U.S. Securities and Exchange Commission

FISCAL YEAR 2022

agency financial REPORT

Certificate of Excellence in Accountability Reporting

The U.S. Securities and Exchange Commission's (SEC) fiscal year (FY) 2021 Agency Financial Report (AFR) received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants (AGA) for the 16th 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 2021 AFR also received a Best-In-Class award for Informative Appendices to Help the Reader.

MESSAGE FROM THE CHAIR

OUR MISSION

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

It is a privilege to work with the remarkable staff of the Securities and Exchange Commission (SEC) executing our three-part mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

America's capital markets affect all of us. President Franklin Delano Roosevelt and Congress understood that when, in the depths of the Great Depression, they enacted the first federal securities laws and created this agency.

I believe the core principles of the securities markets have contributed to America's economic success and geopolitical standing around the globe. Our $100 trillion capital markets, the largest and most innovative in the world, represent about 40 percent of the globe's markets, exceeding our 24 percent share of the world's gross domestic product.[1]

Further, companies and investors use our capital markets at a higher rate than market participants in other economies use theirs. For example, debt capital markets account for more than 75 percent of financing for non-financial corporations in the United States. In the rest of the world, by contrast, banks account for nearly 75 percent of such lending.[2]

Our capital markets touch many Americans' lives, whether they're saving for the future, borrowing for a mortgage, taking out an auto loan, or working for a company that raises money to fund growth or innovation. That is why it is critical to ensure that the SEC is adequately funded and staffed to oversee our capital markets on behalf of those American workers, investors, and families. That is also why it is critical that our staff drives efficiencies in our capital markets and modernizes our rulesets, in a manner consistent with our Congressional authority, for today's markets and technologies.

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1 *See* Securities Industry and Financial Markets Association, "2022 SIFMA Capital Markets Fact Book" (July 2022), *available at* SIFMA.org/wp-content/uploads/2022/07/CM-Fact-Book-2022-SIFMA.pdf.
2 Ibid.

In FY 2022, our Divisions of Examinations and Enforcement—which, combined, account for about half of the SEC's staff—worked to examine regulated entities and enforce our rules and laws. Such work, alongside rulemaking, is necessary to instill the trust needed for our markets to thrive.

In this report, you will learn more about these efforts. You will also learn more about our remarkable staff. In recent years, under the Federal Employee Viewpoint Survey (FEVS), the SEC has ranked among the best places to work in the federal government. These results are a direct reflection of the work of managers, staff, and union representatives to promote a workplace that supports job satisfaction and engagement. I cannot emphasize enough my gratitude to the staff for conducting excellent work in the face of exceptional challenges.

Our annual Agency Financial Report includes the results of an independent audit of our FY 2022 financial statements. The financial and performance data in this report are complete and accurate under the Office of Management and Budget guidance.

As I wrote in last year's report, I think most readers will continue to find that the SEC does a lot with limited resources. The SEC oversees 29,000 registered entities, more than 3,500 broker-dealers, 24 national securities exchanges, 102 alternative trading systems, 10 credit rating agencies, 7 active registered clearing agencies, 33 self-regulatory organizations, and other external entities. A record 67 million U.S. families held direct or indirect stock holdings in 2019.[3]

The nearly 4,550 people of the SEC tackle a broad, deep, and impressive array of projects. Grateful for their service to the American public, I am honored to present this report on behalf of the Commission.

GARY GENSLER
Chair
November 10, 2022

3 Data drawn from the public version of triennial Survey of Consumer Finances (SCF): federalreserve.gov/econres/scfindex.htm. The SCF is sponsored by the Board of Governors of the Federal Reserve System with the cooperation of the U.S. Department of the Treasury. The 2019 SCF is the most recent survey.

celebrating 20 years of the Sarbanes-Oxley Act

THIS LAW was brought into enactment on the back of multiple corporate financial scandals in the early 2000s. Lawmakers created the legislation to help protect shareholders, employees, and the public from accounting errors and fraudulent financial practices. As a result, auditors, accountants, and corporate officers became accountable for a new set of rules enforced by the SEC.

> In the last 20 years, we've learned a lot from this law . . . .
>
> It's important to have robust and independent organizations setting standards, inspecting firms, and enforcing the rules. It's important to ensure auditor independence and to guard against inherent conflicts that might arise when auditing and other services are mixed. It's important that corporations and their senior executives are held accountable for their financial statements. It's important that all issuers, whether foreign or domestic, are on a level playing field when it comes to the investor protections of the Sarbanes-Oxley Act of 2002.
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> **CHAIR GARY GENSLER**

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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) 2022 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 2024 Congressional Budget Justification Report available in 2023.

The FY 2022 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 2022 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 2023 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.

How does the SEC protect investors like me?

Simply put, by providing reliable information and clear rules for honest dealing, as well as staying true to our foundational purpose—as noted in the Securities Act of 1933 and the Securities Exchange Act of 1934—by ensuring that:

- 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides a high-level overview of the agency, its FY 2022 program and financial performance, and FY 2023 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 2022, 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 as well as the process used to verify and validate the performance results. It also includes select results by strategic goal for key metrics.

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.

The SEC's long-standing three-part mission remains its touchstone. The core principles the agency has applied over the past 88 years to carry out this mission are timeless:

- Requiring issuers raising capital to make full and fair disclosures to investors on a regular basis;
- Placing heightened responsibilities on key market participants; and
- Using SEC examination and enforcement resources to bolster those requirements and protect investors.

Strategic Goals and Strategic Initiatives[1]

STRATEGIC GOAL 1

Protect working families against fraud, manipulation, and misconduct

Strategic Initiative 1.1: Pursue enforcement and examination initiatives focused on identifying and addressing risks and misconduct that affects individual investors.

Strategic Initiative 1.2: Enhance the use of market and industry data, particularly to prevent, detect, and enforce against improper behavior.

Strategic Initiative 1.3: Modernize design, delivery, and content of disclosures so investors, including in particular retail investors, can access consistent, comparable, and material information to make informed investment decisions.

STRATEGIC GOAL 2

Develop and implement a robust regulatory framework that keeps pace with evolving markets, business models, and technologies

Strategic Initiative 2.1: Update existing SEC rules and approaches to reflect evolving technologies, business models, and capital markets.

Strategic Initiative 2.2: Examine strategies to address systemic and infrastructure risks faced by our capital markets and our market participants.

Strategic Initiative 2.3: Recognize significant developments and trends in our evolving capital markets and adjust our activities accordingly.

STRATEGIC GOAL 3

Support a skilled workforce that is diverse, equitable, and inclusive and is fully equipped to advance agency objectives

Strategic Initiative 3.1: Focus on the workforce to increase capabilities, leverage shared commitment to investors, and promote diversity, equity, inclusion, accessibility, and equality of opportunity.

Strategic Initiative 3.2: Promote collaboration within and across SEC offices, including through rotation and detail programs, and maximize telework opportunities.

Strategic Initiative 3.3: Enhance the agency's internal control and risk management capabilities, including by the development of 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 3.4: Modernize the SEC's technology to enable the mission in a cost-effective, secure, and resilient manner.

1 These Strategic Goals and Strategic Initiatives were outlined in the SEC Strategic Plan for Fiscal Years 2022–2026, which was released for public comment on August 24, 2022. Based on the comments received, the Commission expects to vote on the final Plan in FY 2023.

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. In addition, the SEC is responsible for reviewing the disclosures and financial statements of all public companies in the United States. 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.

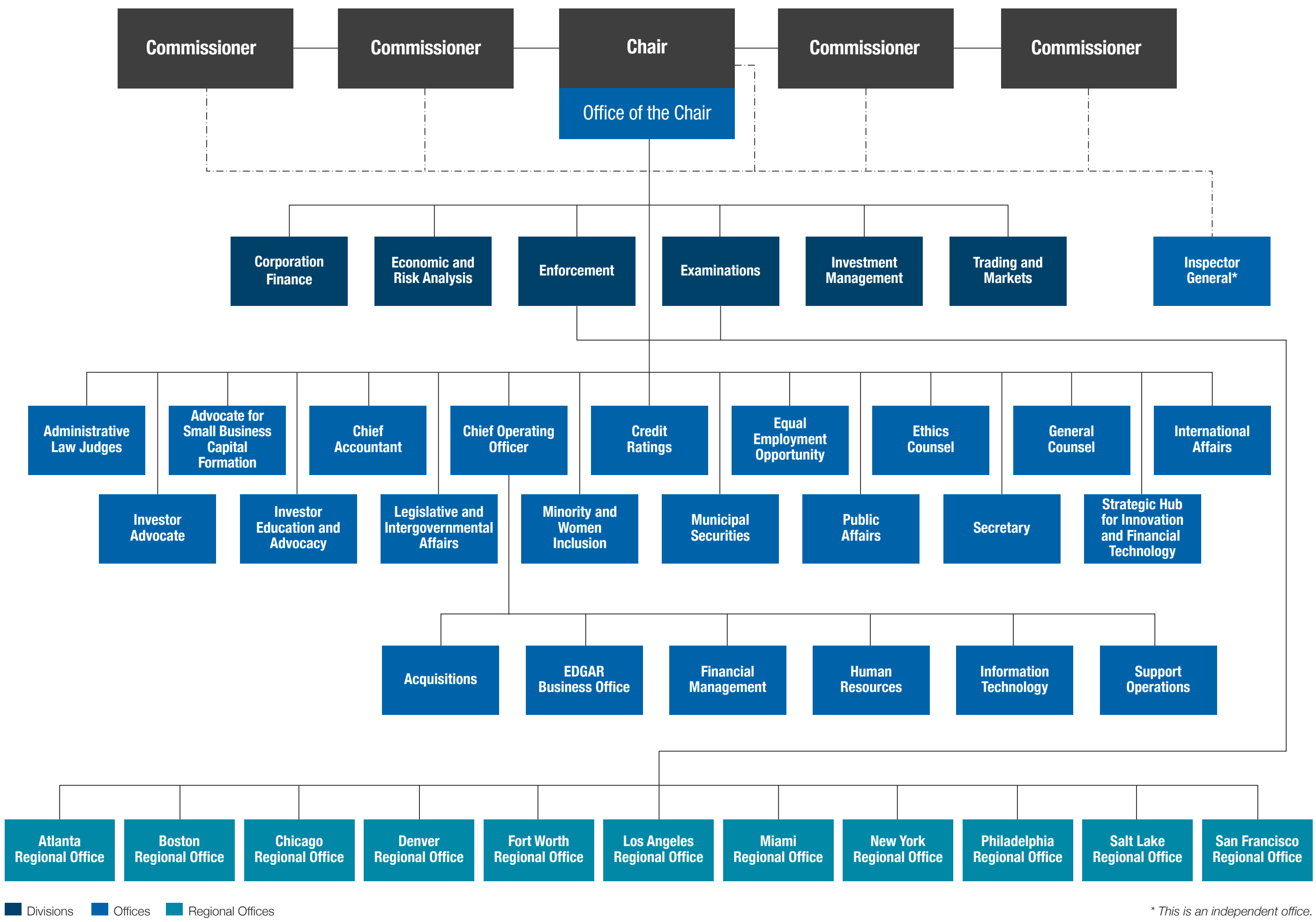
1 More information about the Securities Act of 1933 can be found at SEC.gov/about/laws/sa33.pdf.
2 More information about the Securities Exchange Act of 1934 can be found at SEC.gov/about/laws/sea34.pdf.
3 More information about the Dodd-Frank Act can be found at SEC.gov/about/laws/wallstreetreform-cpa.pdf.

Organizational Structure and Resources

The agency's functional responsibilities are organized into 6 divisions, 25 offices, and 11 regional offices. In FY 2022, the SEC employed 4,547 full-time equivalents.

The following chart is accurate as of September 30, 2022.

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*).

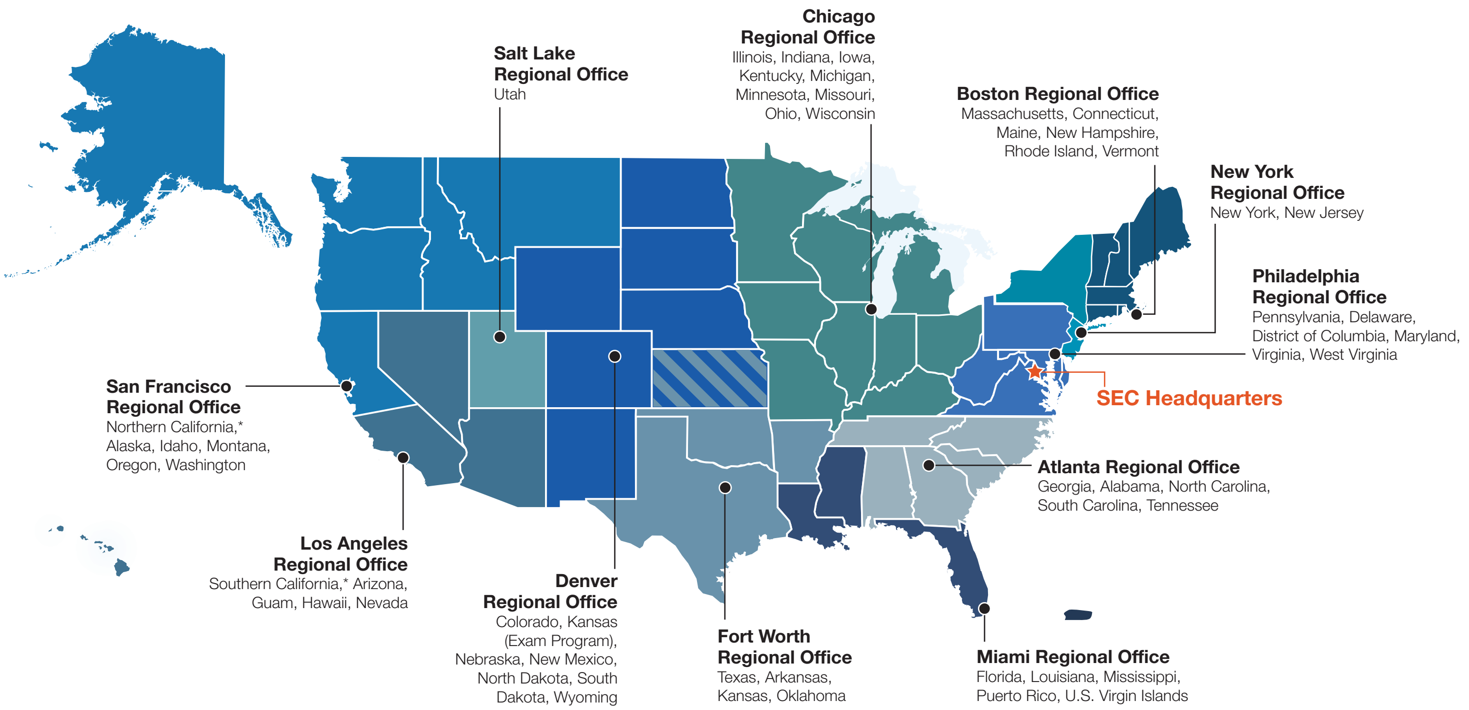
The Chair serves as the chief executive and, by law, no more than three of the Commissioners may belong to the same political party.

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 64. 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	Works with small businesses and their investors to understand their capital formation issues through education and outreach; analyzes the potential impact of proposed SEC and SRO rules and regulations likely to significantly affect small businesses and their investors; and helps small businesses and their investors resolve issues with the SEC and SROs by recommending policy changes to Congress and the Commission.
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.

Table 1.1 | *Continued from previous page*

AGENCY DIRECTION AND ADMINISTRATIVE SUPPORT *(CONTINUED)*	
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.
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.

the SEC's mission for diversity, equity, and inclusion

THROUGHOUT FY 2022, SEC Chair Gary Gensler remained focused on advancing the agency's overall mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.

In February 2022, Chair Gensler spoke with Lloyd M. Johnson Jr., publisher of The Black In-House Counsel Annual Report, to discuss Diversity, Equity, and inclusion (DEI) and its importance to the SEC's workforce. An excerpt from the conversation is on the right.

Johnson: Firstly, why is DEI a priority during your tenure as chair? And why is this so important to you personally?

Chair Gensler: If I can start with the SEC's mission, it's about investor protection; it's about capital formation, and that which is in the middle—fair, orderly, and efficient markets. To protect investors and to have fair markets, it's also about inclusive markets. It's important to ensure that across the 330 million plus people in America, they have access to the capital markets and that the information being shared is full and fair. Also, that this information is shared up and down the income and wealth spectrum and across our wonderfully diverse nation.

It's also something we need to think about at the SEC internally. At the agency, we've got progress to make to get the benefits of people of all backgrounds—so they can bring their authentic selves to work, they can get promotions, they can get opportunities to be in senior leadership, and so that they can contribute to our mission, regardless of race or color, creed, ethnic background, gender, or sexual orientation.

We want staff who can bring their whole self to work and can contribute in all ways to the meaningful work of the agency.

Read the entire interview at SEC.gov/sec-stories/mission-inclusion-conversation-gary-gensler#bubble-1.

OUR YEAR IN REVIEW AND THE YEAR AHEAD

During FY 2022, we advanced our three-part mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. In the following pages, we provide an overview of our 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.

Division of Enforcement

The Division of Enforcement (ENF) protects millions of investors and instills confidence in the integrity of U.S. capital markets by deterring misconduct and punishing wrongdoers. ENF investigates and litigates a diverse mix of cases targeting fraud and other wrongdoing. During FY 2022, the Commission filed significant enforcement actions spanning a wide array of areas.

The Commission filed several actions against financial firms and industry gatekeepers for violating their core obligations to the market. For example, in September 2022, the Commission charged 16 Wall Street firms with widespread recordkeeping failures. To settle these matters, the firms agreed to pay combined penalties of more than $1.1 billion to the SEC and have begun to implement improvements to their compliance policies and procedures. In June 2022, the SEC charged Ernst & Young LLP (EY) for cheating by its audit professionals on ethics exams required to obtain and maintain certified public accountant licenses, and for withholding evidence of this misconduct. EY agreed to pay a $100 million penalty and undertake extensive remedial measures to fix the firm's ethical issues.

