletins (investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins) to warn retail investors of possible fraudulent schemes and educate them on investment-related matters. OIEA and the SEC's 11 regional offices continued to educate retail investors by participating in outreach events. SEC staff worked at more than 350 investor education events serving different segments of the population, including military and veteran communities, seniors, minority and Native American communities, women, teachers, students and young adults, and rural communities. OIEA also assisted more than 30,000 investors with investment-related complaints and answered questions from individual investors needing assistance.

Diversity, Inclusion, and Opportunity

With efforts led by the Office of Minority and Women Inclusion (OMWI), the SEC has remained unwavering in its commitment to diversity, inclusion, and opportunity principles. Guided by the SEC's Diversity and Inclusion Strategic Plan (SEC.gov/files/2020_Diversity_and_Inclusion_Strategic_Plan.pdf), we continued to embed these principles in every facet of the SEC, internally and through the SEC's mission activities.

We promoted leadership commitment to diversity and inclusion; fostered a connected culture despite the remote work posture; and continued to build a diverse talent pipeline through a number of initiatives. These included trainings, Diversity Dialogues, a new Diversity and Inclusion Internship program offering paid internship opportunities through partnership with the Hispanic Association of Colleges and Universities, and a strengthened relationship with Historically Black Colleges and Universities.

As an agency, we continued to leverage diversity and inclusion for mission effectiveness. Agency officials collaborated across the SEC, with the guidance of a consultant, to assess best practices for embedding diversity, inclusion, and opportunity in agency-wide, mission-related outreach and engagement activities. OMWI continues to engage internal stakeholders, advisory committee members, and SEC-regulated entities on leading diversity and inclusion practices.

Furthermore, OMWI and the SEC's regional offices engaged in outreach events to underserved communities on affinity fraud and how to prevent pandemic scams.

Moreover, a key part of the OASB's small business advocacy mission is proactively connecting with under-represented demographic groups (including women and minorities), entrepreneurial ecosystems affected by natural disasters, and businesses and investors at different stages of the capital-raising lifecycle.

Data and Economic Analysis

Division of Economic and Risk Analysis

The Division of Economic and Risk Analysis (DERA) provided economic analysis to inform many of the Commission's activities, including examinations, enforcement, and policymaking. Economists analyzed the economic effects of Commission and self-regulatory organization rules, provided guidance in investigations and settlement negotiations, assisted in determining the amounts and feasibility of distributions to harmed investors, and provided testimony in litigated cases. Collaborating with economists, data scientists engaged in several projects to identify potential violations.

Operations

The SEC continued executing the initiatives that enable the Commission to use the increasing volumes and variety of data necessary to execute our missions. The SEC continues to work toward developing enhancements to the agency's cloud and enterprise data warehouse capabilities to better enable SEC programs to analyze large and complex data more effectively, with appropriate controls to protect non-public information.

Regulatory and Policy Initiatives

Division of Corporation Finance

In FY 2021, the Division of Corporation Finance (CF) continued to modernize and improve upon the disclosure framework. In November 2020, the Commission voted to adopt amendments to simplify and enhance certain financial disclosure requirements in Regulation S-K. The amendments were part of an ongoing evaluation of our disclosure requirements focused on modernizing and improving disclosure and continuing to provide investors with material information to help inform their investment decisions. These efforts are expected to continue in FY 2022. There are several disclosure-related rulemakings on the Spring 2021 Unified Agenda, including potential rulemakings related to human capital management, corporate board diversity, climate risk, and cybersecurity risk governance. Division staff have been working to develop recommendations to the Commission on each of these topics. In February 2021, then-Acting Chair Allison Herren Lee directed CF to enhance its focus on disclosures related to climate risk in public companies' filings with the Commission.

CF also continues to play a major role in the agency's work to bring greater awareness of the risks inherent in investing in China, including risks related to the use of variable interest entity (VIE) structures. In November 2020, CF issued guidance regarding certain disclosure considerations for companies based in or with the majority of their operations in China.

In July 2021, CF began issuing comments to seek more prominent disclosure about the VIE structure and resulting risks. The staff also issued comments seeking additional disclosure about the potential effects of the Holding Foreign Companies Accountable Act (HFCAA) and recent regulatory developments in China with respect to overseas listings. CF also recommended interim final amendments to implement the disclosure and submission requirements of the HFCAA that the Commission approved in March 2021.

climate and the commission

INVESTORS INCREASINGLY WANT TO understand the climate risks of the companies whose stock they own or might buy. Large and small investors, representing tens of trillions of dollars, are looking for this information to determine whether to invest, sell, or make a voting decision one way or another.

The Commission first addressed disclosure of material environmental issues in the early 1970s when it issued an interpretive release stating that registrants should consider disclosing in their SEC filings the financial impact of compliance with environmental laws, based on the materiality of the information.

Today, investors are looking for consistent, comparable, and decision-useful disclosures so they can put their money in companies that fit their needs, and the SEC continues to review and revise our climate disclosure rules.

> "Investors should be able to drill down and see what's under the hood of funds that market themselves as "green" or "sustainable."
>
> CHAIR GARY GENSLER

Guidance Regarding Disclosure Related to Climate Change

Information about climate change-related risks and opportunities may be required in disclosures related to a company's description of business, legal proceedings, risk factors, and management's discussion and analysis of financial condition and results of operations.

Disclosure matters discussed in the 2010 Climate Change Guidance include the following:

- The impact of pending or existing climate change-related legislation, regulations, and international accords;
- The indirect consequences of regulation or business trends; and
- The physical impacts of climate change.

Enhanced registrant disclosures regarding issuers' climate-related risks and opportunities are being considered and will be discussed further in FY 2022.

RULE 144

Under the federal securities laws, all offers and sales of securities must be registered with the SEC or qualify for an exemption from the registration requirements.

Rule 144 provides a safe harbor for the exemption contained in Section 4(a)(1). The safe harbor is generally available for the public resale of restricted or control securities if a number of conditions are met, including how long the securities are held, the way in which they are sold, and the amount that can be sold at any one time.

CF continues to engage in rulemaking efforts designed to enhance investor protection. In December 2020, the Commission proposed amendments to Rule 144 under the Securities Act of 1933 to revise the holding period determination for securities acquired upon the conversion or exchange of certain “market-adjustable” securities. Finalizing amendments to Rule 144 and related filing requirements is on the Spring 2021 Unified Agenda, and staff continue to work on recommendations for those rules. Division staff also continues to consider ways to improve the proxy voting process.

Furthermore, CF is working with other Commission divisions and offices to consider recommendations to address certain concerns about the current use of the affirmative defense provisions of Exchange Act Rule 10b5-1.

In addition to policy work, CF staff spent a significant amount of time processing offering documents for companies seeking to become public, whether traditional initial public offerings or by SPACs, which experienced a surge in FY 2021.

Division of Investment Management

The Division of Investment Management (IM) continued to address a number of timely issues with respect to the investment management industry.

In FY 2021, IM advanced several initiatives to support and enhance the pursuit of the SEC’s mission. Staff have continued to engage with market participants; consult with other federal agencies, the Financial Stability Oversight Council, and international regulatory bodies; and evaluate market events (including the COVID-19 market disruption) to better understand what happened and to consider potential regulatory changes in response. For example, IM staff are reviewing the public comments received in response to the Commission’s request for comment on potential reform measures for money market funds (MMF) and considering ways to improve the resiliency of MMFs and the short-term funding markets. Additionally, staff are considering recommendations to change the regulatory requirements relating to open-end funds’ liquidity and dilution management.

In FY 2021, the Commission adopted reforms recommended by IM that overhauled several dated regulatory frameworks that have not changed in decades, as staff evaluated whether these frameworks are functioning as intended. Specifically, the Commission adopted regulatory frameworks for fund of funds arrangements, funds' use of derivatives, fund valuation practices, and investment adviser marketing. IM also continued to explore enhancing transparency for the asset management industry by improving the disclosures that funds and investment advisers provide to investors.

Moreover, during FY 2021, IM staff focused significantly on the investor protection implications of proposed mutual funds and exchange-traded funds (ETF) seeking to invest in bitcoin-related investments, with an emphasis on bitcoin futures traded in the U.S.-regulated market. In May 2021, IM staff issued a statement on funds investing in the bitcoin futures market. IM staff reviewed registration statements and related disclosures for mutual funds and ETFs that hold bitcoin futures. IM staff is coordinating with staff in EXAMS and DERA to closely monitor and assess the impact of these funds' investments in bitcoin futures on investor protection, capital formation, and the fairness and efficiency of markets.

TERMS TO KNOW

FIAT CURRENCY

Government-issued currency that is not backed by a commodity such as gold. Most modern paper currencies, such as the U.S. dollar, are fiat currencies.

Furthermore, various divisions and offices within the SEC are evaluating crypto trading platforms, lending platforms, and other DeFi platforms. IM staff also are assessing the implications of the growth of stable value coins, which are crypto tokens pegged or linked to the value of fiat currencies. These stable value coins often are used to trade on crypto trading, lending and DeFi platforms, but they may have characteristics of investment companies or other securities as well.

Division of Trading and Markets

The Division of Trading and Markets (TM) continues to address a number of issues with respect to the SEC's mission to maintain fair, orderly, and efficient markets.

In January 2021, the stocks and options of GameStop Corp. (GME) and several other companies experienced dramatic increases in price and trading volumes. The Commission published a staff report (SEC.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf) assessing these market events. This report reviews certain recent developments in equity and options market structure, with a focus on individual investors. The report observes that these events present an opportunity to reflect on the market structure and regulatory framework and identify possible areas for further study and consideration in the interests of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. The areas identified by staff include forces that may cause a brokerage to restrict trading; digital engagement practices and retail investors; trading in dark pools and through wholesalers; and short selling and market dynamics.

Separately, in December 2020, the Commission unanimously approved amendments to Regulation National Market System (Regulation NMS) to update and modernize the NMS for the collection, consolidation, and dissemination of information with respect to quotations for, and transactions in, NMS stocks. The Market Data Infrastructure Rules will be implemented over a period of time beginning in November 2021 to help to ensure an orderly transition.

In the past fiscal year, the Commission also continued to make significant progress implementing the Dodd-Frank Title VII regulatory regime. As a result of finalizing a number of rules that form the substance of the regulatory requirements for security-based swap (SBS) dealers and major SBS dealers, the first SBS entities began to register with the Commission on October 6, 2021, and will be subject to the Commission's rules and oversight.

TERMS TO KNOW

DECENTRALIZED FINANCE (DEFI)

Generally refers to a variety of financial products, services, activities, and arrangements supported by smart contract-enabled distributed ledger technology. This technology can reduce the use of traditional financial intermediaries and centralized institutions to perform certain functions, although the degree of decentralization across DeFi differs widely.

In preparation for registration by a large number of non-U.S. SBS entities that are already subject to similar regulations in their home jurisdictions, the Commission has finalized substituted compliance determination orders for SBS entities subject to regulation in France, Germany, and the United Kingdom, and has noticed an additional application for Germany (with respect to margin and capital requirements) as well as applications related to Spain and Switzerland.

Additionally, in FY 2021, two SBS data repositories, DTCC Data Repository (DDR) and Ice Trade Vault, registered with the Commission. The registration of DDR triggered the first compliance date for SBS data transaction reporting, which is November 8, 2021.

These rules will bring needed transparency to the SBS market both for the SEC and, through public dissemination of transaction information, to the market and market participants.

As required by Congress, the Commission will turn to the remaining required rules under Title VII, including the registration and regulation of SBS execution facilities, the end-user exception for mandatory clearing, and an additional anti-fraud rule.

TM staff, in conjunction with staff from other divisions and offices, also engaged in a variety of digital asset matters in FY 2021. Division staff from the Office of Financial Responsibility led the Commission's effort in developing a statement and request for comment regarding the custody of digital asset securities by broker-dealers. This statement and request for comment was issued in December 2020 (SEC.gov/rules/policy/2020/34-90788.pdf). Through the course of 2021, the staff have continued to review evolving standards and best practices with respect to custody of digital asset securities.

Staff have also engaged closely with developments in DeFi. Furthermore, staff from TM's Office of Market Supervision have reviewed and considered proposals by national securities exchanges to list and trade shares of commodity trusts that would hold digital assets such bitcoin. Going forward, TM staff will continue to work with the Commission's other divisions and offices to examine how to best address regulatory gaps and help ensure investor protection in the digital assets markets.

Managing Climate Risk

During FY 2021, the SEC strategically mitigated climate risk (the risk of potential climate impacts on the SEC's infrastructure, operations, and financial position) through a framework that includes governance, strategy, and risk management.

Governance

Resilience and sustainability are core values with respect to the facilities and operations of the SEC. As such, the SEC has in place a governance structure to identify and manage climate-related risks within the organization.

The Chair and Commissioners establish the SEC's mission and strategic goals, and the Chair serves as the chief executive officer for the agency. The Chair's duties include overseeing compliance with environmental laws and regulations relevant to agency operations. In FY 2021, a full-time Climate Counsel position was established within the Office of the Chair to provide further leadership on climate and sustainability matters, both as they relate to the execution of the SEC's regulatory mission and with respect to its own operations and risk management.

The SEC's Office of the Chief Risk Officer provides leadership and guidance on enterprise-wide risks, including climate risks and the effectiveness of strategies to address those risks.

Strategy

A critical element of the SEC's strategy is to protect the agency's two most important assets, its people and its data, both of which are vital to executing the SEC's mission.

The SEC Strategic Plan 2018–2022 (the Plan) provides a strategic framework with clear goals of innovation, preparedness, risk management, and resilience. Collectively, these goals and strategies help ensure that the SEC is able to continue fulfilling its mission despite external challenges, including potentially adverse impacts of climate change.

Specifically, the Plan's Goal 2, which encompasses innovation and preparedness, includes the following initiative:

2.4 Promote agency preparedness and emergency response capabilities.

The SEC will review and update, as necessary, our preparedness and capabilities for responding to a market emergency or incident that impacts agency operations. The SEC will provide regular training and testing to promote a clear understanding of roles and responsibilities at the SEC, and will review and test our plans periodically to evaluate our preparedness as risks evolve.

Additionally, the Plan's Goal 3 encompasses risk management and resilience. It includes the following initiative:

3.4 Enhance the agency's internal control and risk management capabilities, including developing a robust and resilient program for dealing with threats to the security, integrity, and availability of the SEC's systems and sensitive data.

The SEC recognizes that climate-related risks can occur in various forms. While these risks include transition risks from shifts to reduced carbon emissions—for example programmatic costs of changing energy sources—the most immediate climate-related risks facing the SEC are potential damage to infrastructure and disruptions in service due to climate-driven events.

The SEC has identified the most significant near-term climate-related threats as floods, fires, and high winds (including hurricanes, tornadoes, and derechos). Such events can lead to potential harm to or even loss of personnel, data, property, energy, and even water availability. Any of these losses can have an adverse impact on agency operations.

Applying these aforementioned strategies, the SEC has developed multiple risk management initiatives, as outlined in the following section, to mitigate climate-related risks and achieve a level of resilience that allows for continued execution of the SEC's mission.

Risk Management

To manage the climate-related risks identified above, the SEC mitigates vulnerabilities through a framework that first seeks to help prevent damage from occurring, and secondly seeks to react and adapt in cases where damage cannot be avoided.

The SEC is positioned to lower the risk of damage from climate-driven events through the following risk management approaches:

- Geographic dispersion of regional offices and data centers mitigate the impact of local climate vulnerabilities;
- General Services Administration-provided space offers access to best practices and standards for design, construction, and building operations;
- The SEC's design standards, which locate regional offices on the 2nd floor and above, reduce flooding risks; and
- Computer rooms and filing rooms are located in the building core areas of the space, decreasing vulnerability to wind-driven events.

The SEC also recognizes that no matter how great the preparation, in some instances damage or harm from climate events may be unavoidable. In such cases, the SEC has put mechanisms in place that would enable the agency and its workforce to continue fulfilling the SEC's mission to the American public in such scenarios. These approaches include:

- A proven telework program that was fully utilized during FY 2021 due to the pandemic;
- Alternate worksites for mission-essential functions;
- Data center redundancies;
- Fail-over capabilities, which allow local offices to push data operations to an alternate location; and
- A transition to cloud computing, including the deployment in FY 2021 of the SEC's new foundational cloud environment, which will enhance the resilience of information systems.

Moreover, the SEC maintains a comprehensive and robust Continuity of Operations Planning program consistent with applicable government-wide directives and requirements. This program helps essential functions continue during a wide range of emergencies, including localized acts of nature, accidents, and technological or other emergencies.

Finally, during FY 2021, the SEC continued numerous sustainability initiatives to minimize our own footprint on the environment. In recent years, the SEC has invested in virtual servers and optimized its data centers, to generate energy savings and cost reductions. The SEC also has prioritized the digitization of its processes, including adapting to virtual depositions during the COVID-19 pandemic. Additionally, the SEC's records management operations have made enormous strides in shifting to digital records, as required under Office of Management and Budget guidance. Financial payment operations are automated. The SEC's headquarters and 11 regional offices have undertaken a myriad of initiatives to promote reuse and recycling, and to improve energy and water efficiency.

The SEC plans to expand further its future climate reporting as its program matures and it develops robust data collection methods and systems.

FINANCIAL HIGHLIGHTS

This section provides an analysis of the financial position, results of operations, and the underlying causes for significant changes in balances presented in the SEC's FY 2021 financial statements.

As described further below, the SEC's finances have several main components:

- An annual appropriation from Congress;
- Securities transaction fees, charged in accordance with Section 31 of the Securities Exchange Act, which offset the agency's annual appropriation;
- Securities registration, tender offer, and merger fees (also called filing fees), of which $50 million is deposited into the Securities and Exchange Commission Reserve Fund (Reserve Fund) each year. The Reserve Fund may provide resources up to $100 million each fiscal year to pay for SEC expenses, and are not subject to annual appropriation or apportionment;
- Disgorgement and penalties ordered and collected from violators of the securities laws, some of which are then returned to harmed investors and the balances are transferred to the U.S. Treasury General Fund; and
- The SEC Investor Protection Fund (IPF), which is funded through disgorgement and penalties not distributed to harmed investors, and which is used to make payments to whistleblowers who give tips to aid the SEC's enforcement efforts in certain circumstances, as well as to cover the expenses of the SEC Office of Inspector General's (OIG) Employee Suggestion Program.

Sequestration Order for FY 2021

On March 1, 2013, the President issued the Sequestration Order. As determined by the Office of Management and Budget (OMB), for FY 2021, the sequestration order was applicable to mandatory appropriations, which included the Reserve Fund and the IPF, of the SEC as follows:

Reserve Fund

The budget authority of $50 million was reduced by 5.7 percent, or $3 million.

Investor Protection Fund

The budget authority of $475 million was reduced by 5.7 percent, or $27 million.

Overview of Financial Position

Assets. At September 30, 2021, the SEC's total assets were $12.2 billion, an increase of $745 million, or 7 percent, from FY 2020.

Investments increased by $590 million between FY 2021 and FY 2020. This is primarily due to increases in disgorgement and penalties collections invested during FY 2021, net of disbursements to fund administrators for planned distributions. In addition, IPF investments decreased due to a significant reduction in available balance.

Chart 1.3 | FY 2021 Assets by Type

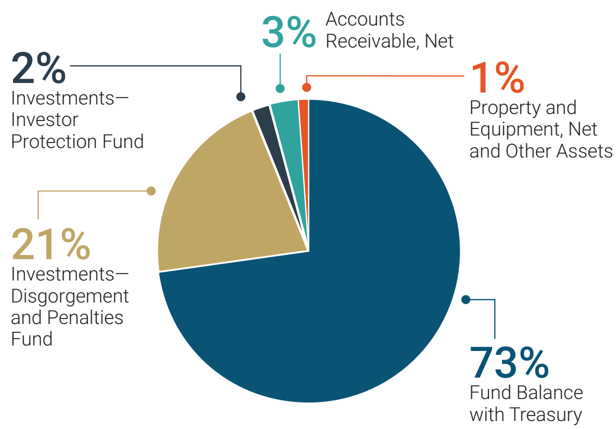


Table 1.2 | Assets as of September 30, 2021 and 2020

(DOLLARS IN MILLIONS)	2021	2020
Fund Balance with Treasury	$ 8,821	$ 8,615
Investments—Disgorgement and Penalties Fund	2,576	1,933
Investments—Investor Protection Fund	259	312
Accounts Receivable, Net	403	446
Property and Equipment, Net	85	93
Other Assets	8	8
Total Assets	**$ 12,152**	**$ 11,407**

Liabilities. At September 30, 2021, the SEC's total liabilities were $4.1 billion, an increase of $893 million, or 28 percent, from FY 2020.

For the assets received resulting from enforcement judgments, the SEC recognizes a corresponding liability, which is either custodial if the collections are transferred to the U.S. Treasury General Fund or the IPF, or governmental if the collections are held pending distribution to harmed investors.

The increase of $872 million in the liability for disgorgement and penalties is mostly attributable to new orders that occurred during FY 2021 established on behalf of harmed investors. This was offset by disbursements to fund administrators for planned distributions.

Accounts Payable increased by $103 million mostly due to a $99 million increase in whistleblower awards payable as of September 30, 2021, compared to the previous year.

Contingent Liability decreased by $123 million. The SEC recognized estimated awards in the amount of $132 million that were probable as of September 30, 2021, while recognizing $255 million as of September 30, 2020.

Ending Net Position. The SEC's net position, comprised of both unexpended appropriations and the cumulative results of operations, decreased by $148 million between September 30, 2021 and 2020.

Chart 1.4 | FY 2021 Liabilities by Type

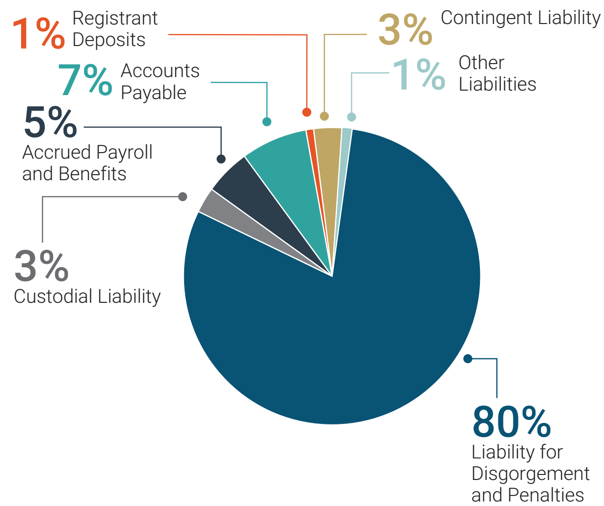


Table 1.3 | Liabilities as of September 30, 2021 and 2020

(DOLLARS IN MILLIONS)	2021	2020
Liability for Disgorgement and Penalties	$ 3,277	$ 2,405
Custodial Liability	119	116
Accrued Payroll and Benefits	202	179
Accounts Payable	272	169
Registrant Deposits	60	45
Contingent Liability	132	255
Liability for Non-Entity Assets	1	2
Other Liabilities	18	17
Total Liabilities	**$ 4,081**	**$ 3,188**

Results of Operations

Earned Revenues. Total earned revenues for the year ended September 30, 2021, decreased by $780 million, or 24 percent, from FY 2020.

Filing fee revenue increased by 11 percent through September 30, 2021, when compared to the prior year. Although the filing fee rate decreased from $129.80 per million transacted in FY 2020 to $109.10 per million transacted in FY 2021, the SEC experienced an increase in large filings and filing volume through September 30, 2021.

Section 31 fee revenue decreased by $863 million primarily due to a lower average fee rate in effect during FY 2021. During FY 2020, the fee rate of $20.70 per million was in effect through February 18, 2020, when it was increased to $22.10 per million. For FY 2021, the $22.10 per million was in effect through February 24, 2021, when it was adjusted down to $5.10 per million.

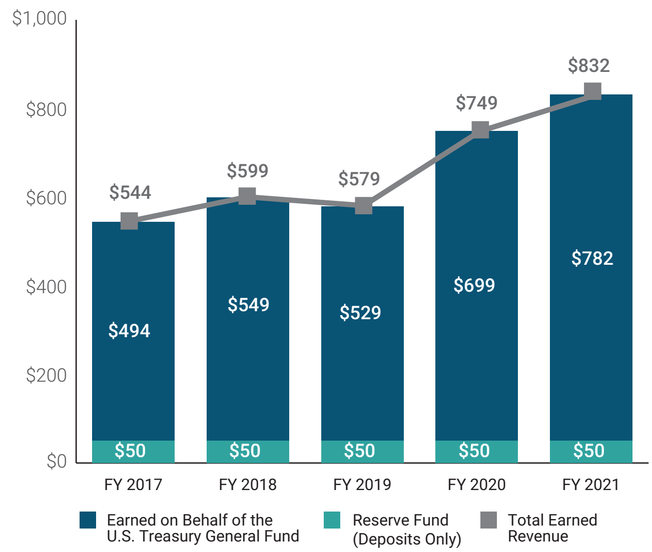
Reserve Fund. Section 991(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) authorized the creation of a Reserve Fund. Funded from filing fee collections, the SEC can deposit up to $50 million per fiscal year, and the fund cannot hold more than $100 million in total each fiscal year. Excess filing fees are deposited to the U.S. Treasury General Fund.

For the year ended September 30, 2021, filing fee revenues totaled $832 million. In FY 2021, $50 million of filing fee revenues was deposited into the Reserve Fund, of which $3 million was sequestered. The excess of $782 million was earned on behalf of the U.S. Treasury General Fund.

Table 1.4 | Earned Revenues
For the years ended September 30, 2021 and 2020

(DOLLARS IN MILLIONS)	2021	2020
Section 31 Securities Transaction Fees	$ 1,700	$ 2,563
Securities Registration, Tender Offer, and Merger Fees (Filing Fees)	832	749
Total Earned Revenues	**$ 2,532**	**$ 3,312**

Chart 1.5 | Reserve Fund Earned Revenue
(DOLLARS IN MILLIONS)



Filing fees deposited to the Reserve Fund can be used to fund the SEC's operations, create budgetary authority, and are reported as a component of Appropriations (Discretionary and Mandatory) on the SEC's Statement of Budgetary Resources. Filing fees deposited to the U.S. Treasury General Fund do not create budget authority and cannot be used to fund the SEC's operations.

After FY 2021 deposits of $50 million, prior year sequestration totaling $3 million was returned, new FY 2021 sequestration totaling $3 million was recorded, and Reserve Fund resources totaling $53 million were obligated for the year ended September 30, 2021, leaving a remaining unobligated balance of $3 million of available resources.

Program Costs. Total Program Costs were $2.4 billion for the year ended September 30, 2021, an increase of $152 million, or 7 percent, compared to FY 2020. The increase was primarily due to an increase in employee salaries and benefits, contractual services for IT contracts, and whistleblower payments and pending payables.

Chart 1.6 | FY 2021 Filing Fee Revenue

(DOLLARS IN MILLIONS)

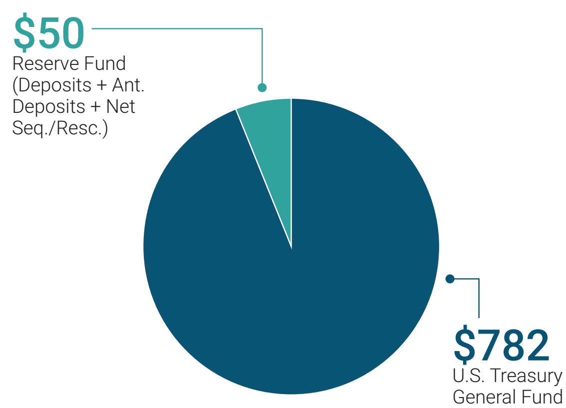
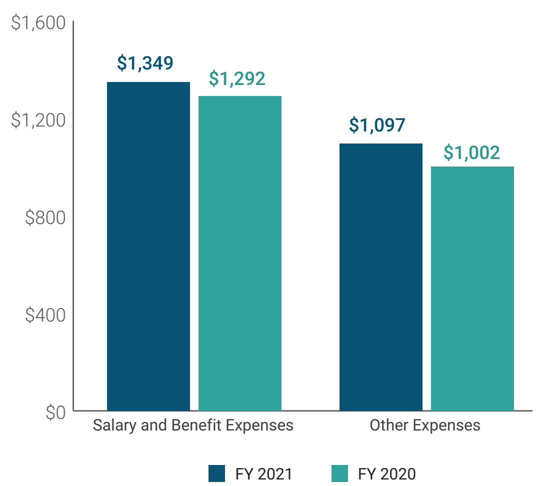


Chart 1.7 | Program Costs

(DOLLARS IN MILLIONS)



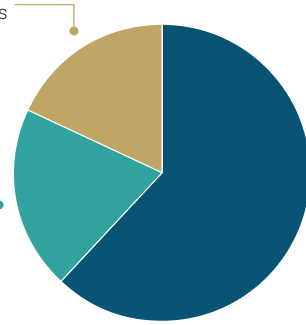
Budgetary Resources

For the year ended September 30, 2021, the SEC's total budgetary resources equaled $3.0 billion, a 15 percent increase from FY 2020.

Unobligated Balance from Prior Year Budget Authority. The decrease in unobligated balance brought forward is mostly due to a large decrease in the IPF balance as a result of whistleblower awards during FY 2020 along with a reduction in replenishments during the year.

Appropriations. The increase in appropriations is primarily due to an increase in replenishments to the IPF for FY 2021 compared to the previous year.

Chart 1.8 | FY 2021 Sources of Funds



Percentages do not include the Unobligated Balance Brought Forward, October 1—Interpretation for Lease Obligations

Table 1.5 | Total Budgetary Resources
For the years ended September 30, 2021 and 2020

(DOLLARS IN MILLIONS)	2021	2020
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)		
Salaries and Expenses Fund—Without Unfunded Lease Obligations	$ 331	$ 327
Salaries and Expenses Fund—Effect of Change in Legal Interpretation for Lease Obligations	(2)	(28)
Reserve Fund	5	5
Investor Protection Fund	260	404
Total Unobligated Balance, Brought Forward, October 1	594	708
Appropriations (Discretionary and Mandatory)		
Salaries and Expenses Fund	34	—
Reserve Fund	50	52
Investor Protection Fund	449	31
Spending Authority from Offsetting Collections	1,893	1,826
Total Budgetary Resources	**$ 3,020**	**$ 2,617**

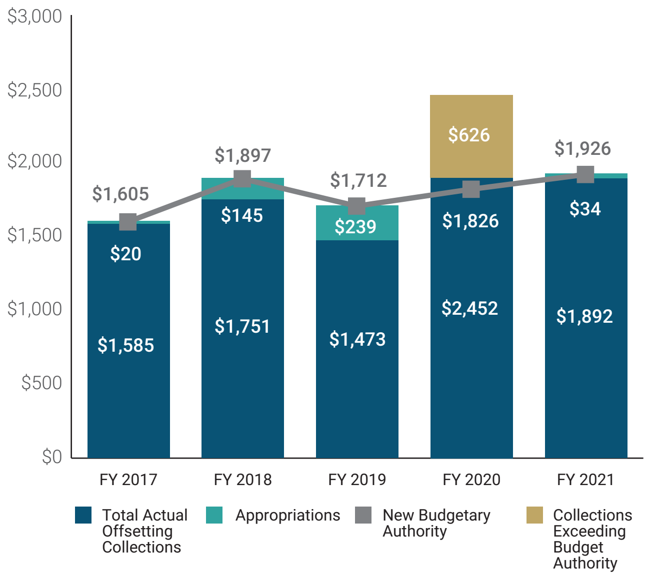
Spending Authority from Offsetting Collections and Appropriations

During the fiscal year, the SEC receives an appropriation to fund its operations. This appropriation establishes the SEC's new budget authority in its Salaries and Expenses Fund for the fiscal year. The SEC received new budget authority of $1,926 million for FY 2021.

The SEC's Section 31 fee collections are used to offset the appropriation, and as the collections are received, the appropriated authority is returned to the U.S. Treasury General Fund. The SEC collected $1,892 million in Section 31 transaction fees for the year ended September 30, 2021, resulting in $34 million of final appropriations remaining within the Salaries and Expenses Fund. In FY 2020, the SEC's budget authority was $1,826 million, which was offset by $2,452 million in collections. The $626 million in Section 31 transaction fees collected above FY 2020 budget authority is unavailable to the SEC for expenditure and recognized as collections precluded from obligation.

Chart 1.9 | Offsetting Collections vs. New Budgetary Authority Section 31 Exchange and Transaction Fees

(DOLLARS IN MILLIONS)



Investor Protection Fund

The SEC prepares stand-alone financial statements for the IPF as required by the Dodd-Frank Act. The IPF was established in FY 2010 to provide funding for a whistleblower award program and to finance the operations of the SEC OIG's Employee Suggestion Program.

For the year ended September 30, 2021, the balance of the IPF decreased by $116 million when compared to the prior fiscal year.

During FY 2021, the SEC deposited $475 million: $472 million from IPF replenishments and $3 million from investment interest in Treasury securities. The SEC paid $466 million to whistleblowers, while $195 million in awards were accrued as payable, a $99 million increase from the prior year.

Also, $1 million in prior fiscal year sequestration was returned to the IPF, and $27 million in FY 2021 funding was sequestered, resulting in a net sequestration totaling $26 million.

Limitations of the Financial Statements

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

Table 1.6 | Investor Protection Fund Activity
For the years ended September 30, 2021 and 2020

(DOLLARS IN MILLIONS)	2021	2020
Balance of Fund at Beginning of Fiscal Year, October 1	$ 260	$ 404
Amount Deposited Into or Credited to the Fund During the Fiscal Year	475	22
Amount Awarded but Unpaid During the Fiscal Year	(99)	(79)
Amount Paid From the Fund During the Fiscal Year to Whistleblowers	(466)	(96)
Net Sequestration	(26)	9
Balance of the Fund at the End of the Reporting Period*	**$ 144**	**$ 260**

*Note: Balance of the Fund does not include Anticipated Resources

PERFORMANCE HIGHLIGHTS

The SEC's performance data provides a foundation for both programmatic and organizational decision making, and is critical for gauging the agency's success in meeting its strategic goals. The SEC is committed to using performance management best practices to promote greater accountability. This section provides a summary table of all agency performance metrics by strategic goal and highlights a few key performance metrics for FY 2021. Overall, it outlines the SEC's strategic and performance planning framework and highlights the agency's progress toward reaching its performance targets.

The SEC's FY 2021 Annual Performance Report (APR) will be issued with the agency's FY 2023 Congressional Budget Justification Report, and will provide a complete discussion of the agency's strategic goals, including a description of performance goals and objectives, data sources, performance results and trends, strategic goal costs, and information about internal reviews and evaluations. The below summary of the SEC's verification and validation of all performance data will also be included in the APR. The SEC's APR is expected to be available in 2022 at SEC.gov/reports.

Strategic and Performance Planning Framework

The SEC's FY 2021 strategic and performance planning framework is based on the FY 2018–FY 2022 Strategic Plan, which is available at SEC.gov/strategic-plan. The Strategic Plan outlines the agency's mission, vision, values, strategic goals, and strategic initiatives. The SEC's work is structured around 3 strategic goals that also serve as its strategic objectives, as well as 14 strategic initiatives the agency plans to achieve in support of those goals and objectives.

Verification and Validation of Performance Data

The SEC's programs require accurate data to properly assess program performance and make sound management decisions. To ensure data is correct, a system of data verification and validation is used. Data verification is a systematic process for evaluating a set of data against a set of standards to ascertain its completeness, correctness, and consistency using the methods and criteria defined in the project documentation. Data validation follows the data verification process in an effort to ensure that performance data are free of systematic error or bias, and that what is intended to be measured is actually measured. Together, these processes are used to evaluate whether the information has been generated according to specifications, satisfies acceptance criteria, and is appropriate and consistent with its intended use.

Below is a list of steps taken to ensure the performance data presented in this report is complete, reliable, and accurate.

1. The agency develops performance goals through its strategic planning process.
2. The SEC's divisions and offices provide:
    - The procedures used to obtain assurance as to the accuracy and reliability of the data;
    - The data definitions for reference;
    - Documentation and explanation of the performance goal calculations; and
    - The sources of the underlying data elements.
3. The performance data is approved by the division directors and office heads. This process ensures that the data used in the calculation of performance goals is accurate and reliable, and that internal control is maintained throughout the approval process.

PERFORMANCE AT A GLANCE

The following table summarizes the status of the SEC's performance in support of the agency's 3 strategic goals and 14 strategic initiatives.

STRATEGIC GOAL 1

Focus on the long-term interests of our Main Street investors.

Performance Goal	Measurement	FY 2020	FY 2021
Investor research on the readability/usefulness of disclosures	Research Projects	✓	✓
Number of outreach events, roundtables, educational, and information sessions for different types of investors/market participants	Educational Events	✓	✗
	Outreach Events	✓	✓
Percentage of enforcement actions in which the Commission obtained relief on one or more claims	Percentage	✓	✓
Percentage of investment advisers and broker-dealers examined during the year	Investment Advisers	✗	✓
	Broker-Dealers	✓	✓
Percentage of Fair Fund and disgorgement fund plans that have distributed 80 percent of the available funds for distribution within 24 months of the approval of the distribution plan	Percentage	✓	✓
Number of regulatory initiatives (i.e., concept, proposing, and adopting releases and exemptive orders) that could impact a company's ability to become and remain a public company, or that are designed to expand the number or range of cost-effective investment options available to retail investors	Corporation Finance Rulemaking	✓	✗
	Investment Management Rulemaking	✓	✗
	Investment Management Exemptive Orders	✗	✗

STRATEGIC GOAL 2

Recognize significant developments and trends in our evolving capital markets and adjust our efforts to ensure we are effectively allocating our resources.

Performance Goal	Measurement	FY 2020	FY 2021
Respond to 95 percent of written requests for guidance within 90 days, in accordance with timeframes established by SEC policy	Division of Trading and Markets	✓	✓
	Division of Investment Management	✓	✓
	Division of Corporation Finance	✓	✓
Number of examinations that request information related to an entity's information security	Examinations	✓	✗
Conduct at least a certain number of disaster recovery, crisis management, or incident response exercises	Number of Response Exercises	✗	✗

STRATEGIC GOAL 3

Elevate the SEC's performance by enhancing our analytical capabilities and human capital development.

Performance Goal	Measurement	FY 2020	FY 2021
Results of Federal Employee Viewpoint Survey	*Best Places to Work* Ranking	✓	Not Available
	Cooperative Subfactor	✓	
Percentage of Plan of Action and Milestones (POA&Ms) closed or mitigated within six months from identification	Percentage	✓	✓
Percentage of GAO and OIG recommendations closed out within 12 months	GAO and OIG Recommendations	✓	✗

Note: For more detailed information, please refer to the SEC's FY 2021 APR, which will be available in 2022 at SEC.gov/reports.