The Commission also filed major enforcement actions against investment advisers and senior investment professionals whose fraud involved complex trading strategies affecting pension funds. For example, in May 2022, the SEC charged Allianz Global Investors U.S. LLC (AGI US) and three former senior portfolio managers with a massive fraudulent scheme that concealed the downside risks of a complex options trading strategy. The resolution included more than $1 billion to settle SEC charges and more than $5 billion in restitution to victims.

The crypto assets space has grown and evolved significantly over the past year, and the Commission has continued to address violations of the federal securities laws regardless of the technology involved. For example, in February 2022, the Commission charged a crypto asset lending platform, BlockFi Lending LLC, with failing to register the offers and sales of its retail crypto lending product, and with failing to register as an investment company. BlockFi agreed to pay a $50 million penalty, cease its unregistered offers and sales of the lending product, and undertook to bring its business within the provisions of the Investment Company Act. In addition, the Commission continues to bring enforcement actions directed at illegal and manipulative trading of crypto asset securities. For example, in July 2022, the Commission brought charges against a former Coinbase product manager, his brother, and his friend for an insider-trading scheme.

During FY 2022, the Commission has continued to pursue enforcement actions involving special purpose acquisition companies (SPAC), which attracted significant public attention and investor funds, even amid reports of downturns in the market for SPACs themselves. For example, the SEC charged an electric-truck manufacturer with fraud for misleading investors about its products, technical advancements, and commercial prospects. The SEC previously charged the company's founder for fraud.

SPECIAL PURPOSE ACQUISITION COMPANY (SPAC)

A type of shell company created specifically to conduct an initial public offering to raise funds for a merger or acquisition with an unidentified target company within a set timeframe.

The SEC's whistleblower program, created to incentivize individuals to report high-quality tips to the Commission, had an incredibly successful year in FY 2022. Since the program's inception more than a decade ago, the SEC has used whistleblower information to obtain sanctions of more than $6.3 billion from securities law violators, return more than $1.5 billion to harmed investors, and award more than $1.3 billion to whistleblowers. In FY 2022, the Commission awarded approximately $229 million in connection with 103 awards. The Commission also adopted amendments to two rules regarding the whistleblower program. These rules are designed to encourage the continued submission of credible information of possible securities law violations to the agency.

Division of Examinations

The Division of Examinations (EXAMS) oversees market participants by conducting examinations of regulated entities to promote compliance, prevent fraud, pursue misconduct, identify risk, and inform policy.

During FY 2022, EXAMS continued to prioritize reviews of certain practices, products, and services that present heightened risks to investors or market integrity, with a particular focus on risks to retail investors.

Among other priorities, EXAMS conducted examinations concerning:

- Compliance with new standards of conduct rules, with reviews focused on how broker-dealers and investment advisers are satisfying their obligations under regulation best interest and the investment advisers act fiduciary standard;
- The activities and compliance programs of investment advisers to private funds;
- Information security and operational resiliency—an especially important matter given ongoing geopolitical challenges like the Russian invasion of Ukraine;
- Areas of emerging technology and financial innovation, including crypto assets and the growing role that automated digital services play for registered investment advisers providing advice or recommendations to clients; and
- Environmental, social, and governance (ESG) investing.

In FY 2022, the EXAMS Office of Security-Based Swaps continued to carry out oversight responsibilities for security-based swap entities registered with the Commission, with an eye to whether these newly registered entities have implemented policies and procedures necessary to comply with relevant rules.

In FY 2022, EXAMS published seven Risk Alerts as part of its continued efforts to raise awareness of critical compliance and industry risks and promote stronger industry compliance.

Division of Investment Management

The Division of Investment Management (IM) protects investors through the regulation of registered investment advisers and registered investment companies. IM's filing review process seeks to achieve accurate, clear, and concise disclosures and help ensure that funds comply with the federal securities laws.

In FY 2022, IM staff reviewed more than 2,100 filings related to more than 4,900 funds and insurance products. The staff also reviewed the annual reports, including the financial statements, of more than 4,500 funds.

In addition to those reviews, IM staff recommended the proposal of a number of rules designed to further protect investors. The Commission proposed rulemakings aimed to improve cybersecurity; help ensure that a fund's name accurately reflects its investments; enhance funds and investment advisers' ESG-related disclosures; and improve the resiliency and transparency of money market funds.

Further, IM recommended, and the Commission proposed, several rulemakings concerning advisers to private funds. Two of these proposed rulemakings (one from the Commission and the other proposed jointly with the Commodity Futures Trading Commission [CFTC]) would enhance Form PF, the confidential form for certain investment advisers. In addition, the Commission proposed rules and amendments to improve the efficiency, competition, and transparency of the activities of private funds' advisers.

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.

The staff also worked to implement rules adopted in prior years that have FY 2022 compliance dates, including rules designed to modernize disclosure used with variable insurance products.

In addition, IM staff monitored and analyzed industry data collected by the Commission and performed ongoing financial analyses of the asset management industry, including with respect to the unique challenges of FY 2022. Such analyses helped to identify potential risks, inform Commission policy, and improve investor-facing disclosures.

red flags of investment fraud

AVOID FALLING VICTIM to investment fraud by learning to recognize these red flags before handing over your money. Report suspected fraud to the SEC and remember: if an investment opportunity sounds too good to be true, it probably is!

> "There are a lot of fraudulent investment promotions—like the fake HoweyTrade Program—trying to con you. That is why the SEC's Office of Investor Education and Advocacy created mock videos showing investors what real scams can look like.
>
> INVESTOR.GOV

PROMISES OF GREAT WEALTH

To lure you in, the fraudster says, "I've made my clients millionaires. Do you want a new car?" Fraudsters show you luxurious images and imply that if you give them your money, "This could be yours."

HIGH GUARANTEED RETURNS

The fraudster promises, "You can earn an extra $500 per week—guaranteed." Don't trust anyone who says you will make a lot of money with no risk. Every investment has risk. Generally, the higher the returns, the higher the risk. Most fraudsters spend a lot of time trying to convince investors that extremely high returns are "guaranteed" or "can't miss."

EXAGGERATED CREDENTIALS

The fraudster claims, "I got my MBA and worked at top financial firms all around the world." Fraudsters tend to make up or exaggerate their credentials. They may try to build credibility by claiming to be with a reputable firm, have graduated from a prestigious school, or to have a special credential or experience. Don't invest with someone just because the person claims to have an impressive background or track record.

PRESSURE TO ACT NOW

To try to pressure you to invest right away, the fraudster says, "I'm only giving access to the first 100 subscribers!" Fraudsters may claim that only a certain number of individuals can get in on the investment. Or, they may tell you that the offer will disappear in a matter of hours. Don't get caught up in FOMO (fear of missing out). Do your research and take your time making a decision on any investment opportunity.

FAKE TESTIMONIALS AND CELEBRITY ENDORSEMENTS

A paid actor says, "I've made $1,934 in the last 10 minutes!" Fraudsters love to create a buzz and use fake testimonials to convince you that others have invested. Don't be fooled by actors pretending to be real people who made money. And don't make an investment just because a famous movie star, professional athlete, or other celebrity claims to have made money.

CALLING OUT SCAMMERS

The fraudster says, "There are a lot of scammers out there posing as experts." Some fraudsters may try to make you think they are genuine by telling you to watch out for other people trying to take your money. This is a tactic fraudsters use to appear trustworthy.

As the SPAC market has grown dramatically in the past several years, some SPACs have sought to operate in novel ways that may raise investor protection concerns. In March 2022, the Commission proposed rules to enhance investor protections in initial public offerings (IPO) by SPACs. In FY 2022, IM staff continued its ongoing work to monitor SPACs and recommend additional protections or conditions as appropriate.

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.

During FY 2022, IM continued to focus on the investor implications of proposed mutual funds and exchange-traded funds (ETF) seeking to invest in crypto-related investments, with an emphasis on bitcoin futures traded in the U.S.-regulated market. The staff also continued to interact with funds seeking to employ blockchain technology in their operations. In addition, following the June 2021 joint SEC/CFTC staff Investor Bulletin on funds trading in bitcoin futures, staff continue to assess the investor protection implications of bitcoin futures and other potential types of crypto-based investing.

IM staff are evaluating the investor protection and legal implications of so-called stable value coins (also known as "stablecoins") under the federal securities laws. Staff focus has been on stablecoins that are pegged or linked to the value of fiat currencies. In FY 2022, IM staff also contributed input on a report on stablecoins from the President's Working Group on Financial Markets.

Division of Trading and Markets

The Division of Trading and Markets (TM) addresses issues relating to market structure, market data infrastructure, crypto assets, and security-based swaps.

In FY 2022, the Commission proposed several rules and amendments regarding market structure. In January 2022, the Commission proposed amendments to promote resilience and greater access in the more than $23 trillion Treasury markets.[1] In July 2022, the Commission re-proposed rule amendments regarding when broker-dealers are required to register with the Financial Industry Regulatory Authority (FINRA). Such amendments are intended to modernize and improve market oversight for regulators.

With respect to market data infrastructure, in December 2020, the Commission approved amendments to Regulation National Market System (NMS) to update and modernize the NMS for the collection, consolidation, and dissemination of information regarding quotations for, and transactions in, NMS stocks. In November 2021, the staff began to implement the Commission's Market Data Infrastructure Rules relating to the NMS.

Regarding crypto assets, TM along with various SEC divisions and offices continues to monitor crypto intermediaries. Given that many crypto tokens are securities, it follows that many crypto intermediaries are transacting securities and should be registered with the SEC in some capacity.[2] Crypto intermediaries—whether they call themselves centralized or decentralized—often are an amalgam of services that typically are separated from each other in the rest of the securities markets: exchange functions, broker-dealer functions, custodial

1 SIFMA.org/resources/research/us-treasury-securities-statistics/#:~:text=Trading%20.
2 *See* Gary Gensler, "Kennedy and Crypto" (Sept. 8, 2022), *available at* SEC.gov/news/speech/gensler-sec-speaks-090822.

and clearing functions, and lending functions. These platforms match orders in crypto security tokens of multiple buyers and sellers using established non-discretionary methods. These are the regulatory criteria for being an exchange. Crypto investors should benefit from exchange rulebooks that protect against fraud, manipulation, front-running, wash sales, and other misconduct.

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.

Crypto intermediaries also effect transactions in crypto security tokens for the accounts of others, making them brokers, or engage in the business of buying and selling crypto security tokens for their own accounts, making them dealers. Crypto investors should get the protections they receive from registered broker-dealers in mature markets. Finally, many crypto intermediaries provide lending functions for a return. If a lending platform is offering and selling securities, it too comes under SEC jurisdiction.

Further relating to crypto assets, TM staff worked with the Commission's Office of the Strategic Hub for Innovation and Financial Technology to meet regularly with entrepreneurs, innovators, and market participants regarding new and ongoing ventures in the crypto asset space. Moreover, TM staff routinely met with FINRA staff to discuss novel or complex questions under the federal securities laws relating to FINRA member involvement with crypto assets.

In FY 2022, the Commission continued to make significant progress implementing the Dodd-Frank Act, including with respect to security-based swaps. As a result of previous Commission rulemaking, the first security-based swap entities began registering with the Commission at the beginning of FY 2022. As of October 2022, 49 entities have registered with the Commission as security-based swap dealers and are subject to the Commission's rules and oversight.

As of FY 2022, market participants are required to report their security-based swaps to one of these trade depositories. In February 2022, public dissemination of security-based swap transactions began.

Relatedly, in December 2021, the Commission proposed rules to require public reporting of large security-based swap positions; to prevent fraud, manipulation, and deception in connection with security-based swap transactions; and to prohibit the personnel of security-based swap dealers from unduly influencing their chief compliance officers. In addition, in April 2022, the Commission proposed a set of rules (Regulation SE) and forms that would, among other things, create a regime for the registration and regulation of security-based swap execution facilities.

In August 2022, the Commission proposed a set of rules to help improve governance across all registered clearing agencies by reducing the likelihood that conflicts of interest may influence the board of directors or equivalent governing body of a registered clearing agency. In addition, in November 2021, the Commission proposed amendments to modernize the electronic recordkeeping requirements for intermediaries such as broker-dealers and security-based swap dealers.

Division of Corporation Finance

The Division of Corporation Finance (CF) works to ensure that investors are provided with material information in order to make informed investment decisions. CF also provides interpretive assistance to companies with respect to SEC rules and forms and makes recommendations to the Commission regarding new rules and revisions to existing rules.

In FY 2022, CF continued to make recommendations to the Commission on a number of proposed and final rules designed to, among other things, improve disclosures for investors; enhance investor protections against insider trading and in connection with SPAC transactions; and improve the proxy process.

To improve disclosure and enhance investor protection, in December 2021, the Commission proposed amendments to its rules governing disclosure of share buybacks to reduce information asymmetries between issuers and investors with respect to such activity. Further, in March 2022, the Commission proposed rules to enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance, and cybersecurity incident reporting by public companies. Additionally, the Commission proposed rules that would require registrants to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business.

In addition, to strengthen investor protection, in December 2021, the Commission proposed amendments to update Rule 10b5-1 that would address potentially abusive practices related to insider trading. Additionally, in March 2022, the Commission proposed new rules designed to enhance investor protection and improve disclosures in SPAC IPOs and SPAC business combinations.

During FY 2022, the Commission also finalized two important rules related to the proxy process. First, in November 2021, the Commission amended the federal proxy rules governing solicitations by management and shareholder groups. The amendments require the use of a universal proxy card specifying all director nominees presented by both management and dissident shareholders for election at a shareholder meeting. In July 2022, the Commission also adopted amendments to its 2020 rules governing proxy voting advice provided by proxy advisory firms.

In addition to these policy initiatives, CF also continued to diligently review and process offering documents and periodic reports by public companies and those seeking to become public. In reviewing these documents, CF staff provided comments and public guidance on a number of significant issues, including with respect to Russia's invasion of Ukraine and related supply chain issues.

detecting and repelling cyberattacks

GOVERNMENTAL AGENCIES, FINANCIAL MARKET PARTICIPANTS, AND PRIVATE SECTOR ENTITIES must all remain vigilant in their efforts to identify, assess, and mitigate cybersecurity risks. The SEC understands that this requires consistent investment in technical capabilities and human capital.

EXAMPLES OF FY 2022 EFFORTS

- Developed a Zero Trust Architecture Implementation Plan in accordance with Executive Order 14028 and OMB Memorandum M-22-09.
- Participated as one of seven lighthouse/pilot agencies working with the Department of Homeland Security to utilize the Dashboard as a Service solution for their Agency dashboard.
- Expanded internal network visibility, enabling cybersecurity operators to more rapidly identify and respond to potential threats to SEC networks, data, and systems.
- Incorporated high fidelity Cyber Threat Intelligence feeds to automatically block known malicious threats and enhance cybersecurity detection and alerting.
- Augmented the agency's vulnerability scanning capability to address rising security threats present in container virtualization technologies.

CF continued to play an integral role in the agency's efforts to ensure investors have the information they need to make informed investment decisions with respect to investments in China-based issuers. CF continued to issue comments to China-related businesses to obtain enhanced disclosure for investors about, among others matters, variable interest entity structures and risks. CF also worked closely with the Office of the Chief Accountant and led the agency's efforts to identify public companies affected by the Holding Foreign Companies Accountable Act.

Division of Economic and Risk Analysis

The Division of Economic and Risk Analysis (DERA) provides economic analysis to inform Commission activities such as examinations, enforcement, and policymaking. In FY 2022, DERA economists analyzed the economic effects of Commission and self-regulatory organization (SRO) 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 and other SEC staff, DERA data scientists engaged in several projects to enhance evidence-based decision-making within the Commission, and to identify potential securities law violations by market participants.

Office of the Chief Operating Officer

The Office of the Chief Operating Officer develops and executes agency management policies.

SEC's Operating Posture

In FY 2022, the SEC continued to vigorously pursue its mission while prioritizing the health and safety of its workforce in the face of the continued COVID-19 pandemic. SEC personnel have maintained high levels of productivity while both working offsite and conducting certain work activities, such as conducting depositions, in office settings. The SEC believes there are advantages to maintaining an occasional in-office presence, which can be vital for collaboration, communication, and fostering a culture of inclusion and engagement. As of the end of FY 2022, the SEC is in discussions with its union, the National Treasury Employee Union, over the proper balance between telework and in-office presence, workplace safety protocols, and other related issues.

TIPS FOR INVESTING IN A SOCIAL WORLD

Real-time discussion platforms and social sentiment may lead you to make emotionally driven or impulsive investment decisions.

- **Know your long-term objectives**. The information you find online about specific investments can reflect short-term trends.
- **Don't let short-term emotions disrupt your long-term financial goals**. Making and sticking with a financial plan can help.
- **Use caution and take your time.** Do your own independent research, and don't feel pressured to invest right away.

Cloud and Data Initiatives

In late FY 2021, the SEC created a Cloud Center of Excellence to help drive modernization efforts within the Commission. The cornerstone of this program is a cloud platform that will enable the SEC to increase mission capabilities and agility through the use of modern software tools to enable data visualization, artificial intelligence, and machine learning.

Within this cloud platform is a new enterprise data warehouse that provides secure, controlled access to various datasets used across the enterprise. The SEC leveraged the data warehouse to support new capabilities to analyze data from the Consolidated Audit Trail (CAT). The CAT tracks broker-dealer orders throughout their lifecycle, allowing regulators to efficiently track activity in U.S. markets. CAT data are far more timely, complete, accurate, and precise than other forms of regulatory market data on which the SEC and SROs have relied in the past. The CAT represents a critical new tool for the Commission to detect abusive and fraudulent trading practices.

The SEC also continued building its enterprise data management program, developing a new data architecture that will help the agency increase data reliability and quality; updating the agency-wide policy over data access and use; and significantly enhancing the agency's Data Catalog.

In FY 2022, the SEC continued building a College of IT to enhance employee skills related to modern technology methods and tools. In addition, the SEC continued to invest significant time and resources to improve its information security, including by taking substantive steps to identify, assess, and mitigate cybersecurity risks.

Office of Investor Education and Advocacy

The Office of Investor Education and Advocacy (OIEA) works to provide retail investors with knowledge and tools that will help them build a secure financial future. OIEA spearheads a range of important initiatives related to investor education, from launching outreach campaigns to publishing content such as Investor Alerts on Investor.gov.

In FY 2022, OIEA and the SEC's 11 regional offices continued to educate retail investors through a range of investor outreach. Importantly, outreach targeted new investors, particularly those who traditionally are underserved.

In FY 2022, SEC staff participated in nearly 500 investor education events. OIEA continued to release Investor Alerts and Bulletins to warn investors of fraud and offer educational resources on investment-related matters. Partnering with ENF's Retail Strategy Task Force, OIEA published an Investor Bulletin to describe the risks of investing in accounts that pay interest on crypto asset deposits. OIEA also assisted more than 31,000 investors with various complaints and answered questions from individual investors needing assistance.

In October 2021, SEC staff hosted outreach events during World Investor Week, a global effort promoted by the International Organization of Securities Commissions that brings together regulators on six continents to promote efforts to educate and protect investors, to discuss the benefits of investing early, making informed investment decisions, and learning how to avoid fraud.

Office of Minority and Women Inclusion

The Office of Minority and Women Inclusion (OMWI) provides leadership and guidance for the SEC's efforts to leverage diversity and inclusion throughout the agency to enhance mission performance and impact.

INCLUSION

Refers to a culture that connects each employee to the organization; encourages collaboration, flexibility, and fairness; and leverages diversity throughout the organization so that all employees are able to participate and contribute to their full potential.

Through efforts led by OMWI, the SEC has continued to prioritize its commitment to diversity, equity, inclusion, and accessibility (DEIA). In FY 2022, guided by the SEC's Diversity and Inclusion Strategic Plan, the SEC continued to promote DEIA in every facet of the agency's work and mission. Among other steps, OMWI promoted agency leadership's commitment to DEIA, fostered a connected culture even during a remote work posture, and continued to build a diverse talent pipeline.

OMWI's initiatives to advance DEIA goals included trainings, assessment programs, promoting Senior Officer involvement with DEIA-related events, diversity dialogues, an increased number of paid internships, participation on the SEC's diversity council, supporting employee affinity groups, and steps to deepen the SEC's relationships with professional diversity partner organizations.

To leverage DEIA for mission effectiveness and promote diversity for SEC stakeholders, in partnership with the Office of Acquisitions, OMWI continued its outreach and technical assistance efforts to promote minority-owned, women-owned, and veteran-owned businesses.

As an agency, the SEC continued to embed DEIA in its mission activities, such as by promoting business diversity with its regulated entities. With OMWI's support, the SEC also continued to focus on working with the SEC advisory committees to advance DEIA in the financial services industry. OMWI hosted several events in FY 2022 to advance this end, including a kick-off event in June 2022 with Chair Gensler to promote DEIA in that industry.

Office of the Advocate for Small Business Capital Formation

The Office of the Advocate for Small Business Capital Formation (OASB) advocates for solutions to address challenges faced by small businesses—from startups to smaller public companies—and their investors raising and deploying capital. A key part of OASB's mission is to identify and address unique capital raising challenges faced by minority-owned, women-owned, rural, and natural disaster-area small businesses and their investors. To fulfill this mission, OASB conducted outreach events with diverse audiences and developed a number of accessible capital raising educational materials.

Throughout the year, OASB participated in 32 outreach events with small businesses, investors, and other thought leaders to hear their perspectives on issues facing the small business ecosystem. Discussions provided insights on issues like the unique obstacles faced by women and minority entrepreneurs; the challenges and opportunities of raising capital outside of traditional hubs; and how to increase diversity among capital allocators.

In April 2022, OASB hosted the SEC's 41st annual Small Business Forum. The virtual event took place over four days, averaging 200 attendees per day and participation by all Commissioners. OASB delivered a report to Congress in July 2022 summarizing the proceedings of the Forum, including 20 capital raising policy recommendations received from public participants during the event, as well as the Commission's responses to those recommendations.

In October 2021, in partnership with other SEC offices and divisions, OASB launched the Capital Raising Hub, a centralized portal for educational resources for entrepreneurs and their investors for each phase of the capital raising journey. OASB continued to expand and update this hub in response to feedback from small businesses and investors. The hub has received more than 16,000 visits since its launch.

OASB also launched a new Capital Raising Video Gallery, where users can find educational videos on capital raising topics and data. In addition, OASB continued to expand its Rulemaking Video Gallery, which hosts videos providing high-level summaries of relevant policies and rulemaking initiatives under consideration by the Commission and their potential impact on small business and their investors.

Additionally, OASB works closely with the SEC's Small Business Capital Formation Advisory Committee. The Committee provides advice and recommendations to the Commission on rules, regulations, and policy matters relating to small businesses. The Committee's membership includes companies and investors from across a diverse set of experiences, industries, geographies, and company lifecycle stages. The Committee met four times in FY 2022 and put forward four recommendations.

PROXY VOTING
Widely-dispersed shareholders can exercise their voting rights by appointing a proxy to vote their shares on their behalf at a shareholder meeting.

Office of the Investor Advocate

The Office of the Investor Advocate (OIAD) has four core functions: to provide a voice for investors, assist retail investors, study investor behavior, and support the SEC's Investor Advisory Committee (IAC).

During FY 2022, OIAD hosted numerous events with investors designed to obtain feedback from investors on policy-related topics, including the first-ever virtual roundtable in coordination with the North American Securities Administrators Association and the American Association of Retired People to examine topics related to older investors. This event allowed the SEC to hear directly from a diverse group of retail investors, and better anticipate the community's needs in the future.

OIAD's Office of the Chief Counsel analyzed the potential impact of draft rulings on investors; worked with various stakeholders; including Congress, to identify areas in which investors would benefit from changes in the regulations of the Commission; and provided consultation to the Investor Advocate and other senior leaders.

In addition, OIAD's Office of Investor Research continued a number of research initiatives, including publishing Working Papers on performance benchmarks and the use of visual aids in mutual fund investment decisions, while the Office of the Ombudsman assisted numerous retail investors in resolving significant problems they had with the Commission and SROs, and worked to review some SRO rulemakings.

The IAC advises and consults with the Commission on regulatory priorities, including initiatives to protect investor interests, promote investor confidence, and maintain the integrity of the securities marketplace. The IAC includes four subcommittees to help formulate its policies and recommendations: 1) Investor-as-Owner; 2) Investor-as-Purchaser; 3) Market Structure; and 4) Disclosure (which was formed in FY 2022). The Committee held four quarterly public meetings and approved six recommendations to the Commission in FY 2022.

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 2022 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 2022

On March 1, 2013, the President issued the Sequestration Order. As determined by the Office of Management and Budget (OMB), for FY 2022, 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 $390 million was reduced by 5.7 percent, or $22 million.

Overview of Financial Position

Assets. At September 30, 2022, the SEC's total assets were $14.1 billion, an increase of $1.9 billion, or 16 percent, from FY 2021.

Investments increased by $408 million between FY 2022 and FY 2021. This is primarily due to increases in disgorgement and penalties collections invested during FY 2022, net of disbursements to fund administrators for planned distributions. In addition, IPF investments increased as a result of a higher balance in the fund during FY 2022.

Accounts Receivable increased by $1.5 billion between FY 2022 and FY 2021. This is primarily due to large disgorgement and penalties-related orders occurring in late September of FY 2022. In addition, Section 31 fee receivables increased as a result of a higher fee rate in effect for the month of September of FY 2022 compared to the previous fiscal year.

Chart 1.3 | FY 2022 Assets by Type

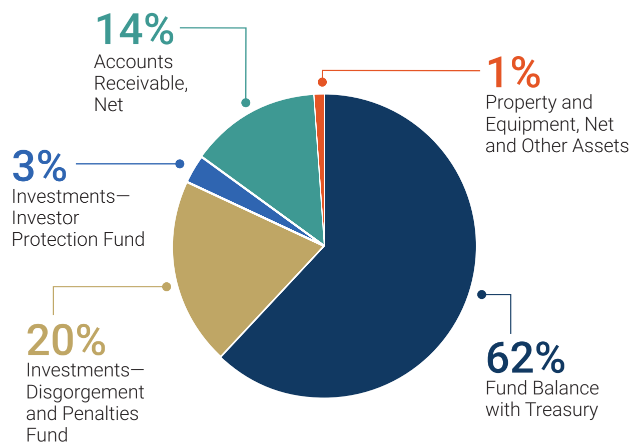


Table 1.2 | Assets as of September 30, 2022 and 2021

(DOLLARS IN MILLIONS)	2022	2021
Fund Balance with Treasury	$ 8,831	$ 8,821
Investments—Disgorgement and Penalties Fund	2,826	2,576
Investments—Investor Protection Fund	417	259
Accounts Receivable, Net	1,926	403
Property and Equipment, Net	92	85
Other Assets	9	8
Total Assets	**$ 14,101**	**$ 12,152**

Liabilities. At September 30, 2022, the SEC's total liabilities were $6.0 billion, an increase of $1.9 billion, or 48 percent, from FY 2021.

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 $622 million in the liability for disgorgement and penalties is mostly attributable to new orders that occurred during FY 2022 established on behalf of harmed investors. This was offset by disbursements to fund administrators for planned distributions.

Custodial Liability increased by $1.0 billion due to large custodial disgorgement and penalties-related orders occurring in late September of FY 2022 that were not collected as of year end.

Contingent Liability increased by $399 million. The SEC recognized estimated awards in the amount of $531 million that were probable as of September 30, 2022, while recognizing $132 million as of September 30, 2021.

Ending Net Position. The SEC's net position, comprised of both unexpended appropriations and the cumulative results of operations, decreased by $500 thousand between September 30, 2022 and 2021.

Chart 1.4 | FY 2022 Liabilities by Type

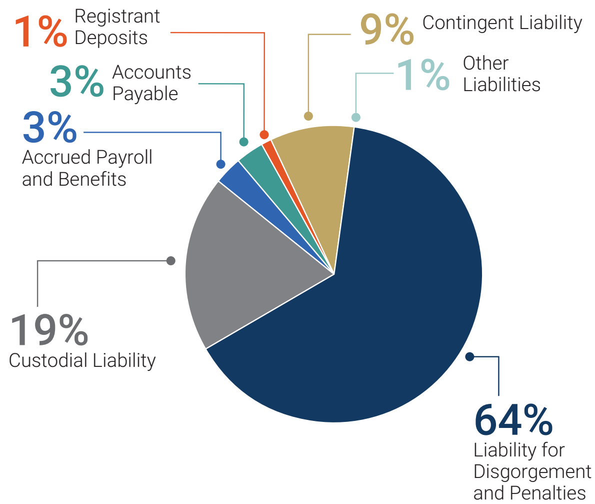


Table 1.3 | Liabilities as of September 30, 2022 and 2021

(DOLLARS IN MILLIONS)	2022	2021
Liability for Disgorgement and Penalties	$ 3,900	$ 3,277
Custodial Liability	1,154	119
Accrued Payroll and Benefits	166	202
Accounts Payable	210	272
Registrant Deposits	56	60
Contingent Liability	531	132
Liability for Non-Entity Assets	—	1
Other Liabilities	13	18
Total Liabilities	**$ 6,030**	**$ 4,081**

Results of Operations

Earned Revenues. Total earned revenues for the year ended September 30, 2022, decreased by $96 million, or 4 percent, from FY 2021.

Filing fee revenue decreased by 23 percent as of September 30, 2022, when compared to the prior year. The filing fee rate decreased from $109.10 per million transacted in FY 2021 to $92.70 per million transacted in FY 2022.

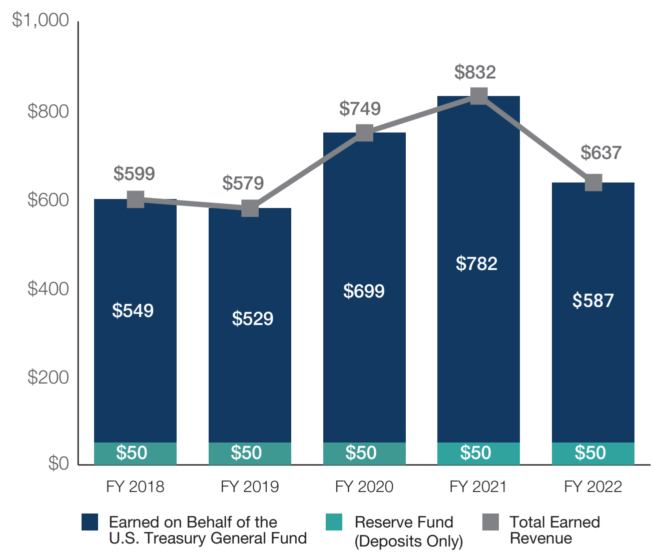
Section 31 fee revenue increased by $99 million primarily due to increased transaction volumes for FY 2022 compared to FY 2021, partially offset by a lower average fee rate. During FY 2021, the fee rate was set at $22.10 per million for most of the first half of the year and was decreased to $5.10 per million beginning February 25, 2021. This rate was in effect through May 13, 2022, after which the rate was increased to $22.90 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.

Table 1.4 | Earned Revenues
For the years ended September 30, 2022 and 2021

(DOLLARS IN MILLIONS)	2022	2021
Section 31 Securities Transaction Fees	$ 1,799	$ 1,700
Securities Registration, Tender Offer, and Merger Fees (Filing Fees)	637	832
Total Earned Revenues	**$ 2,436**	**$ 2,532**

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



For the year ended September 30, 2022, filing fee revenues totaled $637 million. In FY 2022, $50 million of filing fee revenues was deposited into the Reserve Fund, of which $3 million was sequestered. The excess of $587 million was earned on behalf of the U.S. Treasury General Fund.

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 2022 deposits of $50 million, prior year sequestration totaling $3 million was returned, new FY 2022 sequestration totaling $3 million was recorded, and Reserve Fund resources totaling $50 million were obligated for the year ended September 30, 2022, leaving a remaining unobligated balance of $6 million of available resources at the end of FY 2022.

Program Costs. Total Program Costs were $2.7 billion for the year ended September 30, 2022, an increase of $251 million, or 10 percent, compared to FY 2021. The increase was primarily due to an increase in employee salaries and benefits, contractual services for IT contracts, contract litigation support, library-related databases, and an increase in whistleblower contingent liabilities that was partially offset by a decrease in whistleblower payments and pending payables.

Chart 1.6 | FY 2022 Filing Fee Revenue

(DOLLARS IN MILLIONS)

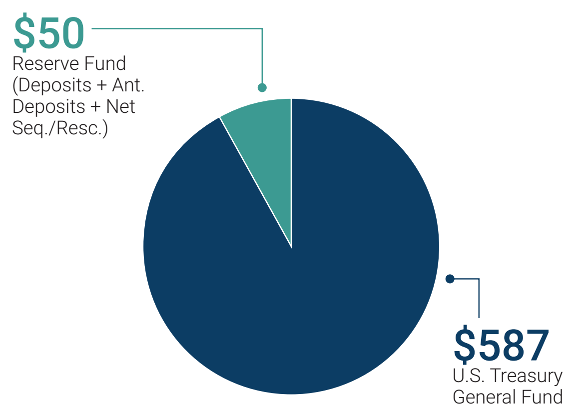
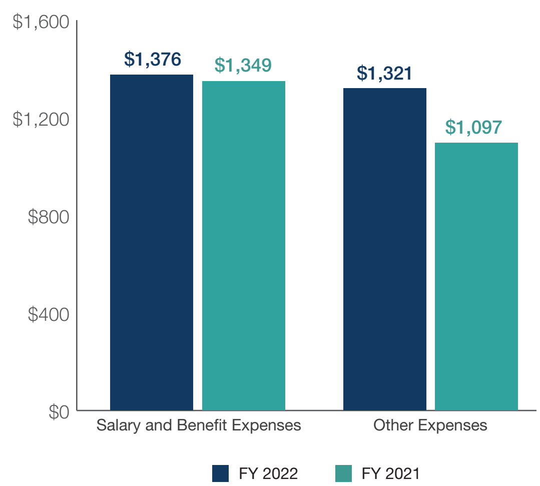


Chart 1.7 | Program Costs

(DOLLARS IN MILLIONS)



Budgetary Resources

For the year ended September 30, 2022, the SEC's total budgetary resources equaled $2.7 billion, an 11 percent decrease from FY 2021.

Unobligated Balance from Prior Year Budget Authority. The decrease in unobligated balance brought forward is mostly due to an obligation related to the SEC headquarters lease at the end of FY 2021, and a decrease in the IPF balance brought forward as a result of an increase in whistleblower awards during FY 2021 compounded by a decrease in eligible deposits.

Appropriations. The increase in appropriations is primarily due to a greater shortfall in Section 31 fees collected to offset the appropriations received for FY 2022 when compared to the prior year.

There was a lower average fee rate for FY 2022 compared to FY 2021, as well as a significant reduction in transaction volumes compared to volumes used to set the new fee rate of $22.90 per million effective May 14, 2022.