✓ *Target met* ✗ *Target not met*

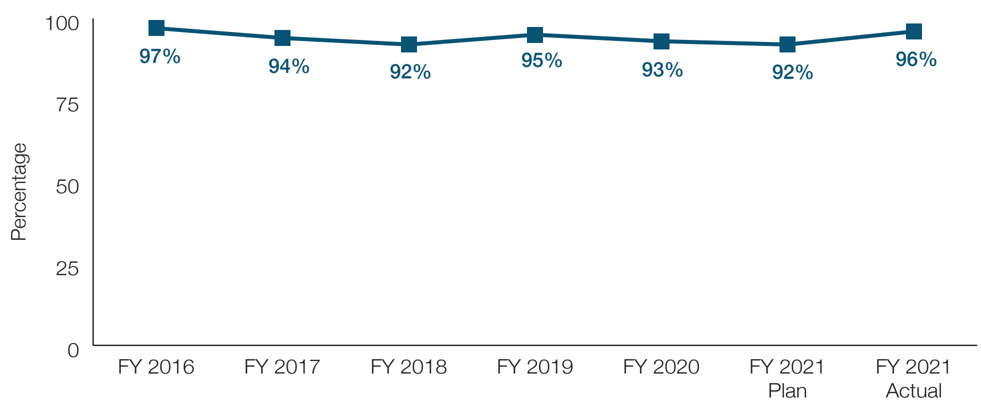
SELECT METRICS

Below are key performance metrics that highlight major achievements and efforts in alignment with the agency's strategic goals and initiatives.

Strategic Goal 1: Focus on the long-term interests of our Main Street investors.

Chart 1.10

Percentage of enforcement actions in which the Commission obtained relief on one or more claims



Description: This metric identifies, as to all parties to enforcement actions that were resolved in the fiscal year, the percentage against whom the Commission obtained a judgment or order entered on consent, a default judgment, a judgment of liability on one or more charges, and/or the imposition of monetary or other relief.

Target: Exceeded

Responsible Division/Office: Division of Enforcement

Data Source: Case Tracking System for the Division of Enforcement

The Division of Enforcement's (ENF) efforts play an essential role in carrying out the SEC's mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. In FY 2021, ENF continued to focus on bringing impactful cases in areas of importance to the protection of retail investors. ENF also took significant enforcement actions to ensure public companies and registrants are taking cybersecurity risks and related disclosures seriously. As the digital assets space continues to evolve, the agency has vigorously addressed misconduct and emerging risks in digital asset securities products and services. The SEC brought its first enforcement action involving securities using decentralized finance, or "DeFi," technology, as well as several enforcement actions directed at trading platforms that illegally facilitate or tout trading in crypto assets.

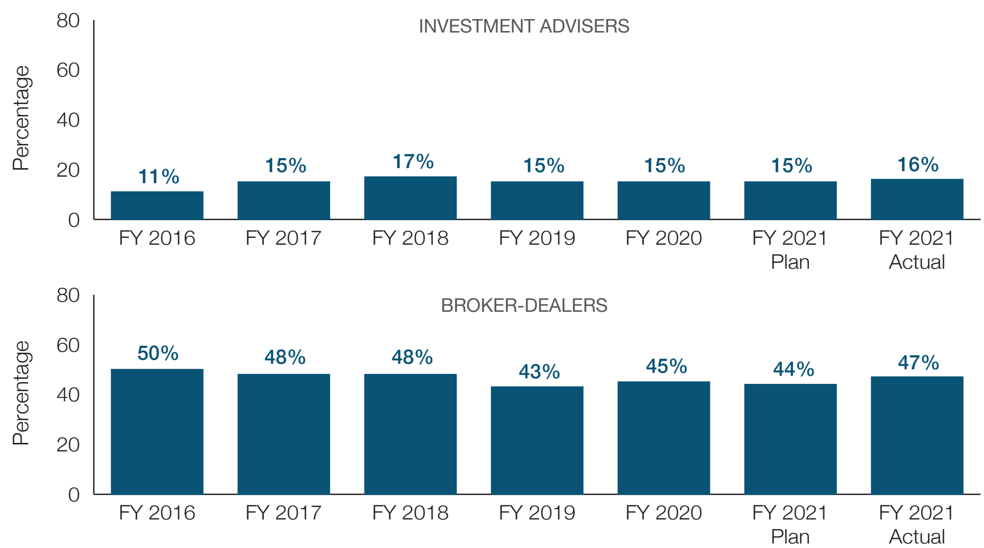
The remedies sought by ENF in both litigated and settled actions are intended to ensure that the agency obtains appropriate relief in accordance with its mission, commensurate with the nature and extent of the misconduct and all relevant facts and circumstances at issue.

The SEC's litigation efforts also deter misconduct by demonstrating the agency's commitment to pursuing valid claims to trial when necessary. The SEC endeavors to resolve actions quickly and on a favorable basis where practicable, while at the same time filing contested matters where appropriate settlement terms cannot be reached before filing. The agency seeks to direct its limited resources toward cases that are likely to have the greatest impact in furthering of the SEC's mission.

In FY 2021, ENF exceeded its goal by obtaining such a judgment or order 96 percent of the time. These judgments and orders were issued in hundreds of different actions such as offering frauds, Ponzi schemes, affinity frauds, microcap frauds, and cases involving crypto and cyber issues. Over the past five fiscal years—2016 through 2020—the division, on average, obtained a judgment or order finding liability on one or more claims and/or imposing relief 94 percent of the time. The SEC is pleased that the FY 2021 results are consistent with this figure.

Chart 1.11

Percentage of investment advisers and broker-dealers examined during the year



Description: Investment advisers and broker-dealers are critical market participants in terms of their interactions with retail investors. This metric indicates the volume of advisers and broker-dealers examined by the SEC or a self-regulatory organization (SRO) as a percentage of the total number of registrants. This metric includes all types of examinations: risk priority examinations, cause inspections to follow up on tips and complaints, limited-scope special inspections to probe emerging risk areas, and oversight examinations of broker-dealers to test compliance and the quality of examination by the Financial Industry Regulatory Authority (FINRA).

Target: Investment Advisers – Exceeded; Broker-Dealers – Exceeded

Responsible Division/Office: Division of Examinations

Data Source: Tracking and Reporting Exam National Documentation System (TRENDS) (IA and BD SEC Data) and SRO Databases (BD SRO Data)

The Division of Examinations (EXAMS) plays the role of the "eyes and ears of the Commission" and is dedicated to protecting investors and working families through examinations of investment advisers, investment companies such as mutual funds and exchange-traded funds, broker-dealers, and other SEC registrants. EXAMS implements a risk-based program designed to focus its resources on those firms, market participants, and practices that pose the greatest potential risk of securities law violations that can harm investors and the markets.

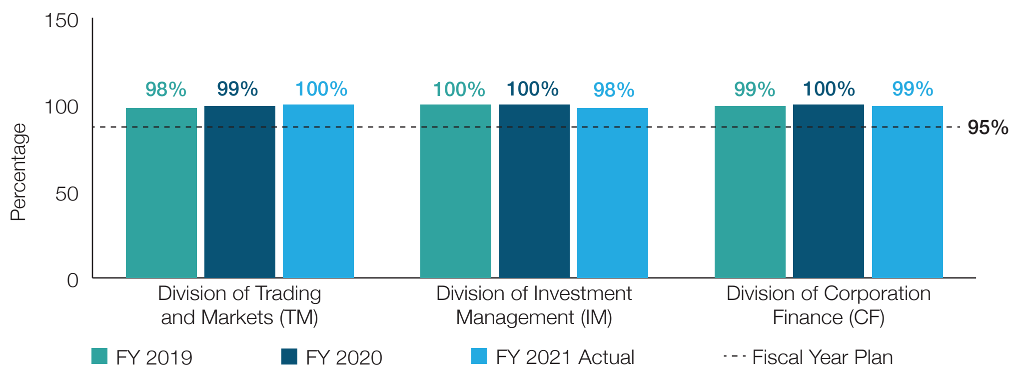
In FY 2021, EXAMS completed more than 3,000 examinations, a majority of which focused on both investment advisers' and broker-dealers' key issues including cyber security, information security, and compliance with recently adopted rules related to standards of care (including Regulation Best Interest), as well as additional practices that represent significant risks to retail investors such as deceptive sales practices, conflicts of interest, and elder abuse. Overall, coverage rates in FY 2021 by the division and broker-dealer SROs exceeded expectations and reflected the continued emphasis on these important market participants. These significant results were achieved despite operational and market challenges created by the ongoing global health pandemic.

In addition to its examination efforts, EXAMS also engaged extensively during the year in critical, non-examination regulatory outreach to registrants in order to respond to various market events and challenges. Going forward, the division will continue to prioritize outreach and examinations of investment advisers and broker-dealers as more and more individuals rely on these financial intermediaries to gain access to the financial markets.

Strategic Goal 2: Recognize significant developments and trends in our evolving capital markets and adjust our efforts to ensure we are effectively allocating our resources.

Chart 1.12

Respond to 95 percent of written requests for guidance within 90 days, in accordance with timeframes established by SEC policy



Note: Data for FY 2016 – FY 2018 is not available.

Description: The SEC staff responds to requests for guidance from individuals and market participants about specific provisions of the federal securities laws. These queries may seek interpretations of the securities laws or regulations, or assurances that no enforcement action will be taken if the individual or market participant engages in a specified activity. The staff also reviews applications for exemptions from the securities laws. Written responses to requests for guidance, when provided, generally are publicly available, as are applications and related notices and orders, when issued. This metric gauges the timeliness of initial comments issued by the Divisions of Trading and Markets, Investment Management, and Corporation Finance.

Target: TM – Exceeded; IM – Exceeded; CF – Exceeded

Responsible Division/Office: Division of Trading and Markets; Division of Investment Management; Division of Corporation Finance

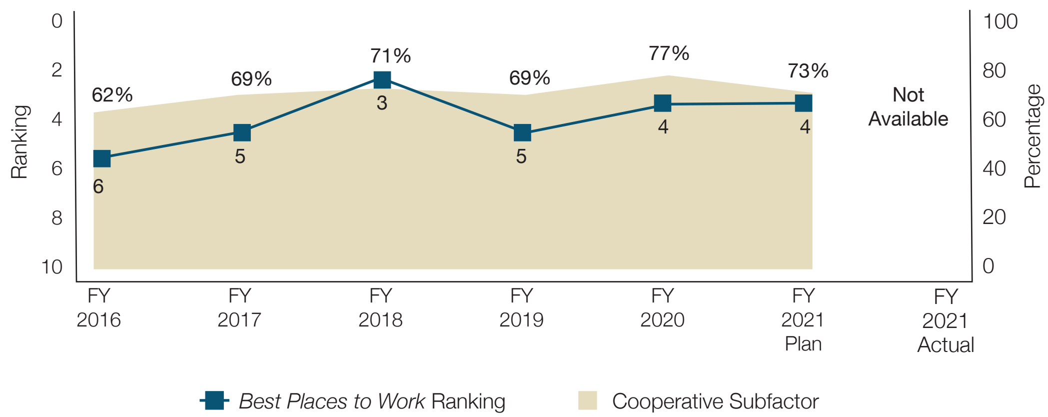
Data Source: CCO Project Tracker (IM) and Internal Databases (CF, TM)

The SEC covers nearly every part of the $110 trillion capital markets. Technological advancements and commercial developments continue to change how our securities markets operate and spur the development of new products. For the SEC to remain an effective regulator, the agency must continue to foster an environment in which innovation, modernization, and productivity can advance while investors are also provided with needed information and protections against fraud and abuse. Specifically, exemptive relief has been a significant and valuable tool in the evolution of the investment management industry. It has paved the way to support capital formation through innovative investment products, services, structures, and techniques while maintaining important investor protections. Responding to requests for assistance, including no-action relief and other guidance, is essential to being an effective regulator. In FY 2021, the Divisions of Corporation Finance, Investment Management (IM), and Trading and Markets exceeded their target of responding to 95 percent of written requests for relief and staff guidance within 90 days. For example, IM responded to requests for exemptive relief in areas such as actively managed exchange-traded funds, requests from registered funds and business development companies seeking to co-invest with affiliates, and requests for no-action relief concerning the custody by registered funds of certain loan interests.

Strategic Goal 3: Elevate the SEC's performance by enhancing our analytical capabilities and human capital development.

Chart 1.13

Results of Federal Viewpoint Survey



Description: The data gathered via the Federal Employee Viewpoint Survey (FEVS) will be used to determine the SEC's overall success in improving employee morale and cooperation. Specifically, this performance goal will be measured via the Partnership for Public Service's *Best Places to Work* ranking for mid-size federal agencies, as well as the percentage of positive responses to the cooperative subfactor of the FEVS, which focuses on managerial communication and collaboration.

Target: *Best Places to Work* Ranking – N/A; Cooperative Subfactor – N/A

Responsible Division/Office: Office of Human Resources

Data Source: Annual Partnership for Public Service calculated ranking based on Annual Employee Viewpoint Survey (EVS) administered by the Office of Personnel Management

The SEC continues to be one of the best places to work in the federal government because the agency is committed to fostering a work environment that attracts, engages, and retains a technically proficient and diverse workforce.

In FY 2021, the SEC, in consultation with the National Treasury Employees Union, continued to institute telework and work schedule flexibilities to enable staff to effectively advance the SEC's mission while placing health and safety first. SEC leadership continued to promote diversity and inclusion; foster a connected culture despite the remote work posture; and build a diverse talent pipeline through a number of initiatives. These included trainings, Diversity Dialogues, and a new Diversity and Inclusion Internship program offering paid internship opportunities through partnership with the Hispanic Association of Colleges and Universities and a strengthened relationship with Historically Black Colleges and Universities.

The FY 2020 survey results revealed the highest and most improved scores achieved since the agency began tracking FEVS data in 2012, indicating once again that the SEC is an employer of choice within the federal government. These results would not be possible were it not for the efforts of hundreds of managers, frontline staff, and union representatives working together to improve employee satisfaction and engagement.

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MANAGEMENT ASSURANCES AND COMPLIANCE WITH LAWS

In FY 2021, the SEC demonstrated its continued commitment to maintaining strong internal controls. Internal control is an integral component of effective agency management, providing reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of reporting, and compliance with laws and regulations. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes management's responsibility to assess and report on internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The FMFIA requires federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable reports and to maintain accountability over the assets. The FMFIA also requires agencies to annually assess whether financial management systems conform to related requirements (FMFIA § 4). Guidance for implementing the FMFIA is provided through Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Appendix A, *Management of Reporting and Data Integrity Risk*.

Section 963 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) describes the responsibility of SEC management to establish and maintain adequate internal controls and procedures for financial reporting. This section requires an annual financial controls audit, a Government Accountability Office (GAO) audit of the SEC's assessment of the effectiveness of financial controls, and attestation by the Chair and the Chief Financial Officer (CFO). Section 922 of the Dodd-Frank Act requires the SEC to submit audited financial statements of the Investor Protection Fund to the Senate Committee on Banking, Housing, and Urban Affairs, and the House of Representatives Committee on Financial Services. The following Annual Assurance Statement is issued in accordance with the FMFIA, OMB Circular A-123, and Sections 963 and 922 of the Dodd-Frank Act.

Annual Assurance Statement

SEC management is responsible for establishing and maintaining an effective system of internal control that meets the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the SEC conducted its annual assessment of its system of internal control. Based on the results of this assessment, the SEC can provide reasonable assurance that its system of internal control over operations, reporting, and compliance was operating effectively as of September 30, 2021, except for a material weakness related to risks associated with certain user access controls described within this section.

SEC management is also responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting. Based on the results of its annual assessment of internal controls, the SEC can provide reasonable assurance that internal controls and procedures over financial reporting were operating effectively during the year ended September 30, 2021.

The SEC also conducted reviews of its financial management systems in accordance with OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996* (FFMIA). Based on the results of these reviews, the SEC can provide reasonable assurance that its financial management systems substantially comply with the requirements of the FFMIA as of September 30, 2021.

GARY GENSLER
Chair
November 10, 2021

CARYN E. KAUFFMAN
Chief Financial Officer
November 10, 2021

Management's Assessment of Internal Control

The Chair and CFO's FY 2021 Annual Assurance Statement for FMFIA provides reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2021. The associated objectives are effective and efficient operations; compliance with applicable laws and regulations; and reliability of reporting.

The basis for management's assessment of, and assurance about, the SEC's system of internal control is composed of many facets. A central facet is the reports from each division director and office head. These statements were based on each person's knowledge of daily operations, self-assessments, and internal reviews supported by control testing, as well as recommendations for improvement from audits, investigations, and reviews conducted internally by the SEC Office of Inspector General (OIG) and GAO. Management considered the contents of these statements along with other sources of information that included, but were not limited to, the following:

- An entity-level internal control evaluation;
- Internal management reviews, self-assessments, and tests of internal controls;
- Management's personal knowledge gained from daily operations;
- Reports from GAO and the OIG;
- Reviews of financial management systems under OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996* (FFMIA);
- Reports pursuant to the Federal Information Security Modernization Act (FISMA) and OMB Circular A-130, *Management of Federal Information Resources*;
- Reviews on improper payments;
- Reviews that support compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act);
- Reports and other information from Congress or agencies such as OMB, the Office of Personnel Management, and/or the General Services Administration (GSA) reflecting the adequacy of internal controls; and
- Additional reviews relating to a division or office's operations.

With respect to internal controls over reporting of financial information, the SEC performed a comprehensive risk assessment. The agency documented its key controls to address risks, and assessed the design and operating effectiveness of these controls through detailed test procedures. The agency also tested the operating effectiveness of control activities that were found to be deficient in prior years. SEC management analyzed the magnitude of internal control deficiencies, both individually and in the aggregate, to determine whether a material weakness existed in the financial reporting processes.

Taking into account the statements from directors and office heads, the supplemental sources of information as described above, and the results of the assessment of internal controls over operations, reporting, and compliance, the agency's Financial Management Oversight Committee advises the Chair as to whether the SEC had any internal control deficiencies and, if so, their related significance.

Material Weakness Related to Risks Associated with User Access

Documents related to recommendations for certain Commission actions from staff in the Office of the General Counsel (OGC) are contained in an information tracking and document storage system. The system was not configured with sufficient controls to prevent access by staff who should not have viewed these documents. As a result, certain standards concerning Commission decision-making processes were not adhered to. The agency is conducting an investigation to determine the impact, if any, of the identified control deficiency. While this review is under way, the agency proactively took steps to remediate the control deficiency. As of November 8, 2021, the agency has instituted controls to prevent access by staff who should not view such documents.

Enterprise Risk Management

The SEC's Office of the Chief Risk Officer (OCRO), within the Office of the Chief Operating Officer, is responsible for leading the agency's enterprise risk management (ERM) program and functions, as required under OMB Circular A-123 and OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. The ERM program assists the agency in achieving its strategic and operational objectives by providing an enterprise-wide approach for managing the most significant risks and challenges. With input from the Office of the Chair, the Risk Management Oversight Committee (RMOC), and other SEC committees, the ERM program coordinates the development and implementation of risk management frameworks and methodologies. The SEC employs a structured approach to identify enterprise risks that may arise from a variety of internal and external environments. Priority enterprise risks are categorized and documented by the RMOC in the SEC Enterprise Risk Profile.

The alignment of internal controls and ERM is critical to the implementation and success of a comprehensive risk framework. In FY 2022, the SEC will continue to further integrate ERM with strategic plan development, performance metrics, budgeting processes, and internal control environment, as well as support risk-informed decision making.

Other Reviews

The Payment Integrity Information Act of 2019

The Payment Integrity Information Act of 2019 (PIIA) updated government-wide improper payment reporting requirements by repealing and replacing the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015. PIIA requires agencies to review all programs and activities they administer to identify those that may be susceptible to significant erroneous payments. For all programs and activities in which the risk of erroneous payments is significant, agencies are to estimate the annual amount of erroneous payments made in those programs. The SEC's risk assessments have consistently indicated that none of the agency's programs are susceptible to significant improper payments; therefore, per OMB guidelines, the SEC is required to conduct risk assessments every three years, or sooner if a program has a significant change in legislation, a significant increase in funding or a determination of possible significant improper payments in the following year. The agency's last assessment was conducted in FY 2019. The results of this assessment continued to support the determination that all of the SEC evaluated programs are low risk. Based on these results, and consistent with OMB guidelines, the SEC did not conduct a risk assessment for FY 2021 and is not required to conduct another risk assessment until FY 2022.

For additional information regarding the SEC's compliance with improper payments, please refer to *Payment Integrity Reporting Details* in the Other Information Section of this report.

Digital Accountability and Transparency Act of 2014/Data Quality Plan

The DATA Act (Pub. L. 113-101) was enacted to establish government-wide financial data standards to increase the availability, accuracy, and usefulness of federal spending information. The DATA Act requires that federal agencies report financial spending data in accordance with data standards established by the U.S. Department of the Treasury (Treasury) and OMB. The DATA Act requires federal agencies to disclose direct federal agency expenditures and link federal contract spending information to programs of federal agencies to enable taxpayers to track federal spending more effectively using USASpending.gov.

In accordance with the DATA Act, the SEC formalized financial system and manual controls over the completeness and accuracy of federal spending data reported both internally and externally. The SEC began its successful quarterly reporting transmission to Treasury in the second quarter of FY 2017 and submitted the mandatory quarterly transmissions required in FY 2021.

OMB memorandum 18-16, Appendix A to OMB Circular A-123, was published on June 6, 2018. This memorandum called for the creation of a Data Quality Plan (DQP). The SEC has a DQP in place, which is reviewed and updated on annual basis. The SEC DQP contains the processes in place to address the completeness and accuracy of award and financial data reported to Treasury. It utilizes the principles of OMB Circular A-123 Appendix A to highlight the discipline and internal controls of the related information systems that contain spending information.

Financial Management System Conformance

The FFMIA requires that each agency implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The purpose of the FFMIA is to advance federal financial management by verifying that financial management systems provide accurate, reliable, and timely financial management information in order to manage daily operations, produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements. Although the SEC is exempt from the requirement to determine substantial compliance with the FFMIA, the agency assesses its financial management systems annually for conformance with the requirements of OMB Circular A-123 Appendix D and other federal financial system requirements.

Summary of Current Financial System and Future Strategies

The FY 2021 assessment of current financial systems demonstrated that a low risk rating would be appropriate, and that the agency substantially complied with the requirements of Section 803(a) of the FFMIA. The SEC's financial system, Delphi, is supported by an approved Federal Shared Service Provider (FSSP) and meets all of the requirements of the FFMIA.

In FY 2021, the SEC continued to work with its FSSP, the Department of Transportation's Enterprise Services Center, to enhance its existing systems. The SEC is also continuing to improve efficiencies with a new Disgorgement and Penalty System implemented in FY 2020. The SEC believes that continuing to invest in technology-based solutions will help to put its controls on a more sustainable path.

Federal Information Security Modernization Act (FISMA)

FISMA requires federal agencies to "develop, document, and implement an agency-wide information security program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source." In addition, FISMA requires federal agencies to conduct annual assessments of their information security and privacy programs; develop and implement remediation efforts for identified weaknesses and vulnerabilities; and report compliance to OMB. The SEC's Inspector General, Chief Information Security Officer, and Senior Agency Official for Privacy perform a joint review of the Commission's compliance with FISMA requirements each year. The Commission submitted its FY 2021 report to OMB.

Oversight and Compliance

During FY 2021, the SEC's Office of Information Technology (OIT), in partnership with OIT Project Teams, Information System Owners, and Division/Office Business Owners, completed security assessment and authorization activities for 57 FISMA-reportable systems. OIT performed 250 privacy reviews and 9 privacy impact assessments (PIA) for information collections in accordance with the Privacy Act of 1974, the Paperwork Reduction Act, and the E-Government Act of 2002. These privacy reviews resulted in OIT conducting and publishing nine PIAs for systems that collect, maintain, or disseminate personally identifiable information (PII). OIT facilitated the remediation of over 322 deficiencies that consist of Plans of Action and Milestones (POA&Ms) associated with the SEC's assessments of its network infrastructure and major applications.

The SEC OIG performed the annual independent evaluation of the SEC's information security program, as required by the E-Government Act of 2002. During FY 2021, the OIG closed 26 prior-year IT-related audit recommendations and was in the process of reviewing closure requests for one additional recommendation. GAO performed the annual financial statement audit, which includes within its scope, an audit of security controls for SEC financial management systems. OIT completed corrective actions for five prior-year IT-related GAO audit recommendations.

Governance and Technology

OIT continues to update governance procedures and processes consistent with OMB policy and National Institute of Standards and Technology guidance. In support of these efforts, OIT utilizes a centralized information security governance, risk, and compliance management system to maintain the Commission's information system inventory, FISMA compliance data, POA&Ms, and incident tracking.

OIT also continues to improve its operational security capabilities by implementing an Information Security Continuous Monitoring Program and by making investments in proactive security capabilities, including automated threat detection mechanisms and vulnerability assessment tools. The SEC is an active participant in interagency cybersecurity initiatives, including those led by the Cybersecurity and Information Security Agency (CISA).

The SEC continued to enhance its High Value Asset (HVA) Oversight program during FY 2021, which addresses the requirements established by OMB Memorandum 19-03. Quarterly meetings were held to ensure that senior leaders throughout the agency are aware of the security risks related to the Commission's

HVA information systems. During each quarterly HVA status meeting, the information security posture and compliance status of each HVA information system was presented and any outstanding issues were addressed. Moreover, the quarterly HVA dashboard reports were incrementally refined during FY 2021. In addition, the SEC worked with the Department of Homeland Security (DHS) HVA Program Management Office to create an HVA Assessment schedule for the SEC's three "Tier 1" HVAs, which included an onsite DHS/CISA-based assessment during Q3 of FY 2021. The remaining two HVA assessments are scheduled for Q1 and Q3 of FY 2022.

Training and Communications

OIT developed and delivered Privacy and Information Security Awareness (PISA) training to all SEC personnel during FY 2021. OIT continued utilizing robust processes to manage PISA compliance on a continuous basis using automation capabilities of the SEC enterprise learning management system. Upon completion of the mandatory PISA training, all SEC personnel are required to review and acknowledge the agency's acceptable use policy. Network access restrictions were imposed on personnel who failed to complete the required training on time. Throughout the year, OIT promoted information security and privacy awareness through the agency's internal newsletter and intranet site by presenting practical methods for protecting SEC non-public information and PII while at the office or when teleworking. OIT conducted quarterly phishing exercises for all SEC employees and contractors. Personnel, identified by these exercises as being susceptible to phishing, were required to undergo supplemental phishing training in addition to meeting the annual security awareness training requirement.

In Q3, OIT launched a role-based security training for individuals with specialized security privileges. The training is required to be completed by all staff meeting certain criteria that already had these privileges as well as individuals requesting privileged access to SEC systems.

maintaining fair, orderly, and efficient markets

FINANCIAL SECTION

This section contains the SEC's financial statements, the financial statements of the SEC's Investor Protection Fund (IPF), and additional information for FYs 2021 and 2020. Information presented here satisfies the financial reporting requirements of the Accountability of Tax Dollars Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). The SEC prepares these statements and accompanying notes in compliance with U.S. generally accepted accounting principles for the federal government and OMB Circular A-136, *Financial Reporting Requirements*.

SEC Financial Statements

Balance Sheets

Presents, as of a specific time, the amount of resources that embody economic benefits or services owned or managed by the SEC (assets); amounts owed by the SEC (liabilities); and amounts that comprise the difference (net position).

Statements of Net Cost

Presents the gross cost incurred by the SEC, less exchange revenue earned from its activities. The SEC presents cost of operations by program to provide cost information at the program level, and recognizes collections as exchange revenue on the Statement of Net Cost, even when the collections are transferred to other entities.

Statements of Changes in Net Position

Reports the change in net position during the reporting period, including changes to Cumulative Results of Operations and Unexpended Appropriations.

Statements of Budgetary Resources[1]

Provides information about how budgetary resources were made available, and reports their status at year-end.

Statements of Custodial Activity

Reports the collection of revenue for the U.S. Treasury General Fund. The SEC accounts for sources and disposition of the collections as custodial activities on this statement. Custodial collections of non-exchange revenue, such as amounts collected from violators of securities laws as a result of enforcement proceedings, are reported only on the Statement of Custodial Activity.

Accompanying Notes to the Financial Statements

Provides a description of significant accounting policies and detailed information on select statement line items.

Required Supplementary Information (Unaudited)[2]

Reports the Combining Statements of Budgetary Resources by fund account.

IPF Financial Statements

IPF Financial Statements

Provides stand-alone, comparative financial statements (Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources), as required by the Dodd-Frank Act.

Accompanying Notes to the IPF Financial Statements

Provides a description of significant accounting policies and detailed information on select statement line items, as required by the Dodd-Frank Act.

1 Budgetary information aggregated for purposes of the Statement of Budgetary Resources is disaggregated for each of the SEC's major budget accounts and is presented as Required Supplementary Information.
2 The SEC does not have stewardship over resources or responsibilities for which supplementary stewardship reporting would be required.

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The financial statements, financial analysis, and agency Performance Highlights in this AFR demonstrate how the SEC uses its financial resources to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

CARYN KAUFFMAN, CFO

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to join Chair Gensler in presenting the SEC's Agency Financial Report (AFR) for FY 2021 and hope you find it informative as you review our performance results and financial statements.

Our independent auditor, the U.S. Government Accountability Office, issued an unmodified opinion on the SEC's financial statements and internal controls, which identified no significant issues. This achievement is reflective of the agency's steadfast focus on strong internal controls and effective financial management. The financial statements, financial analysis, and agency Performance Highlights in this AFR demonstrate how the SEC uses its financial resources to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

With continued focus on a strong internal controls environment, we are also committed to leveraging technology to improve our financial operations. Recently, the Commission adopted the Filing Fee Disclosure and Payment Methods Modernization rule, which aims to improve the accuracy and efficiency of filing fee payment by enhancing validation mechanisms and expanding the payment methods filers can use. These changes will be incrementally phased in for all filers between 2023 and 2025.

The SEC remains committed to delivering accurate, transparent, and timely financial information to our stakeholders. The accomplishments noted above and throughout the AFR were achieved only because of our devoted employees in the Office of Financial Management and the entire SEC community. I thank them for their resilience and long-lasting dedication to the SEC and public service.

Sincerely,

CARYN E. KAUFFMAN
Chief Financial Officer
November 12, 2021

REPORT OF INDEPENDENT AUDITORS

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
A Century of Non-Partisan Fact-Based Work

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Chairman of the United States Securities and Exchange Commission

In our audits of the fiscal years 2021 and 2020 financial statements of the United States Securities and Exchange Commission (SEC)[1] and its Investor Protection Fund (IPF),[2] we found

- the SEC and IPF financial statements as of and for the fiscal years ended September 30, 2021, and 2020, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- SEC maintained, in all material respects, effective internal control over financial reporting for SEC and for IPF as of September 30, 2021; and
- no reportable noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on SEC's and IPF's financial statements and on internal control over financial reporting, which includes the required supplementary information (RSI)[3] and other information included with the financial statements;[4] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

The Accountability of Tax Dollars Act of 2002 requires that SEC annually prepare and submit audited financial statements to Congress and the Office of Management and Budget.[5] The

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[1]Section 963 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires that (1) SEC annually submit a report to Congress describing management's responsibility for internal control over financial reporting and assessing the effectiveness of such internal control during the fiscal year; (2) the SEC Chairman and Chief Financial Officer attest to SEC's report; and (3) GAO assess the effectiveness of SEC's internal control over financial reporting and evaluate, attest to, and report on SEC's assessment. Pub. L. No. 111-203, § 963(a), (b), 124 Stat. 1376, 1910 (July 21, 2010), *classified at* 15 U.S.C. § 78d-8(a), (b). SEC evaluated its internal control over financial reporting in accordance with the Office of Management and Budget's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act.

[2]IPF, which was established by section 922 of the Dodd-Frank Act, funds the activities of SEC's whistleblower award program under that section and the SEC Office of Inspector General Employee Suggestion Program established under section 966 of the Dodd-Frank Act. Pub. L. No. 111-203, §§ 922(a), 966, 124 Stat. 1376, 1844, 1912-13 (July 21, 2010), *classified at* 15 U.S.C. §§ 78d-4(e), 78u-6(b), (g). IPF is a separate SEC fund, and its financial statements present SEC's financial activity associated with these programs. Accordingly, IPF's financial transactions are also included in SEC's overall financial statements.

[3]The RSI consists of the Management's Discussion and Analysis and the Combined Statement of Budgetary Resources, by Fund, which are included with the financial statements.

[4]Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

[5]Pub. L. No. 107-289, § 2, 116 Stat. 2049-50 (Nov. 7, 2002), *amending* 31 U.S.C. § 3515.

Securities Exchange Act of 1934, as amended in 2010 by section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires SEC to annually submit a complete set of audited financial statements for IPF to Congress.[6] IPF's financial transactions are also included in SEC's overall financial statements. In accordance with the authority conferred by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994,[7] we have audited the SEC and IPF financial statements. Further, in accordance with the Dodd-Frank Act, we have assessed the effectiveness of SEC's internal control over financial reporting, evaluated SEC's assessment of such effectiveness, and are attesting to and reporting on SEC's assessment of its internal control over financial reporting.

SEC's financial statements comprise the balance sheets as of September 30, 2021, and 2020; the related statements of net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the financial statements. IPF's financial statements comprise the balance sheets as of September 30, 2021, and 2020; the related statements of net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We also have audited SEC's internal control over financial reporting as of September 30, 2021, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

SEC management is responsible for (1) the preparation and fair presentation of SEC's financial statements and those of IPF in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2021, included in the Management Assurance section of the agency financial report.

Auditor's Responsibility

Our responsibility is to express opinions on SEC's and IPF's financial statements and opinions on internal control over financial reporting for SEC and for IPF, based on our audits. U.S.

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[6]Dodd-Frank Act, § 922(a), 124 Stat. 1844 (July 21, 2010), *adding* § 21F(g)(5) of the Securities Exchange Act of 1934, *classified at* 15 U.S.C. § 78u-6(g)(5).

[7]See the Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990), *codified, in relevant part, as amended, at* 31 U.S.C. § 3521(g).

generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to the RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists.[8] The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered SEC's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

<u>Definition and Inherent Limitations of Internal Control over Financial Reporting</u>

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

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[8] A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A 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.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions on SEC's Financial Statements

In our opinion, SEC's financial statements present fairly, in all material respects, SEC's financial position as of September 30, 2021, and 2020, and its net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on IPF's Financial Statements

In our opinion, IPF's financial statements present fairly, in all material respects, IPF's financial position as of September 30, 2021, and 2020, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

In our opinion, SEC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2021, for SEC and for IPF, based on criteria established under FMFIA. Our opinions on SEC's internal control are consistent with SEC's assessment that its internal control over financial reporting, both for the agency as a whole and for IPF, was operating effectively as of September 30, 2021, and that no material weaknesses were found in the design or operation of the controls.

During our 2021 audit, we identified deficiencies in SEC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[9] Nonetheless, these deficiencies warrant SEC management's attention. We have communicated these matters to SEC management and, where appropriate, will report on them separately.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines,

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[9]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

SEC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on SEC's and IPF's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of SEC's and IPF's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

SEC management is responsible for complying with applicable laws, regulations, contracts, and grant agreements applicable to SEC and IPF.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to SEC and IPF that have a direct effect on the determination of material amounts and disclosures in the SEC and IPF financial statements and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to SEC and IPF.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2021 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to SEC and IPF. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, SEC stated that it is pleased that GAO found that SEC's financial statements and notes were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The complete text of SEC's response is reprinted in enclosure I.

M. Hannah Padilla

M. Hannah Padilla
Director
Financial Management and Assurance

November 12, 2021

ENCLOSURE I: MANAGEMENT'S RESPONSE TO AUDIT OPINION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF THE CHAIR

November 10, 2021

Ms. M. Hannah Padilla
Director
Financial Management and Assurance
United States Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Padilla:

Thank you for the opportunity to review and comment on the draft audit report of the Government Accountability Office (GAO). I am pleased that the GAO's FY 2021 audit found that the SEC's financial statements and notes were presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles. Also, GAO reported that the SEC had effective internal control over financial reporting, and that there was no reportable noncompliance with applicable laws and regulations.

The SEC recognizes the essential role a strong internal control program plays in an agency achieving its mission. Our commitment to sound financial management has been and will remain a top priority.