Chart 1.8 | FY 2022 Sources of Funds

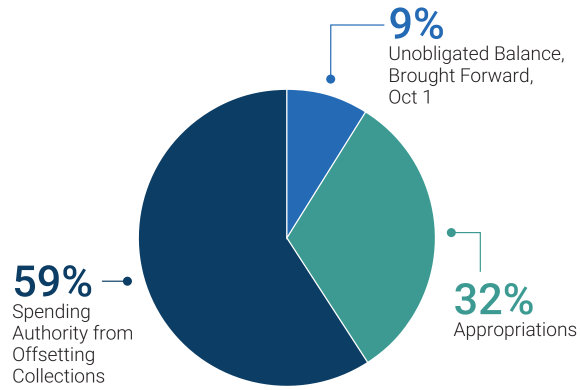


Table 1.5 | Total Budgetary Resources
For the years ended September 30, 2022 and 2021

(DOLLARS IN MILLIONS)	2022	2021
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)		
Salaries and Expenses Fund—Without Unfunded Lease Obligations	$ 94	$ 331
Salaries and Expenses Fund—Effect of Change in Legal Interpretation for Lease Obligations	—	(2)
Reserve Fund	6	5
Investor Protection Fund	144	260
Total Unobligated Balance, Brought Forward, October 1	244	594
Appropriations (Discretionary and Mandatory)		
Salaries and Expenses Fund	414	34
Reserve Fund	50	50
Investor Protection Fund	394	449
Spending Authority from Offsetting Collections	1,586	1,892
Total Budgetary Resources	**$ 2,688**	**$ 3,019**

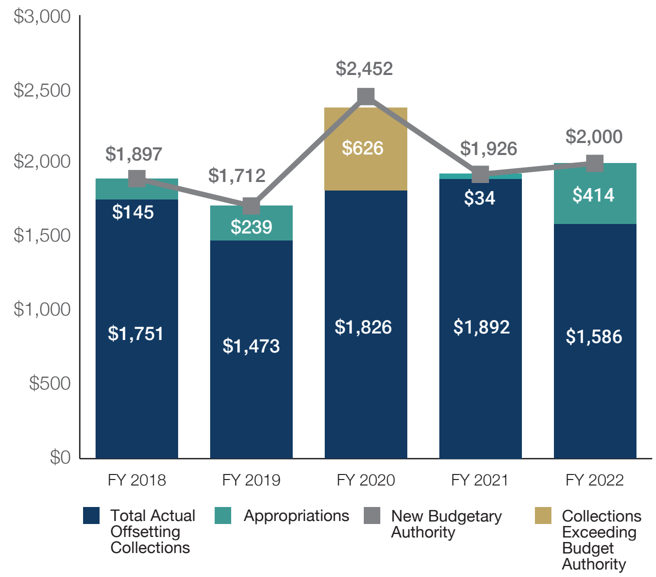
Spending Authority from Offsetting Collections and Appropriations

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 $2,000 million for FY 2022.

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 $1,586 million in Section 31 transaction fees for the year ended September 30, 2022, resulting in $414 million in final appropriations within the Salaries and Expenses Fund. In FY 2021, the SEC's budget authority was $1,926 million, which was offset by $1,892 million in collections resulting in $34 million in final appropriations.

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, 2022, the balance of the IPF increased by $163 million when compared to the prior fiscal year.

During FY 2022, the SEC deposited $390 million: $387 million from IPF replenishments and $3 million from investment interest in Treasury securities. The SEC paid $287 million to whistleblowers, while $139 million in awards were accrued as payable, a $56 million decrease from the prior year.

Also, $25 million in prior fiscal year sequestration was returned to the IPF, and $22 million in FY 2022 funding was sequestered, resulting in a net sequestration totaling $3 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, 2022 and 2021

(DOLLARS IN MILLIONS)	2022	2021
Balance of Fund at Beginning of Fiscal Year, October 1	$ 144	$ 260
Amount Deposited Into or Credited to the Fund During the Fiscal Year	390	475
Amount Awarded but Unpaid During the Fiscal Year	56	(99)
Amount Paid from the Fund During the Fiscal Year to Whistleblowers	(287)	(466)
Net Sequestration	3	(26)
Balance of the Fund at the End of the Reporting Period*	**$ 306**	**$ 144**

*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. 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 2022 Annual Performance Report (APR) will be issued with the agency's FY 2024 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 2023 at SEC.gov/reports.

Strategic and Performance Planning Framework

The SEC's FY 2022 strategic and performance planning framework is based on the Commission's proposed FY 2022–FY 2026 Strategic Plan. The proposed 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 10 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.

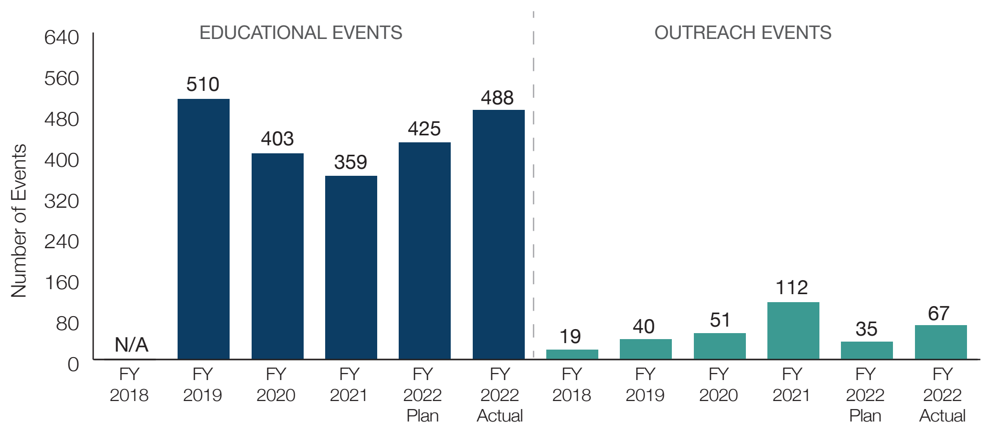
SELECT METRICS

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

Strategic Goal 1: Protect working families against fraud, manipulation, and misconduct

Chart 1.10

Number of outreach events, roundtables, educational, and information sessions for different types of investors/market participants



Note: Data for FY 2017 is not available.

Description: This metric indicates the number of two types of activities: (1) educational events that are designed primarily to provide individual investors and the general public with information about investing and the securities markets; and (2) outreach events that are designed primarily to engage with investors (including small business investors) and receive feedback about policy questions. Outreach events could include public events, meetings with groups of investors, or a coordinated series of one-on-one meetings (not routine meetings with advocacy groups).

Target: Educational Events – Exceeded; Outreach Events – Exceeded

Responsible Division/Office: Office of Investor Education and Advocacy; Office of the Investor Advocate

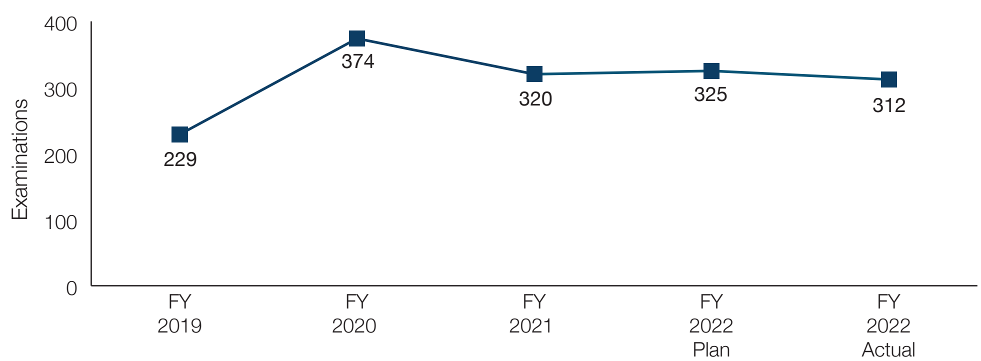
Data Source: Internal Tracking Logs

Protecting the investing public through educational and outreach events is a priority at the SEC. Agency staff understand that tens of millions of Americans are invested in the capital markets and have to make personal investment decisions such as which stocks, bonds, mutual funds, exchange-traded funds, and other securities to purchase or sell, or whether to hire a broker-dealer or investment adviser. Many Americans also participate in the markets through pension funds and related investment vehicles. The SEC promotes informed investment decision-making through education initiatives aimed at providing investors with a better understanding of the capital markets and the opportunities and risks associated with the array of investment choices available to them. The SEC's Office of Investor Education and Advocacy and Office of the Investor Advocate spearhead these initiatives, and participation extends throughout the agency's divisions and offices. As part of the agency's efforts, SEC staff participate in general educational events for investors as well as those targeted to specific investors such as seniors, teachers, service members, and other groups. One of the goals of these educational efforts is to reach new investors, particularly those who traditionally are underserved, to ensure they are aware of the free resources available to help them make informed financial and investment decisions. As illustrated in Chart 1.10, in FY 2022, SEC staff participated in nearly 500 educational events and close to 70 outreach events serving different segments of the population.

Strategic Goal 2: Develop and implement a robust regulatory regime that keeps pace with evolving markets, business models, and technologies

Chart 1.11

Number of examinations that request information related to an entity's information security



Note: Data for FY 2017 – FY 2018 is not available.

Description: Managing cyber and information risks is critical to the operation of the financial markets. As a result, the SEC's risk-based examination program will ensure that a portion of its exams each year assesses whether regulated entities are monitoring, managing, and appropriately addressing these types of risks. The results of these important reviews will inform the SEC regarding industry developments and future work in this area. Overall, this metric reflects the continued focus of the SEC's examination program in this area by measuring the number of examinations reviewing critical cyber and information risks.

Target: Not Met

Plan for Improving Program Performance: The performance target for this measure was set at an approximate level and the deviation from the target was minimal. Information security will be a continued focus for the Commission and the division during FY 2023 and FY 2024.

Responsible Division/Office: Division of Examinations

Data Source: Tracking and Reporting Exam National Documentation System (TRENDS)

The capital markets continue to evolve with innovation and technological advancements, changing the way markets operate and introducing a variety of new products, services, and business models. These innovations have been particularly impactful in recent years and are expected to continue as market participants search for new technology to improve the efficiency and security of transactions and market operations.

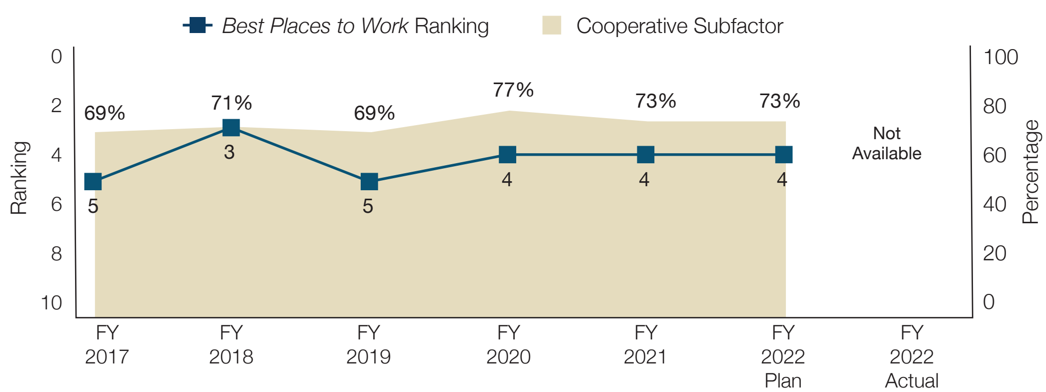
Given these developments and the increasing reliance on technology in nearly all aspects of the financial marketplace, the importance of effective information security cannot be overstated. The impact of a breach in information security, including a successful cyber attack, may have consequences that extend beyond the compromised firm to other market participants and retail investors. In an environment where the scope and potential consequences of cyber threats have increased dramatically, it is imperative that all market participants, including market infrastructure providers and vendors, continually monitor and assess their cybersecurity risk profiles.

The SEC protects and monitors developments in this area through examinations of market participants conducted by the Division of Examinations. As illustrated in Chart 1.11, during FY 2022, more than 310 examinations specifically requested information related to an entity's information security, the results of which helped to evaluate whether market participants are actively engaged in monitoring and addressing critical cybersecurity risks. These examinations also helped the SEC monitor industry developments to ensure future oversight efforts can be appropriately planned and executed. The examination program intends to continue its significant cyber and information security examination work in future years.

Strategic Goal 3: Support a skilled workforce that is diverse, equitable, and inclusive and is fully equipped to advance agency objectives

Chart 1.12

Results of Federal Viewpoint Survey



Note: The Office of Personnel Management permanently removed the Cooperative Subfactor rating from the FY 2022 FEVS; therefore, the SEC will no longer be tracking this metric and the data is no longer available.

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

Employees are the SEC's most important asset, and the agency must continue to foster a work environment that attracts, engages, and retains a technically proficient and diverse workforce. The agency understands that maintaining a high level of staff engagement, performance, and morale is critical to executing its mission. As illustrated in Chart 1.12, the FEVS results demonstrate continued high scores year-over-year in some of the most important drivers of employee engagement and organizational health.

In FY 2022, SEC leadership continued to promote diversity and inclusion; foster a connected culture despite the primarily remote work posture; and build a diverse talent pipeline through a number of initiatives. For instance, the work-life and employee assistance programs helped 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. At the same time, SEC leadership believes there are real advantages to maintaining an occasional in-office presence, which can be vital for collaboration and communication, and for the continued development of a culture of inclusion and engagement. In FY 2021, the SEC ranked 4th among all mid-size agencies, 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. The *Best Places to Work* rankings for FY 2022 will be announced in the spring of 2023.

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The federal securities laws we oversee are based on a simple and straightforward concept: everyone should be treated fairly and have access to certain facts about investments and those who sell them.

SEC.GOV/ABOUT/WHAT-WE-DO

MANAGEMENT ASSURANCES AND COMPLIANCE WITH LAWS

In FY 2022, 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, 2022.

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, 2022.

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, 2022.

GARY GENSLER
Chair
November 9, 2022

CARYN E. KAUFFMAN
Chief Financial Officer
November 9, 2022

Management's Assessment of Internal Control

The Chair and CFO's FY 2022 Annual Assurance Statement for FMFIA provides reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2022. 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 for FY 2022 was composed of multiple components. A central component was the sub-assurance statements provided by each division director and/or office head attesting to the effectiveness of their division or office's system of internal control. These statements were made based on each person's knowledge of their division or office's daily operations, and internal reviews supported by control testing, as well as recommendations for improvement from audits, investigations, and reviews conducted by the SEC Office of Inspector General (OIG) or 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 evaluation of the internal control system's adherence to the *Standards for Internal Control in the Federal Government*;
- Internal management reviews and self-assessments;
- 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, *Managing Information as a Strategic Resource*;
- 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, the Office of Government Ethics, 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.

Enterprise Risk Management

The SEC's Office of the Chief Risk Officer (OCRO) leads the agency's enterprise risk management (ERM) efforts, as required under OMB Circular A-123 and OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, and champions risk management throughout the agency. ERM assists the agency in achieving its strategic and operational objectives by providing an enterprise-wide approach for managing the most significant risks and challenges. 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 SEC's Risk Management Oversight Committee (RMOC) in the SEC Enterprise Risk Profile.

The continued integration of internal controls and risk management is critical to the full implementation and success of a comprehensive enterprise risk framework. In FY 2023, the SEC will further mature ERM by exploring opportunities to optimize coordination with strategic plan development, performance metrics, budgeting processes, and the internal control environment, as well as other areas to best support risk-informed decision-making.

Overview of SEC's Climate Risk Efforts

During FY 2022, the SEC strategically addressed 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 operational risks within the organization.

The RMOC considers the most salient enterprise risks for the SEC. The RMOC evaluates whether a particular risk is sufficiently mitigated and recommends additional measures as needed to bring a risk within the agency's tolerance level. OCRO supports the Committee's efforts and provides leadership and guidance on enterprise-wide risks, including the effectiveness of strategies to address those risks.

In FY 2022, the SEC established the Climate and Sustainability Oversight Committee (CSOC) to advise and provide recommendations on climate-related risks affecting SEC's operations, including:

- Suggesting goals regarding the SEC's carbon footprint and considerations for environmentally sustainable SEC operations;
- Advising on the management of climate-related risks and mitigation techniques and the impact on the SEC's strategic plan and annual budget;
- Elevating, as necessary, climate-related risks and opportunities to the RMOC;
- Recommending agency-wide climate-related metrics and targets; and
- Providing guidance and monitoring the SEC's responses to climate-related risks and opportunities.

The CSOC is composed of senior officials from SEC divisions and offices that have operational, risk, or reporting responsibilities and expertise relevant to the mitigation of, or reporting on, climate-related risks that could impact the agency.

The SEC has also established an internal climate reporting program. In FY 2022, the SEC hired a degreed engineer to lead greenhouse gas (GHG) emissions data collection and reporting for the SEC. The program lead will provide recommendations to CSOC.

Strategic Planning

A critical element of the SEC's strategic plan is to protect the agency's two most important assets vital to executing the SEC's mission: its people and its data. The SEC Strategic Plan for 2018–2022 included initiative 2.4, "Promote agency preparedness and emergency response capabilities." Furthermore, in FY 2022, the Commission released a new SEC Strategic Plan for public comment, which covers fiscal years 2022–2026. This new plan includes initiative 3.3, "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."

Climate-related risks can occur in various forms. The most immediate climate-related risks facing the SEC are potential damage to infrastructure and disruptions in operations due to climate-driven events. The most significant near-term climate-related threats are floods, fires, rising heat index, severe droughts, and high winds (including hurricanes, tornadoes, and derechos). Such events can lead to potential harm to or loss of personnel, data, property, energy, and water availability. Any of these losses can have an adverse impact on agency operations. The SEC's current and proposed strategic plans position the SEC well to address these risks.

Risks and Risk Management

To manage the climate-related risks identified above, the SEC seeks to prevent damage from occurring, and to adapt to mitigate damage it cannot avoid. The SEC is positioned to prevent or lower the risk of damage from climate-driven events through the following risk management activities:

- Geographic dispersion of regional offices and data centers mitigate the impact of local climate vulnerabilities;
- GSA-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 buildings' core areas, 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 is positioned to mitigate the impact of climate-driven events through the following risk management activities:

- 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 a 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 to ensure that essential functions continue during a wide range of emergencies, including localized acts of nature, accidents, and technological or other emergencies.

The SEC also began collaborating with other financial regulatory agencies to share climate-related risk management best practices.

Greenhouse Gas (GHG) Inventory

As part of its climate risk management and sustainability efforts, the SEC started conducting an inventory of its GHG emissions. The SEC plans to publicly disclose its GHG inventory as data is collected and verified.

Sustainability Actions Taken and Underway

In FY 2022, the SEC's New York Regional Office completed a move to new space with a 20 percent reduction in rentable square feet. The smaller footprint will yield rent savings as well as reduced GHG emissions.

The SEC uses an electronic repository system for contract files that has decreased both the use of paper and the need for physical space in the headquarters building and off-site storage. For many of its IT and electronics hardware procurements, the SEC leverages the government's buying power through the use of Government-wide Acquisition Contracts and Federal Supply Schedules that include energy efficiency/sustainability requirements.

The Commission took action to reduce the use of paper by promoting electronic filings. In January 2022, the SEC asked registrants to no longer provide "courtesy copies" unless requested. Effective July 11, 2022, the SEC adopted rules and form amendments that mandate 1) electronic filings or submission of certain documents that are currently filed or submitted in paper and 2) the use of Inline eXtensible Business Reporting language ("Inline XBRL") for filings required by the Form 11-k.

Data centers are optimized to meet energy savings. These vendor facilities are powered using 100 percent renewable energy. Investment in virtualization technologies allowed for reductions in space and power consumption cost. The SEC's records management operations made significant strides in shifting to digital records and reducing the reliance on paper records. The use of e-Discovery systems allows the agency to rely less on paper when investigating and litigating cases.

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 all previous improper payment legislation. 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 latest risk assessment was conducted in FY 2022. 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 will not conduct a risk assessment for FY 2023 and is not required to conduct another risk assessment until FY 2025.

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 submitted the mandatory monthly transmissions required in FY 2022. 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 2022 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 2022, the SEC continued to work with its FSSP, the Department of Transportation's Enterprise Services Center, to enhance its existing systems. The SEC believes that continuing to invest in technology-based solutions will further improve the sustainability of our controls.

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 2022 report to OMB.

Oversight[1] and Compliance

During FY 2022, 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 53 FISMA reportable systems. OIT completed 334 privacy reviews in accordance with the Privacy Act of 1974, the Paperwork Reduction Act, the E-Government Act of 2002, and assessments required by OMB Circular A-130. As a result, OIT published 15 privacy impact assessments, 12 privacy assessment reports, 1 system of records notice, and 2 Privacy Act statements for systems that collect, maintain, or disseminate personally identifiable information (PII).

OIT facilitated the remediation of 600 deficiencies via 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 2022, the OIG closed 19 prior-year IT-related audit recommendations and was in the process of reviewing closure requests for 4 additional recommendations. 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 one prior-year IT-related GAO audit recommendation.

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 (GRC) management system to maintain the Commission's information system inventory, FISMA compliance data, POA&Ms, and incident tracking. In FY 2022, the SEC began using the GRC questionnaire feature to more efficiently gather responses to data call requests, including in response to the Federal Emergency Directives, and to complete submissions on time and with increased accuracy.

OIT also continues to improve its operational security capabilities by maturing the Information Security Continuous Monitoring program and by making investments in proactive security capabilities, including automated threat detection mechanisms and vulnerability assessment tools. Vulnerability management is a core function of a continuous monitoring program.[2]

The SEC continued to enhance its federal High Value Asset (HVA) Oversight program during FY 2022, 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

1 SEC policies set forth the roles and responsibilities for management of the SEC's agency-wide information security program, including oversight by the SEC Chair, Chief Information Officer, and Chief Information Security Officer, as well as the operational responsibilities of the individual information system owners and business units.

2 OIT's operating procedures describe the roles and responsibilities regarding the SEC's vulnerability management efforts, such as reporting, mitigating, or fixing vulnerabilities, and informing management about risks and trends.

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 2022. 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/Cybersecurity and Information Security Agency (CISA)-based assessment during Quarter 3 of FY 2021. The two remaining HVA assessments were completed during Quarter 1 and Quarter 3 of FY 2022, respectively. In addition, requisite SEC OIT Security and contract support staff attended the DHS/CISA-based Assessment and Evaluation Standardization training course for HVA assessments of non-Tier 1 HVAs.

Training and Communications

OIT developed and delivered Privacy and Information Security Awareness (PISA) training to all SEC personnel during FY 2022. 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. The SEC also instituted phishing training for interns during their agency orientation training, starting in summer 2022. This intern training was successful, and a significant improvement was observed in the phishing click rates of interns measured from summer 2021 to summer 2022. The SEC continued to provide appropriate security-related training to enable information system users with significant information security roles to perform their duties. In that regard, OIT Security offered multiple sessions to train staff in the proper use of security tools for code analysis and secure software development. The objective of these courses is to upskill software developers in how to identify and resolve code issues earlier in the lifecycle, which results in more efficient coding, resource savings, and ultimately, more secure software in the environment.

What is capital formation and how does it affect me?

"Capital" is a broad term that can describe anything that confers value or benefit to its owners, such as the financial assets of a business or an individual. While money itself may be construed as capital, the term is more often associated with cash that is being put to work for productive or investment purposes.

A strong and stable economy is vital to the success of all investors, and by facilitating capital formation—which is an important piece of the SEC's tripartite mission—the agency aims to ensure the continued deployment of productive capital by informed investors to create economic growth.

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 2022 and 2021. 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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We continue to focus on technology advancements to improve our financial operations. Last year, the Commission adopted the Filing Fee Disclosure and Payment Methods Modernization rule to improve the accuracy and efficiency of filing fee payments.

CARYN E. 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 2022 and hope you will find this report a useful summary of 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, and identified no significant issues. The audit results are reflective of the agency's continued commitment to strong internal controls and effective financial management. The financial statements, financial analysis, and highlights of the agency's performance in this AFR demonstrate how the SEC uses its financial resources to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

We continue to focus on technology advancements to improve our financial operations. Last year, the Commission adopted the Filing Fee Disclosure and Payment Methods Modernization rule to improve the accuracy and efficiency of filing fee payments. I am pleased to report that the new pay methods provided for in the rule were implemented this year. The rule also discusses additional validation measures to help promote greater accuracy of fee calculations, and the system enhancements to implement those measures are being developed. These changes will be incrementally phased in for all filers between 2023 and 2025.

The SEC is dedicated to delivering accurate, transparent, and timely financial information to our stakeholders—Congress and the American public. I want to extend my thanks to staff in the Office of Financial Management and throughout the SEC community who made these achievements possible.

Sincerely,

Caryn Kauffman

CARYN E. KAUFFMAN
Chief Financial Officer
November 10, 2022

REPORT OF INDEPENDENT AUDITORS

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

Independent Auditor's Report

To the Chair of the United States Securities and Exchange Commission

In our audits of the fiscal years 2022 and 2021 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, 2022, and 2021, 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, 2022; and
- no reportable noncompliance for fiscal year 2022 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.

[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, and assessing the effectiveness of, internal control over financial reporting 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 was established by section 922 of the Dodd-Frank Act. It funds the activities of SEC's whistleblower award program under that section and the SEC Office of Inspector General Employee Suggestion Program established under sections 922 and 966 of the Dodd-Frank Act, respectively. 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.

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

Opinion on the Financial Statements

SEC is required by law to annually prepare and submit audited financial statements covering all accounts and associated activities of the Commission to Congress and the Office of Management and Budget.[5] Further, the 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 our authority to audit statements and schedules prepared by executive agencies and their components,[7] we have audited the SEC and IPF financial statements.

SEC's financial statements comprise the balance sheets as of September 30, 2022, and 2021; 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, 2022, and 2021; 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.

In our opinion, SEC's financial statements present fairly, in all material respects, SEC's financial position as of September 30, 2022, and 2021, 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. In our opinion, IPF's financial statements present fairly, in all material respects, IPF's financial position as of September 30, 2022, and 2021, 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 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.

We also audited SEC's internal control over financial reporting as of September 30, 2022, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA). In our opinion, SEC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022, 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

[5] 31 U.S.C. § 3515.

[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] 31 U.S.C. § 3521(g), (i).

the agency as a whole and for IPF, was operating effectively as of September 30, 2022, and that no material weaknesses were found in the design or operation of the controls.

During our 2022 audit, we identified deficiencies in SEC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[8] Nonetheless, these deficiencies warrant SEC management's attention. We have communicated these matters to SEC management and, where appropriate, will report on them separately.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of the SEC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

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, 2022, included in the Management Assurance section of the agency financial report.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

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

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements or an audit of internal control over financial reporting conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate 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. 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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.

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.

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. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it 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, 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. Management is responsible for the other information included in SEC's agency financial report. The other information comprises the Inspector General's Statement on Management and Performance Challenges, Summary of Financial Statement and Audit and Management Assurances, Payment Integrity Reporting Details, and Civil Monetary Penalty Adjustment for Inflation, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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 responsibilities discussed below.

<u>Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2022 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.

<u>Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

<u>Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

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

<u>Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts and Grant Agreements</u>

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. We caution that noncompliance may occur and not be detected by these tests.

<u>Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

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 its 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 10, 2022

ENCLOSURE I: MANAGEMENT'S RESPONSE TO AUDIT OPINION

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

OFFICE OF THE CHAIR

November 9, 2022

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 2022 audit found that the Securities and Exchange Commission's (SEC) financial statements and notes were presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles. GAO also 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 in the coming year. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Gary Gensler
Chair

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Though no other country’s capital markets currently match our own, we cannot take our leadership for granted. Even gold medalists —especially gold medalists— constantly train to stay ahead of the competition.

CHAIR GARY GENSLER

SEC FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION

Balance Sheets

As of September 30, 2022 and 2021

(DOLLARS IN THOUSANDS)	2022	2021
ASSETS (NOTE 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 8,831,476	$ 8,821,141
Investments, Net (Note 5)	3,243,003	2,834,197
Advances and Prepayments	8,636	8,290
Total Intragovernmental	12,083,115	11,663,628
With the Public:		
Cash and Other Monetary Assets (Note 4)	1	141
Accounts Receivable, Net (Note 6)	1,926,171	403,077
Property and Equipment, Net (Note 7)	91,436	85,037
Total With the Public	2,017,608	488,255
Total Assets	$ 14,100,723	$ 12,151,883
LIABILITIES (NOTE 8):		
Intragovernmental:		
Accounts Payable	$ 2,123	$ 4,962
Other Liabilities		
Payroll Taxes Payable	598	1,815
Custodial Liability	1,154,376	119,303
Liability for Non-Entity Assets	223	612
Benefit Program Contributions Payable	5,326	12,210
Other Liabilities	3,792	—
Total Intragovernmental	1,166,438	138,902
With the Public:		
Accounts Payable	207,849	266,703
Federal Employee Leave and Benefits Payable	147,376	150,104
Registrant Deposits	56,001	59,577
Other Liabilities		
Accrued Payroll	19,038	51,796
Liability for Disgorgement and Penalties (Note 16)	3,899,686	3,277,754
Contingent Liabilities (Note 10)	530,695	131,949
Other Accrued Liabilities (Note 8)	3,266	4,224
Total With the Public	4,863,911	3,942,107
Total Liabilities	6,030,349	4,081,009
Commitments and Contingencies (Note 10)		
NET POSITION:		
Unexpended Appropriations – Funds from Dedicated Collections (Note 11)	217,841	213,922
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	7,852,533	7,856,952
Total Net Position	$ 8,070,374	$ 8,070,874
Total Liabilities and Net Position	$ 14,100,723	$ 12,151,883

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

Statements of Net Cost

For the years ended September 30, 2022 and 2021

(DOLLARS IN THOUSANDS)	2022	2021
PROGRAM COSTS:		
Enforcement	$ 1,283,163	$ 1,081,600
Examinations	471,875	458,987
Corporation Finance	180,002	176,037
Trading and Markets	118,327	112,664
Investment Management	91,274	85,723
Economic and Risk Analysis	73,921	72,730
General Counsel	64,216	62,731
Other Program Offices	103,514	102,861
Agency Direction and Administrative Support	288,096	270,744
Inspector General	22,820	21,679
Total Program Costs	2,697,208	2,445,756
Less: Earned Revenue Not Attributed to Programs	2,435,831	2,532,205
Net Cost of Operations (Note 15)	$ 261,377	$ (86,449)

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

Statements of Changes in Net Position

For the years ended September 30, 2022 and 2021

(DOLLARS IN THOUSANDS)	2022		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	$ 213,922	$ —	$ 213,922
Appropriations Received	414,402	—	414,402
Appropriations Used	(410,483)	—	(410,483)
Net Change in Unexpended Appropriations	3,919	—	3,919
Total Unexpended Appropriations: Ending	217,841	—	217,841
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	7,856,952	—	7,856,952
Appropriations Used	410,483	—	410,483
Non-Exchange Revenue (Note 12)	389,305	—	389,305
Imputed Financing	43,992	—	43,992
Other (Note 12)	—	(586,822)	(586,822)
Net Cost of Operations	848,199	(586,822)	261,377
Net Change in Cumulative Results of Operations	(4,419)	—	(4,419)
Cumulative Results of Operations: Ending (Note 11)	7,852,533	—	7,852,533
Net Position	$ 8,070,374	$ —	$ 8,070,374

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

Statements of Changes in Net Position *(continued)*

For the years ended September 30, 2022 and 2021

(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 Budgetary Resources

For the years ended September 30, 2022 and 2021

(DOLLARS IN THOUSANDS)	2022	2021
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	$ 244,350	$ 594,261
Appropriations (Discretionary and Mandatory)	857,903	532,784
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,585,831	1,892,660
Total Budgetary Resources	$ 2,688,084	$ 3,019,705
STATUS OF BUDGETARY RESOURCES:		
New Obligations and Upward Adjustments (Total)	$ 2,323,030	$ 2,825,637
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	199,158	168,275
Exempt from Apportionment, Unexpired Accounts	6,128	2,611
Unapportioned, Unexpired Accounts	159,768	23,182
Unobligated Balance, End of Year (Total)	365,054	194,068
Total Budgetary Resources	$ 2,688,084	$ 3,019,705
OUTLAYS, NET:		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 777,788	$ 499,747
Distributed Offsetting Receipts	(2,726)	(4,568)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ 775,062	$ 495,179

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

Statements of Custodial Activity

For the years ended September 30, 2022 and 2021

(DOLLARS IN THOUSANDS)	2022	2021
REVENUE ACTIVITY:		
Sources of Cash Collections:		
Disgorgement and Penalties	$ 263,941	$ 151,969
Other	1,969	2,836
Total Cash Collections	265,910	154,805
Accrual Adjustments (Note 13)	1,035,073	2,790
Total Custodial Revenue	1,300,983	157,595
DISPOSITION OF COLLECTIONS:		
Amounts Transferred to:		
Department of the Treasury	265,910	154,805
Amounts Yet to be Transferred	1,035,073	2,790
Total Disposition of Collections	1,300,983	157,595
NET CUSTODIAL ACTIVITY	$ —	$ —

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

NOTES TO THE FINANCIAL STATEMENTS

As of September 30, 2022 and 2021

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.

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.

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 and Other 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 1091, *Post Judgement Interest*; 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. Advances and Prepayments

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 liability (that is, a liability of the SEC 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.

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, 2022, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
Intragovernmental:			
Fund Balance with Treasury:			
SEC Funds	$ 8,197,318	$ —	$ 8,197,318
Registrant Deposits	—	56,001	56,001
Disgorgement and Penalties (Note 16)	—	578,124	578,124
Custodial and Other Non-Entity Assets	—	33	33
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	2,826,250	2,826,250
Investor Protection Fund	416,753	—	416,753
Advances and Prepayments	8,636	—	8,636
Total Intragovernmental Assets	8,622,707	3,460,408	12,083,115
Cash and Other Monetary Assets:			
Disgorgement and Penalties (Note 16)	—	1	1
Accounts Receivable, Net:			
SEC Funds	276,260	—	276,260
Disgorgement and Penalties (Note 16)	—	1,646,914	1,646,914
Custodial and Other Non-Entity Assets	—	2,997	2,997
Property and Equipment, Net (Note 7)	91,436	—	91,436
Total Assets	$ 8,990,403	$ 5,110,320	$ 14,100,723

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

NOTE 3. FUND BALANCE WITH TREASURY

The status of Fund Balance with Treasury as of September 30, 2022 and 2021 consisted of the following:

(DOLLARS IN THOUSANDS)	2022	2021
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	$ (59,374)	$ (65,900)
Unavailable	97,592	95,359
Obligated Balance not Yet Disbursed	1,047,282	1,138,153
Non-Budgetary Fund Balance with Treasury	7,745,976	7,653,529
Total Fund Balance with Treasury	$ 8,831,476	$ 8,821,141

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 funds to be reimbursed from other federal agencies as well as Investor Protection Fund investments, which are reversed from the unobligated available amount in order to account for Fund Balance with Treasury only, resulting in the negative balance for that line.

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 $1 thousand as of September 30, 2022. 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 $141 thousand as of September 30, 2021.

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, 2022, 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	$ 2,821,424		$ 4,826	$ —	$ 2,826,250	$ 2,825,123
Market-Based Notes	—	Effective	—	—	—	—
Market-Based Bills	780,120	S/L	4,826	—	784,946	783,819
One-Day Certificates	2,041,304	N/A	—	—	2,041,304	2,041,304
Investor Protection Fund – Entity	416,753		—	—	416,753	416,753
Market-Based Notes	—	Effective	—	—	—	—
One-Day Certificates	416,753	N/A	—	—	416,753	416,753
Total	$ 3,238,177		$ 4,826	$ —	$ 3,243,003	$ 3,241,876

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
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

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, 2022, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Entity Accounts Receivable:			
Securities Transaction Fees	$ 276,001	$ —	$ 276,001
Other	259	—	259
Non-Entity Accounts Receivable:			
Disgorgement and Penalties[1]	3,919,173	2,272,259	1,646,914
Filing Fees	262	41	221
Other	13,537	10,761	2,776
Total Accounts Receivable	$ 4,209,232	$ 2,283,061	$ 1,926,171

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Disgorgement and Penalties Accounts Receivable by Tiers (Note 1.I)			
(DOLLARS IN THOUSANDS)	Gross Receivable	Allowance	Net Receivable
Tier 1	$ 2,748,469	$ 1,255,885	$ 1,492,584
Tier 2	131,690	61,102	70,588
Tier 3	1,039,014	955,272	83,742
Total Non-Entity Accounts Receivable: Disgorgement and Penalties	$ 3,919,173	$ 2,272,259	$ 1,646,914

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[2]	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

2

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

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 $11.9 million and $10.7 million as of September 30, 2022 and 2021, respectively. This estimate does not include interest accumulated on debts written off or officially waived.