I want to thank the GAO staff for their professionalism and dedication during the audit and look forward to another positive and productive relationship during the 2022 audit. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Gary Gensler
Chair

SEC FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION

Balance Sheets

As of September 30, 2021 and 2020

(DOLLARS IN THOUSANDS)	2021	2020
ASSETS (NOTE 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 8,821,141	$ 8,615,064
Investments, Net (Note 5)	2,834,197	2,244,505
Advances and Prepayments	8,290	8,069
Total Intragovernmental	11,663,628	10,867,638
With the Public:		
Cash and Other Monetary Assets (Note 4)	141	83
Accounts Receivable, Net (Note 6)	403,077	445,765
Property and Equipment, Net (Note 7)	85,037	93,043
Total With the Public	488,255	538,891
Total Assets	$ 12,151,883	$ 11,406,529
LIABILITIES (NOTE 8):		
Intragovernmental:		
Accounts Payable	$ 4,962	$ 3,859
Other Liabilities		
Payroll Taxes Payable	1,815	1,527
Benefit Program Contributions Payable	12,210	10,510
Custodial Liability	119,303	116,514
Liability for Non-Entity Assets	612	1,806
Total Intragovernmental	138,902	134,216
With the Public:		
Accounts Payable	266,703	165,050
Federal Employee Benefits Payable	150,104	129,459
Registrant Deposits	59,577	45,282
Other Liabilities		
Accrued Payroll	51,796	49,046
Liability for Disgorgement and Penalties (Note 16)	3,277,754	2,404,634
Contingent Liabilities (Note 10)	131,949	254,764
Other Accrued Liabilities (Note 8)	4,224	5,579
Total With the Public	3,942,107	3,053,814
Total Liabilities	4,081,009	3,188,030
Commitments and Contingencies (Note 10)		
NET POSITION:		
Unexpended Appropriations – Funds from Dedicated Collections (Note 11)	213,922	182,595
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	7,856,952	8,035,904
Total Net Position	$ 8,070,874	$ 8,218,499
Total Liabilities and Net Position	$ 12,151,883	$ 11,406,529

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

Statements of Net Cost

For the years ended September 30, 2021 and 2020

(DOLLARS IN THOUSANDS)	2021	2020
PROGRAM COSTS:		
Enforcement	$ 1,081,600	$ 963,248
Examinations	458,987	437,953
Corporation Finance	176,037	167,040
Trading and Markets	112,664	104,044
Investment Management	85,723	75,203
Economic and Risk Analysis	72,730	73,544
General Counsel	62,731	57,286
Other Program Offices	102,861	93,709
Agency Direction and Administrative Support	270,744	301,225
Inspector General	21,679	20,026
Total Program Costs	2,445,756	2,293,278
Less: Earned Revenue Not Attributed to Programs	2,532,205	3,312,404
Net Cost of Operations (Note 15)	$ (86,449)	$ (1,019,126)

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

Statements of Changes in Net Position

For the years ended September 30, 2021 and 2020

(DOLLARS IN THOUSANDS)	2021		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	$ 182,595	$ —	$ 182,595
Appropriations Received	33,643	—	33,643
Appropriations Used	(2,316)	—	(2,316)
Net Change in Unexpended Appropriations	31,327	—	31,327
Total Unexpended Appropriations: Ending	213,922	—	213,922
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	8,035,904	—	8,035,904
Appropriations Used	2,316	—	2,316
Non-Exchange Revenue (Note 12)	472,743	—	472,743
Imputed Financing	41,287	—	41,287
Other (Note 12)	—	(781,747)	(781,747)
Net Cost of Operations	695,298	(781,747)	(86,449)
Net Change in Cumulative Results of Operations	(178,952)	—	(178,952)
Cumulative Results of Operations: Ending (Note 11)	7,856,952	—	7,856,952
Net Position	$ 8,070,874	$ —	$ 8,070,874

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

Statements of Changes in Net Position *(continued)*

For the years ended September 30, 2021 and 2020

(DOLLARS IN THOUSANDS)	2020		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	$ 182,595	$ —	$ 182,595
Appropriations Received	—	—	—
Appropriations Used	—	—	—
Net Change in Unexpended Appropriations	—	—	—
Total Unexpended Appropriations: Ending	182,595	—	182,595
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	7,656,165	—	7,656,165
Appropriations Used	—	—	—
Non-Exchange Revenue (Note 12)	22,368	—	22,368
Imputed Financing	37,385	—	37,385
Other (Note 12)	—	(699,140)	(699,140)
Net Cost of Operations	(319,986)	(699,140)	(1,019,126)
Net Change in Cumulative Results of Operations	379,739	—	379,739
Cumulative Results of Operations: Ending (Note 11)	8,035,904	—	8,035,904
Net Position	$ 8,218,499	$ —	$ 8,218,499

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

Statements of Budgetary Resources

For the years ended September 30, 2021 and 2020

(DOLLARS IN THOUSANDS)	2021	2020
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	$ 594,261	$ 707,916
Appropriations (Discretionary and Mandatory)	532,784	82,531
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,892,660	1,825,907
Total Budgetary Resources	$ 3,019,705	$ 2,616,354
STATUS OF BUDGETARY RESOURCES:		
New Obligations and Upward Adjustments (Total)	$ 2,825,637	$ 2,063,050
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	168,275	528,435
Exempt from Apportionment, Unexpired Accounts	2,611	3,166
Unapportioned, Unexpired Accounts	23,182	21,703
Unobligated Balance, End of Year (Total)	194,068	553,304
Total Budgetary Resources	$ 3,019,705	$ 2,616,354
OUTLAYS, NET:		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 499,747	$ (527,493)
Distributed Offsetting Receipts	(4,568)	(6,138)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ 495,179	$ (533,631)

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Statements of Custodial Activity

For the years ended September 30, 2021 and 2020

(DOLLARS IN THOUSANDS)	2021	2020
REVENUE ACTIVITY:		
Sources of Cash Collections:		
Disgorgement and Penalties	$ 151,969	$ 1,197,811
Other	2,836	1,768
Total Cash Collections	154,805	1,199,579
Accrual Adjustments (Note 13)	2,790	(34,523)
Total Custodial Revenue	157,595	1,165,056
DISPOSITION OF COLLECTIONS:		
Amounts Transferred to:		
Department of the Treasury	154,805	1,199,579
Amounts Yet to be Transferred	2,790	(34,523)
Total Disposition of Collections	157,595	1,165,056
NET CUSTODIAL ACTIVITY	$ —	$ —

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

NOTES TO THE FINANCIAL STATEMENTS

As of September 30, 2021 and 2020

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U.S. Securities and Exchange Commission (SEC) is an independent agency of the U.S. Government established pursuant to the Securities Exchange Act of 1934 (Exchange Act), charged with regulating this country's capital markets. The SEC's mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC works with Congress, other executive branch agencies, self-regulatory organizations (SROs) (e.g., stock exchanges and the Financial Industry Regulatory Authority), accounting and auditing standards setters, state securities regulators, law enforcement officials, and many other organizations in support of the agency's mission.

The SEC consists of five presidentially-appointed Commissioners with staggered five-year terms. The SEC is organized into six divisions and multiple offices. The six divisions are the Division of Enforcement, the Division of Examinations, the Division of Corporation Finance, the Division of Trading and Markets, the Division of Investment Management, and the Division of Economic and Risk Analysis. The offices include the Office of the General Counsel, the Office of Administrative Law Judges, the Office of the Advocate for Small Business Capital Formation, the Office of the Chief Accountant, the Office of Credit Ratings, the Office of International Affairs, the Office of the Investor Advocate, the Office of Investor Education and Advocacy, the Office of Municipal Securities, the Strategic Hub for Innovation and Financial Technology, the Office of Inspector General, 11 regional offices, and various supporting services.

The reporting entity is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The SEC reporting entity includes the Investor Protection Fund. In addition to being included in the SEC's financial statements, the Investor Protection Fund's financial activities and balances are also presented separately as stand-alone financial statements, as required by Exchange Act Section 21F(g)5.

As discussed in *Note 1.R, Disgorgement and Penalties*, disgorgement funds collected and held by the SEC on behalf of harmed investors are part of the SEC reporting entity. However, disgorgement funds held by the U.S. Courts and by non-federal receivers on behalf of harmed investors are not part of the SEC reporting entity.

As discussed in *Note 10.A, Commitments: Securities Investor Protection Act*, the SEC reporting entity does not include the Securities Investor Protection Corporation (SIPC).

The SEC reporting entity also does not include the Public Company Accounting Oversight Board (PCAOB), a private-sector, nonprofit corporation created to oversee the audits of public companies, brokers, and dealers registered with the SEC. When the Sarbanes-Oxley Act of 2002 created the PCAOB, it gave the SEC the authority to oversee the PCAOB's operations, to appoint or remove Board members, to approve the PCAOB's budget and rules, and to entertain appeals of PCAOB inspection reports and disciplinary actions.

The PCAOB is not part of the federal government. It is funded by an accounting support fee collected from public companies, brokers, and dealers. The primary duties of the PCAOB include: registering public accounting firms that prepare audit reports for public companies, brokers, and dealers; establishing or adopting auditing and related attestation, quality control, ethics, and independence standards; and inspecting and disciplining registered accounting firms and their associated persons.

The SEC's financial statements also do not include the Financial Accounting Standards Board (FASB) or its parent organization, the Financial Accounting Foundation (FAF). The FAF is a Delaware nonprofit non-stock corporation, incorporated in 1972, which was created for the purpose of providing a corporate structure for the FASB, the body whose financial accounting and reporting standards for non-governmental entities have been recognized as authoritative by the American Institute of CPAs and the SEC. The structure of the FAF and the FASB reflects the view that a standard-setter should be independent from preparers of financial statements and from accounting and auditing firms. This independence is necessary to assure that the interests of the users of financial statements remain paramount, and has been critical to the integrity of our financial and capital markets. Although pursuant to Section 109 of the Sarbanes-Oxley Act of 2002, the SEC is required to determine annually that the FASB accounting support fee is within the parameters prescribed by Congress, the SEC does not have authority, and is not required, to approve the FASB budget.

B. Basis of Presentation and Accounting

These notes are an integral part of the SEC's financial statements, which present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the SEC as required by the Accountability of Tax Dollars Act of 2002. The statements may differ from other financial reports submitted pursuant to Office of Management and Budget (OMB) directives for the purpose of monitoring and controlling the use of the SEC's budgetary resources, due to differences in accounting and reporting principles discussed in the following paragraphs. The SEC's books and records serve as the source of the information presented in the accompanying financial statements.

The agency classifies assets and liabilities in these financial statements according to the type of entity associated with the transactions. Intragovernmental assets and liabilities are those due from or to other federal entities.

The SEC's financial statements are prepared in conformity with generally accepted accounting principles (GAAP) for federal reporting entities and presented in conformity with OMB Circular A-136, *Financial Reporting Requirements*. In accordance with OMB Circular A-136, the Statement of Budgetary Resources is presented on a combined basis, and the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Custodial Activity are presented on a consolidated basis.

The Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual basis of accounting. Accordingly, revenues are recognized when services are provided, and expenses are recognized when incurred without regard to the receipt or payment of cash. These principles differ from budgetary accounting and reporting principles on which the Statement of Budgetary Resources is prepared. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other assets and liabilities. See *Note 15, Reconciliation of Net Cost of Operations to Net Outlays*, for more information. The Statement of Custodial Activity is presented on the modified cash basis of accounting. See *Note 13, Custodial Activity*.

The SEC presents cost of operations by program. The presentation by program is consistent with the presentation used by the agency in submitting its budget requests.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the fiscal year 2020 Balance Sheet was modified to be consistent with the fiscal year 2021 presentation.

C. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and costs. These estimates are based on management's best knowledge of current events, historical experience, actions that the SEC may undertake in the future, and various other assumptions believed to be reasonable under the circumstances. The estimates include, but are not limited to, the allowance for uncollectible accounts and the allocation of costs to the SEC programs presented in the Statement of Net Cost. Estimates also include (a) the recognition and disclosure of any contingent liabilities and the disclosure of other potential future payments as of the date of the financial statements, and (b) the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Effective October 1, 2020, the SEC implemented a new system and methodology to allocate costs to the various programs presented in the Statement of Net Cost, which the SEC believes will provide for a more accurate representation of costs by program and ensure ongoing system support for cost allocation. The result is that for fiscal year 2021, more overhead costs are being allocated from Agency Direction and Administrative Support to the other programs.

D. Intra- and Inter-Agency Relationships

The SEC is a single federal agency composed of various Treasury Appropriation Fund Symbols (Funds), and it has only limited intra-entity transactions. The Investor Protection Fund finances the operations of the Office of Inspector General Employee Suggestion Program on a reimbursable basis. This has given rise to a small amount of intra-entity eliminations of the related revenue and expense transactions between the Investor Protection Fund and the SEC's general Salaries and Expenses Fund. See *Note 1.E, Fund Accounting Structure*, for more information about the SEC's Funds.

E. Fund Accounting Structure

The SEC, in common with other federal agencies, utilizes various Funds to recognize and track appropriation authority provided by Congress, collections from the public, and other financial activity. These Funds are described below:

1. Funds from Dedicated Collections: Statement of Federal Financial Accounting Standards 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended, states that, "funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues." The SEC's funds from dedicated collections are deposited into Fund X0100, *Salaries and Expenses*; Fund X5567, *Investor Protection Fund*; and Fund X5566, *Reserve Fund*.

   - Salaries and Expenses: Earned revenues from securities transaction fees from SROs are deposited into Fund X0100, *Salaries and Expenses, Securities and Exchange Commission*. These collections are used to offset the SEC's annual appropriation and are remitted to the U.S. Treasury General Fund at the end of the year. The Salaries and Expenses Fund is dedicated to carrying out the SEC's mission, functions, and day-to-day operations. Collections in excess of congressional spending limits are unavailable by law and reported as Non-Budgetary Fund Balance with Treasury. See *Note 3, Fund Balance with Treasury*.

   - Investor Protection Fund: The Investor Protection Fund provides funding for the payment of whistleblower awards as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). The Investor Protection Fund is financed by a portion of monetary sanctions collected by the SEC in judicial or administrative actions brought by the SEC. Persons may receive award payments from the Investor Protection Fund if they voluntarily provide original information to the SEC that results in a successful enforcement action and other conditions are met. In addition, the Investor Protection Fund is used to finance the operations of the Office of Inspector General Employee Suggestion Program for the receipt of suggestions for improvements in work efficiency and effectiveness, and allegations of misconduct or mismanagement within the SEC. This activity is recognized in Fund X5567, *Monetary Sanctions and Interest, Investor Protection Fund, Securities and Exchange Commission (Investor Protection Fund)*.

   - Reserve Fund: A portion of SEC registration fee collections up to $50 million in any one fiscal year may be deposited in the Reserve Fund, the balance of which cannot exceed $100 million. The Reserve Fund may be used by the SEC to obligate up to $100 million in one fiscal year as the SEC determines necessary to carry out its functions. Although amounts deposited in the Reserve Fund are not subject to apportionment, the SEC must notify Congress when funds are obligated. Resources available in the Reserve Fund may be rescinded or sequestered through congressional action. This activity is recognized in Fund X5566, *Securities and Exchange Commission Reserve Fund*.

2. Miscellaneous Receipt Accounts: Miscellaneous Receipt Accounts hold non-entity receipts and accounts receivable from custodial activities that the SEC cannot deposit into funds under its control. These accounts include registration fee collections in excess of amounts deposited into the Reserve Fund, receipts pursuant to certain SEC enforcement actions, and other small collections that will be sent to the U.S. Treasury General Fund upon collection. These activities are recognized in Fund 0850.150, *Registration, Filing, and Transaction Fees, Securities and Exchange Commission*; Fund 1060, *Forfeitures of Unclaimed Money and Property*; Fund 1099, *Fines, Penalties, and Forfeitures, Not Otherwise Classified*; Fund 1435, *General Fund Proprietary Interest, Not Otherwise Classified*; and Fund 3220, *General Fund Proprietary Receipts, Not Otherwise Classified*. Miscellaneous Receipt Accounts are reported as "All Other Funds" on the Statement of Changes in Net Position. The SEC has custodial responsibilities, as disclosed in *Note 1.L, Liabilities*. Fund X3875, *Budget Clearing Account*, is a suspense account that temporarily holds immaterial cash balances.

3. Deposit Funds: Deposit Funds hold disgorgement, penalties, and interest collected and held on behalf of harmed investors, registrant monies held temporarily until earned by the SEC, and collections awaiting disposition or reclassification. These activities are recognized in Fund X6561, *Unearned Fees, Securities and Exchange Commission*, and Fund X6563, *Disgorgement and Penalty Amounts Held for Investors, Securities and Exchange Commission*. Deposit Funds do not impact the SEC's Net Position and are not reported on the Statement of Changes in Net Position.

F. Entity and Non-Entity Assets

Entity assets are assets that the SEC may use in its operations.

Non-entity assets are assets that the SEC holds on behalf of another federal agency or a third party and are not available for the SEC to use in its operations. See *Note 2, Entity and Non-Entity Assets*.

G. Fund Balance with Treasury

Fund Balance with Treasury reflects amounts the SEC holds in the U.S. Treasury that have not been invested in federal securities. Additional information regarding the SEC's Fund Balance with Treasury is provided in *Note 3, Fund Balance with Treasury*.

The SEC conducts all of its banking activity in accordance with directives issued by the U.S. Department of the Treasury's Bureau of the Fiscal Service.

H. Investments

The SEC has the authority to invest disgorgement funds in Treasury securities, including civil penalties collected under the "Fair Fund" provision of the Sarbanes-Oxley Act of 2002. As the funds are collected, the SEC holds them in a deposit fund account and may invest them in overnight and short-term market-based Treasury securities through the U.S. Department of the Treasury's Bureau of the Fiscal Service.

The SEC also has authority to invest amounts in the Investor Protection Fund in overnight and short-term market-based Treasury securities through the U.S. Department of the Treasury's Bureau of the Fiscal Service. The interest earned on the investments is a component of the balance of the Fund and available to be used for expenses of the Investor Protection Fund.

Additional information regarding the SEC's investments is provided in *Note 5, Investments*.

I. Accounts Receivable and Allowance for Uncollectible Accounts

The SEC's entity and non-entity accounts receivable consist primarily of amounts due from the public. Entity accounts receivable are amounts that the SEC may retain upon collection. Non-entity accounts receivable are amounts that the SEC will forward to another federal agency or to the public after the funds are collected.

Entity Accounts Receivable

The bulk of the SEC's entity accounts receivable arise from securities transaction fees. Securities transaction fees are payable to the SEC twice a year: in March for the period September through December, and in September for the period January through August. Accordingly, the year-end accounts receivable accrual generally represents fees payable to the SEC for one month of securities transaction fee activity (September). In addition, the SEC has small amounts of activity arising from the sale of services provided by the SEC to other federal agencies and employee-related debt.

Non-Entity Accounts Receivable

Non-entity accounts receivable arise mainly from amounts assessed against violators of securities laws, including disgorgement of illegal gains, civil penalties, and related assessed interest. The SEC is responsible for collection, and recognizes a receivable, when an order of the Commission or a federal court directs payment to the SEC or the U.S. Treasury General Fund.

Interest recognized by the SEC on non-entity accounts receivable includes prejudgment interest specified by the court or administrative order as well as post-judgment interest on collectible accounts. The SEC does not recognize interest revenue on accounts considered to be uncollectible.

The SEC's enforcement investigation and litigation activities often result in court orders directing violators of federal securities laws to pay amounts assessed to a federal court or to a non-federal receiver acting on behalf of harmed investors. These orders are not recognized as accounts receivable by the SEC because the debts are payable to, and collected by, another party.

Securities registration, tender offer, merger, and other fees from registrants (filing fee) collections in excess of those deposited into the SEC's Reserve Fund are not available for the SEC's operations and are transferred to the U.S. Treasury General Fund. Accounts receivable amounts arising from filing fees in excess of those deposited into the Reserve Fund are non-entity and are held on behalf of the U.S. Treasury General Fund.

Allowance for Uncollectible Accounts

The SEC uses a three-tiered methodology for calculating the allowance for loss on its disgorgement and penalties accounts receivable. The first tier involves making an individual collection assessment of cases that represent at least 65 percent of the portfolio. The second and third tiers are composed of the remaining cases that are equal to or less than 30 days old and over 30 days old, respectively. For the second and third tiers, the SEC applies an allowance rate based on historical collection data analysis.

The SEC calculates the allowance for uncollectible accounts and the related provision for estimated losses for filing fees and other accounts receivable using an analysis of historical collection data. No allowance for uncollectible accounts or related provision for estimated losses has been established for securities transaction fees payable by SROs, as these amounts are fully collectible based on historical experience.

The SEC writes off receivables that are delinquent for two or more years by removing the debt amounts from the gross accounts receivable and any related allowance for uncollectible accounts.

Additional information about the SEC's accounts receivable and allowance for doubtful accounts is provided in *Note 6, Accounts Receivable, Net*.

J. Other Assets

Payments made in advance of the receipt of goods and services are recorded as advances or prepayments and recognized as expenses when the related goods and services are received. Advances and prepayments are made to other federal agencies such as the U.S. Department of Defense, the U.S. Government Publishing Office, and the U.S. Department of Transportation for expenses that may include investigation services, accounting processing fees, official publications in the Federal Register, and the Federal Transit Benefit Program.

K. Property and Equipment, Net

The SEC's property and equipment consists of software, general-purpose equipment used by the agency, capital improvements made to buildings leased by the SEC for office space, and, when applicable, internal-use software development costs for projects in development. The SEC reports property and equipment purchases and additions at historical cost. The agency expenses property and equipment acquisitions that do not meet the capitalization criteria as well as normal repairs and maintenance.

The SEC depreciates property and equipment over the estimated useful lives using the straight-line method of depreciation. The agency removes property and equipment from its asset accounts in the period of disposal, retirement, or removal from service. The SEC recognizes the difference between the book value and any proceeds as a gain or loss in the period that the asset is removed.

L. Liabilities

The SEC recognizes liabilities for probable future outflows or other sacrifices of resources as a result of events that have occurred as of the Balance Sheet date. The SEC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, legal liabilities, liabilities to offset non-entity assets such as registrant monies held temporarily until earned by the SEC, disgorgement and penalties collected and receivable, and amounts collected or receivable on behalf of the U.S. Treasury General Fund. See *Note 1.F, Entity and Non-Entity Assets*, for additional information.

Enforcement-Related Liabilities

A liability for disgorgement and penalties arises when an order is issued for the SEC to collect disgorgement, penalties, and interest from securities law violators. When the Commission or court issues such an order, the SEC establishes an accounts receivable due to the SEC offset by a liability. The presentation of this liability on the Balance Sheet is dependent upon several factors. If the court or Commission order indicates that collections are to be retained by the federal government by transfer to the U.S. Treasury General Fund, the liabilities are classified as custodial (that is, collected on behalf of the government) and intragovernmental. If the order indicates that the funds are eligible for distribution to harmed investors, the SEC will recognize a governmental liability (that is, a liability of the government to make a payment to the public). This liability is not presented as a custodial liability. The SEC does not record liabilities on its financial statements for disgorgement and penalty amounts that another government entity, such as a court, or a non-governmental entity, such as a receiver, has collected or will collect.

In accordance with the provisions of the Dodd-Frank Act, collections not distributed to harmed investors may be transferred to either the Investor Protection Fund or the U.S. Treasury General Fund. See *Note 16, Disgorgement and Penalties*, for additional information.

Liability Classification

The SEC recognizes liabilities that are covered by budgetary resources, liabilities that are not covered by budgetary resources, and liabilities that do not require the use of budgetary resources. See *Note 8, Liabilities Covered and Not Covered by Budgetary Resources*, for more information.

M. Employee Retirement Systems and Benefits

The SEC's employees may participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), depending on when they started working for the federal government. FERS and Social Security automatically cover most employees hired after December 31, 1983.

All employees are eligible to contribute to a Thrift Savings Plan (TSP). For those employees participating in FERS, the TSP is automatically established, and the SEC makes a mandatory 1 percent contribution to this plan. In addition, the SEC matches contributions ranging from 1 to 4 percent for FERS-eligible employees who contribute to their TSP. Employees participating in CSRS do not receive matching contributions to their TSP. The SEC also provides a supplemental retirement contribution program that matches an employee's TSP contribution up to an additional 3 percent of their salary.

The SEC does not report CSRS, FERS, Federal Employees Health Benefits Program, Federal Employees Group Life Insurance Program assets, or accumulated plan benefits; the U.S. Office of Personnel Management (OPM) reports this information. In accordance with federal accounting standards, the SEC recognizes costs incurred by the SEC but financed by OPM on behalf of the SEC as an expense. The funding for this expense is reflected as imputed financing on the Statement of Changes in Net Position.

OPM on behalf of the SEC as an expense. The funding for this expense is reflected as imputed financing on the Statement of Changes in Net Position.

N. Injury and Post-Employment Compensation

The Federal Employees' Compensation Act (FECA), administered by the U.S. Department of Labor, provides income and medical cost protection to covered federal civilian employees harmed on the job or who have contracted an occupational disease, and dependents of employees whose death is attributable to a job-related injury or occupational disease. See *Note 8, Liabilities Covered and Not Covered by Budgetary Resources*.

O. Annual, Sick, and Other Leave

The SEC accrues annual leave and compensatory time as earned and reduces the accrual when leave is taken. The balances in the accrued leave accounts reflect current leave balances and pay rates. See *Note 8, Liabilities Covered and Not Covered by Budgetary Resources*. The SEC expenses sick leave and other types of non-vested leave as used.

P. Exchange and Non-Exchange Revenue

The SEC's revenues include exchange revenues, which are generated from transactions in which both parties give and receive value, and non-exchange revenues, which arise from the federal government's ability to demand payment.

The SEC does not recognize amounts collected and held by another government entity, such as a court registry, or a non-government entity, such as a receiver.

The following table summarizes the SEC's sources of exchange and non-exchange revenues.

The SEC's Revenues and Financing Sources	Exchange and Non-Exchange Revenue	Revenue Availability	Financial Statement Presentation
Securities transaction fees[1]	Exchange Revenue	Collection of securities transaction fees are used to offset the SEC's annual appropriation, up to the annual limit set by legislation. Collections of transaction fees beyond the amount needed to offset the SEC's annual appropriation cannot be used to fund the SEC's operations, nor transferred to the U.S. Treasury General Fund.	Reported on the Statement of Net Cost[4]
Securities registration, tender offer, merger, and other fees from registrants (filing fees)[1,2]	Exchange Revenue	Collections of filing fees up to $50 million per fiscal year may be transferred to the SEC's Reserve Fund, as directed by legislation. Collections of filing fees that are not transferred to the SEC's Reserve Fund are transferred to the U.S. Treasury General Fund.	Reported on the Statement of Net Cost[4]
Collections of monetary sanctions and related interest[3]	Non-Exchange Revenue	Certain collections of monetary sanctions are deposited into the SEC's Investor Protection Fund in accordance with legislation.	Reported on the Statement of Changes in Net Position
		All other monetary sanctions are not a revenue source for the SEC, and are either: (a) Distributed to harmed investors, or (b) Transferred to the U.S. Treasury General Fund.	Reported as follows: (a) Disclosed in *Note 16, Disgorgement and Penalties* (b) Reported on the Statement of Custodial Activity

1 Transaction fee and filing fee rates are calculated and established by the SEC in accordance with federal law and are applied to volumes of activity reported by SROs or to filings submitted by registrants. Fees are recognized as exchange revenue on the effective date of the transaction or the date of the acceptance of the filing submission. See *Note 1.E, Fund Accounting Structure*. The SEC recognizes amounts remitted by registrants in advance of the transaction or filing date as a liability until earned by the SEC or returned to the registrant.

2 Federal regulations require the return of registrant advance deposits when an account is dormant for three years, except in certain cases where refunds are not permitted. The Securities Act of 1933 and the Exchange Act do not permit refunds to registrants for securities that remain unsold after the completion, termination, or withdrawal of an offering. However, Code of Federal Regulations (CFR) Title 17 Chapter II, Part 230, Section 457(p) permits filers to offset a fee paid (filing fee offset) for a subsequent registration statement (offering) filed within five years of the initial filing date of the earlier registration statement. The total aggregate dollar amount of the filing fee associated with the unsold securities may be offset against the total filing fee due on the subsequent offering. Unused filing fee offsets are not an accounts payable to the SEC because registrants cannot obtain refunds of fees or additional services in relation to securities that remain unsold.

3 The SEC's non-exchange revenues consist of disgorgement of illegal gains, civil penalties, and related interest.

4 The SEC's exchange revenues are a means to recover all or most of the total cost of all SEC programs and to deposit excess collections from registrants to the U.S. Treasury General Fund. As a result, they offset the total costs of the organization in the Statement of Net Cost, rather than individual SEC programs. This presentation is consistent with the financial accounting concepts described in Statement of Federal Financial Accounting Concepts 2, *Entity and Display*.

Q. Budgets and Budgetary Accounting

Salaries and Expenses

The SEC may use funds from the SEC's Salaries and Expenses account only as authorized by Congress and made available by OMB apportionment, upon issuance of a Treasury warrant. Revenue collected in excess of appropriated amounts is restricted from use by the SEC. Collections in excess of congressional spending limits are unavailable by law and reported as Non-Budgetary Fund Balance with Treasury. See *Note 3, Fund Balance with Treasury*. Each fiscal year, OMB provides the SEC's Salaries and Expenses account with quarterly apportionments. These apportionments include both new budget authority appropriated by Congress and unused no-year funds (unobligated balances) from prior years. The Salaries and Expenses account also receives a small amount of funds related to reimbursable activity, which are exempt from quarterly apportionment. See *Note 1.E, Fund Accounting Structure*, and *Note 14, Statement of Budgetary Resources and Other Budgetary Disclosures*.

Investor Protection Fund

The Dodd-Frank Act provides that the Investor Protection Fund has permanent authority that is available without further appropriation or fiscal year limitation for the purpose of funding awards to whistleblowers and for the operations of the Office of Inspector General Employee Suggestion Program. However, the SEC is required to request and obtain apportionments from OMB to use these funds. The Investor Protection Fund is financed by transferring a portion of monetary sanctions collected by the SEC under Section 308 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7246). As provided by Section 21F of the Exchange Act, sanctions collected by the Commission payable either to the SEC or the U.S. Treasury General Fund will be transferred to the Investor Protection Fund if the balance in that fund is less than $300 million on the day of collection. See *Note 1.E, Fund Accounting Structure*.

Reserve Fund

The Reserve Fund is a special fund that has the authority to retain certain revenues not used in the current period for future use. The Dodd-Frank Act provides that the Fund is available to the SEC without further appropriation or fiscal year limitation "to carry out the functions of the Commission." Amounts in the Reserve Fund are exempt from apportionment. Collections arising from securities registration, tender offer, and merger fees from registrants, other than those that are deposited in the Reserve Fund, are not available to be used in the operations of the SEC. *See Note 1.E, Fund Accounting Structure*.

Borrowing Authority

The SEC's borrowing authority is limited to authority to borrow funds from the U.S. Treasury in order to loan funds to the Securities Investor Protection Corporation, as discussed in *Note 10.A, Commitments: Securities Investor Protection Act*.

R. Disgorgement and Penalties

The SEC maintains non-entity assets related to disgorgement and penalties ordered pursuant to civil injunctive and administrative proceedings. The SEC also recognizes an equal and offsetting liability for these assets, as discussed in *Note 1.I, Accounts Receivable and Allowance for Uncollectible Accounts*, and *Note 1.L, Liabilities*. Additional details regarding disgorgement and penalties are presented in *Note 11, Funds from Dedicated Collections*, and *Note 16, Disgorgement and Penalties*.

NOTE 2. ENTITY AND NON-ENTITY ASSETS

Entity assets are assets that the SEC may use in its operations.

Non-entity assets are assets that the SEC holds on behalf of another federal agency or a third party and are not available for the SEC's use. The SEC's non-entity assets include the following: (a) disgorgement, penalties, and interest collected and held or invested by the SEC; (b) disgorgement, penalties, and interest receivable that will be collected by the SEC; (c) securities registration, tender offer, merger, and other fees collected and receivable from registrants, in excess of amounts deposited in the SEC's Reserve Fund; and (d) other miscellaneous receivables and collections such as registrant monies held temporarily until earned by the SEC. Additional details are provided in *Note 16, Disgorgement and Penalties*.

At September 30, 2021, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
Intragovernmental:			
Fund Balance with Treasury:			
SEC Funds	$ 8,279,456	$ —	$ 8,279,456
Registrant Deposits	—	59,577	59,577
Disgorgement and Penalties (Note 16)	—	482,078	482,078
Custodial and Other Non-Entity Assets	—	30	30
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	2,575,475	2,575,475
Investor Protection Fund	258,722	—	258,722
Advances and Prepayments	8,290	—	8,290
Total Intragovernmental Assets	8,546,468	3,117,160	11,663,628
Cash and Other Monetary Assets:			
Disgorgement and Penalties (Note 16)	—	141	141
Accounts Receivable, Net:			
SEC Funds	63,075	—	63,075
Disgorgement and Penalties (Note 16)	—	338,520	338,520
Custodial and Other Non-Entity Assets	—	1,482	1,482
Property and Equipment, Net (Note 7)	85,037	—	85,037
Total Assets	$ 8,694,580	$ 3,457,303	$ 12,151,883

At September 30, 2020, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
Intragovernmental:			
Fund Balance with Treasury:			
SEC Funds	$ 8,169,913	$ —	$ 8,169,913
Registrant Deposits	—	45,282	45,282
Disgorgement and Penalties (Note 16)	—	399,843	399,843
Custodial and Other Non-Entity Assets	—	26	26
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	1,932,852	1,932,852
Investor Protection Fund	311,653	—	311,653
Advances and Prepayments	8,069	—	8,069
Total Intragovernmental Assets	8,489,635	2,378,003	10,867,638
Cash and Other Monetary Assets:			
Disgorgement and Penalties (Note 16)	—	83	83
Accounts Receivable, Net:			
SEC Funds	255,537	—	255,537
Disgorgement and Penalties (Note 16)	—	184,137	184,137
Custodial and Other Non-Entity Assets	—	6,091	6,091
Property and Equipment, Net (Note 7)	93,043	—	93,043
Total Assets	$ 8,838,215	$ 2,568,314	$ 11,406,529

NOTE 3. FUND BALANCE WITH TREASURY

The status of Fund Balance with Treasury as of September 30, 2021 and 2020 consisted of the following:

(DOLLARS IN THOUSANDS)	2021	2020
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	$ (65,900)	$ 238,685
Unavailable	95,359	75,566
Obligated Balance not Yet Disbursed	1,138,153	743,790
Non-Budgetary Fund Balance with Treasury	7,653,529	7,557,023
Total Fund Balance with Treasury	$ 8,821,141	$ 8,615,064

Obligated and unobligated balances reported for the status of Fund Balance with Treasury differ from the amounts reported in the Statement of Budgetary Resources due to the fact that budgetary balances are supported by amounts other than Fund Balance with Treasury. These amounts include Investor Protection Fund investments, uncollected payments from federal sources, and the impact of the change in legal interpretation for leases. See *Note 14.B, Other Budgetary Disclosures*, "Change in Legal Interpretation for Lease Obligations."

Non-Budgetary Fund Balance with Treasury consists of amounts in deposit funds and offsetting collections temporarily precluded from obligation in the SEC's general Salaries and Expenses Fund (X0100). Amounts temporarily precluded from obligation represent offsetting collections in excess of appropriated amounts related to securities transactions fees, as well as securities registration, tender offer, merger, and other fees collected from registrants (filing fees).

There were no significant differences between the Fund Balance with Treasury reflected in the SEC's financial statements and the corresponding balance in the U.S. Treasury Department accounts.

Fund Balance with Treasury is an intragovernmental asset, and accordingly it is eliminated as part of the consolidation process for the Financial Report of the U.S. Government. For additional information on the nature of intragovernmental assets, see *Note 5, Investments*.

NOTE 4. CASH AND OTHER MONETARY ASSETS

The SEC had a cash balance of $141 thousand as of September 30, 2021. The SEC receives collections throughout the year. Any collections received after the U.S. Treasury Department cut-off for deposit of checks are treated as deposits in transit and recognized as Cash on the Balance Sheet. The SEC had a cash balance of $83 thousand as of September 30, 2020.

NOTE 5. INVESTMENTS

The SEC invests funds in overnight and short-term non-marketable market-based Treasury securities. The SEC records the value of its investments in Treasury securities at cost. Premiums and discounts are amortized on a straight-line (S/L) basis for market-based Treasury bills and on the effective interest basis for market-based Treasury notes. Amortization is calculated through the maturity date of these securities. Non-marketable market-based Treasury securities are issued by the U.S. Department of the Treasury's Bureau of the Fiscal Service to federal agencies. They are not traded on any securities exchange but mirror the prices of similar Treasury securities trading in the government securities market. The market value of Treasury securities is a composite market bid price, using market data provided by the Federal Reserve Bank of New York that reflects the average price that brokers were offering to pay on the reporting date.

At September 30, 2021, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	$ 2,576,668		$ (2,450)	$ 1,257	$ 2,575,475	$ 2,574,246
Market-Based Notes	263,448	Effective	(2,478)	1,257	262,227	261,002
Market-Based Bills	318,526	S/L	28	—	318,554	318,550
One-Day Certificates	1,994,694	N/A	—	—	1,994,694	1,994,694
Investor Protection Fund – Entity	259,228		(692)	186	258,722	258,541
Market-Based Notes	75,583	Effective	(692)	186	75,077	74,896
Market-Based Bills	—	S/L	—	—	—	—
One-Day Certificates	183,645	N/A	—	—	183,645	183,645
Total	$ 2,835,896		$ (3,142)	$ 1,443	$ 2,834,197	$ 2,832,787

At September 30, 2020, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	$ 1,932,530		$ 42	$ 280	$ 1,932,852	$ 1,932,665
Market-Based Notes	28,729	Effective	(246)	280	28,763	28,538
Market-Based Bills	947,982	S/L	288	—	948,270	948,308
One-Day Certificates	955,819	N/A	—	—	955,819	955,819
Investor Protection Fund – Entity	311,883		(1,183)	953	311,653	311,112
Market-Based Notes	161,388	Effective	(1,183)	953	161,158	160,617
Market-Based Bills	—	S/L	—	—	—	—
One-Day Certificates	150,495	N/A	—	—	150,495	150,495
Total	$ 2,244,413		$ (1,141)	$ 1,233	$ 2,244,505	$ 2,243,777

Intragovernmental Investments in Treasury Securities

The federal government does not set aside assets to pay future benefits or other expenditures associated with the investment by federal agencies in non-marketable federal securities. The funds used to purchase these investments are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to the SEC as evidence of these balances. Treasury securities are an asset of the SEC and a liability of the U.S. Treasury General Fund. Because the SEC and the U.S. Treasury are both components of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, the investments presented by the SEC do not represent an asset or a liability in the U.S. Government-wide financial statements.

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

NOTE 6. ACCOUNTS RECEIVABLE, NET

At September 30, 2021, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Entity Accounts Receivable:			
Securities Transaction Fees	$ 62,791	$ —	$ 62,791
Other	284	—	284
Non-Entity Accounts Receivable:			
Disgorgement and Penalties[1]	1,387,220	1,048,700	338,520
Filing Fees	641	29	612
Other	10,352	9,482	870
Total Accounts Receivable	$ 1,461,288	$ 1,058,211	$ 403,077

[1]

Disgorgement and Penalties Accounts Receivable by Tiers (Note 1.I)			
(DOLLARS IN THOUSANDS)	Gross Receivable	Allowance	Net Receivable
Tier 1	$ 904,011	$ 626,898	$ 277,113
Tier 2	52,909	27,740	25,169
Tier 3	430,300	394,062	36,238
Total Non-Entity Accounts Receivable: Disgorgement and Penalties	$ 1,387,220	$ 1,048,700	$ 338,520

At September 30, 2020, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Entity Accounts Receivable:			
Securities Transaction Fees	$ 255,158	$ —	$ 255,158
Other	379	—	379
Non-Entity Accounts Receivable:			
Disgorgement and Penalties[2]	1,195,519	1,011,382	184,137
Filing Fees	1,861	54	1,807
Other	21,565	17,281	4,284
Total Accounts Receivable	$ 1,474,482	$ 1,028,717	$ 445,765

2

Disgorgement and Penalties Accounts Receivable by Tiers (Note 1.I)			
(DOLLARS IN THOUSANDS)	Gross Receivable	Allowance	Net Receivable
Tier 1	$ 784,433	$ 659,200	$ 125,233
Tier 2	28,783	13,052	15,731
Tier 3	382,303	339,130	43,173
Total Non-Entity Accounts Receivable: Disgorgement and Penalties	$ 1,195,519	$ 1,011,382	$ 184,137

Refer to *Note 1.I, Accounts Receivable and Allowance for Uncollectible Accounts*, for methods used to estimate allowances. The SEC does not recognize interest revenue on accounts considered to be uncollectible. The SEC estimates that accumulated interest on accounts receivable considered to be uncollectible is $10.7 million and $17.7 million as of September 30, 2021 and 2020, respectively. This estimate does not include interest accumulated on debts written off or officially waived.