Disgorgement and penalties net accounts receivable of $1.6 billion and $338.5 million at September 30, 2022 and 2021, 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, 2022 and 2021, the custodial disgorgement and penalties accounts receivable balance designated as payable to the U.S. Treasury General Fund, net of allowance, was $1.2 billion and $118.4 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, 2022, 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	$ 106,086	$ 91,647	$ 14,439
Software	S/L	300	300	3–5	322,482	255,913	66,569
Leasehold Improvements	S/L	300	N/A	10	95,278	84,850	10,428
Total					$ 523,846	$ 432,410	$ 91,436

During FY 2022, activity impacting Net Book Value consisted of the following:

(DOLLARS IN THOUSANDS)	Net Book Value
Balance Beginning of Year	$ 85,037
Capitalized Acquisitions	52,532
Dispositions	(3,728)
Depreciation Expense	(42,405)
Balance End of Year	$ 91,436

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

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, 2022, 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	$ 2,123	$ —	$ —	$ 2,123
Other Liabilities				
Payroll Taxes Payable	598	—	—	598
Custodial Liability	—	—	1,154,376	1,154,376
Liability for Non-Entity Assets	—	—	223	223
Benefit Program Contributions Payable	4,368	958	—	5,326
Recognition of Lease Liability (Note 9)	—	3,792	—	3,792
Total Other Liabilities	4,966	4,750	1,154,599	1,164,315
Total Intragovernmental	7,089	4,750	1,154,599	1,166,438
With the Public:				
Accounts Payable	207,849	—	—	207,849
Federal Employee Leave and Benefits Payable	870	146,506	—	147,376
Registrant Deposits	—	—	56,001	56,001
Other Liabilities				
Accrued Payroll	19,038	—	—	19,038
Liability for Disgorgement and Penalties (Note 16)	—	—	3,899,686	3,899,686
Contingent Liabilities (Note 10)	—	530,695	—	530,695
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	3,224	—	3,224
Other	—	—	42	42
Total Other Liabilities	19,038	533,919	3,899,728	4,452,685
Total With the Public	227,757	680,425	3,955,729	4,863,911
Total Liabilities	$ 234,846	$ 685,175	$ 5,110,328	$ 6,030,349

Other Liabilities (intragovernmental and with the public) totaled $5.6 billion as of September 30, 2022, of which all but $537.2 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 $1.5 million as of September 30, 2022. As of September 30, 2022, the SEC's unfunded leave balance was $141.4 million.

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
Custodial Liability	—	—	119,303	119,303
Liability for Non-Entity Assets	—	—	612	612
Benefit Program Contributions Payable	11,329	881	—	12,210
Recognition of Lease Liability (Note 9)	—	—	—	—
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 Leave and 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 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 $1.3 million as of September 30, 2021. As of September 30, 2021, the SEC's unfunded leave balance was $142.6 million.

NOTE 9. LEASES

Operating Leases

At September 30, 2022, the SEC leased office space at 15 locations under operating lease agreements that expire between FY 2023 and FY 2042. The SEC paid $105.8 million and $111.9 million for rent for the years ended September 30, 2022 and 2021, 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 facilities that are now cancelable. In February 2022, the San Francisco Regional Office was delegated U.S. Government Services Administration (GSA) lease extension authority; however, this extension is not cancelable until February 2024. 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 2028 and thereafter are as follows:

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	Federal Non-Cancelable	Non-Federal Non-Cancelable	Non-Cancelable Expected Future Lease Payments
2023	$ 3,024	$ 5,431	$ 8,455
2024	3,025	1,810	4,835
2025	3,022	—	3,022
2026	2,995	—	2,995
2027	2,795	—	2,795
2028 and thereafter	5,358	—	5,358
Total	$ 20,219	$ 7,241	$ 27,460

During FY 2021, the SEC entered into a cancelable 15-year occupancy agreement for a new SEC headquarters facility with the GSA, 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 2026 at the earliest.

Expense Recognition of "Rent Holiday" and Broker Commission Credit

In the execution of lease agreements, many times lessors offer incentives for the occupation of office space. These include months of free rent or reduced rent at the occupied space or a temporary space while the new office is being prepared for occupancy. When a rent holiday or broker commission credit is taken 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 or a reduced amount 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 and broker commission credit discounts allow the rent expense to be allocated equally to each period of the lease term. The accrued lease liability for rent holidays was $3.2 million and $4.1 million as of September 30, 2022 and 2021, respectively. The accrued lease liability for broker commission credits taken was new for FY 2022 and netted to $3.8 million as of September 30, 2022.

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, 2022, 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 (and when applicable, 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 liabilities 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, 2022, commitments and contingencies consisted of the following:

		Estimated Range of Loss	
(DOLLARS IN THOUSANDS)	Accrued Liabilities	Lower End	Upper End
2022 Whistleblower Awards:			
Probable	$ 530,695	$ 242,702	$ 728,105
Reasonably Possible	—	103	310

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

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, 2022 and 2021 were $306 million and $144 million, respectively. Since the contingent liabilities exceed the unobligated balance at September 30, 2022, additional replenishments will be needed before these liabilities are awarded and paid.

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, 2022, net obligations for all SEC activities were $1 billion, of which $234.8 million was delivered and unpaid. As of September 30, 2021, net obligations for all SEC activities were $1.1 billion, of which $339.0 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 2022, 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, 2022						
ASSETS						
Intragovernmental:						
Fund Balance with Treasury	$ 8,101,892	$ 51,910	$ 43,508	$ 8,197,310	$ —	$ 8,197,310
Investments, Net	—	416,753	—	416,753	—	416,753
Advances and Prepayments	8,636	—	—	8,636	—	8,636
Total Intragovernmental	8,110,528	468,663	43,508	8,622,699	—	8,622,699
With the Public:						
Accounts Receivable, Net	276,260	—	—	276,260	—	276,260
Property and Equipment, Net	40,854	—	50,582	91,436	—	91,436
Total With the Public	317,114	—	50,582	367,696	—	367,696
Total Assets	$ 8,427,642	$ 468,663	$ 94,090	$ 8,990,395	$ —	$ 8,990,395
LIABILITIES						
Intragovernmental:						
Accounts Payable	$ 2,123	$ —	$ —	$ 2,123	$ —	$ 2,123
Other Liabilities						
Payroll Taxes Payable	598	—	—	598	—	598
Benefit Program Contributions Payable	5,326	—	—	5,326	—	5,326
Other Liabilities	3,792	—	—	3,792	—	3,792
Total Intragovernmental Liabilities	11,839	—	—	11,839	—	11,839
With the Public:						
Accounts Payable	62,483	138,896	6,470	207,849	—	207,849
Federal Employee Leave and Benefits Payable	147,376	—	—	147,376	—	147,376
Other Liabilities						
Accrued Payroll	19,038	—	—	19,038	—	19,038
Contingent Liabilities	—	530,695	—	530,695	—	530,695
Other Accrued Liabilities	3,224	—	—	3,224	—	3,224
Total With the Public	232,121	669,591	6,470	908,182	—	908,182
Total Liabilities	243,960	669,591	6,470	920,021	—	920,021

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	217,841	—	—	217,841	—	217,841
Cumulative Results of Operations	7,965,841	(200,928)	87,620	7,852,533	—	7,852,533
Total Net Position	$ 8,183,682	$ (200,928)	$ 87,620	$ 8,070,374	$ —	$ 8,070,374
Total Liabilities and Net Position	$ 8,427,642	$ 468,663	$ 94,090	$ 8,990,395	$ —	$ 8,990,395
Statement of Net Cost for the year ended September 30, 2022						
Gross Program Costs	$ 2,010,965	$ 630,320	$ 55,955	$ 2,697,240	$ (43)	$ 2,697,197
Less Earned Revenues Not Attributable to Program Costs	1,799,041	—	50,000	1,849,041	(43)	1,848,998
Net Cost of Operations	$ 211,924	$ 630,320	$ 5,955	$ 848,199	$ —	$ 848,199
Statement of Changes in Net Position for the year ended September 30, 2022						
Unexpended Appropriations:						
Beginning Balances	$ 213,922	$ —	$ —	$ 213,922	$ —	$ 213,922
Appropriations Received	414,402	—	—	414,402	—	414,402
Appropriations Used	(410,483)	—	—	(410,483)	—	(410,483)
Net Change in Unexpended Appropriations	3,919	—	—	3,919	—	3,919
Total Unexpended Appropriations: Ending	217,841	—	—	217,841	—	217,841
Cumulative Results of Operations:						
Beginning Balances	7,723,290	40,087	93,575	7,856,952	—	7,856,952
Appropriations Used	410,483	—	—	410,483	—	410,483
Non-Exchange Revenue	—	389,305	—	389,305	—	389,305
Imputed Financing	43,992	—	—	43,992	—	43,992
Net Cost of Operations	211,924	630,320	5,955	848,199	—	848,199
Net Change in Cumulative Results of Operations	242,551	(241,015)	(5,955)	(4,419)	—	(4,419)
Cumulative Results of Operations: Ending	7,965,841	(200,928)	87,620	7,852,533	—	7,852,533
Net Position	$ 8,183,682	$ (200,928)	$ 87,620	$ 8,070,374	$ —	$ 8,070,374

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

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 Leave and 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 12. STATEMENT OF CHANGES IN NET POSITION

A. Other

In FY 2022, the negative $586.8 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 2021, the negative $781.7 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, 2022 and 2021, Non-Custodial Non-Exchange Revenues consisted of the following:

Non-Exchange Revenue *(DOLLARS IN THOUSANDS)*		FY 2022		FY 2021
Deposits of Monetary Sanctions to the Investor Protection Fund	$	387,168	$	472,066
Investment Interest Revenue in the Investor Protection Fund		2,137		677
Total Amount of Federal Revenues Collected	$	389,305	$	472,743

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 2022 SBR and the actual FY 2022 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2024 Budget, which will contain FY 2022 actual data, is not yet available. The FY 2024 Budget with actual amounts for FY 2022 will be available at a later date at whitehouse.gov/omb/budget/. The comparison will be presented in next year's financial statements.

There are no differences between the FY 2021 Statement of Budgetary Resources and the FY 2021 data in the Budget.

B. Other Budgetary Disclosures

General Provisions of Appropriation

The SEC's annual Appropriations Act provides $1,988,550,000 in new budget authority for FY 2022. 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 $17,649,400 in new budget authority. The Act also provides for costs associated for move, replication, and related costs associated with a replacement lease for the Fort Worth Regional Office, not to exceed $6,746,000, 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 $4,367,000.

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

For FY 2022, the Unobligated Balance from Prior Year Budget Authority, Net consisted of available unobligated balance brought forward from the prior year in the amount of $194.1 million as well as FY 2022 recoveries of prior-year obligations totaling $50.3 million. 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.

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 $821.1 million and $807.5 million for the years ended September 30, 2022 and 2021, respectively. Of the $821.1 million total undelivered orders at September 30, 2022, $355.8 million were with federal trading partners and $465.3 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 $812.5 million and $799.2 million for the years ended September 30, 2022 and 2021, respectively. Of the $812.5 million unpaid undelivered orders at September 30, 2022, $347.2 million were with federal trading partners and $465.3 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 and $750.3 thousand expended as of September 30, 2022;

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 $40.6 million has been obligated and $14.3 million expended as of September 30, 2022;

c) $12.7 million appropriated in FY 2021 and $4.4 million appropriated in FY 2022 for costs associated with the relocation under a replacement lease for the Commission's San Francisco Regional Office facilities, of which $11.3 million has been obligated and $25.7 thousand expended as of September 30, 2022; and

d) $6.7 million appropriated in FY 2022 for costs associated with the relocation under a replacement lease for the Commission's Fort Worth Regional Office facilities, of which $1.5 million has been obligated and $33.5 thousand expended as of September 30, 2022.

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 Section 31 fees).

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 following analysis 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, 2022:

(DOLLARS IN THOUSANDS)	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 373,400	$ (112,023)	$ 261,377
Components of Net Cost That Are Not Part of Net Outlays:			
Property and Equipment Depreciation	$ —	$ (42,405)	$ (42,405)
Property and Equipment Disposal Reevaluation	—	(3,728)	(3,728)
Securities Registration, Tender Offer, Merger, and Other Fees from Registrants (Note 1.P)	—	636,736	636,736
Treasury Investment Fees	(65)	65	—
Increase/(Decrease) in Assets:			
Accounts Receivable	—	213,185	213,185
Advances and Prepayments	346	—	346
(Increase)/Decrease in Liabilities:			
Accounts Payable	2,839	58,854	61,693
Federal Employee Leave and Benefits Payable	—	2,728	2,728
Other Liabilities			
Benefit Program Contributions Payable	6,884	—	6,884
Accrued Payroll and Payroll Taxes Payable	1,217	32,758	33,975
Contingent Liabilities	—	(398,746)	(398,746)
Other Accrued Liabilities	(3,792)	909	(2,883)
Financing Sources:			
Imputed Costs	(43,992)	—	(43,992)
Total Components of Net Cost That Are Not Part of Net Outlays	(36,563)	500,356	463,793
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	—	52,532	52,532
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(2,667)	27	(2,640)
Total Components of Net Outlays That Are Not Part of Net Cost	(2,667)	52,559	49,892
Net Outlays	$ 334,170	$ 440,892	$ 775,062

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 Leave and 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

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 2022, total Disgorgement and Penalties assets of $5.1 billion included $3.9 billion held for distribution to harmed investors and $1.2 billion to be transferred to the U.S. Treasury General Fund. 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.

At September 30, 2022 and 2021, 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)	2022	2021
Fund Balance with Treasury:		
Beginning Balance	$ 482,078	$ 399,843
Collections	1,635,806	1,686,917
Purchases and Redemptions of Treasury Securities	(227,378)	(640,867)
Disbursements	(661,273)	(339,780)
Transfers and Deposits to the Investor Protection Fund	(387,168)	(472,066)
Transfers and Deposits to the U.S. Treasury General Fund	(263,941)	(151,969)
Total Fund Balance with Treasury (Note 2)	578,124	482,078
Cash and Other Monetary Assets:		
Beginning Balance	141	83
Net Activity	(140)	58
Total Cash and Other Monetary Assets (Notes 2 and 4)	1	141
Investments, Net:		
Beginning Balance	2,575,475	1,932,852
Net Activity	250,775	642,623
Total Investments, Net (Notes 2 and 5)	2,826,250	2,575,475
Accounts Receivable, Net:		
Beginning Balance	338,520	184,137
Net Activity	1,308,394	154,383
Total Accounts Receivable, Net (Notes 2 and 6)	1,646,914	338,520
Total Disgorgement and Penalties	$ 5,051,289	$ 3,396,214

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 2021 FR can be found at: fiscal.treasury.gov/reports-statements/financial-report/current-report.html.

FY 2022 Balance Sheet

As of September 30, 2022

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2022 SEC Balance Sheet	Line Items Used to Prepare FY 2022 Government-wide Balance Sheet: Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Total	Reclassified Financial Statement Line *(DOLLARS IN THOUSANDS)*
ASSETS:						**ASSETS:**
Intragovernmental:						Intragovernmental:
Fund Balance with Treasury	$ 8,831,476	$ 8,197,310	$ —	$ 634,166	$ 8,831,476	Fund Balance with Treasury
Investments, Net	3,243,003	416,753	—	2,826,250	3,243,003	Investments, Net
Advances and Prepayments	8,636	8,636	—	—	8,636	Advances and Prepayments
Total Intragovernmental	12,083,115	8,622,699	—	3,460,416	12,083,115	Total Intragovernmental
With the Public:						With the Public:
Cash and Other Monetary Assets	1	—	—	1	1	Cash and Other Monetary Assets
Accounts Receivable, Net	1,926,171	276,260	—	1,649,911	1,926,171	Accounts Receivable, Net
Property and Equipment, Net	91,436	91,436	—	—	91,436	General Property, Plant, and Equipment, Net
Total With the Public	2,017,608	367,696	—	1,649,912	2,017,608	Total With the Public
Total Assets	$ 14,100,723	$ 8,990,395	$ —	$ 5,110,328	$ 14,100,723	**Total Assets**
LIABILITIES:						**LIABILITIES:**
Intragovernmental:						Intragovernmental:
Accounts Payable	$ 2,123	$ 2,123	$ —	$ —	$ 2,123	Accounts Payable
Other Liabilities						
Payroll Taxes Payable	598	598	—	—	598	Other Liabilities (Without Reciprocals)
Custodial Liability	1,154,376	—	—	1,154,376	1,154,376	Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
Liability for Non-Entity Assets	223	—	—	223	223	Liability to the General Fund for Custodial and Other Non-Entity Assets
Benefit Program Contributions Payable	5,326	5,326	—	—	5,326	Benefit Program Contributions Payable
Other Liabilities (RC 22)	3,792	3,792	—	—	3,792	Other Liabilities – Reimbursable Activities (RC 22)
Total Other Liabilities	1,164,315	9,716	—	1,154,599	1,164,315	*Total Other Liabilities*
Total Intragovernmental	1,166,438	11,839	—	1,154,599	1,166,438	Total Intragovernmental

FY 2022 Balance Sheet *(continued)*

As of September 30, 2022

		Line Items Used to Prepare FY 2022 Government-wide Balance Sheet				
Financial Statement Line *(DOLLARS IN THOUSANDS)*	**FY 2022 SEC Balance Sheet**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Total**	**Reclassified Financial Statement Line** *(DOLLARS IN THOUSANDS)*
With the Public:						
Accounts Payable	207,849	207,849	—	—	207,849	Accounts Payable
Federal Employee Benefits Payable	147,376	147,376	—	—	147,376	Federal Employee and Veteran Benefits Payable
Registrant Deposits	56,001	—	—	56,001	56,001	Advances from Others and Deferred Revenue
Other Liabilities						
Accrued Payroll	19,038	19,038	—	—	19,038	Other Liabilities
Liability for Disgorgement and Penalties	3,899,686	—	—	3,899,686	3,899,686	Other Liabilities
Contingent Liabilities	530,695	530,695	—	—	530,695	Other Liabilities
Other Accrued Liabilities	3,266	3,224	—	42	3,266	Other Liabilities
Total Other Liabilities	4,452,685	552,957	—	3,899,728	4,452,685	*Total Other Liabilities*
Total with the Public	4,863,911	908,182	—	3,955,729	4,863,911	Total with the Public
Total Liabilities	6,030,349	920,021	—	5,110,328	6,030,349	**Total Liabilities**
Commitments and Contingencies						
NET POSITION:						**NET POSITION:**
Unexpended Appropriations – Funds from Dedicated Collections	217,841	217,841	—	—	217,841	Unexpended Appropriations – Funds from Dedicated Collections
Cumulative Results of Operations – Funds from Dedicated Collections	7,852,533	7,852,533	—	—	7,852,533	Cumulative Results of Operations – Funds from Dedicated Collections
Total Net Position	$ 8,070,374	$ 8,070,374	$ —	$ —	$ 8,070,374	**Total Net Position**
Total Liabilities and Net Position	$ 14,100,723	$ 8,990,395	$ —	$ 5,110,328	$ 14,100,723	**Total Liabilities and Net Position**

FY 2022 Statement of Net Cost

For the year ended September 30, 2022

Financial Statement Line (DOLLARS IN THOUSANDS)	FY 2022 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)
		Line Items Used to Prepare FY 2022 Government-wide Statement of Net Cost					
Program Costs:							**Non-Federal Costs**
Total Program Costs	$ 2,697,208	$ 2,323,259	$ —	$ (53)	$ —	$ 2,323,206	Non-Federal Gross Cost
							Intragovernmental Costs
		225,231	—	—	—	225,231	Benefit Program Costs
		43,992	—	—	—	43,992	Imputed Costs
		50,272	(43)	64	—	50,293	Buy/Sell Costs
		54,486	—	—	—	54,486	Other Expenses
		373,981	(43)	64	—	374,002	**Total Intragovernmental Costs**
Total Program Costs	2,697,208	2,697,240	(43)	11	—	2,697,208	***Total Reclassified Gross Costs***
Less: Earned Revenues not Attributed to Programs	2,435,831						**Non-Federal Earned Revenue**
		1,848,471	—	586,758	—	2,435,229	Non-Federal Earned Revenue
							Intragovernmental Revenue
		570	(43)	75	—	602	Buy/Sell Revenue
Total Earned Revenues	$ 2,435,831	$ 1,849,041	$ (43)	$ 586,833	$ —	$ 2,435,831	***Total Reclassified Earned Revenue***
Net Cost of Operations	$ 261,377	$ 848,199	$ —	$ (586,822)	$ —	$ 261,377	**Net Cost of Operations**

FY 2022 Statement of Changes in Net Position

For the year ended September 30, 2022

		Line Items Used to Prepare FY 2022 Government-wide Statement of Changes in Net Position				
Financial Statement Line *(DOLLARS IN THOUSANDS)*	**FY 2022 SEC 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	$ 213,922	$ 213,922	$ —	$ —	$ 213,922	Net Position, Beginning of Period
Appropriations Received	414,402	414,402	—	—	414,402	Appropriations Received as Adjusted
Appropriations Used	(410,483)	(410,483)	—	—	(410,483)	Appropriations Used
Net Change in Unexpended Appropriations	3,919	3,919	—	—	3,919	
Total Unexpended Appropriations	217,841	217,841	—	—	217,841	
CUMULATIVE RESULTS OF OPERATIONS:						
Beginning Balances	7,856,952	7,856,952	—	—	7,856,952	Net Position, Beginning of Period
Appropriations Used	410,483	410,483	—	—	410,483	Appropriations Expended
Non-Exchange Revenue	389,305	387,168	—	(23,397)	363,771	Other Taxes and Receipts
	—	2,137	—	23,397	25,534	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)
Total Non-Exchange Revenues	389,305	389,305	—	—	389,305	*Total Reclassified Non-Exchange Revenues*
Imputed Financing	43,992	43,992	—	—	43,992	Imputed Financing Sources (Federal)
Other	(586,822)	—	—	(587,212)	(587,212)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		—	—	390	390	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
Total Other	(586,822)	—	—	(586,822)	(586,822)	*Total Reclassified Other*
Net Cost of Operations	261,377	848,199	—	(586,822)	261,377	Net Cost of Operations (+/-)
Net Change in Cumulative Results of Operations	(4,419)	(4,419)	—	—	(4,419)	
Cumulative Results of Operations: Ending	7,852,533	7,852,533	—	—	7,852,533	
Net Position	$ 8,070,374	$ 8,070,374	$ —	$ —	$ 8,070,374	Net Position, End of Period

FY 2022 Statement of Changes in Net Position *(continued)*

For the year ended September 30, 2022

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2022 SEC Statement of Changes in Net Position	Line Items Used to Prepare FY 2022 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	$ 265,910	$ —	$ —	$ 265,910	$ 265,910	Other Taxes and Receipts
Accrual Adjustments	1,035,073	—	—	1,035,073	1,035,073	Other Taxes and Receipts
Total Custodial Revenue	1,300,983	—	—	1,300,983	1,300,983	*Total Reclassified Custodial Revenue*
Disposition of Non-Exchange Custodial Collections from the Statement of Custodial Activity						
Amounts Transferred to Department of the Treasury	265,910	—	—	265,910	265,910	Non-Entity Collections Transferred to the General Fund of the U.S. Government
Amounts Yet to be Transferred	1,035,073	—	—	1,035,073	1,035,073	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
Total Disposition of Collections	$ 1,300,983	$ —	$ —	$ 1,300,983	$ 1,300,983	*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, 2022

(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)	$ 94,057	$ 144,442	$ 5,851	$ 244,350
Appropriations (Discretionary and Mandatory)	414,402	393,501	50,000	857,903
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,585,831	—	—	1,585,831
Total Budgetary Resources	$ 2,094,290	$ 537,943	$ 55,851	$ 2,688,084
STATUS OF BUDGETARY RESOURCES:				
New Obligations and Upward Adjustments (Total)	$ 2,041,732	$ 231,575	$ 49,723	$ 2,323,030
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	44,883	154,275	—	199,158
Exempt from Apportionment, Unexpired Accounts	—	—	6,128	6,128
Unapportioned, Unexpired Accounts	7,675	152,093	—	159,768
Unobligated Balance, End of Year (Total)	52,558	306,368	6,128	365,054
Total Budgetary Resources	$ 2,094,290	$ 537,943	$ 55,851	$ 2,688,084
OUTLAYS, NET:				
Outlays, Net (Discretionary and Mandatory)	$ 435,669	$ 287,256	$ 54,863	$ 777,788
Distributed Offsetting Receipts	(59)	(2,667)	—	(2,726)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ 435,610	$ 284,589	$ 54,863	$ 775,062

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

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.

INVESTOR PROTECTION FUND FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Balance Sheets

As of September 30, 2022 and 2021

(DOLLARS IN THOUSANDS)	2022	2021
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 51,910	$ 107,892
Investments, Net (Note 3)	416,753	258,722
Total Intragovernmental	468,663	366,614
Total Assets	$ 468,663	$ 366,614
LIABILITIES (NOTE 4):		
With the Public:		
Accounts Payable	138,896	194,578
Contingent Liabilities (Note 5)	530,695	131,949
Total with the Public	669,591	326,527
Total Liabilities	669,591	326,527
Commitments and Contingencies (Note 5)		
NET POSITION:		
Cumulative Results of Operations – Funds from Dedicated Collections	(200,928)	40,087
Total Cumulative Results of Operations	(200,928)	40,087
Total Net Position	$ (200,928)	$ 40,087
Total Liabilities and Net Position	$ 468,663	$ 366,614

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, 2022 and 2021

(DOLLARS IN THOUSANDS)	2022	2021
PROGRAM COSTS:		
Awards to Whistleblowers	$ 630,277	$ 442,050
Employee Suggestion Program	43	16
Total Program Costs	630,320	442,066
Net Cost of Operations (Note 7)	$ 630,320	$ 442,066

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, 2022 and 2021

(DOLLARS IN THOUSANDS)	2022	2021
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balances	$ 40,087	$ 9,410
Non-Exchange Revenue	389,305	472,743
Net Cost of Operations	630,320	442,066
Net Change in Cumulative Results of Operations	(241,015)	30,677
Cumulative Results of Operations: Ending	(200,928)	40,087
Net Position	$ (200,928)	$ 40,087

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, 2022 and 2021

(DOLLARS IN THOUSANDS)	2022	2021
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, Net (Mandatory)	$ 144,442	$ 260,281
Appropriations (Mandatory)	393,501	449,041
Total Budgetary Resources	$ 537,943	$ 709,322
STATUS OF BUDGETARY RESOURCES (NOTE 6):		
New Obligations and Upward Adjustments (Total)	$ 231,575	$ 564,880
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	154,275	123,037
Unapportioned, Unexpired Accounts	152,093	21,405
Unobligated Balance, End of Year (Total)	306,368	144,442
Total Budgetary Resources	$ 537,943	$ 709,322
OUTLAYS, NET:		
Outlays, Net (Total) (Mandatory)	287,256	465,619
Distributed Offsetting Receipts	(2,667)	(2,739)
Agency Outlays, Net (Mandatory) (Note 7)	$ 284,589	$ 462,880

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, 2022 and 2021

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. The SEC also may pay whistleblower awards for certain actions brought by other entities, including designated federal agencies, in cases where those awards might otherwise be paid under the other entity's whistleblower program, where the other action has a more direct or relevant connection to the SEC's whistleblower program. The SEC will pay on the other action, even if the action does not have a more direct or relevant connection to the SEC's whistleblower program, when the other entity's program is not comparable to the Commission's own program or if the maximum award that the Commission could pay on the related action would not exceed $5 million.

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, 2022 and 2021 consisted of the following:

(DOLLARS IN THOUSANDS)	2022	2021
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ (110,385)	$ (113,749)
Unavailable	23,399	27,064
Obligated Balance not Yet Disbursed	138,896	194,577
Total Status of Fund Balance with Treasury	$ 51,910	$ 107,892

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. Investor Protection Fund investments are reversed from the unobligated available amount in order to account for Fund Balance with Treasury only, resulting in the negative balance for that line.

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 2022 consisted of:

- Net cash outflows for purchases of investments of $158.6 million;
- Net cash inflows from investment interest of $2.7 million (which include $2.7 million of interest collections);
- Net cash inflows from fund replenishment required under the Dodd-Frank Act of $387.2 million; and
- Net cash outflows for payment of whistleblower awards totaling $71.8 million for amounts that were awarded prior to FY 2022, $215.4 million for amounts that were awarded during FY 2022, and payment of expenses of operating the Office of Inspector General Employee Suggestion Program of $43 thousand.

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.

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, 2022, 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	$ —	Effective	$ —	$ —	$ —	$ —
One-Day Certificates	416,753	N/A	—	—	416,753	416,753
Total	$ 416,753		$ —	$ —	$ 416,753	$ 416,753

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
One-Day Certificates	183,645	N/A	—	—	183,645	183,645
Total	$ 259,228		$ (692)	$ 186	$ 258,722	$ 258,541

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, 2022, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Accounts Payable	$ 138,896	$ —	$ 138,896
Contingent Liabilities	—	530,695	530,695
Total Liabilities	$ 138,896	$ 530,695	$ 669,591

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

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 (and when applicable, 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 liabilities 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, 2022, commitments and contingencies consisted of the following:

		Estimated Range of Loss	
(DOLLARS IN THOUSANDS)	Accrued Liabilities	Lower End	Upper End
2022 Whistleblower Awards:			
Probable	$ 530,695	$ 242,702	$ 728,105
Reasonably Possible	—	103	310

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

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, 2022 and 2021 were $306 million and $144 million, respectively. Since the contingent liabilities exceed the unobligated balance at September 30, 2022, additional replenishments will be needed before these liabilities are awarded and paid.

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 2022 Statement of Budgetary Resources and the actual FY 2022 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2024 Budget, which will contain FY 2022 actual data, is not yet available. The comparison will be presented in next year's financial statements. The FY 2024 Budget, with actual amounts for FY 2022, will be available at a later date at whitehouse.gov/omb/budget/.

There are no differences between the FY 2021 Statement of Budgetary Resources and the FY 2021 data in the Budget.

B. Other Budgetary Disclosures

There were no budgetary resources obligated for undelivered orders as of September 30, 2022 and 2021.

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, 2022, the SEC paid $287.3 million to whistleblowers, including $215.4 million awarded during FY 2022. 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, 2022:

(DOLLARS IN THOUSANDS)	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 43	$ 630,277	$ 630,320
Components of Net Cost That Are Not Part of Net Outlays:			
(Increase)/Decrease in Liabilities:			
Accounts Payable	—	55,682	55,682
Other Liabilities (Contingent Liabilities)	—	(398,746)	(398,746)
Total Components of Net Cost That Are Not Part of Net Outlays	—	(343,064)	(343,064)
Components of Net Outlays That Are Not Part of Net Cost:			
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(2,667)	—	(2,667)
Total Components of Net Outlays That Are Not Part of Net Cost	(2,667)	—	(2,667)
Net Outlays	$ (2,624)	$ 287,213	$ 284,589

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

I'd like to begin investing. Do you have any advice?

The first step to investing is to make sure you have a financial plan. This will help you determine your financial goals, and decide how much you want to invest and for what amount of time. It will also help you understand your tolerance for risk, as all investments carry some risk.

The next step is research, research, research. Whether checking out an investment professional, researching an investment, or learning about new products or scams, unbiased information can be a great advantage when it comes to investing wisely. Make a habit of using the information and tools on securities regulators' websites, such as Investor.gov.

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.

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 13, 2022

TO: Gary Gensler, Chair

FROM: Nicholas Padilla, Jr., Acting Inspector General

SUBJECT: *The Inspector General's Statement on the SEC's Management and Performance Challenges, October 2022*

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 2023, 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

Information on 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.

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[1] Pub. L. No. 106-531, § 3a, 114 Stat. 2537-38 (November 22, 2000).

Attachment

cc: Prashant Yerramalli, Chief of Staff, Office of Chair Gensler
Heather Slavkin Corzo, Policy Director, Office of Chair Gensler
Kevin Burris, Counselor to the Chair and Director of Legislative and Intergovernmental Affairs
Scott Schneider, Counselor to the Chair and Director of Public Affairs
Ajay Sutaria, GC Counsel, Office of Chair Gensler
Phillip Havenstein, Operations Counsel, Office of Chair Gensler
Hester M. Peirce, Commissioner
Benjamin Vetter, Counsel, Office of Commissioner Peirce
Caroline A. Crenshaw, Commissioner
Malgorzata Spangenberg, Counsel, Office of Commissioner Crenshaw
Mark T. Uyeda, Commissioner
Holly Hunter-Ceci, Counsel, Office of Commissioner Uyeda
Jaime Lizárraga, Commissioner
Laura D'Allaird, Counsel, Office of Commissioner Lizárraga
Parisa Haghshenas, Counsel, Office of Commissioner Lizárraga
Dan Berkovitz, General Counsel
Elizabeth McFadden, Deputy General Counsel, General Litigation/Acting Managing Executive
Lisa Helvin, Principal Deputy General Counsel for Adjudication and Oversight
Kenneth Johnson, Chief Operating Officer
Shelly Luisi, Chief Risk Officer
Jim Lloyd, Audit Coordinator/Assistant Chief Risk Officer, Office of Chief Risk Officer

U.S. SECURITIES AND
EXCHANGE COMMISSION

October 13, 2022

OFFICE OF
INSPECTOR GENERAL

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

CONTENTS

ABBREVIATIONS

CAT	Consolidated Audit Trail
CISA	Cybersecurity and Infrastructure Security Agency
COVID-19	Coronavirus Disease 2019
Enforcement	Division of Enforcement
EXAMS	Division of Examinations
FISMA	Federal Information Security Modernization Act of 2014
FY	fiscal year
GAO	U.S. Government Accountability Office
IT	information technology
Kearney	Kearney & Company, P.C.
LH	labor-hour
NAICS	North American Industry Classification System
OA	Office of Acquisitions
OASB	Office of the Advocate for Small Business Capital Formation
OHR	Office of Human Resources
OIAD	Office of the Investor Advocate
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
RIA	registered investment adviser
SAM	System for Award Management
SEC, agency, or Commission	U.S. Securities and Exchange Commission
SLC	Service Level Commitment
T&M	time-and-materials
TCR	tips, complaints, and referrals
TRENDS	Tracking and Reporting Examination National Documentation System
WTTS	Workforce Transformation and Tracking System

CHALLENGE: Meeting Regulatory Oversight Responsibilities

The U.S. Securities and Exchange Commission (SEC, agency, or Commission) is charged with overseeing about $118 trillion in annual securities trading on the United States equity markets and the activities of more than 29,000 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, 95 alternative trading systems, 10 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 7,900 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, number, 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]

We describe below the challenges of (1) managing resources while meeting the SEC's regulatory agenda; (2) keeping pace with changing markets and innovations; and (3) leveraging technology and analytics to meet mission requirements and respond to significant developments and trends.

Managing Resources While Meeting the Regulatory Agenda

Rulemaking is the process by which federal agencies implement legislation passed by Congress and signed into law by the President and, as part of its regulatory oversight responsibilities, the SEC creates or updates rules (also referred to as "regulations"). Legislation, such as the Securities Act of 1933,[2] the Securities Exchange Act of 1934,[3] the Investment Company Act of 1940,[4] the Sarbanes-Oxley Act of 2002,[5] and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank)[6] provide the framework for the SEC's oversight of the securities markets. The rulemaking process involves several steps that are designed to give the public an opportunity to provide their opinions on whether the agency should adopt or adopt with modifications a proposed rule. According to the Administrative Procedure Act,[7] agencies must follow an open process when issuing regulations, including publishing a

[1] On October 11, 2018, the SEC issued a strategic plan for fiscal years 2018 to 2022. On August 24, 2022, the SEC released for public comment a draft strategic plan for fiscal years 2022 to 2026. As of the date of this document, the new strategic plan had not been finalized.