Disgorgement and penalties net accounts receivable of $338.5 million and $184.1 million at September 30, 2021 and 2020, respectively, includes amounts designated as payable to the U.S. Treasury General Fund per court order, as well as amounts held for distribution to harmed investors. As discussed in *Note 1.L, Liabilities*, the receivables designated as payable to the U.S. Treasury General Fund, their offsetting liabilities, and the associated revenues, are classified as custodial. As of September 30, 2021 and 2020, the custodial disgorgement and penalties accounts receivable balance designated as payable to the U.S. Treasury General Fund, net of allowance, was $118.4 million and $112.2 million, respectively.

As discussed in *Note 1.I, Accounts Receivable and Allowance for Uncollectible Accounts*, pursuant to Section 991(e) of the Dodd-Frank Act, accounts receivable for securities registration, tender offer, merger, and other fees from registrants in excess of the amounts deposited into the Reserve Fund are held on behalf of the U.S. Treasury and are transferred to the U.S. Treasury General Fund upon collection.

NOTE 7. PROPERTY AND EQUIPMENT, NET

At September 30, 2021, property and equipment consisted of the following:

Class of Property *(DOLLARS IN THOUSANDS)*	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture and Equipment	S/L	$ 50	$ 300	3–5	$ 110,766	$ 96,383	$ 14,383
Software	S/L	300	300	3–5	305,513	244,047	61,466
Leasehold Improvements	S/L	300	N/A	10	116,885	107,697	9,188
Total					$ 533,164	$ 448,127	$ 85,037

During FY 2021, activity impacting Net Book Value consisted of the following:

(DOLLARS IN THOUSANDS)	Net Book Value
Balance Beginning of Year	$ 93,043
Capitalized Acquisitions	42,910
Dispositions	(1,216)
Depreciation Expense	(49,700)
Balance End of Year	$ 85,037

At September 30, 2020, property and equipment consisted of the following:

Class of Property *(DOLLARS IN THOUSANDS)*	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture and Equipment	S/L	$ 50	$ 300	3–5	$ 127,516	$ 104,564	$ 22,952
Software	S/L	300	300	3–5	274,760	213,251	61,509
Leasehold Improvements	S/L	300	N/A	10	114,011	105,429	8,582
Total					$ 516,287	$ 423,244	$ 93,043

During FY 2020, activity impacting Net Book Value consisted of the following:

(DOLLARS IN THOUSANDS)	Net Book Value
Balance Beginning of Year	$ 96,267
Capitalized Acquisitions	51,794
Depreciation Expense	(55,018)
Balance End of Year	$ 93,043

Bulk purchases are acquisitions of a quantity of similar items that individually cost less than the threshold for individual purchases but collectively exceed the designated bulk purchase threshold of $300,000.

NOTE 8. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

The SEC recognizes liabilities that are covered by budgetary resources, liabilities that are not covered by budgetary resources, and liabilities that do not require the use of budgetary resources.

Liabilities that are covered by budgetary resources are liabilities incurred for which budgetary resources are available to the SEC during the reporting period without further congressional action.

The SEC also recognizes liabilities not covered by budgetary resources. Budgetary and financial statement reporting requirements sometimes differ on the timing for the required recognition of an expense. For example, in the financial statements, annual leave expense must be accrued in the reporting period when the annual leave is earned. However, in the budget, annual leave is required to be recognized and funded in the fiscal year when the annual leave is either used or paid out to a separating employee, not when it is earned. As a result of this timing difference, accrued annual leave liability is classified as a liability "not covered by budgetary resources" as of the financial statement date.

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, which is to borrow from the public if the government has a budget deficit (and to use current receipts if the government has a budget surplus).

Liabilities that do not require the use of budgetary resources are covered by assets that do not represent budgetary resources to the SEC. Liabilities that do not require the use of budgetary resources include registrant monies held temporarily until earned by the SEC and offsetting liabilities that correspond to non-entity assets that the SEC holds, such as collections and receivables from disgorgement and penalties, as discussed in *Note 1.L, Liabilities*.

At September 30, 2021, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Liabilities Not Requiring Budgetary Resources	Total
Intragovernmental:				
Accounts Payable	$ 4,962	$ —	$ —	$ 4,962
Other Liabilities				
Payroll Taxes Payable	1,815	—	—	1,815
Benefit Program Contributions Payable	11,329	881	—	12,210
Custodial Liability	—	—	119,303	119,303
Liability for Non-Entity Assets	—	—	612	612
Total Other Liabilities	13,144	881	119,915	133,940
Total Intragovernmental	18,106	881	119,915	138,902
With the Public:				
Accounts Payable	266,703	—	—	266,703
Federal Employee Benefits Payable	2,362	147,742	—	150,104
Registrant Deposits	—	—	59,577	59,577
Other Liabilities				
Accrued Payroll	51,796	—	—	51,796
Liability for Disgorgement and Penalties (Note 16)	—	—	3,277,754	3,277,754
Contingent Liabilities (Note 10)	—	131,949	—	131,949
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	4,134	—	4,134
Other	—	—	90	90
Total Other Liabilities	51,796	136,083	3,277,844	3,465,723
Total With the Public	320,861	283,825	3,337,421	3,942,107
Total Liabilities	$ 338,967	$ 284,706	$ 3,457,336	$ 4,081,009

Other Liabilities (intragovernmental and with the public) totaled $3.6 billion as of September 30, 2021, of which all but $135.6 million is current. Current liabilities are liabilities that are expected to be paid within the fiscal year following the reporting date. The non-current portion of Other Liabilities includes the appropriate portions of Unfunded FECA and Unemployment Liability, Contingent Liabilities, and Lease Liability. Current liabilities not covered by budgetary resources totaled $1.3 million as of September 30, 2021.

At September 30, 2020, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Liabilities Not Requiring Budgetary Resources	Total
Intragovernmental:				
Accounts Payable	$ 3,859	$ —	$ —	$ 3,859
Other Liabilities				
Payroll Taxes Payable	1,527	—	—	1,527
Benefit Program Contributions Payable	9,618	892	—	10,510
Custodial Liability	—	—	116,514	116,514
Liability for Non-Entity Assets	—	—	1,806	1,806
Total Other Liabilities	11,145	892	118,320	130,357
Total Intragovernmental	15,004	892	118,320	134,216
With the Public:				
Accounts Payable	165,050	—	—	165,050
Federal Employee Benefits Payable	2,117	127,342	—	129,459
Registrant Deposits	—	—	45,282	45,282
Other Liabilities				
Accrued Payroll	49,046	—	—	49,046
Liability for Disgorgement and Penalties (Note 16)	—	—	2,404,634	2,404,634
Contingent Liabilities (Note 10)	—	254,764	—	254,764
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	5,440	—	5,440
Other	—	—	139	139
Total Other Liabilities	49,046	260,204	2,404,773	2,714,023
Total With the Public	216,213	387,546	2,450,055	3,053,814
Total Liabilities	$ 231,217	$ 388,438	$ 2,568,375	$ 3,188,030

Other Liabilities (intragovernmental and with the public) totaled $2.9 billion as of September 30, 2020, of which all but $259.4 million was current. The non-current portion of Other Liabilities includes the appropriate portions of the Unfunded FECA and Unemployment Liability, Contingent Liabilities, and Lease Liability. Current liabilities not covered by budgetary resources totaled $1.7 million as of September 30, 2020.

NOTE 9. LEASES

Operating Leases

At September 30, 2021, the SEC leased office space at 15 locations under operating lease agreements that expire between FY 2022 and FY 2034. The SEC paid $111.9 million and $104.6 million for rent for the years ended September 30, 2021 and 2020, respectively.

The following table details expected future lease payments for (a) the full term of all non-cancelable leases with terms of more than one year, and (b) any non-cancelable period over one year that is part of a cancelable lease. "Non-cancelable" leases are leases for which the lease agreements do not provide an option for the lessee to cancel the lease prior to the end of the lease term. The table excludes future payments for the lease extensions of the SEC's headquarters and New York Regional Office facilities that are now cancelable. The total expected future lease payments reflect an estimate of base rent and contractually required costs.

Under existing commitments, expected future lease payments through FY 2027 and thereafter are as follows:

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	Federal Non-Cancelable	Non-Federal Non-Cancelable	Non-Cancelable Expected Future Lease Payments
2022	$ 3,018	$ 2,467	$ 5,485
2023	3,018	1,348	4,366
2024	3,018	1,348	4,366
2025	3,009	1,348	4,357
2026	2,945	1,348	4,293
2027 and thereafter	8,006	191	8,197
Total	$ 23,014	$ 8,050	$ 31,064

During FY 2021, the SEC entered into a cancelable 15-year occupancy agreement for a new SEC headquarters facility with the U.S. General Services Administration, and the $244.5 million appropriated in FY 2018 for this purpose was obligated. See *Note 14.B, Other Budgetary Disclosures*, "Legal Restrictions on Unobligated Budgetary Resources." Occupancy is not expected until 2025 at the earliest.

Expense Recognition of "Rent Holiday"

In the execution of lease agreements, many times lessors offer incentives for the occupation of office space. These include months of free rent at the occupied space or a temporary space while the new office is being prepared for occupancy. When a rent holiday occurs at the beginning of the lease term or at the beginning of occupancy of the temporary space, a rent expense is accrued, even though no payment is due. This accrued expense is recognized as an unfunded liability because funding will not be provided until the future period in which payment is due. The accrual and amortization of rent holiday discounts allow the rent expense to be allocated equally to each period of the lease term. The accrued lease liability for rent holidays was $4.1 million and $5.4 million as of September 30, 2021 and 2020, respectively.

NOTE 10. COMMITMENTS AND CONTINGENCIES

A. Commitments: Securities Investor Protection Act

The Securities Investor Protection Act of 1970 (SIPA), as amended, created the Securities Investor Protection Corporation (SIPC) to restore funds and securities to investors and to protect the securities markets from disruption following the failure of broker-dealers. Generally, if a brokerage firm is not able to meet its obligations to customers, then customers' cash and securities held by the brokerage firm are returned to customers on a pro rata basis. If sufficient funds are not available at the firm to satisfy customer claims, the reserve funds of SIPC are used to supplement the distribution, up to a ceiling of $500,000 per customer, including a maximum of $250,000 for cash claims.

SIPA authorizes SIPC to create a fund to maintain all monies received and disbursed by SIPC. SIPA gives SIPC the authority to borrow up to $2.5 billion from the SEC in the event that the SIPC Fund is or may appear insufficient for purposes of SIPA. To borrow the funds, SIPC must file with the SEC a statement of the uses of such a loan and a repayment plan, and then the SEC must certify to the Secretary of the Treasury that the loan is necessary to protect broker-dealer customers and maintain confidence in the securities markets and that the repayment plan provides as reasonable assurance of prompt repayment as may be feasible under the circumstances. The U.S. Treasury would make these funds available to the SEC through the purchase of notes or other obligating instruments issued by the SEC. Such notes or other obligating instruments would bear interest at a rate determined by the Secretary of the Treasury. As of September 30, 2021, the SEC had not loaned any funds to the SIPC, and there are no outstanding notes or other obligating instruments issued by the SEC.

Based on the estimated costs to complete ongoing customer protection proceedings, the current size of the SIPC Fund supplemented by SIPC's ongoing assessments on brokers is expected to provide sufficient funds to cover acknowledged customer claims. There are several broker-dealers that are being liquidated under SIPA or that have been referred to SIPC for liquidation that may result in additional customer claims. In the event that the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, SIPC may seek a loan from the SEC.

B. Commitments and Contingencies: Investor Protection Fund

As discussed in *Note 1.E, Fund Accounting Structure*, the Investor Protection Fund is used to pay awards to whistleblowers if they voluntarily provide original information to the SEC and meet other conditions. Approved awards are between 10 and 30 percent of the monetary sanctions collected in the covered action or in a related action, with the actual percentage being determined at the discretion of the SEC, using criteria provided in the legislation and the related rules to implement the legislation adopted by the SEC.

A Preliminary Determination is an assessment, made by the Claims Review Staff appointed by the Director of the Division of Enforcement, as to whether the claim should be allowed or denied and, if allowed, what the proposed award percentage amount should be.

Contingent losses are reported as follows:

- A contingent liability is recognized when (a) a positive Preliminary Determination has been made by the Claims Review Staff, (b) collection has been made, and (c) the percentage to be paid can be reasonably estimated. A contingent liability is also disclosed as a range for the minimum and maximum totals of whistleblower awards, using 10 percent and 30 percent of collections, respectively.
- A potential liability is disclosed but not recognized when a positive Preliminary Determination is expected and collection has been received, using 10 percent and 30 percent of collections as the minimum and maximum award amounts, respectively.

At September 30, 2021, commitments and contingencies consisted of the following:

		Estimated Range of Loss	
(DOLLARS IN THOUSANDS)	Accrued Liabilities	Lower End	Upper End
2021 Whistleblower Awards:			
Probable	$ 131,949	$ 47,564	$ 142,692
Reasonably Possible	—	4,869	14,608

At September 30, 2020, commitments and contingencies consisted of the following:

		Estimated Range of Loss	
(DOLLARS IN THOUSANDS)	Accrued Liabilities	Lower End	Upper End
2020 Whistleblower Awards:			
Probable	$ 254,764	$ 122,980	$ 368,939
Reasonably Possible	—	1,701	5,104

A liability (accounts payable) is recognized when a Final Determination has been approved by the Commission and collection has been received. In all cases, the whistleblower award is not paid until amounts have been collected, a final order is issued by the Commission, and the appeal rights of all claimants on the matter have been exhausted.

In the event that whistleblower awards reduce the Investor Protection Fund unobligated balance below $300 million, the Investor Protection Fund will be replenished, as described in *Note 1.Q, Budgets and Budgetary Accounting*, "Investor Protection Fund." The unobligated balances of the Investor Protection Fund at September 30, 2021 and 2020 were $144 million and $260 million, respectively.

C. Other Commitments

In addition to future lease commitments discussed in *Note 9, Leases*, the SEC is obligated for the purchase of goods and services that have been ordered, but not received. As of September 30, 2021, net obligations for all SEC activities were $1.1 billion, of which $339.0 million was delivered and unpaid. As of September 30, 2020, net obligations for all SEC activities were $745.9 million, of which $231.2 million was delivered and unpaid.

NOTE 11. FUNDS FROM DEDICATED COLLECTIONS

The SEC's funds from dedicated collections consist of transactions and balances recorded in its Salaries and Expenses Fund, Investor Protection Fund, and Reserve Fund. Treasury securities reflect a government commitment to the program and allow the program to continue to provide benefits required by law. See *Note 1.E.1, Funds from Dedicated Collections*, and *Note 5, Investments*, for additional information about intragovernmental investments in Treasury securities.

For FY 2021, the assets, liabilities, net position, and net income from operations relating to funds from dedicated collections consisted of the following:

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
Balance Sheet as of September 30, 2021						
ASSETS						
Intragovernmental:						
Fund Balance with Treasury	$ 8,123,159	$ 107,892	$ 48,372	$ 8,279,423	$ —	$ 8,279,423
Investments, Net	—	258,722	—	258,722	—	258,722
Advances and Prepayments	8,290	—	—	8,290	—	8,290
Total Intragovernmental	8,131,449	366,614	48,372	8,546,435	—	8,546,435
With the Public:						
Accounts Receivable, Net	63,075	—	—	63,075	—	63,075
Property and Equipment, Net	31,756	—	53,281	85,037	—	85,037
Total With the Public	94,831	—	53,281	148,112	—	148,112
Total Assets	$ 8,226,280	$ 366,614	$ 101,653	$ 8,694,547	$ —	$ 8,694,547
LIABILITIES						
Intragovernmental:						
Accounts Payable	$ 4,962	$ —	$ —	$ 4,962	$ —	$ 4,962
Other Liabilities						
Payroll Taxes Payable	1,815	—	—	1,815	—	1,815
Benefit Program Contributions Payable	12,210	—	—	12,210	—	12,210
Total Intragovernmental Liabilities	18,987			18,987		18,987
With the Public:						
Accounts Payable	64,047	194,578	8,078	266,703	—	266,703
Federal Employee Benefits Payable	150,104	—	—	150,104	—	150,104
Other Liabilities						
Accrued Payroll	51,796	—	—	51,796	—	51,796
Contingent Liabilities	—	131,949	—	131,949	—	131,949
Other Accrued Liabilities	4,134	—	—	4,134	—	4,134
Total With the Public	270,081	326,527	8,078	604,686	—	604,686
Total Liabilities	289,068	326,527	8,078	623,673	—	623,673

NOTE 11. FUNDS FROM DEDICATED COLLECTIONS *(CONTINUED)*

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
NET POSITION						
Unexpended Appropriations	213,922	—	—	213,922	—	213,922
Cumulative Results of Operations	7,723,290	40,087	93,575	7,856,952	—	7,856,952
Total Net Position	$ 7,937,212	$ 40,087	$ 93,575	$ 8,070,874	$ —	$ 8,070,874
Total Liabilities and Net Position	$ 8,226,280	$ 366,614	$ 101,653	$ 8,694,547	$ —	$ 8,694,547
Statement of Net Cost for the year ended September 30, 2021						
Gross Program Costs	$ 1,943,237	$ 442,066	$ 60,494	$ 2,445,797	$ (16)	$ 2,445,781
Less Earned Revenues Not Attributable to Program Costs	1,700,499	—	50,000	1,750,499	(16)	1,750,483
Net Cost of Operations	$ 242,738	$ 442,066	$ 10,494	$ 695,298	$ —	$ 695,298
Statement of Changes in Net Position for the year ended September 30, 2021						
Unexpended Appropriations:						
Beginning Balances	$ 182,595	$ —	$ —	$ 182,595	$ —	$ 182,595
Appropriations Received	33,643	—	—	33,643	—	33,643
Appropriations Used	(2,316)	—	—	(2,316)	—	(2,316)
Net Change in Unexpended Appropriations	31,327	—	—	31,327	—	31,327
Total Unexpended Appropriations: Ending	213,922	—	—	213,922	—	213,922
Cumulative Results of Operations:						
Beginning Balances	7,922,425	9,410	104,069	8,035,904	—	8,035,904
Appropriations Used	2,316	—	—	2,316	—	2,316
Non-Exchange Revenue	—	472,743	—	472,743	—	472,743
Imputed Financing	41,287	—	—	41,287	—	41,287
Net Cost of Operations	242,738	442,066	10,494	695,298	—	695,298
Net Change in Cumulative Results of Operations	(199,135)	30,677	(10,494)	(178,952)	—	(178,952)
Cumulative Results of Operations: Ending	7,723,290	40,087	93,575	7,856,952	—	7,856,952
Net Position	$ 7,937,212	$ 40,087	$ 93,575	$ 8,070,874	$ —	$ 8,070,874

NOTE 11. FUNDS FROM DEDICATED COLLECTIONS *(CONTINUED)*

For FY 2020, the assets, liabilities, net position, and net income from operations relating to funds from dedicated collections consisted of the following:

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
Balance Sheet as of September 30, 2020						
ASSETS						
Intragovernmental:						
Fund Balance with Treasury	$ 8,064,215	$ 47,838	$ 57,799	$ 8,169,852	$ —	$ 8,169,852
Investments, Net	—	311,653	—	311,653	—	311,653
Advances and Prepayments	8,069	—	—	8,069	—	8,069
Total Intragovernmental	8,072,284	359,491	57,799	8,489,574	—	8,489,574
With the Public:						
Accounts Receivable, Net	255,537	—	—	255,537	—	255,537
Property and Equipment, Net	40,497	—	52,546	93,043	—	93,043
Total With the Public	296,034	—	52,546	348,580	—	348,580
Total Assets	$ 8,368,318	$ 359,491	$ 110,345	$ 8,838,154	$ —	$ 8,838,154
LIABILITIES						
Intragovernmental:						
Accounts Payable	3,859	—	—	3,859	—	3,859
Other Liabilities						
Payroll Taxes Payable	1,527	—	—	1,527	—	1,527
Benefit Program Contributions Payable	10,510	—	—	10,510	—	10,510
Total Intragovernmental Liabilities	15,896	—	—	15,896	—	15,896
With the Public:						
Accounts Payable	63,457	95,317	6,276	165,050	—	165,050
Federal Employee Benefits Payable	129,459	—	—	129,459	—	129,459
Other Liabilities						
Accrued Payroll	49,046	—	—	49,046	—	49,046
Contingent Liabilities	—	254,764	—	254,764	—	254,764
Other Accrued Liabilities	5,440	—	—	5,440	—	5,440
Total With the Public	247,402	350,081	6,276	603,759	—	603,759
Total Liabilities	263,298	350,081	6,276	619,655	—	619,655

NOTE 11. FUNDS FROM DEDICATED COLLECTIONS *(CONTINUED)*

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
NET POSITION						
Unexpended Appropriations	182,595	—	—	182,595	—	182,595
Cumulative Results of Operations	7,922,425	9,410	104,069	8,035,904	—	8,035,904
Total Net Position	$ 8,105,020	$ 9,410	$ 104,069	$ 8,218,499	$ —	$ 8,218,499
Total Liabilities and Net Position	$ 8,368,318	$ 359,491	$ 110,345	$ 8,838,154	$ —	$ 8,838,154
Statement of Net Cost for the year ended September 30, 2020						
Gross Program Costs	$ 1,851,314	$ 378,886	$ 63,087	$ 2,293,287	$ (14)	$ 2,293,273
Less Earned Revenues Not Attributable to Program Costs	2,563,273	—	50,000	2,613,273	(14)	2,613,259
Net Cost of Operations	$ (711,959)	$ 378,886	$ 13,087	$ (319,986)	$ —	$ (319,986)
Statement of Changes in Net Position for the year ended September 30, 2020						
Unexpended Appropriations:						
Beginning Balances	$ 182,595	$ —	$ —	$ 182,595	$ —	$ 182,595
Appropriations Received	—	—	—	—	—	—
Appropriations Used	—	—	—	—	—	—
Net Change in Unexpended Appropriations	—	—	—	—	—	—
Total Unexpended Appropriations: Ending	182,595	—	—	182,595	—	182,595
Cumulative Results of Operations:						
Beginning Balances	7,173,081	365,928	117,156	7,656,165	—	7,656,165
Appropriations Used	—	—	—	—	—	—
Non-Exchange Revenue	—	22,368	—	22,368	—	22,368
Imputed Financing	37,385	—	—	37,385	—	37,385
Net Cost of Operations	(711,959)	378,886	13,087	(319,986)	—	(319,986)
Net Change in Cumulative Results of Operations	749,344	(356,518)	(13,087)	379,739	—	379,739
Cumulative Results of Operations: Ending	7,922,425	9,410	104,069	8,035,904	—	8,035,904
Net Position	$ 8,105,020	$ 9,410	$ 104,069	$ 8,218,499	$ —	$ 8,218,499

NOTE 12. STATEMENT OF CHANGES IN NET POSITION

A. Other

In FY 2021, the negative $781.7 million in "Other" reported in the Statement of Changes in Net Position consists of securities registration, tender offer, merger, and other fees from registrants (filing fees) as well as other non-entity exchange revenue deposited into the U.S. Treasury General Fund. Filing fees and other non-entity exchange revenue are recognized as exchange revenue on the SEC's Statement of Net Cost, and the transfer-out to the U.S. Treasury General Fund is recognized as a negative other financing source on the SEC's consolidated Statement of Changes in Net Position. See *Note 1.P, Exchange and Non-Exchange Revenue*.

In FY 2020, the negative $699.1 million in "Other" consists of the transfer-out of filing fees and other non-entity exchange revenue to the U.S. Treasury General Fund.

B. Non-Custodial Non-Exchange Revenues

The SEC deposits non-exchange revenue to the Investor Protection Fund when the replenishment criteria is met. These collections and related interest from the investment of funds are derived from monetary sanctions that would otherwise be deposited to the U.S. Treasury General Fund. See *Note 1.P, Exchange and Non-Exchange Revenue*, for more information about non-exchange revenue.

For the period ended September 30, 2021 and 2020, Non-Custodial Non-Exchange Revenues consisted of the following:

Non-Exchange Revenue *(DOLLARS IN THOUSANDS)*		FY 2021		FY 2020
Deposits of Monetary Sanctions to the Investor Protection Fund	$	472,066	$	17,057
Investment Interest Revenue in the Investor Protection Fund		677		5,311
Total Amount of Federal Revenues Collected	$	472,743	$	22,368

NOTE 13. CUSTODIAL ACTIVITY

The Statement of Custodial Activity reports custodial collections and accounts receivable on a modified cash basis of accounting. Cash collections and amounts transferred to U.S. Treasury General Fund are reported on a cash basis. The change in receivables and related payables are reported on an accrual basis. The SEC's Miscellaneous Receipt Accounts are used to account for custodial receipts pursuant to SEC enforcement actions and other small collections that will be sent to the U.S. Treasury General Fund. For more information about the SEC's Miscellaneous Receipt Accounts, see *Note 1.E, Fund Accounting Structure*. For information about the estimated collectability of accounts receivable, see *Note 1.I, Accounts Receivable and Allowance for Uncollectible Accounts*.

NOTE 14. STATEMENT OF BUDGETARY RESOURCES AND OTHER BUDGETARY DISCLOSURES

A. Explanation of Differences between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government

A comparison between the FY 2021 SBR and the actual FY 2021 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2023 Budget, which will contain FY 2021 actual data, is not yet available. The FY 2023 Budget with actual amounts for FY 2021 will be available at a later date at whitehouse.gov/omb/budget/. The comparison will be presented in next year's financial statements.

The comparison as of September 30, 2020, is presented below:

(DOLLARS IN MILLIONS)	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 2,617	$ 2,063	$ 6	$ (527)
FY 2020 Ending Balance: Comptroller General Decision B-322160, *Recording of Obligation for Multiple-Year Contract*	3	—	—	—
Budget of the U.S. Government	$ 2,620	$ 2,063	$ 6	$ (527)

The differences between the FY 2020 SBR and the prior year column in the FY 2022 Budget exist because certain data elements are reported on the SBR differently than those same data elements are reported in the Budget.

The data elements reported differently are those used to report the SEC's recording of obligations in FY 2011 to reflect the impact of Comptroller General Decision B-322160, Securities and Exchange Commission—*Recording of Obligation for Multiple-Year Contract*, and the subsequent adjustment and liquidation of those obligations. In consultation with OMB, in FY 2011 the SEC recognized obligations for leases entered into in FY 2010 and prior. The recognition of these lease obligations resulted in an unfunded obligation (deficiency) of $778 million.

In the Budget, the unfunded obligation is not included in the beginning of the year unobligated balance brought forward, but instead is reported in a separate schedule of the SEC's Budget titled "Unfunded Deficiencies."

Based on an agreement with OMB, the SEC funds the deficiency over time as budgetary resources become available for current year lease operations and as the prior year unfunded lease obligation amounts are recovered. At the end of FY 2020, the SEC's SBR included $2 million in remaining unfunded obligations after the SEC funded $26 million for current year lease operations. The budget, due to differences in rounding, reported $3 million in remaining unfunded obligations. The SEC SBR for FY 2021 presents this balance as a reduction of the beginning of the year unobligated balance brought forward.

B. Other Budgetary Disclosures

General Provisions of Appropriation

The SEC's annual Appropriations Act provides $1,894,835,000 in new budget authority for FY 2021. The Act contains general provisions that limit the amount that can be obligated for international conferences, International Organization of Securities Commission dues, and representation expenses. The Act requires the SEC to fund its Office of Inspector General with a minimum of $16,313,000 in new budget authority. The Act also provides for costs associated with future relocation under a replacement lease for the Commission's District of Columbia headquarters, not to exceed $18,650,000, to remain available until expended; and for move, replication, and related costs associated with a replacement lease for the Commission's San Francisco Regional Office facilities, not to exceed $12,677,000.

Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)

For FY 2021, the Unobligated Balance from Prior Year Budget Authority, Net consisted of available unobligated balance brought forward from the prior year in the amount of $553.3 million as well as FY 2021 recoveries of prior-year obligations totaling $41.0 million. For FY 2020, the Unobligated Balance from Prior Year Budget Authority, Net consisted of available unobligated balance brought forward from the prior year in the amount of $675.3 million as well as FY 2020 recoveries of prior-year obligations totaling $32.6 million.

Undelivered Orders at the End of the Period

Undelivered orders consist of orders of goods and services that the SEC has not received. The SEC's total undelivered orders were $807.5 million and $523.0 million for the years ended September 30, 2021 and 2020, respectively. Of the $807.5 million total undelivered orders at September 30, 2021, $340.3 million were with federal trading partners and $467.2 million were with non-federal trading partners. The total undelivered orders contained unpaid and paid undelivered orders, with unpaid orders making up the majority of the total. The SEC's total unpaid undelivered orders were $799.2 million and $514.9 million for the years ended September 30, 2021 and 2020, respectively. Of the $799.2 million unpaid undelivered orders at September 30, 2021, $332.0 million were with federal trading partners and $467.2 million were with non-federal trading partners.

Legal Restrictions on Unobligated Budgetary Resources

Unobligated budgetary resources are restricted for the following:

a) $244.5 million appropriated in FY 2018 and $18.7 million appropriated in FY 2021 for costs associated with relocation under a replacement lease for the Commission's headquarters facilities, of which $244.5 million has been obligated as of September 30, 2021;

b) $37.2 million appropriated in FY 2019 and $10.5 million appropriated in FY 2020, for costs associated with the relocation under a replacement lease for the Commission's New York Regional Office facilities, of which $40.0 million has been obligated and $4.4 million expended as of September 30, 2021; and

c) $12.7 million appropriated in FY 2021 for costs associated with the relocation under a replacement lease for the Commission's San Francisco Regional Office facilities, of which no funds have yet been obligated as of September 30, 2021.

Any funds that are not expended for the purposes designated above will be refunded to the payers (the U.S. Treasury and/or the payers of Sections 31 fees).

Change in Legal Interpretation for Lease Obligations

The SEC was granted independent leasing authority in 1990. Based on a legal review of its statutory authority at the time, the SEC adopted a policy of obligating only the annual portion of lease payments due each year. On

October 3, 2011, the U.S. Government Accountability Office (GAO) issued a decision that this long-standing practice of recording lease obligations only on an annual basis violated the recording statute, 31 U.S.C. sect. 1501(a)(1). Specifically, the GAO's decision was that the SEC lacks statutory authority to obligate an amount less than the government's total obligation. If the SEC lacks sufficient budget authority to cover this obligation, the SEC should report a violation of the Antideficiency Act.

The SEC recorded obligations in the same manner for all its leasing actions between the time the agency was granted independent leasing authority in 1990 and 2010. Further, the agency did not have sufficient remaining unobligated funds in the years in which the various leases were entered to cover the full obligations associated with those leases. As a result, the agency recorded unfunded obligations totaling $778 million for leases executed between 1990 and 2010 in FY 2011.

The remaining unfunded lease obligations, which totaled $2.3 million as of September 30, 2020, were fully funded as of September 30, 2021. Accrual accounting requires expenses to be recognized in the period in which the expenses are incurred. Because future lease expenses are not an expense of the current fiscal year, they are not reported as expenses or liabilities in the current fiscal year. See *Note 9, Leases*, for additional information.

Borrowing Authority

See *Note 10.A, Commitments: Securities Investor Protection Act*, for information on the SEC's borrowing authority.

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS TO NET OUTLAYS

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

Components of net cost of operations that are not part of net outlays represent required timing differences in the Statement of Net Cost and the SBR. One example is depreciation expense. In budgetary reporting, the entire cost of a depreciable asset is recognized in the period when the asset is purchased. However, in financial statement reporting, accrual accounting requires the cost of such assets to be allocated among the reporting periods that represent the estimated useful life of the asset. In the reconciliation, depreciation is recognized as a "component of net cost that is not part of net outlays." Another example is securities registration, tender offer, and other fees from registrants (filing fees). Filing fees are recognized as exchange revenue on the Statement of Net Cost, but collections of filing fees are transferred to either the U.S. Treasury General Fund or to the SEC's Reserve Fund, and have no impact on the SEC's net outlays. See *Note 1.P, Exchange and Non-Exchange Revenue*.

Other components of net cost that are not part of net outlays are:

- revaluations of property, plant, and equipment,
- increases and decreases in assets such as advances and prepayments and accounts receivable,
- increases and decreases in liabilities such as accounts payable and contingent liabilities, and
- imputed financing for expenses that are paid by OPM, as discussed in *Note 1.M, Employee Retirement Systems and Benefits*.

The primary component of net outlays that is not part of net cost is the acquisition of capital assets. In budgetary reporting, the entire cost of a depreciable asset is recognized in the period when the asset is purchased.

Another component of net outlays that is not part of net cost is the collection of non-exchange interest. Non-exchange interest deposited to the U.S. Treasury General Fund is reported on the SBR as distributed offsetting receipts. Distributed offsetting receipts are collections that typically offset the outlays of the agency that conducts the activity generating the receipts. See *Note 1.P, Exchange and Non-Exchange Revenue*, for more information about non-exchange revenue.

For the year ended September 30, 2021:

(DOLLARS IN THOUSANDS)	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 347,606	$ (434,055)	$ (86,449)
Components of Net Cost That Are Not Part of Net Outlays:			
Property and Equipment Depreciation	$ —	$ (49,700)	$ (49,700)
Property and Equipment Disposal Reevaluation	—	(1,216)	(1,216)
Securities Registration, Tender Offer, Merger, and Other Fees from Registrants (Note 1.P)	—	831,736	831,736
Treasury Investment Fees	(65)	65	—
Increase/(Decrease) in Assets:			
Accounts Receivable	—	(192,461)	(192,461)
Advances and Prepayments	221	—	221
(Increase)/Decrease in Liabilities:			
Accounts Payable	(1,103)	(101,653)	(102,756)
Federal Employee Benefits Payable	—	(20,645)	(20,645)
Other Liabilities			
Benefit Program Contributions Payable	(1,700)	—	(1,700)
Accrued Payroll and Payroll Taxes Payable	(288)	(2,750)	(3,038)
Contingent Liabilities	—	122,815	122,815
Other Accrued Liabilities	—	1,306	1,306
Financing Sources:			
Imputed Costs	(41,287)	—	(41,287)
Total Components of Net Cost That Are Not Part of Net Outlays	(44,222)	587,497	543,275
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	—	42,910	42,910
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(2,739)	(1,818)	(4,557)
Total Components of Net Outlays That Are Not Part of Net Cost	(2,739)	41,092	38,353
Net Outlays	$ 300,645	$ 194,534	$ 495,179

For the year ended September 30, 2020:

(DOLLARS IN THOUSANDS)	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 324,898	$ (1,344,024)	$ (1,019,126)
Components of Net Cost That Are Not Part of Net Outlays:			
Property and Equipment Depreciation	$ —	$ (55,018)	$ (55,018)
Property and Equipment Disposal Reevaluation	—	—	—
Securities Registration, Tender Offer, Merger, and Other Fees from Registrants (Note 1.P)	—	749,094	749,094
Treasury Investment Fees	(62)	62	—
Increase/(Decrease) in Assets:			
Accounts Receivable	—	110,932	110,932
Advances and Prepayments	3,783	—	3,783
(Increase)/Decrease in Liabilities:			
Accounts Payable	(924)	(79,952)	(80,876)
Federal Employee Benefits Payable	—	(33,553)	(33,553)
Other Liabilities			
Benefit Program Contributions Payable	(2,732)	—	(2,732)
Accrued Payroll and Payroll Taxes Payable	(341)	(11,323)	(11,664)
Contingent Liabilities	—	(204,361)	(204,361)
Other Accrued Liabilities	—	1,573	1,573
Financing Sources:			
Imputed Costs	(37,385)	—	(37,385)
Total Components of Net Cost That Are Not Part of Net Outlays	(37,661)	477,454	439,793
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	305	51,489	51,794
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(4,961)	(1,131)	(6,092)
Total Components of Net Outlays That Are Not Part of Net Cost	(4,656)	50,358	45,702
Net Outlays	$ 282,581	$ (816,212)	$ (533,631)

NOTE 16. DISGORGEMENT AND PENALTIES

The SEC's non-entity assets include disgorgement, penalties, and interest assessed against securities law violators by the Commission or a federal court. The SEC also recognizes an equal and offsetting liability for these non-entity assets, as discussed in *Note 1.L, Liabilities*.

When the Commission or court issues an order for the SEC to collect disgorgement, penalties, and interest from securities law violators, the SEC establishes an account receivable due to the SEC. Upon collection, the SEC may (a) hold receipts in the Disgorgement and Penalty Deposit Fund as Fund Balance with Treasury or Treasury investments pending distribution to harmed investors, (b) deposit receipts in the U.S. Treasury General Fund, or (c) transfer amounts to the Investor Protection Fund. The situations where funds would not be held for distribution to harmed investors arise when the SEC either determines it is not practical to return funds to investors or when court orders expressly state that funds are to be remitted to the U.S. Treasury General Fund. The determination as to whether funds not held for distribution to harmed investors will be deposited in the U.S. Treasury General Fund or transferred to the Investor Protection Fund is made in accordance with the provisions of the Dodd-Frank Act, and is dependent on the balance in the Investor Protection Fund on the day the amounts are collected.

Disbursements related to disgorgement and penalties include distributions to harmed investors, payments to tax authorities, and fees paid to plan administrators and the U.S. Department of the Treasury's Bureau of the Fiscal Service. The SEC does not record activity in its financial statements related to enforcement actions that result in amounts ordered to another government entity such as a court, or a non-governmental entity such as a receiver. See *Note 1.R, Disgorgement and Penalties*, and *Note 2, Entity and Non-Entity Assets*.

In FY 2021, total Disgorgement and Penalties assets of $3.4 billion included $3.3 billion held for distribution to harmed investors and $118.5 million to be transferred to the U.S. Treasury General Fund. In FY 2020, total Disgorgement and Penalties assets of $2.5 billion included $2.4 billion held for distribution to harmed investors and $112.3 million to be transferred to the U.S. Treasury General Fund.

At September 30, 2021 and 2020, the net inflows and outflows for Fund Balance with Treasury, Investments, and Accounts Receivable related to disgorgement and penalties consisted of the following:

(DOLLARS IN THOUSANDS)	2021	2020
Fund Balance with Treasury:		
Beginning Balance	$ 399,843	$ 303,203
Collections	1,686,917	2,158,203
Purchases and Redemptions of Treasury Securities	(640,867)	(611,077)
Disbursements	(339,780)	(235,618)
Transfers and Deposits to the Investor Protection Fund	(472,066)	(17,057)
Transfers and Deposits to the U.S. Treasury General Fund	(151,969)	(1,197,811)
Total Fund Balance with Treasury (Note 2)	482,078	399,843
Cash and Other Monetary Assets:		
Beginning Balance	83	841
Net Activity	58	(758)
Total Cash and Other Monetary Assets (Notes 2 and 4)	141	83
Investments, Net:		
Beginning Balance	1,932,852	1,305,477
Net Activity	642,623	627,375
Total Investments, Net (Notes 2 and 5)	2,575,475	1,932,852
Accounts Receivable, Net:		
Beginning Balance	184,137	268,529
Net Activity	154,383	(84,392)
Total Accounts Receivable, Net (Notes 2 and 6)	338,520	184,137
Total Disgorgement and Penalties	$ 3,396,214	$ 2,516,915

NOTE 17. RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION FOR COMPILATION PROCESS OF THE FINANCIAL REPORT OF THE U.S. GOVERNMENT

To prepare the Financial Report of the U.S. Government (FR), the U.S. Department of the Treasury's Bureau of the Fiscal Service requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the SEC's financial statements and the SEC's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2020 FR can be found at: fiscal.treasury.gov/reports-statements/, and a copy of the 2021 FR will be posted to this site as soon as it is released.

FY 2021 Balance Sheet

As of September 30, 2021

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2021 SEC Balance Sheet	Line Items Used to Prepare FY 2021 Government-wide Balance Sheet: Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Total	Reclassified Financial Statement Line
ASSETS:						**ASSETS:**
Intragovernmental:						Intragovernmental:
Fund Balance with Treasury	$ 8,821,141	$ 8,279,423	$ —	$ 541,718	$ 8,821,141	Fund Balance with Treasury
Investments, Net	2,834,197	258,722	—	2,575,475	2,834,197	Investments, Net
Advances and Prepayments	8,290	8,290	—	—	8,290	Advances and Prepayments
Total Intragovernmental	11,663,628	8,546,435	—	3,117,193	11,663,628	Total Intragovernmental
With the Public:						With the Public:
Cash and Other Monetary Assets	141	—	—	141	141	Cash and Other Monetary Assets
Accounts Receivable, Net	403,077	63,075	—	340,002	403,077	Accounts Receivable, Net
Property and Equipment, Net	85,037	85,037	—	—	85,037	General Property, Plant, and Equipment, Net
Total With the Public	488,255	148,112	—	340,143	488,255	Total With the Public
Total Assets	$ 12,151,883	$ 8,694,547	$ —	$ 3,457,336	$ 12,151,883	**Total Assets**
LIABILITIES:						**LIABILITIES:**
Intragovernmental:						Intragovernmental:
Accounts Payable	4,962	4,962	—	—	4,962	Accounts Payable
Other Liabilities						
Payroll Taxes Payable	1,815	1,815	—	—	1,815	Other Liabilities (Without Reciprocals)
Benefit Program Contributions Payable	12,210	12,210	—	—	12,210	Benefit Program Contributions Payable
Custodial Liability	119,303	—	—	119,303	119,303	Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
Liability for Non-Entity Assets	612	—	—	612	612	Liability to the General Fund for Custodial and Other Non-Entity Assets
Total Other Liabilities	133,940	14,025	—	119,915	133,940	*Total Other Liabilities*
Total Intragovernmental	138,902	18,987	—	119,915	138,902	Total Intragovernmental

FY 2021 Balance Sheet *(continued)*

As of September 30, 2021

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2021 SEC Balance Sheet	Line Items Used to Prepare FY 2021 Government-wide Balance Sheet: Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Total	Reclassified Financial Statement Line
With the Public:						
Accounts Payable	266,703	266,703	—	—	266,703	Accounts Payable
Federal Employee Benefits Payable	150,104	150,104	—	—	150,104	Federal Employee and Veteran Benefits Payable
Registrant Deposits	59,577	—	—	59,577	59,577	Advances from Others and Deferred Revenue
Other Liabilities						
Accrued Payroll	51,796	51,796	—	—	51,796	Other Liabilities
Liability for Disgorgement and Penalties	3,277,754	—	—	3,277,754	3,277,754	Other Liabilities
Contingent Liabilities	131,949	131,949	—	—	131,949	Other Liabilities
Other Accrued Liabilities	4,224	4,134	—	90	4,224	Other Liabilities
Total Other Liabilities	3,465,723	187,879	—	3,277,844	3,465,723	*Total Other Liabilities*
Total with the Public	3,942,107	604,686	—	3,337,421	3,942,107	Total with the Public
Total Liabilities	4,081,009	623,673	—	3,457,336	4,081,009	**Total Liabilities**
Commitments and Contingencies						
NET POSITION:						**NET POSITION:**
Unexpended Appropriations – Funds from Dedicated Collections	213,922	213,922	—	—	213,922	Unexpended Appropriations – Funds from Dedicated Collections
Cumulative Results of Operations – Funds from Dedicated Collections	7,856,952	7,856,952	—	—	7,856,952	Cumulative Results of Operations – Funds from Dedicated Collections
Total Net Position	$ 8,070,874	$ 8,070,874	$ —	$ —	$ 8,070,874	**Total Net Position**
Total Liabilities and Net Position	$ 12,151,883	$ 8,694,547	$ —	$ 3,457,336	$ 12,151,883	**Total Liabilities and Net Position**

FY 2021 Statement of Net Cost

For the year ended September 30, 2021

		Line Items Used to Prepare FY 2021 Government-wide Statement of Net Cost					
Financial Statement Line *(DOLLARS IN THOUSANDS)*	**FY 2021 SEC Statement of Net Cost**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Total**	**Reclassified Financial Statement** *(DOLLARS IN THOUSANDS)*
Program Costs:							**Non-Federal Costs**
Total Program Costs	$ 2,445,756	$ 2,097,909	$ —	$ (90)	$ —	$ 2,097,819	Non-Federal Gross Cost
							Intragovernmental Costs
		208,524	—	—	—	208,524	Benefit Program Costs
		41,287	—	—	—	41,287	Imputed Costs
		45,248	(16)	65	—	45,297	Buy/Sell Costs
		52,829	—	—	—	52,829	Other Expenses
		347,888	(16)	65	—	347,937	**Total Intragovernmental Costs**
Total Program Costs	2,445,756	2,445,797	(16)	(25)	—	2,445,756	***Total Reclassified Gross Costs***
Less: Earned Revenues not Attributed to Programs	2,532,205						**Non-Federal Earned Revenue**
		1,750,152	—	781,722	—	2,531,874	Non-Federal Earned Revenue
							Intragovernmental Revenue
		347	(16)	—	—	331	Buy/Sell Revenue
Total Earned Revenues	$ 2,532,205	$ 1,750,499	$ (16)	$ 781,722	$ —	$ 2,532,205	***Total Reclassified Earned Revenue***
Net Cost of Operations	$ (86,449)	$ 695,298	$ —	$ (781,747)	$ —	$ (86,449)	**Net Cost of Operations**

FY 2021 Statement of Changes in Net Position

For the year ended September 30, 2021

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2021 SEC Statement of Changes in Net Position	Line Items Used to Prepare FY 2021 Government-wide Statement of Changes in Net Position: Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Total	Reclassified Financial Statement
UNEXPENDED APPROPRIATIONS:						
Beginning Balances	$ 182,595	$ 182,595	$ —	$ —	$ 182,595	Net Position, Beginning of Period
Appropriations Received	33,643	33,643	—	—	33,643	Appropriations Received as Adjusted
Appropriations Used	(2,316)	(2,316)	—	—	(2,316)	Appropriations Used
Net Change in Unexpended Appropriations	31,327	31,327	—	—	31,327	
Total Unexpended Appropriations	213,922	213,922	—	—	213,922	
CUMULATIVE RESULTS OF OPERATIONS:						
Beginning Balances	8,035,904	8,035,904	—	—	8,035,904	Net Position, Beginning of Period
Appropriations Used	2,316	2,316	—	—	2,316	Appropriations Expended
Non-Exchange Revenue	472,743	472,066	—	(1,757)	470,309	Other Taxes and Receipts
	—	677	—	1,757	2,434	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)
Total Non-Exchange Revenues	472,743	472,743	—	—	472,743	*Total Reclassified Non-Exchange Revenues*
Imputed Financing	41,287	41,287	—	—	41,287	Imputed Financing Sources
Other	(781,747)	—	—	(782,941)	(782,941)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
	—	—	—	1,194	1,194	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
Total Other	(781,747)	—	—	(781,747)	(781,747)	*Total Reclassified Other*
Net Cost of Operations	(86,449)	695,298	—	(781,747)	(86,449)	Net Cost of Operations (+/-)
Net Change in Cumulative Results of Operations	(178,952)	(178,952)	—	—	(178,952)	
Cumulative Results of Operations: Ending	7,856,952	7,856,952	—	—	7,856,952	
Net Position	$ 8,070,874	$ 8,070,874	$ —	$ —	$ 8,070,874	Net Position, End of Period

FY 2021 Statement of Changes in Net Position *(continued)*

For the year ended September 30, 2021

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2021 SEC Statement of Changes in Net Position	Line Items Used to Prepare FY 2021 Government-wide Statement of Changes in Net Position: Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Total	Reclassified Financial Statement
NON-EXCHANGE STATEMENT OF CUSTODIAL ACTIVITY						
Non-Exchange Custodial Revenue from the Statement of Custodial Activity						
Total Cash Collections	$ 154,805	$ —	$ —	$ 154,805	$ 154,805	Other Taxes and Receipts
Accrual Adjustments	2,790	—	—	2,790	2,790	Other Taxes and Receipts
Total Custodial Revenue	157,595	—	—	157,595	157,595	*Total Reclassified Custodial Revenue*
Disposition of Non-Exchange Custodial Collections from the Statement of Custodial Activity						
Amounts Transferred to Department of the Treasury	154,805	—	—	154,805	154,805	Non-Entity Collections Transferred to the General Fund of the U.S. Government
Amounts Yet to be Transferred	2,790	—	—	2,790	2,790	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
Total Disposition of Collections	$ 157,595	$ —	$ —	$ 157,595	$ 157,595	*Total Reclassified Disposition of Custodial Collections*

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

This section provides the Required Supplementary Information as prescribed by OMB Circular A-136, *Financial Reporting Requirements*.

U.S. SECURITIES AND EXCHANGE COMMISSION

Combining Statements of Budgetary Resources by Fund

For the year ended September 30, 2021

(DOLLARS IN THOUSANDS)	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 1435, 1492, 3220, 3875	5567	5566	
BUDGETARY RESOURCES:				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	$ 328,661	$ 260,281	$ 5,319	$ 594,261
Appropriations (Discretionary and Mandatory)	33,643	449,041	50,100	532,784
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,892,660	—	—	1,892,660
Total Budgetary Resources	$ 2,254,964	$ 709,322	$ 55,419	$ 3,019,705
STATUS OF BUDGETARY RESOURCES:				
New Obligations and Upward Adjustments (Total)	$ 2,207,949	$ 564,880	$ 52,808	$ 2,825,637
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	45,238	123,037	—	168,275
Exempt from Apportionment, Unexpired Accounts	—	—	2,611	2,611
Unapportioned, Unexpired Accounts	1,777	21,405	—	23,182
Unobligated Balance, End of Year (Total)	47,015	144,442	2,611	194,068
Total Budgetary Resources	$ 2,254,964	$ 709,322	$ 55,419	$ 3,019,705
OUTLAYS, NET:				
Outlays, Net (Discretionary and Mandatory)	$ (25,300)	$ 465,619	$ 59,428	$ 499,747
Distributed Offsetting Receipts	(1,829)	(2,739)	—	(4,568)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ (27,129)	$ 462,880	$ 59,428	$ 495,179

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

Combining Statements of Budgetary Resources by Fund

For the year ended September 30, 2020

(DOLLARS IN THOUSANDS)	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 1435, 1492, 3220, 3875	5567	5566	
BUDGETARY RESOURCES:				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	$ 299,257	$ 403,976	$ 4,683	$ 707,916
Appropriations (Discretionary and Mandatory)	—	30,831	51,700	82,531
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,825,907	—	—	1,825,907
Total Budgetary Resources	$ 2,125,164	$ 434,807	$ 56,383	$ 2,616,354
STATUS OF BUDGETARY RESOURCES:				
New Obligations and Upward Adjustments (Total)	$ 1,835,307	$ 174,526	$ 53,217	$ 2,063,050
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	284,504	243,931	—	528,435
Exempt from Apportionment, Unexpired Accounts	—	—	3,166	3,166
Unapportioned, Unexpired Accounts	5,353	16,350	—	21,703
Unobligated Balance, End of Year (Total)	289,857	260,281	3,166	553,304
Total Budgetary Resources	$ 2,125,164	$ 434,807	$ 56,383	$ 2,616,354
OUTLAYS, NET:				
Outlays, Net (Discretionary and Mandatory)	$ (687,920)	$ 95,747	$ 64,680	$ (527,493)
Distributed Offsetting Receipts	(1,178)	(4,960)	—	(6,138)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ (689,098)	$ 90,787	$ 64,680	$ (533,631)

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

INVESTOR PROTECTION FUND FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Balance Sheets

As of September 30, 2021 and 2020

(DOLLARS IN THOUSANDS)	2021	2020
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 107,892	$ 47,838
Investments, Net (Note 3)	258,722	311,653
Total Intragovernmental	366,614	359,491
Total Assets	$ 366,614	$ 359,491
LIABILITIES (NOTE 4):		
With the Public:		
Accounts Payable	194,578	95,317
Contingent Liabilities (Note 5)	131,949	254,764
Total with the Public	326,527	350,081
Total Liabilities	326,527	350,081
Commitments and Contingencies (Note 5)		
NET POSITION:		
Cumulative Results of Operations – Funds from Dedicated Collections	40,087	9,410
Total Cumulative Results of Operations	40,087	9,410
Total Net Position	$ 40,087	$ 9,410
Total Liabilities and Net Position	$ 366,614	$ 359,491

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Net Cost

For the years ended September 30, 2021 and 2020

(DOLLARS IN THOUSANDS)	2021	2020
PROGRAM COSTS:		
Awards to Whistleblowers	$ 442,050	$ 378,872
Employee Suggestion Program	16	14
Total Program Costs	442,066	378,886
Net Cost of Operations (Note 7)	$ 442,066	$ 378,886

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Changes in Net Position

For the years ended September 30, 2021 and 2020

(DOLLARS IN THOUSANDS)	2021	2020
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balances	$ 9,410	$ 365,928
Non-Exchange Revenue	472,743	22,368
Net Cost of Operations	442,066	378,886
Net Change in Cumulative Results of Operations	30,677	(356,518)
Cumulative Results of Operations: Ending	40,087	9,410
Net Position	$ 40,087	$ 9,410

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Budgetary Resources

For the years ended September 30, 2021 and 2020

(DOLLARS IN THOUSANDS)	2021	2020
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, Net (Mandatory)	$ 260,281	$ 403,976
Appropriations (Mandatory)	449,041	30,831
Total Budgetary Resources	$ 709,322	$ 434,807
STATUS OF BUDGETARY RESOURCES (NOTE 6):		
New Obligations and Upward Adjustments (Total)	$ 564,880	$ 174,526
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	123,037	243,931
Unapportioned, Unexpired Accounts	21,405	16,350
Unobligated Balance, End of Year (Total)	144,442	260,281
Total Budgetary Resources	$ 709,322	$ 434,807
OUTLAYS, NET:		
Outlays, Net (Total) (Mandatory)	465,619	95,747
Distributed Offsetting Receipts	(2,739)	(4,960)
Agency Outlays, Net (Mandatory) (Note 7)	$ 462,880	$ 90,787

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

NOTES TO THE INVESTOR PROTECTION FUND FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION

As of September 30, 2021 and 2020

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Structure

The U.S. Securities and Exchange Commission (SEC) is an independent agency of the U.S. Government established pursuant to the Securities Exchange Act of 1934 (Exchange Act), charged with regulating this country's capital markets. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the Securities and Exchange Commission Investor Protection Fund. The Investor Protection Fund provides funding for the Dodd-Frank Whistleblower Program and finances the operations of the Office of Inspector General Employee Suggestion Program. The Investor Protection Fund is a fund within the SEC, and these financial statements present a segment of the SEC's financial activity.

B. Basis of Presentation and Accounting

These notes are an integral part of the Investor Protection Fund's financial statements, which present the financial position, net cost of operations, changes in net position, and budgetary resources of the Investor Protection Fund as required by Exchange Act Section 21F(g)(5). The Act requires a complete set of financial statements that includes a balance sheet, income statement, and cash flow analysis. The legislative requirements to prepare an income statement and cash flow analysis are addressed by the Statement of Net Cost and *Note 2, Fund Balance with Treasury*, respectively.

The SEC's books and records serve as the source of the information presented in the accompanying financial statements. The SEC is a federal reporting entity, in accordance with the provisions of the Accountability of Tax Dollars Act of 2002. The SEC's financial statements are prepared in conformity with generally accepted accounting principles (GAAP) for the federal government, and are presented in conformity with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

Audited financial statements are a special-purpose report required by legislation. As a stand-alone entity, the Investor Protection Fund does not meet the criteria provided in the CFO Act and the Accountability of Tax Dollars Act to constitute a "federal reporting entity." In addition, federal GAAP and OMB Circular A-136 do not provide for either an income statement or a cash flow analysis. However, the Investor Protection Fund financial statements are consistent with the SEC financial statements, except for additional elements, such as cash flow analysis, that are required by legislation.

The agency classifies assets, liabilities, revenues, and costs in these financial statements according to the type of entity associated with the transactions. Intragovernmental assets and liabilities are those due from or to other federal entities, including other funds within the SEC. Intragovernmental revenues and costs result from transactions with other federal entities, including other funds within the SEC.

The Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual basis of accounting. Accordingly, revenues are recognized when services are provided, and expenses are recognized when incurred without regard to the receipt or payment of cash. These principles differ from the budgetary accounting and reporting principles on which the Statement of Budgetary Resources is prepared. A reconciliation of differences, if any, between the accrual-based Statement of Net Cost and the budgetary-based Statement of Budgetary Resources is presented in *Note 7, Reconciliation of Net Cost of Operations to Net Outlays*.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

C. Use of Estimates

The preparation of financial statements on the accrual basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and costs. These estimates are based on management's best knowledge of current events, historical experience, actions that the SEC may undertake in the future, and various other assumptions. The estimates include, but are not limited to, the recognition and disclosure of potential future whistleblower award payments as of the date of the financial statements. Actual results may differ from these estimates.

D. Intra- and Inter-Agency Relationships

Transactions with Other SEC Funds

The Investor Protection Fund is comprised of a single Treasury Appropriation Fund Symbol. The Investor Protection Fund is the recipient of non-exchange revenues collected by the SEC. Amounts transferred to the Investor Protection Fund are classified as "retained by the SEC" because the Investor Protection Fund is a fund within the SEC. These intra-agency transfers are required because the Investor Protection Fund finances the operations of the Office of Inspector General Employee Suggestion Program.

Transactions with Other Federal Agencies

Whistleblower payments may be made from the Investor Protection Fund as a result of monetary sanctions paid to other federal agencies in related actions, but only if there has been a Commission enforcement action resulting in sanctions of over one million dollars and the Commission has determined that the whistleblower is eligible for an award and recommended the percentage. In those instances, the SEC remains liable for paying the whistleblower. However, in instances where a whistleblower has already received an award from the Commodity Futures Trading Commission, the whistleblower is not entitled to an award from the SEC.

E. Funds from Dedicated Collections

A fund from dedicated collections is financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. Investor Protection Fund resources are funds from dedicated collections and may only be used for the purposes specified by the Dodd-Frank Act.

F. Entity Assets

Assets that an agency is authorized to use in its operations are entity assets. The SEC is authorized to use all funds in the Investor Protection Fund for the purposes specified by the Dodd-Frank Act. Accordingly, all assets are recognized as entity assets.

G. Fund Balance with Treasury

Fund Balance with Treasury reflects amounts the Investor Protection Fund holds in the U.S. Treasury that have not been invested in federal securities. The SEC conducts all of its banking activity in accordance with directives issued by the U.S. Department of the Treasury's Bureau of the Fiscal Service.

H. Investments

The SEC has authority to invest amounts in the Investor Protection Fund in overnight and short-term market-based Treasury securities. The interest earned on the investments is a component of the Investor Protection Fund and is available to be used for expenses of the Fund. Additional details regarding Investor Protection Fund investments are provided in *Note 3, Investments*.

I. Liabilities

The SEC records liabilities for probable future outflows or other sacrifices of resources as a result of events that have occurred as of the Balance Sheet date. The Investor Protection Fund's liabilities consist of amounts payable to whistleblowers and amounts recognized as contingent liabilities for whistleblower awards.

The SEC recognizes liabilities that are covered by budgetary resources and liabilities that are not covered by budgetary resources. Budgetary and financial statement reporting requirements sometimes differ on the timing for the required recognition of an expense. Liabilities that are covered by budgetary resources are liabilities incurred for which budgetary resources are available to the SEC without further congressional action. Refer to *Note 4, Liabilities Covered and Not Covered by Budgetary Resources*, for detailed information regarding liabilities covered and not covered by budgetary resources.

The Dodd-Frank Act and the SEC implementing regulations establish the eligibility criteria for whistleblower awards. Refer to *Note 5, Commitments and Contingencies*, for additional information regarding the disclosure and recognition of actual and contingent liabilities for whistleblower awards.

J. Program Costs

The Investor Protection Fund finances payments to whistleblowers under Section 21F of the Exchange Act. The Investor Protection Fund also reimburses the SEC's Salaries and Expenses account (X0100) for expenses incurred by the Office of Inspector General to administer the Employee Suggestion Program.

K. Non-Exchange Revenue

Disgorgement and Penalty Transfers

Non-exchange revenue arises from the government's ability to demand payment. The Investor Protection Fund is financed through the receipt of monetary sanctions collected by the SEC in judicial or administrative actions brought by the SEC under the securities laws that are not either: (1) added to the disgorgement fund or other fund under Section 308 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7246), or (2) otherwise distributed to victims of a violation of the securities laws. Section 21F of the Exchange Act provides that monetary sanctions collected by the SEC are deposited into the Investor Protection Fund if the balance in the Fund is below $300 million on the day of collection. The Investor Protection Fund recognizes non-exchange revenue for monetary sanctions that are transferred into the Fund. Additional details regarding Investor Protection Fund funding are provided in *Note 5, Commitments and Contingencies*.

Interest Earnings on Investments with Treasury

Interest earned from investments in U.S. Treasury securities is classified in the same way as the predominant source of revenue to the fund. The Investor Protection Fund is financed through the receipt of non-exchange revenues and thus interest earnings are also recognized as non-exchange revenues.

L. Budgets and Budgetary Accounting

The Investor Protection Fund (X5567) is a special fund established with permanent authority to retain revenues and other financing sources not used in the current period for future use. The Dodd-Frank Act provides that the Fund is available to the SEC without further appropriation or fiscal year limitation for the purpose of paying awards to whistleblowers and funding the activities of the Office of Inspector General Employee Suggestion Program. However, the SEC is required to request and obtain apportionments from OMB to use these funds.

The resources of the Investor Protection Fund are apportioned under Category B authority, which means that the funds represent budgetary resources distributed by a specified project and are not subject to quarterly apportionment. Thus, all obligations incurred as presented on the Statement of Budgetary Resources are derived from Category B funds.

NOTE 2. FUND BALANCE WITH TREASURY

The status of Fund Balance with Treasury as of September 30, 2021 and 2020 consisted of the following:

(DOLLARS IN THOUSANDS)	2021	2020
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ (113,749)	$ (48,779)
Unavailable	27,064	1,299
Obligated Balance not Yet Disbursed	194,577	95,318
Total Status of Fund Balance with Treasury	$ 107,892	$ 47,838

Unobligated balances reported for the status of Fund Balance with Treasury do not agree with the amounts reported in the Statement of Budgetary Resources due to the fact that funds for unobligated balances are held in investments as well as in Fund Balance with Treasury. There were no differences between the Fund Balance with Treasury reflected in the Investor Protection Fund financial statements and the balance in the Treasury accounts.

Cash Flow

The Investor Protection Fund cash flows during FY 2021 consisted of:

- Net cash inflows from investment redemptions of $50.9 million;
- Net cash inflows from investment interest of $2.7 million (which include $3.7 million of interest collections, less $1 million in premiums paid);
- Net cash inflows from fund replenishment required under the Dodd-Frank Act of $472.1 million; and
- Net cash outflows for payment of whistleblower awards totaling $95.3 million for amounts that were awarded prior to FY 2021, $370.3 million for amounts that were awarded during FY 2021, and payment of expenses of operating the Office of Inspector General Employee Suggestion Program of $16 thousand.

Cash flows during FY 2020 consisted of:

- Net cash inflows from investment redemptions of $83.9 million;
- Net cash inflows from investment interest of $2.1 million (which include $4.9 million of interest collections, less $2.8 million in premiums paid);
- Net cash inflows from fund replenishment required under the Dodd-Frank Act of $17.1 million; and
- Net cash outflows for payment of whistleblower awards totaling $16.5 million for amounts that were awarded prior to FY 2020, $79.2 million for amounts that were awarded during FY 2020, and payment of expenses of operating the Office of Inspector General Employee Suggestion Program of $14 thousand.

NOTE 3. INVESTMENTS

The SEC invests funds in overnight and short-term non-marketable market-based Treasury bills. The SEC records the value of its investments in Treasury securities at cost. Premiums and discounts are amortized on a straight-line (S/L) basis for market-based Treasury bills and on the effective interest basis for market-based Treasury notes. Amortization is calculated through the maturity date of these securities. Non-marketable market-based Treasury securities are issued by the U.S. Department of the Treasury's Bureau of the Fiscal Service to federal agencies. They are not traded on any securities exchange but mirror the prices of similar Treasury securities trading in the government securities market.

At September 30, 2021, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Investor Protection Fund – Entity						
Market-Based Notes	$ 75,583	Effective	$ (692)	$ 186	$ 75,077	$ 74,896
Market-Based Bills	—	S/L	—	—	—	—
One-Day Certificates	183,645	N/A	—	—	183,645	183,645
Total	$ 259,228		$ (692)	$ 186	$ 258,722	$ 258,541

At September 30, 2020, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Investor Protection Fund – Entity						
Market-Based Notes	$ 161,388	Effective	$ (1,183)	$ 953	$ 161,158	$ 160,617
Market-Based Bills	—	S/L	—	—	—	—
One-Day Certificates	150,495	N/A	—	—	150,495	150,495
Total	$ 311,883		$ (1,183)	$ 953	$ 311,653	$ 311,112

Intragovernmental Investments in Treasury Securities

Market-based Treasury securities are debt securities that the U.S. Treasury issues to federal entities without statutorily determined interest rates. Although the securities are not marketable, the terms (prices and interest rates) mirror the terms of marketable Treasury securities.

The federal government does not set aside assets to pay future benefits or other expenditures associated with the investment by federal agencies in non-marketable federal securities. The balances underlying these investments are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to the SEC as evidence of these balances. Treasury securities are an asset of the SEC and a liability of the U.S. Treasury. Because the SEC and the U.S. Treasury are both components of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, the investments presented by the SEC do not represent an asset or a liability in the U.S. Government-wide financial statements.

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

NOTE 4. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

The SEC recognizes liabilities that are covered by budgetary resources and liabilities that are not covered by budgetary resources. Budgetary and financial statement reporting requirements sometimes differ on the timing for the required recognition of an expense.

At September 30, 2021, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Accounts Payable	$ 194,578	$ —	$ 194,578
Contingent Liabilities	—	131,949	131,949
Total Liabilities	$ 194,578	$ 131,949	$ 326,527

At September 30, 2020, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Accounts Payable	$ 95,317	$ —	$ 95,317
Contingent Liabilities	—	254,764	254,764
Total Liabilities	$ 95,317	$ 254,764	$ 350,081

NOTE 5. COMMITMENTS AND CONTINGENCIES

Commitments: Dodd-Frank Whistleblower Program

As discussed in *Note 1.I, Liabilities*, the Investor Protection Fund is used to pay awards to whistleblowers if they voluntarily provide original information to the SEC and meet other conditions. Approved awards are between 10 and 30 percent of the monetary sanctions collected in the covered action or in a related action, with the actual percentage being determined at the discretion of the SEC using criteria provided in the legislation and the related rules to implement the legislation adopted by the SEC.

A Preliminary Determination is a first assessment, made by the Claims Review Staff appointed by the Director of the Division of Enforcement, as to whether the claim should be allowed or denied, and if allowed, what the proposed award percentage amount should be.

Contingent losses are reported as follows:

- A contingent liability is recognized when (a) a positive Preliminary Determination has been made by the Claims Review Staff, (b) collection has been made, and (c) the percentage to be paid can be reasonably estimated. A contingent liability is also disclosed as a range for the minimum and maximum totals of whistleblower awards, using 10 percent and 30 percent of collections, respectively.
- A potential liability is disclosed but not recognized when a positive Preliminary Determination is expected and collection has been received, using 10 percent and 30 percent of collections as the minimum and maximum award amounts, respectively.

At September 30, 2021, commitments and contingencies consisted of the following:

		Estimated Range of Loss	
(DOLLARS IN THOUSANDS)	Accrued Liabilities	Lower End	Upper End
2021 Whistleblower Awards:			
Probable	$ 131,949	$ 47,564	$ 142,692
Reasonably Possible	—	4,869	14,608

At September 30, 2020, commitments and contingencies consisted of the following:

		Estimated Range of Loss	
(DOLLARS IN THOUSANDS)	Accrued Liabilities	Lower End	Upper End
2020 Whistleblower Awards:			
Probable	$ 254,764	$ 122,980	$ 368,939
Reasonably Possible	—	1,701	5,104

A liability (accounts payable) is recognized when a Final Determination has been approved by the Commission and collection has been received. In all cases, the whistleblower award is not paid until amounts have been collected, a final order is issued by the Commission, and the appeal rights of all claimants on the matter have been exhausted.

In the event that whistleblower awards reduce the Investor Protection Fund unobligated balance below $300 million, the Investor Protection Fund will be replenished as described in the "Disgorgement and Penalty Transfers" section of *Note 1.K, Non-Exchange Revenue*. The unobligated balances of the Investor Protection Fund at September 30, 2021 and 2020 were $144 million and $260 million, respectively.

NOTE 6. STATEMENT OF BUDGETARY RESOURCES AND OTHER BUDGETARY DISCLOSURES

A. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

A comparison between the FY 2021 Statement of Budgetary Resources and the actual FY 2021 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2023 Budget, which will contain FY 2021 actual data, is not yet available. The comparison will be presented in next year's financial statements. The FY 2023 Budget, with actual amounts for FY 2021, will be available at a later date at whitehouse.gov/omb/budget/.

There are no differences between the FY 2020 Statement of Budgetary Resources and the FY 2020 data in the Budget.

B. Other Budgetary Disclosures

There were no budgetary resources obligated for undelivered orders as of September 30, 2021 and 2020.

There are no legal arrangements affecting the use of unobligated balances of budget authority, such as time limits, purpose, and obligation limitations.

NOTE 7. RECONCILIATION OF NET COST OF OPERATIONS TO NET OUTLAYS

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

Components of net cost that are not part of net outlays consist of increases and decreases in liabilities, such as accounts payable and contingent liabilities. For the year ended September 30, 2021, the SEC paid $465.6 million to whistleblowers, including $370.3 million awarded during FY 2021. Refer to *Note 4, Liabilities Covered and Not Covered by Budgetary Resources*, and *Note 5, Commitments and Contingencies*, for more information about accounts payable and contingent liabilities.

The primary component of net outlays that is not part of net cost is the collection of non-exchange interest. Non-exchange interest deposited to the U.S. Treasury General Fund is reported on the Statement of Budgetary Resources as distributed offsetting receipts. Distributed offsetting receipts are collections that typically offset the outlays of the agency that conducts the activity generating the receipts. Refer to *Note 1.K, Non-Exchange Revenue*, for more information about non-exchange interest.

For the year ended September 30, 2021:

(DOLLARS IN THOUSANDS)	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 16	$ 442,050	$ 442,066
Components of Net Cost That Are Not Part of Net Outlays:			
(Increase)/Decrease in Liabilities:			
Accounts Payable	—	(99,261)	(99,261)
Other Liabilities (Contingent Liabilities)	—	122,815	122,815
Total Components of Net Cost That Are Not Part of Net Outlays	—	23,554	23,554
Components of Net Outlays That Are Not Part of Net Cost:			
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(2,740)	—	(2,740)
Total Components of Net Outlays That Are Not Part of Net Cost	(2,740)	—	(2,740)
Net Outlays	$ (2,724)	$ 465,604	$ 462,880

For the year ended September 30, 2020:

(DOLLARS IN THOUSANDS)	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 14	$ 378,872	$ 378,886
Components of Net Cost That Are Not Part of Net Outlays:			
(Increase)/Decrease in Liabilities:			
Accounts Payable	—	(78,778)	(78,778)
Other Liabilities (Contingent Liabilities)	—	(204,361)	(204,361)
Total Components of Net Cost That Are Not Part of Net Outlays	—	(283,139)	(283,139)
Components of Net Outlays That Are Not Part of Net Cost:			
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(4,960)	—	(4,960)
Total Components of Net Outlays That Are Not Part of Net Cost	(4,960)	—	(4,960)
Net Outlays	$ (4,946)	$ 95,733	$ 90,787

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facilitating capital formation

OTHER INFORMATION

This section provides additional information related to the SEC's financial and performance management.

Inspector General's Statement on Management and Performance Challenges

Summarizes the most significant management and performance challenges facing the SEC, as identified by management and the Office of Inspector General in accordance with the Reports Consolidation Act of 2000. Also included is a response from the SEC Chair outlining the agency's progress toward addressing these challenges.

Summary of Financial Statement Audit and Management Assurances

Reveals each material weakness and non-conformance found and/or resolved during the U.S. Government Accountability Office's audit, as well as those found by management during the evaluation of internal control and financial systems, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Payment Integrity Reporting Details

Provides information about the SEC's commitment to, and progress with, reducing improper payments, and outlines the efforts taken to recapture improperly-made payments.

Civil Monetary Penalty Adjustment for Inflation

Provides inflationary adjustments to civil monetary penalties, as required by the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended.

INSPECTOR GENERAL'S STATEMENT ON MANAGEMENT AND PERFORMANCE CHALLENGES

OFFICE OF
INSPECTOR GENERAL

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

M E M O R A N D U M

October 8, 2021

TO: Gary Gensler, Chair

FROM: Carl W. Hoecker, Inspector General Carl W. Hoecker

SUBJECT: *The Inspector General's Statement on the SEC's Management and Performance Challenges, October 2021*

The Reports Consolidation Act of 2000 requires the U.S. Securities and Exchange Commission's (SEC or agency) Office of Inspector General to identify and report annually on the most serious management and performance challenges facing the SEC.[1] In deciding whether to identify an area as a challenge, we consider its significance in relation to the SEC's mission; its susceptibility to fraud, waste, and abuse; and the SEC's progress in addressing the challenge. We compiled the attached statement on the basis of our past and ongoing audit, evaluation, investigation, and review work; our knowledge of the SEC's programs and operations; and information from the U.S. Government Accountability Office and SEC management and staff. We reviewed the agency's response to prior years' statements, and assessed its efforts to address recommendations for corrective action related to persistent challenges. We previously provided a draft of this statement to SEC officials and considered all comments received when finalizing the statement. As we begin fiscal year 2022, we again identified the following as areas where the SEC faces management and performance challenges to varying degrees:

- Meeting Regulatory Oversight Responsibilities
- Protecting Systems and Data
- Improving Contract Management
- Ensuring Effective Human Capital Management

We also noted a theme—Strengthening Communication and Coordination Across Divisions and Offices—that emerged through our work over the previous year. Information on this emerging theme, the challenge areas, and the corresponding audit, evaluation, investigation, or review work are discussed in the attachment. If you have any questions, please contact me or Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

[1] Pub. L. No. 106-531, § 3a, 114 Stat. 2537-38 (2000).

Attachment

cc: Prashant Yerramalli, Chief of Staff, Office of Chair Gensler
Heather Slavkin Corzo, Policy Director, Office of Chair Gensler
Kevin R. Burris, Counselor to the Chair and Director of Legislative and Intergovernmental Affairs
Scott E. Schneider, Counselor to the Chair and Director of Public Affairs
Lisa Helvin, Legal Counsel, Office of Chair Gensler
Hester M. Peirce, Commissioner
Benjamin Vetter, Counsel, Office of Commissioner Peirce
Elad L. Roisman, Commissioner
Matthew Estabrook, Counsel, Office of Commissioner Roisman
Allison Herren Lee, Commissioner
Frank Buda, Counsel, Office of Commissioner Lee
Andrew Feller, Counsel, Office of Commissioner Lee
Caroline A. Crenshaw, Commissioner
David Hirsch, Counsel, Office of Commissioner Crenshaw
Kenneth Johnson, Chief Operating Officer
Caryn Kaufmann, Acting Chief Risk Officer and Director/Chief Financial Officer
Matthew Keeler, Management and Program Analyst, Office of Chief Risk Officer

U.S. SECURITIES AND
EXCHANGE COMMISSION

October 8, 2021

OFFICE OF
INSPECTOR GENERAL

The Inspector General's Statement on the SEC's Management and Performance Challenges

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ABBREVIATIONS

CAT	Consolidated Audit Trail
CISA	Cybersecurity and Infrastructure Security Agency
COVID-19	Coronavirus Disease 2019
DERA	Division of Economic and Risk Analysis
DISP	Diversity and Inclusion Strategic Plan
EA	enterprise architecture
EDGAR	Electronic Data Gathering, Analysis, and Retrieval
Enforcement	Division of Enforcement
EXAMS	Division of Examinations
FAR	Federal Acquisition Regulation
FISMA	Federal Information Security Modernization Act of 2014
FY	fiscal year
GAO	U.S. Government Accountability Office
IT	information technology
ISS	infrastructure support services
Kearney	Kearney & Company, P.C.
LH	labor-hour
OA	Office of Acquisitions
OHR	Office of Human Resources
OIEA	Office of Investor Education and Advocacy
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PIB	Performance Incentive Bonus
SAM	System for Award Management
SEC, agency, or Commission	U.S. Securities and Exchange Commission
T&M	time-and-materials
TCR	tips, complaints, and referrals

CHALLENGE: Meeting Regulatory Oversight Responsibilities

The U.S. Securities and Exchange Commission (SEC, agency, or Commission) is charged with overseeing more than 28,000 registered entities, including investment advisers, mutual funds, exchange-traded funds, broker-dealers, municipal advisors, and transfer agents. The agency also oversees 24 national securities exchanges, 9 credit rating agencies, and 7 active registered clearing agencies, as well as the Public Company Accounting Oversight Board, the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investor Protection Corporation, and the Financial Accounting Standards Board. In addition, the SEC is responsible for selectively reviewing the disclosures and financial statements of more than 7,400 reporting companies.

As in previous years, agency management and the Office of Inspector General (OIG) recognize that the SEC's ability to meet its mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation becomes more challenging as the markets, products, and participants within the SEC's purview increase in size and complexity. The SEC's strategic plan establishes goals and initiatives to ensure that the agency focuses on the needs of investors, as well as its ability to adapt to rapidly changing markets, new technology, innovation, and evolving global risks.[1] In addition to the challenging and constantly evolving environment that the SEC operates in, Coronavirus Disease 2019 (COVID-19) has continued to be an unprecedented global health and economic crisis, impacting the SEC as a financial regulator and an employer.

We describe further below an update on the SEC's regulatory response to COVID-19 and certain challenges and opportunities we identified in the agency's investor assistance and education processes. As in previous years, we also reiterate the importance of making the best use of technology and analytics to meet mission requirements and respond to significant developments and trends.

Responding to COVID-19: Regulatory Perspectives

While continuing efforts to ensure the health and safety of its workforce (addressed further on page 20 of this document), the SEC's COVID-19 response has remained focused on market monitoring and engagement with market participants; guidance and targeted regulatory assistance and relief; and enforcement, examinations, and investor protection efforts. Examples of some actions taken since our last statement on the SEC's management and performance challenges include updated staff guidance on conducting annual meetings, additional trading suspensions, and additional enforcement actions in connection with false and misleading claims and disclosures related to COVID-19. Also, in light of the COVID-19 pandemic, the Division of Examinations (EXAMS)[2] indicated in its 2021 statement on examination priorities that it planned to focus examination resources on:

- broker-dealer funding and liquidity risk management practices to assess whether firms have sufficient liquidity to manage stress events;

[1] U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*; October 11, 2018.
[2] In December 2020, the Commission renamed the Office of Compliance Inspections and Examinations the "Division of Examinations."

- how municipal advisors adjusted their practices, if at all; and
- transfer agent business continuity, disaster recovery programs, and cybersecurity measures and account takeover precautions.[3]

More information about the SEC's COVID-19-related actions is available at [SEC Coronavirus (COVID-19) Response](). As we begin fiscal year (FY) 2022, we will continue monitoring the SEC's efforts to meet its regulatory oversight responsibilities throughout this challenging time.

Source: U.S. Securities and Exchange Commission, Strategic Plan Fiscal Years 2018-2022; October 11, 2018.

Investor Assistance and Education

In pursuit of the SEC's mission, agency divisions and offices assist investors and members of the public with complaints and questions about the SEC, the securities markets, and market participants; conduct educational outreach; and receive and respond to tips, complaints, and referrals (TCRs) about possible violations of the federal securities laws. The SEC's strategic plan (Goal 1 and related strategic initiatives) reflects the importance of these efforts.

In 2021, we completed evaluations of Office of Investor Education and Advocacy (OIEA) operations and the SEC's management of its TCR program, and we brought to management's attention specific challenges that threaten achievement of the agency's goal of focusing on the long-term interests of Main Street investors. For example, in our report titled, *The SEC's Office of Investor Education and Advocacy Could Benefit From Increased Coordination, Additional Performance Metrics, and Formal Strategic Planning* (Report No. 564, issued January 13, 2021), we notified management that:

- The Office of Investor Assistance could improve its communication and coordination with the SEC's regional offices on the handling of investor assistance matters, as we recommended in a previous audit from 2011.
- OIEA had not engaged in formal strategic planning to further develop measurable goals and detailed objectives to help inform investor education and outreach decision-making.
- OIEA had not developed methods to measure the efficacy of its investor education and outreach activities.

We made four recommendations intended to help management (1) ensure that investor specialists throughout the SEC provide consistent assistance to investors; (2) determine the best course of action to achieve the SEC's investor education and outreach goals and objectives, and minimize the risk of activities that may not fully address the agency's strategic plan; and (3) engage in effective financial education activities and make data-driven improvements in the future to ensure the organization achieves established goals and objectives. Management concurred with all four of our recommendations and, as of

---

[3] U.S. Securities and Exchange Commission, *Division of Examinations, 2021 Examination Priorities*; March 3, 2021.

the date of this document, had taken action sufficient to close three of them. The remaining recommendation is open and will be closed upon completion and verification of corrective action.

In addition, in our final management letter titled, *Actions May Be Needed To Improve Processes for Receiving and Coordinating Investor Submissions* (issued May 24, 2021), we reported certain challenges and risks inherent in maintaining multiple public-facing reporting mechanisms and processes for receiving and, when necessary, transferring between SEC organizations matters submitted by investors.[4] We noted that the majority of investor submissions are received from portals on the SEC's public website. However, at the time of our review, the primary landing page for the public to submit matters to the SEC may not have clearly explained the options for contacting the agency. In addition, a 2011 investor publication titled, *SEC Center for Complaints and Enforcement Tips*, encouraged investors to file complaints using the SEC's online TCR system and complaint form. Yet a 2017 investor bulletin titled, *Investor Complaints*, directed investors to OIEA's investor complaint form, which linked to a different system. In sum, we observed that the SEC may benefit from assessing and, as needed, revising information on its public website to ensure retail investors and others have clear and easily understood instructions for reporting matters to the agency. In response, agency management notified us that they reviewed information on the investor submission landing page and linked from subpages, took steps to remove outdated subpages, discussed future enhancements, and will work on an interim update, including improved graphics and instructions, to enhance the user experience.

As we begin FY 2022, we will continue monitoring agency plans and actions to improve (1) investor assistance and education efforts, and (2) interfaces between critical public-facing reporting mechanisms.

Use of Technology and Analytics To Meet Mission Requirements and Respond to Significant Developments and Trends

Agency management and the OIG continue to recognize the importance of technology and analytics in the SEC's ability to efficiently and effectively meet mission requirements and respond to significant developments and trends in the evolving capital markets. The SEC's strategic plan (Goals 2 and 3 and related strategic initiatives) reflects the importance of these efforts. Additionally, as stated in the SEC's FY 2022 Congressional Budget Justification, "The increasing size and complexity of U.S. markets require that the SEC continue leveraging technology to keep pace with the increases in data the agency is required to receive, process, analyze, and make available to the investing public."[5]

GOAL 2
Recognize significant developments and trends in our evolving capital markets and adjust our efforts to ensure we are effectively allocating our resources.

GOAL 3
Elevate the SEC's performance by enhancing our analytical capabilities and human capital development.

Source: U.S. Securities and Exchange Commission, Strategic Plan Fiscal Years 2018-2022; October 11, 2018.

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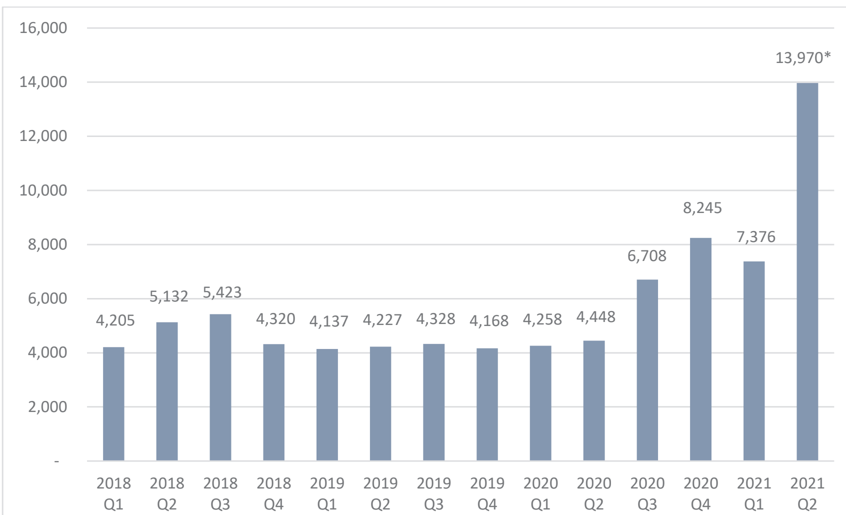
[4] Such matters include investor questions and complaints related to order handling, dividends, fees, and misleading disclosures by investment professionals; matters submitted through the TCR system; and investor concerns and questions about the SEC or a self-regulatory organization the SEC oversees, or questions about securities law and policy.

[5] U.S. Securities and Exchange Commission, *Fiscal Year 2022 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2020 Annual Performance Report*; May 28, 2021.

Notably, the Division of Enforcement's (Enforcement) most recent annual report described the division's use of risk-based analytic approaches to uncover potential accounting and disclosure violations, as well as potential violations related to corporate perquisites.[6] EXAMS also reported enhancing its use of new technology and advanced data analytics to improve examination processes, identify risks and prioritize examination candidates, and further analyze information collected during inspections.[7] Gaining efficiencies where possible, including through the use of technology and analytics, is key to organizational success, particularly as Enforcement, EXAMS, and other SEC divisions contend with growth in their areas of regulatory responsibility, and respond to a variety of developments and capital market trends.

For example, over the last year, Enforcement experienced a significant increase in the submission of TCRs, each of which requires review and analysis to identify those that warrant potential further investigation or response. As Figure 1, from our recently completed evaluation of the SEC's management of the TCR program, shows, the upward trend in TCR volume that began after the outset of the COVID-19 pandemic in FY 2020, Quarter 3 continued into FY 2021.

FIGURE 1. TCRs Received Each Quarter Between FY 2018 and FY 2021, Quarter 2



Source: U.S. Securities and Exchange Commission, Office of Inspector General, The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program (Report No. 566; February 24, 2021).

** TCRs received as of February 20, 2021.*

According to Enforcement's Office of Market Intelligence, the organization began using temporary SEC staff detailees and leveraging technology to process the increases in TCRs. In our February 2021 evaluation report (Report No. 566), we recommended actions to further strengthen the SEC's TCR program and TCR system management and development, and we encouraged management to continue

[6] U.S. Securities and Exchange Commission, *Division of Enforcement, 2020 Annual Report*; November 2, 2020.

[7] U.S. Securities and Exchange Commission, *Division of Examinations, 2021 Examination Priorities*; March 3, 2021.

to monitor the upward trend in TCRs, and determine whether additional actions, resources, or staff allocations are needed. Management concurred with our recommendations, which, as of the date of this document, are open and will be closed upon completion and verification of corrective action taken.

With respect to EXAMS, as reported in previous years, the division continues to be challenged by growth in the number of registered investment advisers.[8] Moreover, as the rules on security-based swaps required by Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act go into effect in fall 2021, the SEC estimates that 45 to 50 entities will register as security-based swap dealers who will be subject to various requirements including reporting security-based swap transactions to registered security-based swap data repositories. In December 2020 the SEC stood up a staff joint venture, led by EXAMS and the Division of Trading and Markets, to help coordinate actions to regulate security-based swaps, including monitoring related transaction data for regulatory purposes, and oversee newly registered security-based swaps entities.[9]

Other examples of new regulatory responsibilities or capital market trends facing the SEC include:

- implementation of Regulation Best Interest;[10]
- a "once-in-a-generation wave" of traditional initial public offerings and an "unprecedented surge" in non-traditional initial public offerings by special purpose acquisition companies;
- the growing size and number of private equity funds;
- significant growth in crypto assets; and
- the rise of financial technology and data analytics.[11]

In response, the agency has requested additional resources and continues to make significant investments in a multi-year strategy to (1) enhance the security and management of sensitive data; (2) enable and bolster analytics capabilities to provide timely analyses of market and regulatory data; and (3) modernize and enhance key systems and processes, including those supporting the enforcement and examinations programs. Chief among these initiatives is the Consolidated Audit Trail (CAT), which is designed to facilitate cross-market oversight and analysis and continues to develop in functionality with the principal purpose of enhancing regulatory oversight of securities markets.[12] According to the SEC's

[8] Management reported in the SEC's FY 2020 Annual Performance Report and FY 2022 Annual Performance Plan (under Strategic Goal 4) that in FY 2020 EXAMS maintained a 15-percent coverage ratio for investment advisers despite disruptions caused by COVID-19, adding, "Investment adviser examinations and coverage will be a continued focus for the Commission during FY 2021 and FY 2022, and EXAMS expects that annual coverage rates will remain relatively stable despite the significant growth and complexity of these registrants. EXAMS will continue to leverage program efficiencies implemented in recent years along with a continued investment in human capital in its efforts to maintain coverage levels of these important entities."

[9] U.S. Securities and Exchange Commission, *SEC Announces the Creation of the Security-Based Swaps Joint Venture, Led by Division of Examinations and Division of Trading and Markets*; December 18, 2020.

[10] 17 C.F.R. § 240.17a-3 and 17 C.F.R. § 240.17a-4.

[11] U.S. Securities and Exchange Commission, *Fiscal Year 2022 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2020 Annual Performance Report*; May 28, 2021.

[12] In July 2012, the SEC adopted Rule 613, *Consolidated Audit Trail*, to require national securities exchanges and national securities associations to submit a national market system plan to create, implement, and maintain a consolidated order tracking system, or consolidated audit trail, with respect to the trading of national market system securities, that would capture customer and order event information for orders in national market system securities, across all markets, from the time of order inception through routing, cancellation, modification, or execution. *See* 17 C.F.R. § 242.613.

FY 2022 Congressional Budget Justification, full implementation of CAT national market system plan requirements is scheduled to continue through the end of FY 2022. The SEC is working to establish an environment and applications to use CAT data as it becomes available. As noted in the SEC Chair's May 2021 congressional testimony, the CAT can play a key part in the SEC's response to significant developments and capital market trends, as the data that CAT will provide is expected to "significantly enhance the self-regulatory organizations' and SEC's capabilities to identify potentially violative conduct and develop data-driven policies."[13]

CAT can play a key part in the SEC's response to significant developments and trends

Because the SEC's investments in information technology (IT) systems and system modernization efforts directly support its ability to respond to significant developments and trends and meet its regulatory oversight requirements, we sought to determine the extent to which the SEC has implemented an effective enterprise architecture (EA) program to guide and facilitate the modernization of the agency's IT environment. Our report titled, *Additional Steps Are Needed For the SEC to Implement A Well-Defined Enterprise Architecture* (Report No. 568, issued September 29, 2021), concluded, among other things, that the SEC did not document a formal strategy for the continued use and/or retirement of an enterprise platform that supports multiple critical SEC business applications (including those supporting the enforcement and examinations programs) even though agency records indicated that the platform no longer met the SEC's business needs and strategic goals. In the section that follows, we further describe the results of this audit and our other IT-related oversight work, along with the SEC's progress and continuing challenges in its efforts to protect systems and data.

Ongoing and Anticipated OIG Work. To assess the SEC's progress in areas vital to its ability to effectively and efficiently meet its regulatory oversight responsibilities, in FY 2022, we will continue monitoring the SEC's regulatory response to COVID-19. We will also follow-up on open recommendations intended to improve the SEC's investor assistance and education efforts, the TCR program, and aspects of the SEC's IT program, and we will complete ongoing audits of EXAMS' registered investment adviser examination planning processes and the SEC's whistleblower program. Finally, we will initiate reviews of the SEC's oversight of entity compliance with Regulation Best Interest, efforts to emphasize expediency in Enforcement's case management activities, and agency efforts to establish a secure environment and applications to use CAT data.

[13] Chair Gary Gensler, *Testimony Before the Subcommittee on Financial Services and General Government, U.S. House Appropriations Committee*; May 26, 2021.

CHALLENGE: Protecting Systems and Data

As the U.S. Government Accountability Office (GAO) noted in March 2021, "IT systems supporting federal agencies and our nation's critical infrastructures are inherently at risk," as threat actors are increasingly willing and able to conduct cyberattacks with the potential to disrupt critical operations, access sensitive information, and threaten economic well-being. In a single four-month period during FY 2021, the Cybersecurity and Infrastructure Security Agency (CISA) issued at least three emergency directives and/or alerts regarding threat actors who gained access to and/or exploited government agencies, servers, and national infrastructure. This included the SolarWinds Orion Code Compromise, in which a threat actor installed malicious code into a file used as part of SolarWinds Orion software updates.[14] This provided the threat actor with a "backdoor" to remote access systems running the affected software updates. According to CISA, SolarWinds' public and private sector customers installed these affected software updates between March and December 2020, before the compromise was made public.[15]

SEC management has recognized the importance of "developing a robust and resilient program for dealing with threats to the security, integrity, and availability of the SEC's systems and sensitive data."[16] According to its FY 2022 Congressional Budget Justification, the SEC is also committed to enhancing its expertise and capabilities to oversee and manage agency data, which include publicly available data sets, internal agency data, and market-sensitive data. In support of agency goals and objectives, in FY 2020, the SEC spent about $357 million on 415 steady state investments and on 123 investments for the development, modernization, and enhancement of SEC systems.[17] This represented about 14 percent of the agency's total budgetary resources for the year.[18] As we describe further below, opportunities remain to improve overall management of the SEC's IT investments, including by strengthening the agency's cybersecurity posture and continuing to mature its information security program.

"Protecting information systems and data is a top priority effort…"

Source: SEC Response to The Inspector General's Statement on the SEC's Management and Performance Challenges, October 2020.

Strengthening the SEC's Cybersecurity Posture

In its FY 2020 Agency Financial Report, the SEC reported that the results of a third party assessment demonstrated that the SEC has an effective system of internal controls with respect to information security. However, management recognized that this determination does not guarantee the agency's systems are immune from cyber attacks or that an incident could not occur. In its FY 2022 Congressional

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[14] U.S. Government Accountability Office, *High Risk Series: Federal Government Needs to Urgently Pursue Critical Actions to Address Major Cybersecurity Challenges* (GAO-21-288; March 24, 2021).

[15] CISA Alert AA20-352A, *Advanced Persistent Threat Compromise of Government Agencies, Critical Infrastructure, and Private Sector Organizations* (December 17, 2020, revised April 15, 2021).

[16] U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*, Strategic Initiative 3.4; October 11, 2018.

[17] Steady state investments sustain existing information systems at their current capability and performance levels, and include costs for software or equipment support, maintenance, and replacing IT equipment. In comparison, development, modernization, and enhancement investments lead to new IT assets or systems, or change or modify existing IT assets to substantively improve capability or performance.

[18] For the year ended September 30, 2020, the SEC's total budgetary resources equaled $2.6 billion. *See* U.S. Securities and Exchange Commission, *Agency Financial Report Fiscal Year 2020*; November 12, 2020.

Budget Justification, the SEC stated that protecting information systems and data is a top priority effort that must meet the challenges introduced by new technology, new threats, and new business drivers. SEC management remains mindful that governmental agencies, financial market participants, and private sector entities must be vigilant because they are subject to frequent attempts by unauthorized actors to disrupt public-facing systems, access data, or otherwise damage technology infrastructure.

Recognizing there is more work to be done, in FY 2021 and FY 2022 the SEC plans to make strides to:

- support the implementation of security services within agency-selected cloud capabilities;
- enhance identity, access, and privilege management protocols and operations across platforms;
- modernize security operations capabilities focusing on automation, integration of shared services and experts through managed services, and proactive capabilities to identify threats; and
- continue the implementation of a secure application development structure across all agency development teams and projects.

In FY 2021, the Office of Information Technology (OIT) made progress, including taking corrective action sufficient to close the two remaining recommendations from an OIG review completed after a widely-publicized 2016 intrusion of the SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.[19] However, as the following table summarizes, work remains to close other cybersecurity-related recommendations we issued before FY 2021.

TABLE 1. Certain Open Cybersecurity Recommendations as of October 2021*

Report	Date Issued	Recommendation
The SEC Can More Strategically and Securely Plan, Manage, and Implement Cloud Computing Services (Report No. 556)	11/7/2019	Recommendation 3
Opportunities Exist To Improve the SEC's Management of Mobile Devices and Services (Report No. 562)	9/30/2020	Recommendations 5 and 6

Source: OIG-generated based on recommendation tracking and follow-up records.

** This does not include recommendations issued in connection with mandated annual information security evaluations, which we discuss on page 10 of this document.*

In addition, in the wake of the SolarWinds compromise, in FY 2021 we initiated and completed a special review of the SEC's initial response and compliance with CISA Emergency Directive 21-01, *Mitigate SolarWinds Orion Code Compromise* (dated December 13, 2020), and supplemental guidance. Our scope was limited to SEC compliance and response efforts from December 2020 and January 2021. Though we did not conduct an audit or evaluation pursuant to generally accepted government auditing standards or the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for*

[19] In response to the 2016 intrusion of the EDGAR system and a request from the then SEC Chairman that the OIG review related matters, on September 21, 2018, we issued a report titled, *Evaluation of the EDGAR System's Governance and Incident Handling Processes* (Report No. 550). The report (1) presented the OIG's findings and recommendations from our assessment of the information security practices applicable to the EDGAR system between FY 2015 and FY 2017, and (2) included 14 recommendations to improve the SEC's EDGAR system governance, security practices, and incident handling processes. In FY 2021, OIT fully implemented the remaining two open recommendations stemming from our work.

Inspection and Evaluation, on August 3, 2021, we issued to the SEC a non-public management letter. On September 2, 2021, the SEC provided a response.

Also, as previously stated, the full implementation of CAT national market system plan requirements is scheduled to continue through the end of FY 2022. CAT data allows for the prompt and accurate recording of material information about all orders in national market system securities, including the identity of customers, as these orders are generated and then routed throughout the U.S. markets until execution, cancellation, or modification. As of the date of this document, interim policies and procedures govern the use of the system through which approved personnel access CAT data. With respect to cybersecurity, finalizing relevant policies and procedures and ensuring appropriate safeguards for any data available and accessed through CAT is of paramount concern.

Maturing the SEC's Information Security Program

Effective information security controls are essential to protecting the SEC's information systems and the information they contain. To help the SEC establish and maintain effective information security controls and to comply with the Federal Information Security Modernization Act of 2014 (FISMA), the OIG annually evaluates the SEC's implementation of FISMA information security requirements and the effectiveness of the agency's information security program on a maturity model scale.[20] The OIG contracted with Kearney & Company, P.C. (Kearney) to conduct the FY 2020 independent evaluation and, on December 21, 2020, issued the report titled, *Fiscal Year 2020 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 563). The FY 2021 FISMA evaluation is ongoing and will be completed in the first quarter of FY 2022.

As stated in Report No. 563, since FY 2019 OIT improved aspects of the SEC's information security program. Among actions taken, OIT made progress in refining risk management tools, improving the timeliness of security patch deployments, enhancing security awareness and training processes, continuing to enhance the continuous monitoring program, and improving incident response capabilities. Notably, these improvements occurred despite the unique challenges presented by COVID-19.

In FY 2020, the SEC's maturity level was primarily "Defined" or "Consistently Implemented"

Although the SEC strengthened its program, Kearney determined for FY 2020 that the agency's information security program did not meet annual Inspector General FISMA reporting metrics' definition of "effective," which requires the simple majority of domains to be rated as Level 4 ("Managed and Measurable").[21] As stated in Report No. 563, the SEC's maturity level for the five Cybersecurity Framework security functions ("identify," "protect," "detect," "respond," and "recover") and related domains was primarily either Level 2 ("Defined") or Level 3 ("Consistently Implemented"), though two functions, Contingency Planning and Incident Response, reached Level 4 ("Managed and Measurable") and one function, Risk Management, improved one maturity level from the prior year. Although the SEC's

[20] Pub. L. No. 113-283, § 3555, 128 Stat. 3073 (2014).

[21] *FY 2020 Inspector General Federal Information Security Modernization Act of 2014 (FISMA) Reporting Metrics, Version 4.0*; April 17, 2020.

program, as a whole, did not reach the level of an effective information security program, the agency has shown significant improvement at the domain levels. Table 2 shows the SEC's FISMA ratings in FY 2019 and FY 2020.

TABLE 2. Summary of SEC FISMA Ratings (FY 2019 and FY 2020)

Domain	Assessed Rating By FY	
	2020	2019
Risk Management	Level 3: *Consistently Implemented*	Level 2: *Defined*
Configuration Management	Level 2: *Defined*	Level 2: *Defined*
Identity and Access Management	Level 2: *Defined*	Level 2: *Defined*
Data Protection and Privacy	Level 3: *Consistently Implemented*	Level 3: *Consistently Implemented*
Security Training	Level 2: *Defined*	Level 2: *Defined*
Information Security Continuous Monitoring	Level 3: *Consistently Implemented*	Level 3: *Consistently Implemented*
Incident Response	Level 4: *Managed and Measurable*	Level 3: *Consistently Implemented*
Contingency Planning	Level 4: *Managed and Measurable*	Level 4: *Managed and Measurable*

Source: OIG-generated based on Exhibit 1 from Report No. 563.

Report No. 563 included seven new recommendations to strengthen the SEC's information security program, and highlighted opportunities to improve in six of the eight FY 2020 Inspector General FISMA reporting metric areas. To date, the SEC has taken corrective action sufficient to close two of these seven recommendations. However, 11 recommendations from prior year FISMA evaluations remain open (4 from FY 2017,[22] 3 from FY 2018,[23] and 4 from FY 2019[24]). We commend agency management for the actions taken to date, and encourage management to promptly act on all opportunities for improvement identified in the last four FISMA reports to help minimize the risk of unauthorized disclosure, modification, use, and disruption of the SEC's sensitive, non-public information, and to assist the agency's information security program reach the next maturity level.

Additionally, regarding the SEC's efforts to plan and implement cloud computing strategies, Recommendation 2 from our 2019 report (*The SEC Can More Strategically and Securely Plan, Manage, and Implement Cloud Computing Services*; Report No. 556, issued November 7, 2019) remains open. To recap our findings, we found that the SEC developed a strategy that defined the goals and objectives of the agency's cloud program, and a plan that established cloud-related goals. However, the SEC did not fully implement its cloud strategy; follow a clear, robust strategic plan to evaluate and prioritize IT services and applications for migration to the cloud; or effectively track related goals. Instead, the agency used an "ad hoc" or "as-needed" approach to implementing cloud computing. In June 2021, OIT requested closure

[22] U.S. Securities and Exchange Commission, Office of Inspector General, *Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017* (Report No. 546; March 30, 2018).

[23] U.S. Securities and Exchange Commission, Office of Inspector General, *Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 552; December 17, 2018).

[24] U.S. Securities and Exchange Commission, Office of Inspector General, *Fiscal Year 2019 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 558; December 18, 2019).

of Recommendation 2 based on corrective action taken; however, those actions did not fully address the intent of the recommendation. We will continue tracking OIT's efforts related to this matter.

Also, in our audit report titled, *The SEC Has Taken Steps to Strengthen Its Monitoring of ISS Contractor's Performance, But Additional Actions Are Needed* (Report No. 565, issued February 24, 2021), we identified needed improvements in the SEC's oversight of its infrastructure support services (ISS) contract. The ISS contract is the SEC's largest contract valued at about $362 million as of December 2020. It covers areas critical to the agency's IT program, including service desk support, network support, data center operations, contingency planning support, EA, and common services, among others. We determined that agency officials did not establish processes and controls for communicating contractor performance issues, monitoring the implementation of contractor corrective action plans, and documenting past performance assessments. As a result, we identified gaps in the SEC's oversight of key contract areas supporting the agency's IT program, among other findings and needed corrective actions further addressed on page 14 of this document.

Finally, as previously mentioned, we completed an audit in September 2021 to determine the extent to which the SEC has implemented an effective EA program (*Additional Steps Are Needed For the SEC to Implement A Well-Defined Enterprise Architecture*; Report No. 568, issued September 29, 2021). We found that although the SEC has efforts underway to develop an enterprise roadmap for future years, for FYs 2020 and 2021, the SEC did not (1) prepare and submit to the Office of Management and Budget (OMB) an up-to-date enterprise roadmap, and (2) fully develop or maintain a complete set of EA artifacts in accordance with OMB guidance. We also determined that the SEC's oversight of contracts for EA support services can be improved (further addressed on page 15 of this document). Lastly, OIT did not periodically assess IT investments in accordance with Federal and SEC guidance, and (as previously mentioned) did not document a formal strategy for the continued use and/or retirement of an enterprise platform that supports multiple critical SEC business applications. We made six recommendations to strengthen the effectiveness of the SEC's EA program. Management concurred with our recommendations, which, as of the date of this document, are open and will be closed upon completion and verification of corrective action taken.

Fully implementing recommended corrective actions from these audits and evaluations may assist the SEC as it seeks to mature aspects of its information security program, generally, and its IT program and program management, specifically.

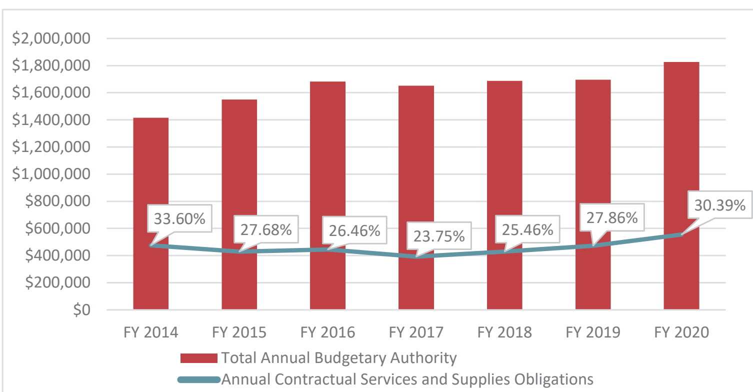
Ongoing and Anticipated OIG Work. In FY 2022, we will continue to assess the SEC's efforts to secure its systems and data and mature its information security program. We will follow-up on related open recommendations, complete the ongoing FY 2021 FISMA evaluation, and initiate the FY 2022 FISMA evaluation. Also, as previously mentioned, we will initiate a review of the SEC's efforts to establish a secure environment and applications to use CAT data. We also plan to evaluate the design and implementation of controls over the use and handling of data collected as a result of the Investment Company Reporting Modernization Rule.

CHALLENGE: Improving Contract Management

Synopsis and Trends in SEC Contracting

To accomplish its mission, the SEC relies substantially on contractor support obtained through a variety of actions, including enterprise-wide contracts, General Services Administration multiple award schedule contracts, government-wide acquisition contracts, and multi-agency contracts. To fund its contract requirements, the SEC's FY 2022 budget request included over $597 million for contractual services and supplies,[25] which represents nearly 30 percent of the total $1.992 billion requested for agency operations. As we reported in our October 2020 statement on the SEC's management and performance challenges, although actual annual obligations for contractual services and supplies, when expressed as a percentage of the SEC's total annual budgetary authority, decreased from about 34 percent in FY 2014 to about 24 percent in FY 2017, that trend has reversed with the increases made over the last three fiscal years. (See Figure 2.) It is essential that the SEC (through its acquisition workforce) manage these resources, which consistently represent more than a quarter of its annual budget. Although the Office of Acquisitions (OA) is responsible for procuring all goods and services—except real property—for the agency, the SEC's acquisition workforce includes any employee playing a key role in the acquisition and contracting process, including contracting professionals in the 1102 job series, program and project managers, and contracting officer's representatives, who are responsible for most aspects of contract management and administration. Agency policy makes clear that members of the acquisition workforce must work together to ensure effective contract management.

FIGURE 2. SEC Annual Contractual Services and Supplies Obligations, in Thousands, as a Percentage of Total Annual Budgetary Authority (FY 2014 – FY 2020)

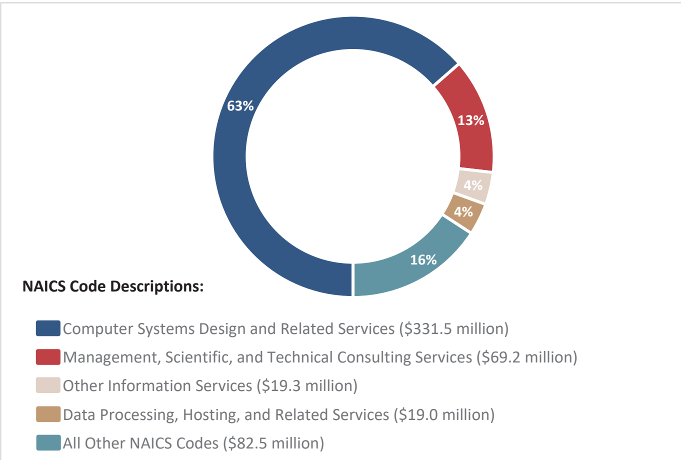


Source: OIG-generated based on SEC Congressional Budget Justifications for FY 2015 through FY 2022.

[25] According to OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (August 2021), the contractual services and supplies object class covers purchases in object classes 21.0 through 26.0 (Travel and transportation of persons; Transportation of things; Rent, Communications, and Utilities; Printing and reproduction; Other contractual services; and Supplies and materials).

Contractors provide the SEC with professional legal, case, and investigation-related services; support in the areas of accounting, analytics, compliance, and examinations; and business management and human resources support services. However, the majority of the SEC's contract support, by dollars obligated, is for IT services. These services include, among others, application management, business solutions delivery, IT infrastructure and operations management, information security, IT governance, data management, and hardware and software services. Indeed, a review of the top North American Industry Classification System (NAICS) codes[26] associated with SEC contracts in FY 2020 (as reported through *SAM.gov*[27]) shows that, of the nearly $522 million obligated to contract actions that year, the SEC obligated about 67 percent (or about $351 million) to vendors doing business under NAICS codes for computer systems design, data processing, hosting, and related services. (See Figure 3.)

FIGURE 3. Top Five NAICS Codes Associated With the SEC's FY 2020 Contract Obligations



Source: OIG-generated from data retrieved from SAM.gov on August 17, 2021.

The SEC procures many of these IT services through its One IT enterprise contract vehicle, which has a 10-year ordering period and contract ceiling of $2.5 billion, and through which the agency has made over two dozen small and large business awards. Because IT support is paramount to agency operations, and IT support contracts make up the majority of the SEC's contract obligations, in FY 2021 we reviewed contracts managed by OIT and supporting the agency's IT program. Below, we describe needed improvements.

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[26] NAICS is a comprehensive industry classification system that covers all economic activities and groups establishments into industries based on the similarity of their production processes. Among other things, U.S. statistical agencies use NAICS to provide uniformity and comparability in the presentation of statistical data describing the U.S. economy. FAR 19.102(b) requires contracting officers to assign one NAICS code to all government solicitations, contracts, and task and delivery orders based on the product or service being acquired and its principal purpose.

[27] The System for Award Management (SAM) is a U.S. General Services Administration Federal Government computer system that, among other things, allows users to create and run reports of detailed information on contract actions that are required to be reported by federal agencies. These are actions with an estimated value of $10,000 or more.

"...contract management is the primary part of the procurement process that ensures the SEC gets what it pays for."

Source: SEC Operating Procedure SECOP 10-1, Acquisition Authority and Lifecycle, May 2019.

Management of IT Support Services Contracts

In FY 2021, we completed two audits that involved four IT support contracts. The first was an audit of the SEC's oversight of its ISS contractor's performance. The ISS contract provides support for a variety of tasks critical to the agency's IT program.[28] Next, we reviewed three EA support services contracts, including one issued through the SEC's One IT enterprise contract vehicle, during our audit of the SEC's efforts to implement an effective EA program. We also reviewed aspects of the ISS contract during this audit.[29] Each of these contracts required coordinated actions and oversight from multiple OA and OIT officials, and, as part of both audits, we recommended that OA and OIT implement corrective actions to improve their coordination and contract management.

In accordance with the Federal Acquisition Regulation (FAR) and SEC policies and procedures, the ISS contract included various surveillance tools to support the goal of timely, organized, and well-documented oversight. However, the SEC did not effectively implement tools for monitoring the contractor's performance to drive desired performance outcomes. Specifically, the SEC did not: (1) timely finalize or distribute a comprehensive quality assurance surveillance plan for the ISS contract; (2) ensure corrective action plans were fully implemented for two known contractor performance issues; and (3) timely prepare required contractor performance evaluations, or include details sufficient to accurately support the contractor's performance ratings. In addition, OA and OIT personnel did not clearly identify or track deliverables updates throughout the contract's performance.

These conditions occurred as the SEC did not prioritize establishing clear roles and responsibilities between OA and OIT officials to ensure compliance with quality assurance surveillance requirements, and did not establish processes and controls for a number of key contract management actions including communicating contractor performance issues, monitoring the implementation of contractor corrective action plans, and documenting past performance assessments. As a result, we found (1) errors in contractor service level agreement calculations; (2) untimely, unused, or inaccurate contract deliverables; and (3) missed opportunities to formally document contractor performance issues.

IT support contracts make up the majority of the SEC's contract obligations

In 2020, the SEC took steps to strengthen its monitoring of the ISS contractor's performance, including reconciling ISS statement of work language to its deliverables attachment; creating an ISS governance board to prioritize initiatives and enhance communication; and updating OA's process to address overdue contractor performance evaluations. However, additional actions are needed to provide further assurance that efficient surveillance methods and effective cost controls are used for the

[28] U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Has Taken Steps to Strengthen Its Monitoring of ISS Contractor's Performance, But Additional Actions Are Needed* (Report No. 565; February 24, 2021). This was the second in a series of audits related to the ISS contract. The first audit report was titled, *The SEC Can Better Manage Administrative Aspects of the ISS Contract* (Report No. 554; May 31, 2019).

[29] U.S. Securities and Exchange Commission, Office of Inspector General, *Additional Steps Are Needed For the SEC to Implement A Well-Defined Enterprise Architecture* (Report No. 568; September 29, 2021).

remaining life of the contract, and to ensure that the SEC safeguards the government's interest by complying with federal, agency, and contract requirements for quality assurance surveillance in the future.

We made seven recommendations to improve the SEC's contract management, including the oversight of the ISS contract. Management concurred with our recommendations, and, to date, has taken action sufficient to close five of the recommendations. The remaining two recommendations are open and will be closed upon completion and verification of corrective action taken.

Regarding our audit of the SEC's EA program, we reported that EA can help organizations realize cost savings and/or cost avoidance, enhance information sharing, and optimize service delivery. Additionally, attempting to modernize and evolve IT environments without an EA to guide and constrain investments often results in operations and systems that are duplicative, not well integrated, unnecessarily costly to maintain and interface, and ineffective in supporting mission goals. The SEC relies on contractors for EA support services, including developing EA artifacts, standards, processes, and guidelines and performing the SEC's annual EA self-assessment, and we determined that the SEC's oversight of EA support services contracts can be improved. Specifically, we found that:

- two EA support services contracts potentially overlapped as the SEC awarded a new contract for EA support services already covered under an existing contract;
- OIT tasked two contractors with reviewing artifacts, policies, procedures, and guidance the contractors helped create, which raises the potential of conflicting roles that might bias a contractor's judgment and impair its ability to be objective; and
- OIT did not adequately oversee contracts for EA support services to ensure the SEC's annual EA self-assessment results were adequately supported.

These conditions occurred, in part, because different OIT branches initiated and oversaw the SEC's EA support services contracts, and OIT did not define or establish robust processes for monitoring contractors' activities. In addition, OA did not clarify relevant contractual language to prevent the appearance of a potential organizational conflict of interest. As a result, between June and August 2020, the SEC spent more than $1 million on two contracts for potentially duplicative application and data rationalization tasks. Also, contractors' objectivity might have been impaired with respect to performing the SEC's annual EA self-assessments, which may have misled agency officials about the state of the SEC's EA program. Without an accurate understanding of the design and operating effectiveness of EA core elements, responsible agency officials may invest or continue to invest in organizational operations and supporting technology infrastructures and systems that are duplicative, poorly integrated, unnecessarily costly to maintain and interface, and unable to respond quickly to shifting environmental factors. To improve the SEC's oversight of EA support services contracts, we made one recommendation addressed jointly to OIT and OA. Management concurred with our recommendation, which, as of the date of this document, is open and will be closed upon completion and verification of corrective action taken.

Use of Time-and Materials Contracts

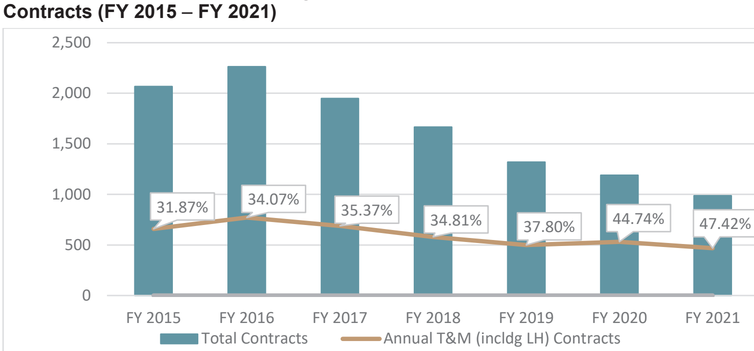
In our 2019 statement on the SEC's management and performance challenges, we reported on the SEC's use of time-and-materials (T&M) contracts (including labor-hour [LH] contracts) and, in 2020, we noted that such contracts represented an increasing percentage of all SEC contract actions.[30] In both years, we encouraged management to assess the SEC's use of T&M contracts and to formulate actions to reduce their use whenever possible because, as FAR Subpart 16.6, *Time-and-Materials, Labor-Hour, and Letter Contracts*, states, a T&M contract:

- ". . . provides no positive profit incentive to the contractor for cost control or labor efficiency."
- ". . . may be used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence."

Moreover, the SEC's operating procedure that prescribes the policies, responsibilities, and procedures for SEC acquisitions states that T&M contracts "are the least preferred contract type because it [sic] places maximum risk on the Government through payment for time delivered rather than a measurable outcome with measurable quality attributes." The operating procedure also states that use of T&M contracts "must be limited to the maximum extent possible" as they "fail to incentivize the contractor to perform effectively or control costs" and place "a high administrative burden on the Government."[31]

Nonetheless, SEC contract data reported through usaspending.gov shows that, despite the overall decrease in total contract actions each year since FY 2016, the government's risk from the SEC's use of T&M contracts has continued to increase. Specifically, the percentage of SEC T&M contracts relative to all SEC contract actions has increased again from about 45 percent in FY 2020 to about 47 percent in FY 2021. (See Figure 4.) In addition, as of September 30, 2021, the total amount obligated to T&M contracts represented about 53 percent of all SEC contract obligations.[32]

FIGURE 4. Number and Percentage of SEC T&M Contracts Compared to Total SEC Contracts (FY 2015 – FY 2021)



Source: OIG-generated from data retrieved from usaspending.gov on September 30, 2021.

[30] As stated in FAR 16.602, *Labor-hour contracts*, LH contracts are a variation of T&M contracts and differ only in that materials are not supplied by the contractor.

[31] SEC Operating Procedure 10-1, *Acquisition Authority and Lifecycle*; May 21, 2019.

[32] According to usaspending.gov, total (that is, cumulative) award obligations for all active SEC contracts as of September 30, 2021, was $2.14 billion, of which total award obligations for T&M contracts was $1.12 billion.

In response to our October 2019 and October 2020 statements on the SEC's management and performance challenges, management reported that OA is continuing its Contract Management Excellence Initiative to further promote effective contract management. Regarding T&M contracts, these efforts include: a new independent government cost estimate guide (which addresses estimating T&M costs), T&M contracts training, contract file compliance reviews, and roundtables on invoicing.

Notwithstanding management's actions to mitigate the growing risk of its reliance on T&M contracts, recent audits of the SEC's management of the ISS contract—the agency's largest active contract, which is a T&M contract—have shown that contracting officials did not comply with FAR requirements for (1) preparing determination and findings statements, documenting that no other contract type was suitable;[33] and (2) conducting appropriate government surveillance of contractor performance to obtain reasonable assurance that the contractor used efficient methods and effective cost controls.[34] Further increases in both the percentage and overall obligations associated with T&M contracts, particularly absent these key controls, is inconsistent with both the FAR and agency policy.

Ongoing and Anticipated OIG Work. In FY 2022, we will continue to assess the SEC's contract management and acquisition processes. Furthermore, we will monitor the SEC's progress in addressing prior open audit recommendations related to contract actions. We will also initiate an audit of the SEC's small business contracting, and report on any acquisition-related matters identified as a result of other ongoing and planned reviews of SEC programs and operations. Lastly, we will continue to support the SEC's efforts to train contracting officers and contracting officers' representatives about the potential for procurement-related fraud.

[33] U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Can Better Manage Administrative Aspects of the ISS Contract* (Report No. 554; May 31, 2019). *See* Other Matters of Interest.

[34] U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Has Taken Steps to Strengthen Its Monitoring of ISS Contractor's Performance, But Additional Actions Are Needed* (Report No. 565; February 24, 2021). *See* Finding 1.

CHALLENGE: Ensuring Effective Human Capital Management

Diversity, Equity, Inclusion, and Accessibility

In 2020, a series of events highlighting racial inequity in the United States brought to the forefront the obligation for employers throughout the country to evaluate and monitor their progress in advancing diversity, equity and inclusion, and preventing bias in the workplace. Additionally, as the White House recently noted, a growing body of evidence demonstrates that diverse, equitable, inclusive, and accessible workplaces yield higher-performing organizations.[35] The SEC's ability to cultivate such a workplace will be integral to its success in recruiting and retaining the best talent and to ensuring that it meets its organizational performance goals.

In its FY 2020-2022 Diversity and Inclusion Strategic Plan (DISP), the SEC recognized the importance of diversity, equity, and inclusion in the workplace, commenting that "[o]ur continued commitment to promoting diversity, inclusion, and equal opportunity is critical to allowing the Commission to attract and retain talent with the mix of skills and expertise needed to maximize our effectiveness."[36] As the SEC's FY 2020 Agency Financial Report notes, the DISP provides a framework to guide the agency's efforts to promote diversity, inclusion, and opportunity in the SEC's workforce; increase opportunities for minority-owned and women-owned businesses to contract with the agency; and develop standards for assessing the diversity policies and practices of firms regulated by the SEC. Agency leaders and managers have committed to implementing the initiatives outlined in the DISP with a focus on weaving diversity, inclusion, and opportunity into their work advancing the SEC's mission.[37]

In 2021, the White House also weighed in on the importance of the federal government, as the nation's largest employer, becoming a model for diversity, equity, inclusion, and accessibility. In issuing two Executive Orders on this topic,[38] the Administration placed strategic emphasis on the recruitment, hiring, development, promotion, and retention of diverse talent, as well as the removal of barriers to equal opportunity. The Orders also required federal agencies "to take an evidence-based and data-driven approach to determine whether and to what extent agency practices result in inequitable employment outcomes, and whether agency actions may help to overcome systemic societal and organizational barriers."[39]

Along these lines, on August 26, 2021, the OIG issued a management letter to the SEC Chair titled, *Review for Racial and Ethnic Disparities in the SEC's Issuance of Corrective and Disciplinary Actions from January 1, 2017 – August 31, 2020.* In June 2020, the SEC OIG Office of Counsel to the Inspector General initiated a review of the SEC's corrective and disciplinary action program. The purpose of this

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[35] Executive Order 14035, *Diversity, Equity, Inclusion, and Accessibility in the Federal Workplace*; June 2021.

[36] U.S. Securities and Exchange Commission, *Diversity and Inclusion Strategic Plan, Fiscal Years 2020-2022.*

[37] U.S. Securities and Exchange Commission, *Agency Financial Report Fiscal Year 2020*; November 12, 2020.

[38] Executive Order 13985, *Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*; January 2021. Executive Order 14035, *Diversity, Equity, Inclusion, and Accessibility in the Federal Workplace*; June 2021. As an independent agency, the SEC is not bound by these Executive Orders; however, independent agencies are "strongly encouraged to comply" with their provisions. *See* Executive Order 13985, section 11(c); and Executive Order 14035, section 15(c).

[39] Executive Order 14035, *Diversity, Equity, Inclusion, and Accessibility in the Federal Workplace*; June 2021.

review was to determine whether there was evidence of disparity—in particular, racial and ethnic disparity—when comparing the demographic composition of SEC employees who received a corrective or disciplinary action during the review period (that is, between January 1, 2017, and August 31, 2020) to the overall population of SEC employees. Although the sample size we reviewed was small and inconclusive, we believe opportunities exist for the agency to better track data to identify and analyze disparities in the issuance of corrective and disciplinary actions. To accomplish this, we suggested that the agency consider developing a plan to: better track data related to employee misconduct, corrective and disciplinary actions, and demographic information; develop a process by which data related to employee misconduct and corrective and disciplinary actions can be routinely compared with demographic variables (such as race, ethnicity, and gender); and reduce the potential for bias by standardizing processes and providing additional manager training.

We will continue to monitor the SEC's efforts to meet its strategic goals as outlined in the DISP as well as its legal obligations under Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, to develop standards for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce and senior management of the agency, and to take specific affirmative steps to seek diversity in the workforce of the agency at all levels in a manner consistent with applicable law.

Implementation of New Performance Management System

"The success of the SEC depends on an effective, highly-skilled workforce."

Source: SEC Response to The Inspector General's Statement on the SEC's Management and Performance Challenges, October 2020.

The SEC continues to take steps to address concerns raised with respect to its performance management system. Namely, according to GAO, the SEC has not taken action sufficient to close the outstanding priority recommendation from 2013, in which GAO recommended that "the Chairman of SEC should direct the [Chief Operating Officer] and OHR to conduct periodic validations (with staff input) of the performance management system and make changes, as appropriate, based on these validations."[40] As recently as 2019, a GAO-implemented survey highlighted employee dissatisfaction with the SEC's performance management system.[41] In addition, our outstanding recommendation from 2018 that the SEC "finalize standard operating procedures for the agency's performance management program" remains open.[42] In an effort to address these concerns, the SEC implemented a new two-tier performance management system. Under the new system, all SK employees are evaluated and rated as either "Accomplished Performer" or "Unacceptable."

In conjunction with the new two-tier rating system, the SEC designed a new Performance Incentive Bonus (PIB) program through which supervisors can nominate high-performing employees for a bonus of up to

[40] U.S. Government Accountability Office, *Securities and Exchange Commission: Improving Personnel Management Is Critical for Agency's Effectiveness* (GAO-13-621; July 18, 2013).

[41] U.S. Government Accountability Office, *Securities and Exchange Commission: Personnel Management Shows Improvement, but Action Needed on Performance Management System* (GAO-20-208; December 2019). *See also* U.S. Government Accountability Office, *Securities and Exchange Commission: Actions Needed to Address Limited Progress in Resolving Long-Standing Personnel Management Challenges* (GAO-17-65; December 29, 2016).

[42] U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework* (Report No. 549; September 11, 2018). According to agency management, the SEC operating procedures will be finalized in March 2022.

$10,000 once per calendar year. To help employees and supervisors understand the PIB program and its implementation, the Office of Human Resources (OHR) issued guidance on topics such as: employee eligibility, performance criteria for awards, determination of award amounts, how to construct a successful award narrative, holding conversations with staff regarding the PIB program, and the SEC's commitment to ensuring transparency, fairness, and equity in the PIB process.

According to agency management, in December 2020, the SEC engaged the Office of Personnel Management (OPM) to begin a 3-year evaluation of the recently implemented two-tier performance management program. As part of this evaluation, in June 2021, the SEC collaborated with OPM to develop a survey intended to gather employee feedback regarding their experiences with its two-tier performance management program. On June 14, 2021, OPM released the survey to SEC employees to gather feedback regarding their experiences with the current program. OHR management encouraged all employees to take the survey, asserting that employee feedback was critical to the program and would have an impact for years to come: "Your feedback will help us understand if the program, tools and guidance we have provided are useful, what is going well, and suggestions for improvement." The survey, open until July 19, 2021, would serve as a baseline for opinions regarding various aspects of the SEC's performance management program, including relevant tools, training, automation, and elements of the two-tier rating program. Feedback received on the new performance management system and the PIB program may help the SEC address overall employee concerns that differences in performance are not recognized in meaningful ways.

Responding to COVID-19: Workforce Perspectives

Responding to the COVID-19 pandemic has been a central concern of the SEC, and the federal government as a whole, throughout FY 2021. Since the outset of the national public health and economic threats caused by COVID-19, the SEC's operational efforts have centered, first and foremost, on the health and safety of its employees, the employees and customers of its registrants, and individuals generally. From March 2020 through August 8, 2021, the SEC had been in a mandatory telework posture, which aligned with other federal government agencies. Indeed, the federal government workforce quickly increased from 3 percent of employees teleworking every day to nearly 60 percent, the 2020 OPM Federal Employee Viewpoint Survey shows.[43] However, as vaccines became more widely available, the SEC shifted its focus to how to best and most safely allow employees to return to the workplace. Beginning August 9, 2021, the agency shifted to a voluntary return to the workplace program, in which vaccinated employees could return to the workplace on a voluntary basis. The SEC anticipates remaining in a voluntary return to workplace status through at least January 3, 2022.

Safety remains a top priority when planning for employee return to the workplace

As federal agencies contemplate a mandatory return to the workplace, the SEC must strategically plan around a number of key considerations to ensure it keeps employees and their families safe while meeting the organizational need to return to the workplace. On June 10, 2021, OMB issued a

[43] Office of Personnel Management, *Government-wide Management Report: Results from the 2020 OPM Federal Employee Viewpoint Survey*; April 26, 2021.

memorandum titled, *Integrating Planning for A Safe Increased Return of Federal Employees and Contractors to Physical Workspaces with Post-Reentry Personnel Policies and Work Environment*.[44] In this document, OMB, along with OPM and the General Services Administration, laid out guidance for planning on a safe return to the workplace. The guidance included consideration of a phased return to work; promotion of flexible and agile personnel policies; collective bargaining obligations; ample notice to employees; and workplace safety. In accordance with this guidance, the SEC has developed a number of resources to aid managers and employees alike in navigating the return to workplace, even as the COVID-19 Delta variant threatens to delay mandatory return-to-workplace planning. Federal agencies continue to face challenges related to the pandemic telework posture and return-to-workplace planning in areas such as technology and remote access; security vulnerabilities; tracking of information such as vaccination status; and testing for COVID-19 infection in the workplace.[45] Grappling with this myriad of challenges will be at the forefront of agency operations for FY 2022 and perhaps even beyond.

Ongoing and Anticipated OIG Work. As the SEC continues to respond to the challenges created by COVID-19, we will monitor the agency's plans for ensuring safe and efficient reentry to the workplace. Furthermore, we will monitor the SEC's progress in addressing prior open audit recommendations and concerns raised about its new performance management system, including the new PIB program. To assess the SEC's efforts to promote diversity, equity, inclusion, accessibility, and opportunity, we will assess the operations and controls over the agency's equal employment opportunity program; small business contracting; and the Office of the Advocate for Small Business Capital Formation's operations, programs, and policies. We are also in the process of conducting an audit of the controls over the SEC's hiring actions, which is scheduled to conclude in FY 2022.

[44] M-21-25. As an independent agency, the SEC was not required to follow all of the reporting requirements listed in this memorandum.

[45] Council of the Inspectors General on Integrity and Efficiency, *Top Management and Performance Challenges Facing Multiple Federal Agencies*; February 2021; The White House, *Fact Sheet: President Biden To Announce New Actions To Get More Americans Vaccinated and Slow the Spread of the Delta Variant*; July 29, 2021; and The White House, *Remarks by President Biden on Fighting the COVID-19 Pandemic*; August 3, 2021.

EMERGING THEME: Strengthening Communication and Coordination Across Divisions and Offices

The SEC's strategic plan identifies the teamwork of the SEC's staff and its leaders, along with other elements, as the "foundation" of the agency.[46] Moreover, the strategic plan acknowledges that "effective and efficient partnership of staff across the agency" is critical to the SEC's ability to carry out its mission. To support the strategic plan's Goal 3—"Elevate the SEC's performance by enhancing our analytical capabilities and human capital development"—the SEC committed to the following initiative:

> 3.5 Promote collaboration within and across SEC offices to ensure we are communicating effectively across the agency, including through evaluation of key internal processes that require significant collaboration.

The SEC further committed to exploring new ways to promote effective collaboration and information sharing across the agency, and to reviewing the collaborations connected to the SEC's major functional areas.

Notably, GAO reported in December 2019 that, in response to a web-based survey administered by GAO, most SEC employees expressed positive views on whether SEC management encourages cross-divisional communication.[47] Similarly, the results of the SEC's 2020 OPM Federal Employee Viewpoint Survey estimated that 78 percent of employees agreed that managers support collaboration across work units to accomplish work objectives, and an estimated 75 percent agreed that managers promote communication among different work units.[48]

Nonetheless, during many of the audits, evaluations, and other oversight work completed in FY 2021, which encompassed a range of SEC programs and operations, we observed an emerging theme indicating an opportunity to strengthen communication and coordination across the SEC's divisions and offices. As the following page summarizes, we observed this in reviews related to investor assistance, TCR handling and triage, receipt and coordination of investor submissions, and Division of Economic and Risk Analysis (DERA) staff research and publications activities. We also noted opportunities to improve communication and coordination within and amongst SEC support organizations.

[46] U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*; October 11, 2018.

[47] U.S. Government Accountability Office, *Securities and Exchange Commission: Personnel Management Shows Improvement, but Action Needed on Performance Management System* (GAO-20-208; December 19, 2019). GAO surveyed a representative sample of nonexecutive SEC employees in key occupations and all senior officers in nine key divisions and offices (with response rates of 64 and 63 percent, respectively). According to GAO, the results of the nonexecutive employee survey are generalizable to SEC's mission-critical employees.

[48] The 2020 Federal Employee Viewpoint Survey was open between September and October 2020 and, according to OHR, the SEC's overall response rate was nearly 79 percent.

Summary of Relevant OIG Observations

OIG Report No. 564
January 2021

The SEC's OIEA Could Benefit From Increased Coordination, Additional Performance Metrics, and Formal Strategic Planning

- SEC regional office staff receive and respond to investor complaints and other matters independent of OIEA Office of Investor Assistance oversight. Previous OIG audits have consistently reported the need for improved coordination and communication in this area.

OIG Report No. 565
February 2021

The SEC Has Taken Steps to Strengthen Its Monitoring of ISS Contractor's Performance, But Additional Actions Are Needed

- The SEC did not prioritize establishing clear roles and responsibilities between OA and OIT officials to ensure compliance with quality assurance surveillance requirements and to implement updates to required contract deliverables. As a result, we identified gaps in the SEC's oversight of key contract areas supporting the agency's IT program.

OIG Report No. 566
February 2021

The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program

- Opportunities exist to improve communication related to policies and procedures for assigning TCRs to Points of Contact from the SEC's various divisions and offices, and for handling of certain TCRs by personnel across the agency.

OIG Final Management Letter
May 2021

Actions May Be Needed To Improve Processes for Receiving and Coordinating Investor Submissions

- Key SEC divisions and offices, including OIEA, Enforcement, the Office of the Investor Advocate, and those responsible for maintaining the SEC's public-facing websites, should work together, as necessary, to address concerns related to the receipt and coordination of investor submissions.

OIG Report No. 567
September 2021

DERA Staff Research and Publications Support the SEC's Mission, But Related Controls and Agency-wide Communication and Coordination Could Be Improved

- A third of respondents we surveyed from other SEC divisions and offices felt that DERA could better communicate and coordinate staff research and publication activities, allowing those divisions and offices to better assess and comment on research in progress.

OIG Report No. 568
September 2021

Additional Steps Are Needed For the SEC to Implement A Well-Defined Enterprise Architecture

- The SEC awarded two potentially overlapping EA support services contracts because, in part, the contracting officer's representatives who oversaw the two contracts were located in two different branches within OIT, demonstrating a lack of communication and coordination between these branches.

Management's early attention and, as needed, action in response to this emerging theme can be instrumental to (1) prevent the development of systemic and significant challenges, such as potential siloing or duplicative functioning, in the future, (2) continue positive trends in employee views on collaboration, and (3) achieve the goals established in the SEC's most recent strategic plan.

OIG General Office Contact Information

EMPLOYEE SUGGESTION PROGRAM

The OIG SEC Employee Suggestion Program, established under the Dodd-Frank Wall Street Reform and Consumer Protection Act, welcomes suggestions by all SEC employees for improvements in the SEC's work efficiency, effectiveness, productivity, and use of resources. The OIG evaluates all suggestions received and forwards them to agency management for implementation, as appropriate. SEC employees may submit suggestions by calling (202) 551-6062 or sending an e-mail to OIGESProgram@sec.gov.

COMMENTS AND IDEAS

The SEC OIG also seeks ideas for possible future audits, evaluations, or reviews. We will focus on high-risk programs, operations, and areas where substantial economies and efficiencies can be achieved. Please send your input to AUDPlanning@sec.gov.

TO REPORT

fraud, waste, and abuse

Involving SEC programs, operations, employees, or contractors

FILE A COMPLAINT ONLINE AT

www.sec.gov/oig

CALL THE 24/7 TOLL-FREE OIG HOTLINE

833-SEC-OIG1

CONTACT US BY MAIL AT

U.S. Securities and Exchange Commission
Office of Inspector General
100 F Street, N.E.
Washington, DC 20549

MANAGEMENT'S RESPONSE TO INSPECTOR GENERAL'S STATEMENT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF THE CHAIR

October 26, 2021

Mr. Carl W. Hoecker
Inspector General
U.S. Securities and Exchange Commission
Washington, D.C. 20549

Dear Mr. Hoecker:

Thank you for your "Statement on the SEC's Management and Performance Challenges," issued October 8, 2021. We remain committed to enhancing the financial and operational effectiveness of the SEC and value the Office of the Inspector General's important role in this effort. I appreciate your acknowledgment of the actions the SEC has taken to date to respond to the effects of COVID-19, as well as your recognition of the SEC's progress in addressing key challenges.

Certainly, significant work remains, and we are committed to addressing these challenges and the associated OIG recommendations as a high priority for the agency. Below is a discussion of some of the specific actions we are undertaking in each of the areas you have identified.

Meeting Regulatory Oversight Responsibilities

Your Statement notes that the size and complexity of markets, products, and participants regulated by the SEC continue to increase. You also highlight the SEC's established goals and initiatives to continue to focus on the needs of investors, as well as its ability to adapt to rapidly changing markets, new technology, innovation, and evolving global risks.[1] Across the agency, the staff has done a remarkable job overseeing the capital markets in light of the ongoing challenges of the COVID-19 pandemic.

For example, in FY 2021, the Division of Examinations (EXAMS) successfully completed more than 3,000 examinations while also responding to critical markets events. In the wake of the market volatility disruptions of this past winter, EXAMS staff conducted dozens of examinations and made nearly 100 outreach calls to assess the potential impacts to markets and investors. EXAMS also continued to leverage technology and data analytics, as evidenced by its use of data and risk identification techniques to keep pace with the growth in the registered investment adviser populations and assets under management. As was the case for much of FY

[1] U.S. Securities and Exchange Commission, Strategic Plan Fiscal Years 2018-2022; October 11, 2018.

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2020, due to COVID-19, EXAMS conducted examinations on a correspondence basis while remaining prepared to go on-site when warranted.

The Division of Enforcement (ENF) also reacted promptly to threats presented by COVID-19, as well as by the related dynamic market conditions. As you noted, actions taken since the last Statement include the publication of updated staff guidance on how best to conduct annual meetings, additional trading suspensions, and further enforcement actions in connection with false and misleading claims and disclosures related to COVID-19.

During the past year, ENF responded promptly to instances of misconduct related to the COVID-19 pandemic, an increase in crypto finance and investment in digital assets, and market volatility events. Each of these events contributed to a record number of Tips, Complaints, and Referrals (TCRs) received by the agency — over 80% more than the number received in the prior fiscal year and more than double the number received in FY 2019. ENF used additional staff and technology to manage and appropriately triage the increased volume, which included whistleblower TCRs.

The SEC's whistleblower program also had a record year, awarding more than $500 million for a total of more than $1 billion since the inception of the program. ENF also continued to develop and leverage expertise and technology to help ensure our ability to react promptly to emerging issues and regulatory changes. These efforts included forming working groups focused on Special Purpose Acquisition Companies, Regulation Best Interest, and market volatility matters, as well as launching the Climate and Environmental, Social, and Governance Task Force.

In addition, I would like to note the importance of the Consolidated Audit Trail (CAT), which, as you note, continues to develop in functionality with the principal purpose of enhancing regulatory oversight of securities markets.

In October of this year, the SEC published a "Staff Report on Equity and Options Market Structure Conditions in Early 2021," which focused on the January 2021 trading activity of GameStop Corp (GME), the most famous of the "meme stocks." This meme stock episode raised several questions about market structure, and January's events gave us an opportunity to consider how we can further our efforts to make the equity markets as fair, orderly, and efficient as possible. The analysis performed for the report relied on data from CAT and was made possible by the staff's continued efforts to establish an appropriate environment within which CAT data can be used, along with appropriate applications.

Further, OIT has undertaken several efforts to improve the Enterprise Architecture (EA) program including the development of an EA portal on the SEC intranet, the development of an EA Management Maturity Framework, and updates to the IT investment planning policies and governance. Additionally, in February 2021 the EA function was moved under the Associate Director/Managing Executive for OIT, and three branches were realigned under the Assistant Director for Planning and Governance. OIT believes that this structure best enables the integration and collaboration between EA, IT Capital Planning, and IT Governance.

With respect to investor assistance and education, the SEC's Office of Investor Education and Advocacy (OIEA) has taken steps to help investors receive consistent assistance by

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strengthening communication and coordination across Divisions and Offices. For example, OIEA and regional office staff meet to discuss sharing of best practices, standard operating procedures, and other areas relating to the handling of investor assistance matters. Moving forward, OIEA and regional staff plan to continue to meet regularly to discuss current topics of interest.

Protecting Systems and Data

Protecting information systems and data is a top priority in order to guard against the ever increasing frequency and enhanced sophistication of cyber threats. Most notably, national security events such as the SolarWinds incident highlighted the importance of federal cybersecurity. In response, President Biden issued new guidance: Executive Order 14028, *Improving the Nation's Cybersecurity* (May 12, 2021) (EO). This EO contains comprehensive policy prescriptions for all federal agencies and focuses on modernizing and improving cybersecurity. The SEC is actively working to respond to these new requirements.

In addition, in FY 2021, OIT made enhancements in a number of areas, including expanding the agency's Vulnerability Disclosure Policy to assist in the identification of potential vulnerabilities in SEC systems or capabilities; partnering with multiple third parties, including the U.S. Cybersecurity and Infrastructure Security Agency, to conduct penetration testing, architecture reviews, and other risk assessment activities; and chartering the Supply Chain and Vendor Risk Management (SCVRM) Executive Committee which approved the SCVRM Strategy, governance processes, and project milestones.

The SEC continues to make it a priority to address and mitigate the cybersecurity risks identified by the OIG and the Government Accountability Office (GAO) and to mature the SEC's information security program. The SEC staff have made efforts to implement corrective actions in these areas. During FY 2021, the OIG closed 26 information technology-related audit recommendations, and the GAO closed 5 cybersecurity-related audit recommendations.

Looking ahead, it is important that the SEC continue to remediate the issues identified by the OIG, including enhancing mobile device protections and enterprise architecture activities and maturing the nine information security domains identified in the Federal Information Security Modernization Act of 2014 (FISMA) metrics program. OIT is also focused on implementing EO 14028, including through protection of critical systems, investigative and remediation capabilities related to cybersecurity incidents, and supply chain mandates.

Improving Contract Management

Your Statement highlights the progress that the SEC's Office of Acquisitions (OA) has taken in recent years to promote effective contract management, including establishing the Contract Management Excellence and Contracting Officer Representatives (COR) improvement initiatives.

OA has made process improvements over the past year to further support the growing need for contractual goods and services, including by utilizing third-party reviewers of contract actions to promote compliance, accuracy, and completeness of procurement actions, and by updating the information technology security clauses in the SEC's IT contracts. OA also recently updated agency guidance on quality assurance and contractor performance reporting to promote timeliness and effectiveness of vendor oversight and to improve overall contract management.

Your statement also highlights improvements made specifically to the Infrastructure Support Services (ISS) contract, including the reconciliation of the statement of work to the contractors' deliverables and the creation of a governance board for prioritizing initiatives and enhancing communication. In addition, OA recently updated the ISS quality assurance surveillance plan (QASP) with enhanced performance monitoring and tracking of deliverables. The updated QASP also clarifies quality surveillance roles and responsibilities for improved coordination among oversight personnel.

The SEC will continue to closely monitor its use of time and materials (T&M) contracts and exercise rigorous oversight of these types of contracts. OA has recently made a number of improvements to better manage T&M contracts, including a new independent government cost estimate guide, contract compliance reviews, and information sharing on T&M invoicing. In addition, the SEC has implemented an automated determination and findings workflow for more robust and consistent support for the use of T&M. Specific to the ISS contract, the OA implemented a workflow for labor category personnel qualification reviews and additional hours request and approval for contractor personnel. OA also recently updated the ISS quality assurance surveillance plan for enhanced performance monitoring and tracking of deliverables.

OA continues to build upon its Contract Management Excellence initiative through regular training and education for SEC CORs in support of their oversight and monitoring duties. OA also plans to continue compliance and oversight functions in reviewing contract actions and files and to review trends from those reviews in support of further process improvements.

Ensuring Effective Human Capital Management

Your Statement notes the importance of cultivating a diverse, equitable, inclusive, and accessible workplace and that the SEC's ability to cultivate such a workplace will be integral to its success. As you note, the SEC's FY 2020-2022 Diversity and Inclusion Strategic Plan guides the agency's efforts in this area. We appreciate the observations provided by OIG to the SEC resulting from OIG's assessment of racial and ethnic disparities in corrective and disciplinary actions. The agency continues to consider enhancement of processes for tracking relevant data and is taking steps to provide further training and resources for managers in this important area.

The success of the SEC depends on an effective, highly skilled workforce. The agency initiated a new performance management system for SK employees in 2020. GAO has recommended that the new system should be validated. As noted in the statement, the SEC has continued to evaluate the effectiveness of its two-tier rating performance management program for SK employees. This included engaging with the U.S. Office of Personnel Management (OPM) to administer a survey to gather employee feedback on their experiences with the performance management program. The evaluation also includes conducting several focus groups with a random sample of SEC supervisors and employees to gather even more detailed and specific feedback on the program that may not have been captured from the survey. Feedback from the OPM survey and focus groups will help the SEC validate and inform possible

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improvements to the overall performance management program and help ensure that the agency is effectively addressing overall employee concerns consistent with the GAO's recommendation.

As your Statement notes, the SEC continues to respond to the challenges created by COVID-19. In response, the SEC launched an "Ask the COO" series that provides regular communications on updates to the SEC's operating status and responses to questions employees may have about the evolving COVID situation. The SEC also implemented the mandatory COVID-19 vaccination-reporting requirement and rolled out a system for employees to upload vaccination certificates.

Finally, we appreciate you highlighting the importance of strengthening communications and coordination across Divisions and Offices. As your statement notes, the SEC's strategic plan identifies this as critical to the agency's success. In addition, the Office of the Chief Risk Officer is developing processes to improve the sharing of risk information and risk response strategies. We remain committed to promoting effective and collaborative information-sharing across the agency.

* * * *

I hope that the actions outlined in this letter demonstrate our commitment to strengthening internal controls and improving the agency's performance. We look forward to working with you as we continue to address these challenges.

Sincerely,

Gary Gensler
Chair

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SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Table 1.7 | Summary of Financial Statement Audit

Audit Opinion: Unmodified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Internal Control over Financial Reporting	—	—	—	—	—
Total Material Weaknesses	—	—	—	—	—

Table 1.8 | Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance: Unmodified						
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	—	—	—	—	—	—

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance: Modified						
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Risks Associated with User Access	—	1	—	—	—	1
Total Material Weaknesses	—	1	—	—	—	1

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance: Federal Systems Conform						
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Non-Conformances	—	—	—	—	—	—

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

PAYMENT INTEGRITY REPORTING DETAILS

The Payment Integrity Information Act of 2019 (PIIA) updated government-wide improper payment reporting requirements by repealing and replacing the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015.

PIIA requires agencies to review all programs and activities they administer to identify those that may be susceptible to significant erroneous payments. For all programs and activities in which the risk of erroneous payments is significant, agencies are to estimate the annual amount of erroneous payments made in those programs.

Guidance provided by the Office of Management and Budget (OMB) in Circular A-136, *Financial Reporting Requirements*, and Appendix C of Circular A-123, *Requirements for Payment Integrity Improvement*, requires agencies to report specific details about the SEC's Improper Payments Elimination Program, which are below. Additionally, the following link further explains improper payments and the information reported in previous AFRs that is not included in the FY 2021 AFR: paymentaccuracy.gov/.

Risk Assessment

PIIA guidelines state that if an agency deems a program to be low risk for improper payments, the agency will re-assess that program's risk at least every three years. An agency is only required to conduct a formal risk assessment earlier than three years if the program experiences a significant change in legislation, a significant increase in funding level or a determination of possible significant improper payments in the following year. Based on this guidance, the SEC did not conduct a risk assessment for FY 2021 and is not required to conduct another risk assessment until FY 2022. The SEC's determination that all of its evaluated programs are low risk is based upon the results of the FY 2019 risk assessment, in which none of its programs and activities were deemed susceptible to significant improper payments at or above the threshold levels set by OMB. These programs have historically had low volumes and risks of improper payments given the controls and processes in place. The SEC recognizes the importance of maintaining adequate internal controls to ensure the accuracy and integrity of payments made by the agency, and the SEC maintains a strong commitment to continuous improvement in the overall disbursement management process.

To perform its risk assessment, the SEC instituted a systematic method of reviewing each program and activity by considering risk factors likely to contribute to significant improper payments. The risk assessment encompassed a review of existing data that included the Government Accountability Office and the SEC Office of Inspector General audit reports, prior internal controls over financial reporting assessments, and the results of improper payments testing performed in prior years. These risk assessments were performed for the following programs:

- Vendor payments;
- Disgorgement and penalty distributions (made by the SEC to fund tax administrators and directly to harmed investors);
- Returned deposits of registration filing fees under Section 6b of the Securities Act of 1933 and Sections 13 and 14 of the Securities Exchange Act of 1934;
- Payroll and benefit payments (includes base pay, overtime pay, and agency contributions to retirement plans, health plans, and thrift savings plans);
- Supplemental retirement payments;
- Purchase Card payments;
- Travel payments; and
- Whistleblower payments.

Recapture of Improper Payments

The SEC determined that implementing a payment recapture audit is not cost-effective and notified OMB of this determination in September 2015. The benefits or recaptured amounts associated with implementing and overseeing the program do not exceed the costs—including staff time and payments to contractors—of a payment recapture audit program. In making this determination, the SEC considered its low improper payment rate based on testing conducted over several years. The SEC also considered whether sophisticated software and other cost-efficient techniques could be used to identify significant overpayments at a low cost per overpayment, or if labor intensive manual reviews of paper documentation would be required. In addition, the SEC considered the availability of tools to efficiently perform the payment recapture audit and minimize payment recapture audit costs.

The SEC will continue to monitor its improper payments across all programs and activities it administers and assess whether implementing payment recapture audits for each program is cost-effective. If the SEC determines, through future risk assessments, that a program is susceptible to significant improper payments and implementing a payment recapture program may be cost-beneficial, the SEC will implement a pilot payment recapture audit to gauge whether such audits would be cost-effective on a larger scale.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990 (FCPIA), 28 U.S.C. 2461 note, as amended by the Debt Collection Improvement Act of 1996, and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (2015 Act), requires agencies to annually adjust for inflation any civil monetary penalties that are assessed or enforced by that agency. This adjustment must be performed for any penalty where either the amount of the penalty or the maximum penalty is set by law. The 2015 Act replaces the inflation adjustment mechanism previously contained in the FCPIA and all previous inflation adjustments made pursuant to the FCPIA with a new mechanism for calculating the inflation-adjusted amount of civil monetary penalties. The 2015 Act implemented this change by first requiring that each agency perform a "catch-up adjustment" to be published by July 1, 2016. Thereafter, agencies are to adjust their penalty amounts every January, starting in January 2017.

The FCPIA also directs the Commission to include in its Agency Financial Report information about the civil monetary penalties within the jurisdiction of the agency, including the adjustment of civil monetary penalties for inflation under the FCPIA. Further, the FCPIA directs the Comptroller General of the United States to annually submit to Congress a report assessing agencies' compliance with the inflation adjustments required by the FCPIA.

The SEC administers four statutes that provide for civil monetary penalties:

- The Securities Act of 1933;
- The Securities Exchange Act of 1934;
- The Investment Company Act of 1940; and
- The Investment Advisers Act of 1940.

In addition, the Sarbanes-Oxley Act of 2002 provides the Public Company Accounting Oversight Board (PCAOB) authority to levy civil monetary penalties in its disciplinary proceedings. These penalties are established by federal law and are enforced by the Commission for purposes of the FCPIA because the Commission may by order affirm, modify, remand, or set aside civil monetary penalties imposed by the PCAOB and may enforce the PCAOB's civil monetary penalty orders in federal district court.

The Commission will adjust for inflation the maximum penalty amounts provided in these statutes as required by the FCPIA and will publish these adjustments in the Federal Register. The catch-up adjustment in July 2016 was published in the Federal Register, Volume 81, No. 127, on July 1, 2016 (81 FR 43042). Annual adjustments have been performed for 2017 (Federal Register, Volume 82, No. 11, on January 18, 2017 (82 FR 5367)), 2018 (Federal Register, Volume 83, No. 8, on January 11, 2018 (83 FR 1396)), 2019 (Federal Register, Volume 84, No. 34, on February 20, 2019 (84 FR 5122))[1] and 2020 (Federal Register, Volume 85, No. 8, on January 13, 2020 (85 FR 1833)), and 2021 (Federal Register, Volume 86, No. 8, on January 13, 2021 (86 FR 2716)).

1 This adjustment was performed in February 2019 instead of January 2019 due to a lapse in appropriations that caused the SEC's normal operations to be suspended from December 27, 2018, through January 25, 2019.

APPENDICES

Appendix A: Chair and Commissioner Biographies

Appendix B: Divisions and Offices

Appendix C: Glossary of Selected Terms

Appendix D: Acronyms and Abbreviations

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Every day that I’m blessed to serve at the SEC, I’m going to be animated by thinking about working families: How can we help them invest for their future and prepare for the inevitable bumps along the way? How can those same working families, when taking out a mortgage or a car loan, indirectly tap into the capital markets? How can the markets help companies innovate, hire folks into good jobs, and contribute to economic growth?

America’s capital markets touch every one of us, in so many ways . . . and for nearly 90 years, this agency has stood the test of time. I believe it’s been a major part of the American success story.

CHAIR GARY GENSLER

APPENDIX A: CHAIR AND COMMISSIONER BIOGRAPHIES

Gary Gensler, CHAIR

Gary Gensler was nominated by President Joseph R. Biden to Chair the U.S. Securities and Exchange Commission on February 3, 2021, confirmed by the U.S. Senate on April 14, 2021, and sworn into office on April 17, 2021.

Before joining the SEC, Gensler was professor of the Practice of Global Economics and Management at the MIT Sloan School of Management, co-director of MIT's Fintech@CSAIL, and senior advisor to the MIT Media Lab Digital Currency Initiative. From 2017–2019, he served as chair of the Maryland Financial Consumer Protection Commission.

Gensler was formerly chair of the U.S. Commodity Futures Trading Commission, leading the Obama Administration's reform of the $400 trillion swaps market. He also was senior advisor to U.S. Senator Paul Sarbanes in writing the Sarbanes-Oxley Act (2002), and was undersecretary of the Treasury for Domestic Finance and assistant secretary of the Treasury from 1997–2001.

In recognition for his service, he was awarded the Alexander Hamilton Award, the U.S. Treasury's highest honor. He is a recipient of the 2014 Frankel Fiduciary Prize.

Prior to his public service, Gensler worked at Goldman Sachs, where he became a partner in the Mergers & Acquisition department, headed the firm's Media Group, led fixed income & currency trading in Asia, and was co-head of Finance, responsible for the firm's worldwide Controllers and Treasury efforts.

A native of Baltimore, Md., Gensler earned his undergraduate degree in economics in 1978 and his MBA from The Wharton School, University of Pennsylvania, in 1979. He has three daughters.

Hester M. Peirce, COMMISSIONER

Hester M. Peirce was appointed by President Donald Trump to the U.S. Securities and Exchange Commission and was sworn in on January 11, 2018.

Prior to joining the SEC, Commissioner Peirce conducted research on the regulation of financial markets at the Mercatus Center at George Mason University. She was a Senior Counsel on the U.S. Senate Committee on Banking, Housing, and Urban Affairs, where she advised Ranking Member Richard Shelby and other members of the Committee on securities issues. Commissioner Peirce served as counsel to SEC Commissioner Paul S. Atkins. She also worked as a Staff Attorney in the SEC's Division of Investment Management. Commissioner Peirce was an associate at Wilmer, Cutler & Pickering (now WilmerHale) and clerked for Judge Roger Andewelt on the Court of Federal Claims.

Commissioner Peirce earned her bachelor's degree in Economics from Case Western Reserve University and her JD from Yale Law School.

Elad L. Roisman, COMMISSIONER

Elad L. Roisman was appointed by President Donald J. Trump to the U.S. Securities and Exchange Commission and was sworn into office on September 11, 2018. Mr. Roisman was designated Acting Chairman of the Commission by President Trump on December 23, 2020, effective December 24, 2020.

Commissioner Roisman joined the SEC from the U.S. Senate Committee on Banking, Housing, and Urban Affairs, where he served as Chief Counsel. In that role, and as Securities Counsel on the Committee, he advised multiple Committee Chairmen as well as members of the Committee, on securities, financial regulation, and international financial matters. Commissioner Roisman worked on drafting several pieces of legislation that became law and played an integral role in the drafting and negotiation of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

Before working in the Senate, he served as Counsel to SEC Commissioner Daniel M. Gallagher, focusing on enforcement and policy relating to the U.S. equity and fixed income markets, the asset management industry, and international regulation of capital markets.
Prior to joining the SEC, he held positions as a Chief Counsel at NYSE Euronext and as an associate at the law firm of Milbank, Tweed, Hadley & McCloy LLP in New York.

Commissioner Roisman earned his bachelor's degree in History at Cornell University and his juris doctorate at the Boston University School of Law.

Improving Our Proxy Voting Process for Long-Term Investors

Chairman Jay Clayton designated Commissioner Roisman as lead policymaker tasked with considering improvements to the proxy voting process. He led the agency's efforts to amend the shareholder proposal rules under section 14a-8 of the Securities Exchange Act of 1934. Among other things, these rules updated the initial submission criteria and resubmission thresholds that must be met in order for a shareholder proposal to be included in a company's proxy statement. The rules aim to facilitate engagement among shareholder-proponents, companies and other shareholders, including preserving the ability of smaller shareholders to access the proxy statements of the companies in which they have demonstrated a continuing interest.

Commissioner Roisman also led the agency's initiative to modernize the federal proxy solicitation rules (under Exchange Act § 14a-2(b)). These amendments aim to enable investors who use proxy voting advice to receive more transparent, accurate, and complete information on which to make their voting decisions, without incurring undue costs or delays that could adversely affect the timely provision of proxy voting advice. Commissioner Roisman also led the Commission in issuing guidance to investment advisers under the Investment Advisers Act of 1940 on how to fulfill their fiduciary duty to clients in the context of proxy voting. This guidance included considerations for advisers that utilize professional proxy voting advice services, such as recommendations and automated voting features. Concurrent with the issuance of guidance to investment advisers, the Commission provided an interpretation and related guidance regarding the applicability of the federal proxy rules to proxy voting advice.

Protecting Elder Investors

Investor protection is central to the SEC's mission, and with respect to America's eldest investors, Commissioner Roisman has advocated that their need for protection must be a priority. He often speaks publicly about the importance of engaging and working with all market participants and the general public to assist in the fight against elder investor fraud. He has represented the SEC at the Elder Justice Coordinating Council, an interagency task force charged with coordinating the efforts of federal agencies to protect elder Americans. He stands committed to supporting the SEC's efforts to work in conjunction with the private sector as well as state and federal regulators and agencies as partners in this fight.

Modernizing Our Treasury Markets

The U.S. Treasury market is the deepest and most liquid market in the world and plays an important role in the global financial system. Given this market's importance, Commissioner Roisman has supported the SEC's active coordination with other federal regulators charged with its oversight. He has also called for the SEC to consider regulatory enhancements that could improve the Treasury market's transparency, integrity, and resiliency in light of significant evolutions in Treasury market structure.

Allison Herren Lee, COMMISSIONER

Allison Herren Lee was appointed by President Donald Trump to the U.S. Securities and Exchange Commission, unanimously confirmed by the U.S. Senate, and sworn into office on July 8, 2019. Ms. Lee was designated Acting Chair of the Commission by President Joseph R. Biden, Jr., on January 21, 2021.

Commissioner Lee brings to the SEC over two decades of experience as a securities law practitioner. Most recently, she has written, lectured, and taught courses internationally in Spain and Italy on financial regulation and corporate law. Commissioner Lee served for over a decade in various roles at the SEC, including as counsel to Commissioner Kara Stein, and as Senior Counsel in the Division of Enforcement's Complex Financial Instruments Unit. In addition, she has served as a Special Assistant U.S. Attorney, was a member of the American Bar Association's former Committee on Public Company Disclosure, and participated on a USAID project in Armenia, assisting in the drafting of periodic reporting and disclosure provisions for a comprehensive law of the Republic of Armenia on Securities Market Regulation.

Prior to government service, Commissioner Lee was a partner at Sherman & Howard LLC, focusing on securities, antitrust, and commercial litigation. A member of the Colorado bar, she holds a bachelor's degree in Business from the University of Colorado and a JD from the University of Denver College of Law, where she was salutatorian, a Chancellor's Scholar, and served on the Law Review.

Caroline A. Crenshaw, COMMISSIONER

Caroline A. Crenshaw was appointed by President Donald J. Trump to the U.S. Securities and Exchange Commission, unanimously confirmed by the U.S. Senate, and sworn into office on August 17, 2020.

Commissioner Crenshaw brings to the SEC a range of securities law and policy experience and a commitment to public service and the SEC's mission. Most recently, she served as Counsel to Commissioners Kara Stein and Robert Jackson, focusing on strengthening investor protections in our increasingly complex markets.

Commissioner Crenshaw also served as a career SEC staff attorney in the Division of Examinations (formerly the Office of Compliance Inspections and Examinations) and the Division of Investment Management, helping oversee the institutions that manage millions of Americans' savings. In addition, Commissioner Crenshaw currently serves as a captain in the United States Army Reserve, Judge Advocate General's Corps.

Prior to government service, Commissioner Crenshaw practiced law in the Washington, DC, office of Sutherland, Asbill and Brennan LLP. At Sutherland, she represented public companies, broker-dealers, and investment advisers on complex securities law investigations and enforcement matters.

Commissioner Crenshaw graduated cum laude from Harvard College and received a law degree magna cum laude from the University of Minnesota.

APPENDIX B: DIVISIONS AND OFFICES

Headquarters

DIVISION OF CORPORATION FINANCE
Renee Jones, Director

DIVISION OF ECONOMIC AND RISK ANALYSIS
Jessica Wachter, Director/Chief Economist

DIVISION OF ENFORCEMENT
Gurbir Grewal, Director

DIVISION OF EXAMINATIONS
Daniel Kahl, Acting Director

DIVISION OF INVESTMENT MANAGEMENT
Sarah ten Siethoff, Acting Director

DIVISION OF TRADING AND MARKETS
David Saltiel, Acting Director

EDGAR BUSINESS OFFICE
Jed Hickman, Director

OFFICE OF ACQUISITIONS
Vance Cathell, Director

OFFICE OF ADMINISTRATIVE LAW JUDGES
James E. Grimes, Acting Chief Administrative Law Judge

OFFICE OF THE ADVOCATE FOR SMALL BUSINESS CAPITAL FORMATION
Martha Miller, Advocate

OFFICE OF THE CHIEF ACCOUNTANT
Paul Munter, Acting Chief Accountant

OFFICE OF THE CHIEF OPERATING OFFICER
Kenneth A. Johnson, Chief Operating Officer

OFFICE OF CREDIT RATINGS
Ahmed Abonamah, Director

OFFICE OF EQUAL EMPLOYMENT OPPORTUNITY
M. Stacey Bach, Acting Director

OFFICE OF THE ETHICS COUNSEL
Danae Serrano, Ethics Counsel/
Designated Agency Ethics Official

OFFICE OF FINANCIAL MANAGEMENT
Caryn Kauffman, Director/Chief Financial Officer

OFFICE OF THE GENERAL COUNSEL
Dan Berkovitz, General Counsel

OFFICE OF HUMAN RESOURCES
James McNamara, Director/
Chief Human Capital Officer

OFFICE OF INFORMATION TECHNOLOGY
David Bottom, Chief Information Officer

OFFICE OF INSPECTOR GENERAL
Carl W. Hoecker, Inspector General

OFFICE OF INTERNATIONAL AFFAIRS
YJ Fischer, Director

OFFICE OF THE INVESTOR ADVOCATE
Rick Fleming, Investor Advocate

OFFICE OF INVESTOR EDUCATION AND ADVOCACY
Lori Schock, Director

OFFICE OF LEGISLATIVE AND INTERGOVERNMENTAL AFFAIRS
Kevin Burris, Director

OFFICE OF MINORITY AND WOMEN INCLUSION
Pamela A. Gibbs, Director

OFFICE OF MUNICIPAL SECURITIES
Rebecca Olsen, Director

OFFICE OF PUBLIC AFFAIRS
Scott Schneider, Director

OFFICE OF THE SECRETARY
Vanessa Countryman, Secretary

OFFICE OF SUPPORT OPERATIONS
Olivier Girod, Acting Director/Chief FOIA Officer

STRATEGIC HUB FOR INNOVATION
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APPENDIX C: GLOSSARY OF SELECTED TERMS

Accountability of Tax Dollars Act of 2002
A federal law requiring most federal agencies that are not subject to the CFO Act of 1990 to prepare annual audited financial statements.

Affinity Fraud
Targets different segments of the population, including senior citizens, current and former military personnel, teachers, religious or ethnic communities, and other affinity groups. Fraudsters who carry out affinity scams frequently are (or pretend to be) members of the group they are trying to defraud. Affinity fraud typically involves either a fake investment or an investment where the fraudster lies about important details such as the risk of loss, the track record of the investment, or the background of the promoter of the scheme.

Agency Financial Report (AFR)
An annual report that provides financial and high-level performance results that enable the President, Congress, and the public to assess an agency's accomplishments each fiscal year (October 1 through September 30). The report is prepared in accordance with the requirements of Office of Management and Budget Circular A-136, *Financial Reporting Requirements*.

Alternative Trading System (ATS)
Any organization, association, person, group of persons, or system that constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities or for otherwise performing, with respect to securities, the functions commonly performed by a stock exchange. An ATS does not set rules governing the conduct of subscribers other than the conduct of such subscribers' trading on such organization, association, person, group of persons, or system, or discipline subscribers other than by exclusion from trading.

Annual Performance Report (APR)
Outlines the goals and intended outcomes of an agency's programs and initiatives.

Antideficiency Act
Prohibits federal agencies from spending or obligating funds in excess of amounts and purposes approved by Congress, and from accepting voluntary services.

Appropriations
Budget authority to incur obligations and to make payments from the Treasury for specified purposes.

Asset
A resource that embodies economic benefits or services that the reporting entity controls.

Bitcoin
A digital asset created in January 2009 and based on a white paper called, "Bitcoin: A Peer-to-Peer Electronic Cash System," attributed to a person or persons using the name "Satoshi Nakamoto."

Blockchain
A type of distributed ledger, or peer-to-peer database spread across a network, that records all transactions in the network in theoretically unchangeable, digitally recorded data packages called blocks. Each block contains a batch of records of transactions, including a timestamp and a reference to the previous block, linking the blocks together in a chain. The system relies on cryptographic techniques for secure recording of transactions. A blockchain can be shared and accessed by anyone with appropriate permissions.

Broker-Dealer
A **broker** is any person engaged in the business of effecting transactions in securities for the account of others. A **dealer** is any person engaged in the business of buying and selling securities for his or her own account, through a broker or otherwise.

CFO Act of 1990

Legislation focused on improving the government's financial management, performance, and disclosure.

Clearing Agencies

Clearing agencies that are registered with the Commission are self-regulatory organizations that typically come in two types: central counterparties and securities depositories. **Central counterparties** compare member transactions (or report to members the results of exchange comparison operations); clear those trades and prepare instructions for automated settlement of those trades; and often act as intermediaries in making those settlements. **Securities depositories** hold securities certificates in bulk form for their participants, maintain ownership records of the securities on their own books, and may otherwise permit or facilitate the settlement of securities without physical delivery of securities certificates.

Climate and Environment, Social, and Governance (ESG) Task Force

Develops initiatives to proactively identify ESG-related misconduct, coordinating the effective use of the Division of Enforcement's resources—including through the use of sophisticated data analysis to mine and assess information across registrants—to identify potential violations. The task force also identifies any material gaps or misstatements in issuers' disclosure of climate risks under existing rules, addresses these risks to investors, and analyzes disclosure and compliance issues relating to investment advisers' and funds' ESG strategies.

Commodity Futures Trading Commission

An independent government agency that regulates the U.S. derivatives markets, which includes futures, swaps, and certain kinds of options.

Consolidated Audit Trail (CAT)

A single, comprehensive database of orders to trade in the National Market System securities and over-the-counter equities that enables regulators to more efficiently and thoroughly track all trading activity in the U.S. equity and options markets.

Coronavirus Disease 2019 (COVID-19)

An infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) that was first identified in December 2019.

Cryptocurrency

A term used by some to describe a digital asset that relies on cryptography and that purports to act as a substitute for real currency in certain distributed ledger technology ecosystems. However, a so-called cryptocurrency does not necessarily have any or all of the three economic functions associated with money, namely a medium of exchange, a store of value, and a unit of account, and does not have all the attributes of "real" currency, as defined in 31 C.F.R. Section 1010.100(m), including legal tender status.

Custodial Activity

Revenue that is collected, and its disposition, by a federal agency on behalf of other entities is accounted for as a custodial activity of the collecting entity. SEC custodial collections include amounts collected from violators of securities laws as a result of enforcement proceedings.

Cybersecurity

The steps taken to prevent illegal or unauthorized access to a computer system or network.

Dark Pool

An alternative trading system (ATS) that does not display quotations or subscribers' orders to any person or entity either internally within the ATS dark pool or externally beyond the ATS dark pool (other than employees of the ATS) and opts to have its data included in published aggregate trading volume data.

Decentralized Finance (DeFi)

Generally refers to a variety of financial products, services, activities, and arrangements supported by smart contract-enabled distributed ledger technology. This technology can reduce the use of traditional financial intermediaries and centralized institutions to perform certain functions, although the degree of decentralization across DeFi differs widely.

Deposit Fund

Consists of funds that do not belong to the federal government such as disgorgement, penalties, and interest collected and held on behalf of harmed investors, registrant monies held temporarily until earned by the SEC, and collections awaiting disposition or reclassification.

Digital Accountability and Transparency Act of 2014 (DATA Act)

Aims to make information on federal expenditures more easily accessible and transparent.

Digital Asset

An asset that is issued and/or transferred using distributed ledger or blockchain technology, including, but not limited to, so-called "virtual currencies," "cryptocurrencies," "coins," and "tokens." A digital asset may or may not meet the definition of a "security" under the federal securities laws.

Disclosure

Information about a company's financial condition, results of operations, and business that it makes public. Investors can use this information to make informed investment decisions about the company's securities.

Disgorgement

The act of returning or repaying ill-gotten gains obtained from fraudulent activities. When disgorgement is ordered, the judge or the Commission may also order that any money collected, including penalties paid, be placed in a Fair Fund for distribution to investors who were the victims of the violation.

Distributed Ledger Technology

Refers to the technological infrastructure and protocols that allow simultaneous access, validation, and record updating in an immutable manner across a network that's spread across multiple entities or locations.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act)

Legislation that enforces transparency and accountability while implementing rules for consumer protection.

Electronic Data Gathering, Analysis, and Retrieval (EDGAR) System

The system that public companies and others use to electronically submit required filings to the SEC.

Enterprise Risk Management (ERM) Program

Assists the agency in achieving its strategic and operational objectives by providing an enterprise-wide approach for managing the most significant risks and challenges.

Entity Accounts Receivable
Monies owed to the SEC generated from securities transaction fees and filing fees paid by registrants.

Entity Assets
Assets that an agency is authorized to use in its operations.

Exchange Revenue
Inflows of earned resources to an entity. Exchange revenues arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. Examples include the sale of goods and services, entrance fees, and most interest revenue.

Exchange-Traded Fund (ETF)
SEC-registered investment companies that offer investors a way to pool their money in a fund that invests in stocks, bonds, or other assets. ETFs combine features of a mutual fund, which can only be purchased or redeemed at the end of each trading day at its net asset value per share, with the ability to trade throughout the day on a national securities exchange at market prices.

Exchanges
A place (physical or virtual) where securities traders come together to decide on the price of securities.

Fair Fund
A fund created by the SEC to return money to harmed investors.

Federal Civil Penalties Inflation Adjustment Act of 1990 (FCPIA)
Requires agencies to adjust its civil monetary penalties for inflation and make adjustments at least once every four years thereafter.

Federal Financial Management Improvement Act of 1996 (FFMIA)
Provides for the establishment of uniform financial systems, standards, and reporting.

Federal Information Security Modernization Act of 2014 (FISMA)
Requires federal agencies to conduct annual assessments of their information security and privacy programs; develop and implement remediation efforts for identified weaknesses and vulnerabilities; and report on compliance to the Office of Management and Budget.

Federal Managers' Financial Integrity Act of 1982 (FMFIA)
Establishes management's responsibility to assess and report on internal accounting and administrative controls.

Federal Records Act
Requires all federal agencies to maintain records that document their activities, file records for safe storage and efficient retrieval, and dispose of records according to agency schedules.

Federal Register
The official journal of the federal government of the United States that contains government agency rules, proposed rules, and public notices.

Fiat Currency
Government-issued currency that is not backed by a commodity such as gold. Most modern paper currencies, such as the U.S. dollar, are fiat currencies.

Financial Industry Regulatory Authority (FINRA)

A registered securities association and self-regulatory organization. Generally, all registered broker-dealers that deal with the public must become members of FINRA.

Form CRS Relationship Summary

Registered investment advisers and broker-dealers are required to provide retail investors with a relationship summary at the beginning and at other points in their relationship. Form CRS includes a summary of services, fees, costs, conflicts of interest, legal standard of conduct, and whether or not the firm and its financial professionals have disciplinary history.

Fraud Reduction and Data Analytics Act of 2015

Requires agencies to implement the Government Accountability Office's *A Framework to Managing Fraud Risks in Federal Programs*, which is: (1) commit to creating an organization that is conductive to manage fraud risk; (2) assess the fraud risks within the organization; (3) design and implement controls that reduce risk of fraud; and (4) evaluate and adapt assessment outcomes.

Fund Balance with Treasury

The amount of funds in the entity's accounts with the U.S. Treasury for which the entity is authorized to make expenditures and pay liabilities, and that have not been invested in federal securities.

Funds from Dedicated Collections

Accounts containing specifically identified revenues—often supplemented by other financing sources—that are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues.

Fund of Funds

A pooled investment fund that invests in other types of funds.

Generally Accepted Accounting Principles (GAAP)

A framework of accounting standards, rules, and procedures defined by the professional accounting industry.

Government Performance and Results Act

Requires federal agencies and departments to develop annual performance plans describing the year's goals and performance reports indicating if those goals were met.

Holding Foreign Companies Accountable Act (HFCAA)

Requires the Commission to identify registrants that have retained a registered public accounting firm to issue an audit report where that registered public accounting firm has a branch or office that: (1) is located in a foreign jurisdiction; and (2) the Public Company Accounting Oversight Board has determined that it is unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction.

Once identified, the HFCAA requires such a registrant to submit documentation to the Commission establishing that it is not owned or controlled by a governmental entity in that foreign jurisdiction. Moreover, if the registrant is a foreign issuer, it is subject to specified disclosure requirements. Finally, if a registrant is identified for three consecutive years (or one year if there has been a previous trading prohibition), the registrant would subject to a trading prohibition until such time that it can certify that it has retained an inspectable auditor (and for a minimum of five years if there has been a previous trading prohibition).

Imputed Financing
Financing provided to the reporting entity by another federal entity covering certain costs incurred by the reporting entity.

Initial Public Offering (IPO)
The first time a company offers its shares of capital stock to the general public. Under the federal securities laws, a company may not lawfully offer or sell shares unless the transaction has been registered with the SEC or an exemption applies.

Insider Trading
The purchase or sale of a security by someone who has access to material, nonpublic information about the security.

International Organization of Securities Commissions
An international body consisting of the world's securities regulators. Members are typically primary securities and/or derivatives regulators in a national jurisdiction or the main financial regulator from each country.

Intragovernmental Costs
Costs that arise from the purchase of goods and services from other components of the federal government.

Investment Advisers Act of 1940
Created to regulate the actions of investment advisers, this federal law requires that firms or sole practitioners compensated for advising others about securities investments must register with the SEC and conform to regulations designed to protect investors (with certain exceptions).

Investment Company Act of 1940
Regulates the organization of companies, including mutual funds, that engage primarily in investing, reinvesting, and trading in securities, and whose own securities are offered to the investing public. It requires these companies to disclose their financial condition and investment policies to investors when stock is initially sold and, subsequently, on a regular basis.

Investor Alert
Educational content published by the Office of Investor Education and Advocacy to warn retail investors of possible fraudulent schemes.

Investor Bulletin
Educational content published by the Office of Investor Education and Advocacy to educate retail investors about timely investing topics.

Investor Protection Fund (IPF)
A fund established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 to pay awards to eligible whistleblowers who voluntarily provide the Commission with original information about a violation of federal securities laws.

Liability
A present obligation of the reporting entity to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.

Liquidity
The ease with which an asset, or security, can be converted into ready cash without affecting its market price.

Main Street Investor

A colloquial term that refers to individual investors and employees rather than large corporations and investment firms.

Market Data Infrastructure Rules

Expand the content of National Market System (NMS) market data that is required to be collected, consolidated, and disseminated as part of the NMS under Regulation NMS, and introduce a new decentralized model for the consolidation and dissemination of NMS market data.

Market-Based Treasury Securities

Debt securities that the U.S. Treasury issues to federal entities without statutorily determined interest rates.

Meme Stock

A stock that has seen an increase in retail investor attention not because of how well the company performs, but rather because of discussions on social media and online forums.

Miscellaneous Receipt Account

A fund used to collect non-entity receipts from custodial activities that the SEC cannot deposit into funds under its control or use in its operations. These amounts are forwarded to the U.S. Treasury General Fund and are considered to be non-entity assets of the SEC.

Money Market Fund (MMF)

A type of mutual fund registered under the Investment Company Act of 1940 and regulated pursuant to Rule 2a-7 under the Act. MMFs generally limit their investments to short-term, high-quality debt securities that fluctuate very little in value under normal market circumstances.

Municipal Advisor

A person (not a municipal entity or an employee of a municipal entity) who: (1) provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues; or (2) undertakes a solicitation of a municipal entity. This definition includes financial advisors, guaranteed investment contract brokers, third-party marketers, placement agents, solicitors, finders, and swap advisors who provide municipal advisory services, unless they are statutorily excluded.

Municipal Securities Rulemaking Board

The self-regulatory organization for the U.S. municipal securities market that writes rules regulating broker-dealers and banks that transact in municipal securities and municipal advisors.

National Market System (NMS)

The system for trading equities in the United States, which includes all facilities and entities that are used by broker-dealers to fulfill trade orders for securities.

National Treasury Employees Union

Created in 1938 to ensure all federal employees are treated with dignity and respect, it is the nation's largest independent union of federal employees, representing 150,000 workers in 34 departments and agencies.

Nationally Recognized Statistical Rating Organization (NRSRO)

Credit rating agencies that have registered with the Commission and meet certain disclosure, governance, internal controls, conflict of interest, and recordkeeping requirements.

Non-Entity Assets

Assets that are held by an entity but are not available to the entity. Examples of non-entity assets are disgorgement, penalties, and interest collected and held on behalf of harmed investors.

Office of Inspector General Employee Suggestion Program

As required by Section 966 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this program allows employees to submit suggestions concerning improvements in the SEC's work efficiency, effectiveness, productivity, and use of its resources. The Office of Inspector General also receives allegations by employees of waste, abuse, misconduct, or mismanagement within the SEC through the program.

Office of Management and Budget (OMB)

Helps the President oversee the federal budget and supervise federal agencies.

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*

Provides an overview of the budget process, the basic laws that regulate the budget process, and the development of the President's budget, including how to prepare and submit materials required for agency budget requests and instructions on budget execution.

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Defines management's responsibilities for enterprise risk management and internal financial controls, including administrative and program activities as well as financial activities.

OMB Circular A-136, *Financial Reporting Requirements*

Establishes a central point of reference for all federal financial reporting guidance.

Over-the-Counter

Securities that are not listed on a national securities exchange.

Payment Integrity Information Act of 2019 (PIIA)

Requires agencies to review all programs and activities they administer to identify those that may be susceptible to significant erroneous payments. For all programs and activities in which the risk of erroneous payments is significant, agencies are to estimate the annual amount of erroneous payments made in those programs. PIIA updated government-wide improper payment reporting requirements by repealing and replacing the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015.

Performance and Accountability Report

An annual report that provides program performance and financial information that enables Congress, the President, and the public to assess an agency's performance and accountability over entrusted resources.

Ponzi Scheme

A fraudulent scheme in which returns are paid to established investors with funds from new investors rather than from profits.

Proxy Process

The term used to describe the means through which widely-dispersed shareholders can exercise their voting rights by appointing a proxy to vote their shares on their behalf at a shareholder meeting. Issuers with a class of securities registered under Section 12 of the Securities Exchange Act of 1934 and issuers that are registered under the Investment Company Act of 1940 are generally required to comply with the federal proxy rules when soliciting proxy authority from shareholders.

Public Company Accounting Oversight Board (PCAOB)

A nonprofit corporation established by Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

Regulation Best Interest (Reg BI)

Requires broker-dealers to act in the best interest of their retail customers when making a recommendation without placing their financial or other interests ahead of the interests of the retail customer.

Regulation NMS

A series of rules governing the National Market System (NMS) for equities and options that are listed on a national securities exchange. The rules encompass a broad range of issues including the filing and amendment of NMS plans, the collection and distribution of market data, disclosure of order execution and order routing information, access to markets, order protection, and the consolidated audit trail.

Regulation S-K

The central repository for the SEC's non-financial statement disclosure requirements.

Reports Consolidation Act of 2000

Streamlines reporting requirements by allowing each agency to combine its audited financial statements, as required by the CFO Act, and its performance reports, as required by the Government Performance and Results Act. Each consolidated report must include an assessment from the agency head verifying the reliability of the agency's performance data and a summary from the inspector general addressing the agency's management challenges.

Reserve Fund

A fund established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that may be used by the SEC to obligate amounts up to $100 million in one fiscal year as the SEC determines is necessary to carry out its functions.

Retail Investor

An individual who buys securities for personal benefit (e.g., to purchase a home, save for retirement, or send a child to college) rather than for the benefit of an organization.

Rule 10b5-1

Clarifies the meaning of "manipulative or deceptive device[s] or contrivance[s]" prohibited by Exchange Act Section 10(b) and Rule 10b-5 with respect to trading on the basis of material nonpublic information, and provides affirmative defenses to insider trading liability under Exchange Act Section 10(b) and Rule 10b-5. Rule 10b5-1 provides that a purchase or sale of an issuer's security is on the basis of material nonpublic information about that security or issuer for purposes of Section 10(b) if the person making the purchase or sale was "aware" of material nonpublic information when the person made the purchase or sale.

In addition, Rule 10b5–1(c) establishes affirmative defenses to Rule 10b-5 liability for insider trading in circumstances where it is clear that trading was not based on material nonpublic information because the trade was pursuant to a binding contract, an instruction to another person to execute the trade for the instructing person's account, or a written plan.

Rule 144

Under the federal securities laws, all offers and sales of securities must be registered with the SEC or qualify for an exemption from the registration requirements. Rule 144 provides a safe harbor for the exemption contained in Section 4(a)(1). The safe harbor is generally available for the public resale of restricted or control securities if a number of conditions are met, including how long the securities are held, the way in which they are sold, and the amount that can be sold at any one time.

Sarbanes-Oxley Act of 2002

Legislation aimed at enhancing corporate responsibility and financial disclosures, and fighting corporate and accounting fraud that created the Public Company Accounting Oversight Board.

Section 31 Fees

Transaction fees paid to the SEC based on the volume of securities that are sold on various markets. These fees recover the costs incurred while supervising and regulating the securities markets and securities professionals.

Securities

Fungible and tradable financial instruments used to raise capital in public and private markets. There are primarily three types of securities: equity—which provides ownership rights to holders; debt—essentially loans repaid with periodic payments; and hybrids—which combine aspects of debt and equity.

Securities Act of 1933 (Securities Act)

One of the primary federal securities laws, its basic objectives are to ensure investors receive financial and other significant information about securities being offered for public sale, and to prohibit deceit, misrepresentation, and other fraud in the sale of securities.

Securities Exchange Act of 1934 (Exchange Act)

A law governing the secondary trading of securities (stocks, bonds, and debentures) in the United States. It was this piece of legislation that established the SEC.

Security-Based Swap (SBS)

A **swap** is any agreement, contract, or transaction that provides for one or more payments based on the performance of underlying reference instrument, subject to certain exclusions, including exclusions for futures contracts, options on futures, forward contracts on non-financial commodities, and certain retail investments. An **SBS** is based on: (1) a narrow-based index; (2) a single (non-exempt) security or loan; or (3) a financial event relating to an issuer or issuers in points 1 or 2.

Security-Based Swap Dealer

Any person who holds itself out as a dealer in security-based swaps (SBS); makes a market in SBS; regularly enters into SBS with counterparties as an ordinary course of business for its own account; or engages in any activity causing it to be commonly known in the trade as a dealer or market maker in SBS.

Self-Regulatory Organization (SRO)

An organization that exercises some degree of regulatory authority over an industry or profession. The regulatory authority could be applied in addition to some form of government regulation, or it could fill the vacuum of an absence of government oversight and regulation. The ability of an SRO to exercise regulatory authority does not necessarily derive from a grant of authority from the government.

Shell Company
A corporation without active business operations or significant assets.

Short Selling
An investment or trading strategy that speculates on the decline in a stock or other security's price. Short selling occurs when an investor borrows a security and sells it on the open market, planning to buy it back later for less money.

Special Purpose Acquisition Company (SPAC)
A type of shell company created specifically to conduct an initial public offering (IPO) to raise funds for a merger or acquisition with an unidentified target company within a set timeframe.

The merger or acquisition often occurs within two years after the SPAC has completed its IPO. Unlike an operating company that becomes public through a traditional IPO, however, a SPAC is a shell company when it becomes public. This means that it does not have an underlying operating business and does not have assets other than cash and limited investments, including the proceeds from the IPO.

Stable Value Coins
Also called "stablecoins," a type of digital asset that purport to maintain a stable value relative to a national currency or other reference asset.

Strategic Plan
Defines an agency's mission, long-term goals, strategies planned, and the approaches it will use to monitor its progress in addressing specific national problems, needs, challenges, and opportunities related to its mission.

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
Authorizes the Commodity Futures Trading Commission to regulate swaps, and the SEC to regulate security-based swaps.

Transfer Agent
A trust company, bank, or similar financial institution assigned by a corporation to maintain records of investors and account balances; as such, the transfer agent issues and cancels certificates to reflect changes in ownership and handles lost, destroyed, or stolen certificates.

U.S. Treasury General Fund
Consists of assets and liabilities used to finance the daily and long-term operations of the U.S. Government as a whole. It also includes accounts used in management of the budget of the U.S. Government.

Variable Interest Entity (VIE)
An organization in which consolidation is not based on a majority of voting rights.

Whistleblower
A person who, alone or jointly with others, provides the Commission with information related to a possible violation of the federal securities laws (including any rules or regulations thereunder) that has occurred, is ongoing, or is about to occur.

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APPENDIX D: ACRONYMS AND ABBREVIATIONS

AFR	Agency Financial Report
APR	Annual Performance Report
CAT	Consolidated Audit Trail
CF	Division of Corporation Finance
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CISA	Cybersecurity and Information Agency
COVID-19	Coronavirus Disease 2019
COO	Chief Operating Officer
COR	Contracting Officer Representative
CPA	Certified Public Accountant
CSRS	Civil Service Retirement System
DDR	DTCC Data Repository
DeFi	Decentralized Finance
DERA	Division of Economic and Risk Analysis
DHS	U.S. Department of Homeland Security
DISP	Diversity and Inclusion Strategic Plan
DQP	Data Quality Plan
EA	Enterprise Architecture
EDGAR	Electronic Data Gathering, Analysis, and Retrieval System
ENF	Division of Enforcement
EO	Executive Order
ERM	Enterprise Risk Management
ESG	Environment, Social, and Governance
ETF	Exchange-Traded Fund
EXAMS	Division of Examinations
FAF	Financial Accounting Foundation
FAR	Federal Acquisition Regulation
FASB	Financial Accounting Standards Board
FCPIA	Federal Civil Penalties Inflation Adjustment Act
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FEVS	Federal Employee Viewpoint Survey
FFMIA	Federal Financial Management Improvement Act of 1996
FINRA	Financial Industry Regulatory Authority
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOIA	Freedom of Information Act
FR	Federal Register
FSSP	Federal Shared Service Provider
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GME	GameStop Corp.
GSA	General Services Administration
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System
HFCAA	Holding Foreign Companies Accountable Act
HVA	High Value Asset
IM	Division of Investment Management
IPF	Investor Protection Fund
IPO	Initial Public Offering
ISS	Infrastructure Support Services

IT	Information Technology
LH	Labor-Hour
MMF	Money Market Fund
NAICS	North American Industry Classification System
NMS	National Market System
NRSRO	Nationally Recognized Statistical Rating Organization
OA	Office of Acquisitions
OASB	Office of the Advocate for Small Business Capital Formation
OCRO	Office of the Chief Risk Officer
OGC	Office of the General Counsel
OHR	Office of Human Resources
OIEA	Office of Investor Education and Advocacy
OIG	Office of Inspector General
OIT	Office Information Technology
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPM	U.S. Office of Personnel Management
PCAOB	Public Company Accounting Oversight Board
PIA	Privacy Impact Assessments
PIB	Performance Incentive Bonus
PII	Personally Identifiable Information
PIIA	Payment Integrity Information Act of 2019
PISA	Privacy and Information Security Awareness
POA&M	Plan of Action and Milestones
PSC	Public Service Campaign
QASP	Quality Assurance Surveillance Plan
RMOC	Risk Management Oversight Committee
S/L	Straight-Line
SAM	System for Award Management
SBR	Statement of Budgetary Resources
SBS	Security-Based Swap
SCVRM	Supply Chain and Vendor Risk Management
SEC	U.S. Securities and Exchange Commission
SIPA	Securities Investor Protection Act of 1970
SIPC	Securities Investor Protection Corporation
SPAC	Special Purpose Acquisition Company
SRO	Self-Regulatory Organization
T&M	Time-and-Materials
TCR	Tips, Complaints, and Referrals
TM	Division of Trading and Markets
TSP	Thrift Savings Plan
U.S.C.	United States Code
USSGL	U.S. Standard General Ledger
VIE	Variable Interest Entity

> All companies, from small businesses to high-growth startups to corporations, deserve access to our capital markets to fund their entrepreneurial ideas and innovations, regardless of their race, gender, geography, or any other factor.
>
> CHAIR GARY GENSLER

The SEC's FY 2021 Agency Financial Report was successfully produced through the efforts of our talented staff. To these individuals, we offer our sincerest appreciation. We would also like to acknowledge the Government Accountability Office and the SEC's Office of Inspector General for the professional manner in which they conducted the audit of the FY 2021 financial statements. To comment on this report, please send an email to SECAFR@sec.gov.

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