[2] Pub. L. 73-22, 48 Stat. 74 (May 27, 1933).

[3] Pub. L. 73-291, 48 Stat. 881 (June 6, 1934).

[4] Pub. L. 76-768, 54 Stat. 789 (August 22, 1940).

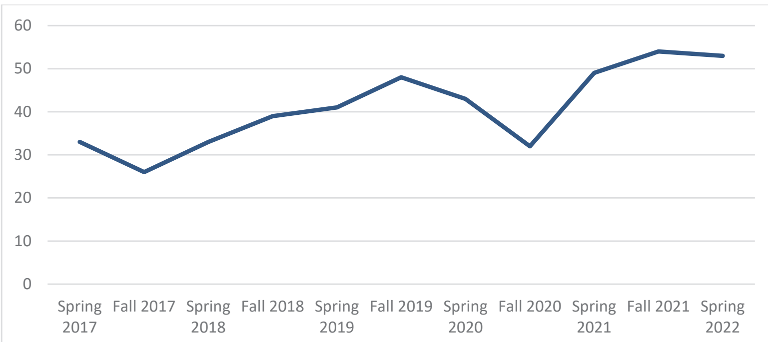
[5] Pub. L. 107-204, 116 Stat. 745 (July 30, 2002).

[6] Pub. L. 111-203, 124 Stat. 1376 (July 21, 2010).

[7] Pub. L. 79-404, 60 Stat. 237, 239 (June 11, 1946).

statement of rulemaking authority in the Federal Register for all proposed and final rules. Moreover, each fall and spring, regulatory agencies are required to publish a regulatory agenda,[8] which is how agencies announce future rulemaking activities and update the public on pending and completed regulatory actions. As Figure 1 shows, the number of rulemaking activities on the SEC's regulatory agenda between spring 2017 and spring 2022 increased overall.

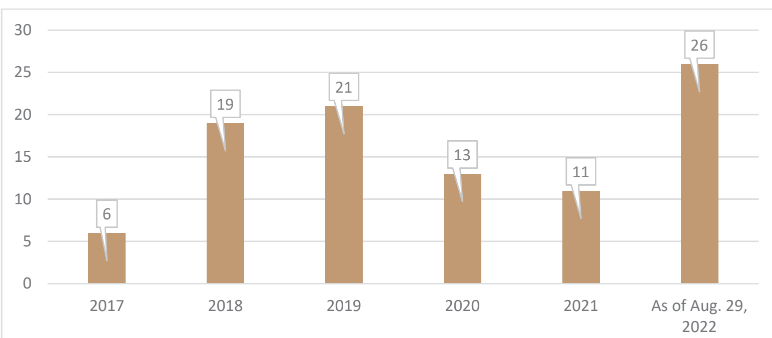
FIGURE 1. Number of Rulemaking Activities on the SEC's Regulatory Agenda (Spring 2017 – Spring 2022)



Source: OIG-generated based on data from the Office of Management and Budget's (OMB) Office of Information and Regulatory Affairs (https://www.reginfo.gov/public/ last accessed on September 8, 2022).

Additionally, in only the first 8 months of 2022, the SEC proposed 26 new rules, which was more than twice as many new rules as proposed the preceding year and more than it had proposed in each of the previous 5 years. (See Figure 2.)

FIGURE 2. Number of New SEC Rules Proposed (2017 – August 2022)



Source: OIG-generated based on data from the SEC (https://www.sec.gov/rules/proposed.shtml, as of August 29, 2022).

[8] Pub. L. 96-354, 94 Stat. 1166 (September 19, 1980).

2

We met with managers from the SEC's divisions of Trading and Markets, Investment Management, Corporation Finance, and Economic and Risk Analysis, some of whom raised concerns about increased risks and difficulties managing resources and other mission-related work because of the increase in the SEC's rulemaking activities. For example, some reported an overall increase in attrition (discussed further on page 21 of this document) and difficulties hiring individuals with rulemaking experience. In the interim, managers reported relying on detailees, in some cases with little or no experience in rulemaking. Others told us that they may have not received as much feedback during the rulemaking process, either as a result of shortened timelines during the drafting process or because of shortened public comment periods. Although no one we met with identified errors that had been made, some believed that the more aggressive agenda—particularly as it relates to high-profile rules that significantly impact external stakeholders—potentially (1) limits the time available for staff research and analysis, and (2) increases litigation risk. Finally, some managers noted that fewer resources have been available to complete other mission-related work, as rulemaking teams have borrowed staff from other organizational areas to assist with rulemaking activities.

Furthermore, the SEC's rulemaking function relies on coordination and collaboration amongst several agency divisions and offices and, as we reported in our October 2021 statement on the SEC's management and performance challenges, agency leaders should take measures to strengthen communication and coordination across SEC components. Indeed, the SEC's fiscal year (FY) 2021 Agency Financial Report states that the SEC values teamwork and recognizes "that success depends on a skilled, diverse, coordinated team committed to the highest standards of trust, hard work, cooperation, and communication."[9] Additionally, the SEC's strategic plan identifies teamwork of the SEC's staff and its leaders, along with other elements, as the "foundation" of the agency.[10] 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.*[11]

In response to our October 2021 statement on the SEC's management and performance challenges, agency management re-affirmed its commitment to promoting effective and collaborative information-sharing across the agency.[12] Management's continued attention to strengthening communication and coordination across divisions and offices is instrumental to (1) preventing unintentional negative impacts to divisions and offices when modifying agency-wide processes, (2) maintaining positive trends in employee views on collaboration,[13] and (3) achieving the goals established in the SEC's strategic plan.

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[9] U.S. Securities and Exchange Commission, *Fiscal Year 2021 Agency Financial Report*; November 15, 2021.

[10] U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*, Goal 3; October 11, 2018.

[11] The agency's draft strategic plan for FY 2022 to FY 2026 (Goal 3) similarly emphasizes the importance of continually strengthening and promoting collaboration within and across SEC offices.

[12] U.S. Securities and Exchange Commission, *Fiscal Year 2021 Agency Financial Report*; November 15, 2021.

[13] With regards to the 2021 Federal Employee Viewpoint survey, 71 percent of agency respondents agreed that SEC managers promote communication among different work units (a 4 percentage point decrease from the previous year). In addition, 75 percent of agency respondents agreed that SEC managers support collaboration across work units to accomplish work objectives (a 3 percentage point decrease from the previous year).

Despite management's commitment to cross-functional collaboration and communication, personnel we met with (including those from the Division of Economic and Risk Analysis, the Division of Enforcement [Enforcement], and the Office of the General Counsel, among others) identified coordination and communication as a persistent challenge in the rulemaking process, particularly given potential overlaps in jurisdiction and differences in opinions. We reported on such challenges in a management letter issued in September 2022.[14] Specifically, we reported that, around December 2021, the Office of the Chair modified the process for coordinating internal reviews of draft agency rules, resulting in the Office of the Advocate for Small Business Capital Formation (OASB)[15] and the Office of the Investor Advocate (OIAD)[16] receiving only fatal flaw drafts of proposed rules[17] for a brief period of time.[18] This change was not formally documented or communicated, and the then-directors of OASB and OIAD were not aware of the change until after it took effect. All parties involved acknowledged that the Office of the Chair has the authority to direct the agency's rulemaking process. Moreover, OASB and OIAD personnel stated that they were generally able to carry out their responsibilities. However, changes to internal processes likely to impact OASB's and OIAD's review and comment related to draft proposed agency rules may unintentionally limit their ability to fulfill their advocacy roles and carry out office functions, and may hinder effective collaboration and information sharing across the agency.[19] Although we did not make any formal recommendations, we encouraged the Office of the Chair to consider, as a management practice, notifying OASB and OIAD before future changes to the rulemaking process, potentially impacting these offices, are implemented.

Keeping Pace With Changing Markets and Innovations

> *Technological advancements and commercial developments continue to change how our securities markets operate and spur the development of new products.*
>
> *Source: U.S. Securities and Exchange Commission, Fiscal Year 2021 Agency Financial Report; November 15, 2021.*

As securities markets continue to grow in size and complexity and technological advancements contribute to changes in how markets operate, the SEC's ability to remain an effective regulator requires that it continuously monitor the market environment, and as appropriate, adjust and modernize its expertise, rules, regulations, and oversight tools and activities. Securities markets have experienced significant growth in recent years, with a record number of families holding direct and indirect stocks, and (as Table 1 shows) a record number of registered investment

[14] U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Changes to the Internal Review Process for Proposed Rules May Impact the Office of the Advocate for Small Business Capital Formation and the Office of the Investor Advocate* (September 29, 2022).

[15] The SEC Small Business Advocate Act of 2016 (Pub. L. No. 114-284, 130 Stat. 1447 [December 16, 2016]) requires OASB to advocate for small businesses and their investors by, among other things, analyzing the potential impact on small businesses and small business investors of Commission-proposed regulations that are likely to have a significant economic impact on small businesses and small business capital formation.

[16] Pursuant to Section 915 of Dodd-Frank and codified at Section 4(g) of the Exchange Act of 1934, OIAD is required to analyze the potential impact on investors from proposed rules and regulations of the Commission.

[17] A fatal flaw draft is the last draft circulated before the Commission votes on a proposed rule, often only a few days before the vote. It is typically the final version of the rule, to be reviewed only for critical issues, and will not incorporate policy revisions.

[18] According to agency officials, the change in the rulemaking process was reversed in early 2022.

[19] Other OIG work completed in FY 2022 also highlighted areas where collaboration and communication within the SEC could be improved. *See* U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Can Improve in Several Areas Related to Hiring* (Report No. 572; February 28, 2022).

TABLE 1. Number of RIAs (FY 2018 – July 2022)

Date	Number of RIAs
Beginning of FY 2018	12,616
Beginning of FY 2019	13,222
Beginning of FY 2020	13,458
Beginning of FY 2021	13,810
Beginning of FY 2022	14,719
As of July 1, 2022	15,167

Source: OIG-generated based on data provided by EXAMS.

advisers (RIA), which represent the largest portion of the registered firm population overseen by the SEC's Division of Examinations (EXAMS).

In addition, as noted in a March 2022 White House fact sheet accompanying a new Executive Order, the crypto market is highly concentrated and has seen explosive growth in recent years, surpassing a $3 trillion market cap last November, up from $14 billion just 5 years ago.[20] The new Executive Order outlines a national policy for digital assets to include protecting consumers, investors, and businesses.[21]

In recognition of the need to protect investors and respond to the changing environment, the SEC is taking steps to address the increasing risks related to the crypto market such as (1) getting platforms registered and regulated much like exchanges; (2) coordinating with the Commodity Futures Trading Commission on determining how best to regulate platforms where trading of securities and non-securities is intertwined; and (3) identifying how to work with platforms and best ensure the protection of customers' assets. Additionally, the SEC recently announced the allocation of 20 additional positions for Enforcement's Crypto Assets and Cyber Unit, nearly doubling its size, as the volatile and speculative crypto marketplace has attracted tens of millions of American investors and traders.[22] As the SEC continues to increase its workforce and take other steps to protect investors, there is uncertainty about which agency—the SEC or the Commodity Futures Trading Commission—will have regulatory oversight responsibilities over the crypto market and what legal tools and authorities will be available. Such uncertainty can unsettle market factors and elevate risk for Main Street investors.

EXAMS also recognizes and strives to adapt to changing market factors. In its 2022 Examinations Priorities,[23] EXAMS noted significant focus areas that pose unique or emerging risks to investors or the markets, such as environmental, social, and governance investing; standards of conduct issues for broker-dealers and RIAs; and emerging technologies and crypto-assets, among others. EXAMS will continue to conduct examinations of broker-dealers and RIAs, many of which use developing financial technologies, and market participants engaged with crypto-assets, with a continued need to optimize its limited resources as it works to improve and promote compliance with regulatory requirements.

In a report we issued in January 2022, we noted steps EXAMS took to optimize its limited resources and increase efficiency and effectiveness, to include the following:

[20] The White House (March 9, 2022). *FACT SHEET: President Biden to Sign Executive Order on Ensuring Responsible Development of Digital Assets*.

[21] *Executive Order on Ensuring Responsible Development of Digital Assets*; March 9, 2022.

[22] Gurbir S. Grewal Director, Division of Enforcement, Testimony on "Oversight of the SEC's Division of Enforcement" Before the United States House of Representatives Committee on Financial Services Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets; July 21, 2022.

[23] U.S. Securities and Exchange Commission, *Division of Examinations 2022 Examination Priorities;* March 30, 2022.

- Moved its Tracking and Reporting Examination National Documentation System (TRENDS) to a new, cloud-based platform, which is expected to improve the system's adaptability, workflow capability, and data standardization;
- Launched a new examination support service, which among other things, assists examiners with data staging, cleansing, transformation, enrichment, and analysis; and
- Advanced its centralized asset verification program, which, according to EXAMS management, has enabled growth in the number of exams involving asset verification, as well as the amount of assets verified during these exams.[24]

Although EXAMS took these and other steps to increase efficiencies, we also reported that controls over the RIA examination planning processes needed improvement. Specifically, we found some staff commenced substantive RIA examination procedures before management approved the examination pre-fieldwork phase, and staff did not always consistently maintain key documents in TRENDS. In addition, we were unable to find documentation indicating that an examination supervisor notified registrants of non-EXAMS staff participation, as required.

We recommended that management (1) develop controls that help ensure timely supervisory approval of an examination's pre-fieldwork phase; (2) reiterate to examination staff and management the importance of and requirements for timely supervisory approval of each examination's pre-fieldwork phase; and (3) review examination documentation requirements regarding communications with registrants to ensure they are clear and examiners maintain such documentation in a consistent manner, and update examination policies as 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.

As we begin FY 2023, we will continue to monitor agency plans and actions to improve controls around supervisory approval of examinations' pre-fieldwork phase and documentation requirements regarding communications with registrants.

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

As we reported in previous years, 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.[25] Additionally, according to the SEC's FY 2023 Congressional Budget Justification, the economy's reliance on the rapidly changing field of data analytics is growing, and the Commission needs to adjust by

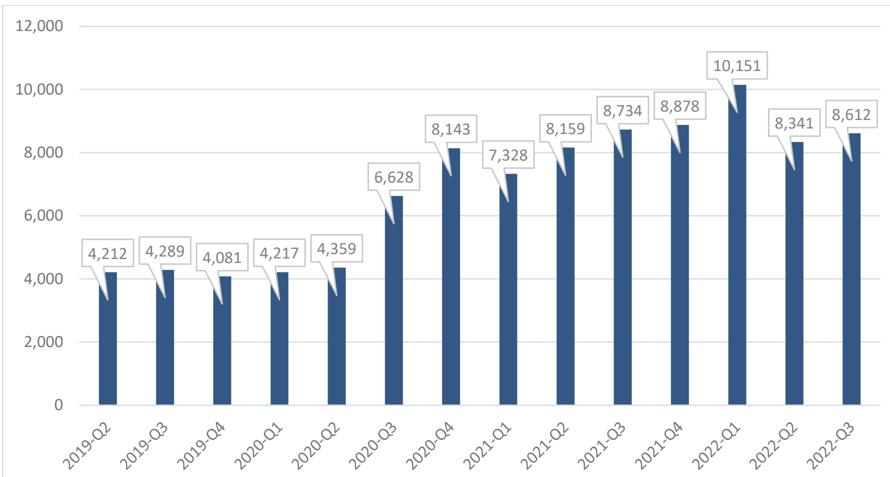
[24] U.S. Securities and Exchange Commission, Office of Inspector General, *Registered Investment Adviser Examinations: EXAMS Has Made Progress To Assess Risk and Optimize Limited Resources, But Could Further Improve Controls Over Some Processes* (Report No. 571, January 25, 2022).

[25] The agency's draft strategic plan for FY 2022 to FY 2026 (Goals 1, 2, and 3) similarly emphasizes that the SEC must effectively use technology and data.

re-evaluating how it assesses data and incorporates machine learning and deep learning into its examination and enforcement functions.[26]

Notably, Enforcement analyzes a massive volume of data each year including thousands of tips, complaints, and referrals (TCR) related to allegations of possible violations of the federal securities laws or conduct that poses a risk of harm to investors. Enforcement receives TCRs from the public, self-regulatory organizations, other federal and local agencies, and other entities. As Figure 3 shows, the SEC received a record number of TCRs in the first quarter of 2022.

FIGURE 3. Number of TCRs Received (2019, Quarter 2 – 2022, Quarter 3)



Source: OIG-generated based on data provided by Enforcement's Office of Market Intelligence. FY 2021 totals exclude 12,935 TCRs related to the market volatility event, and totals exclude TCRs submitted as test TCRs to validate the system.

In an evaluation report we issued in February 2021, we reported on the SEC's process to plan and develop a future TCR system and we recommended actions to further strengthen the SEC's TCR program and TCR system management and development.[27] We also encouraged management to monitor the upward trend in TCRs, and determine whether additional actions, resources, or staff allocations were needed. Management has since taken actions to address our recommendations and is working to implement a new TCR management system. According to Enforcement's Office of Market Intelligence, the organization implemented a risk-based process to assess and triage TCRs through the use of analytics and automation, which will be incorporated into the new TCR system. In planning for the new system, the agency continues to assess the application and data, conduct market research on potential technologies, and prepare a strategic plan.

[26] U.S. Securities and Exchange Commission, *Fiscal Year 2023 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2021 Annual Performance Report*; March 28, 2022.

[27] 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).

Although we acknowledge the Office of Market Intelligence's use of analytics and implementation of a new TCR system, the TCR program—along with many other critical programs and systems within the SEC—must rely on personnel to correctly input data into systems. For example, with the handling of TCRs, agency staff from divisions and offices must be sure to correctly transfer TCRs to the Office of Market Intelligence. As noted in a management letter our office issued in May 2021, we identified 2 matters of 3,303 we reviewed that were not transferred from the Office of Investor Education and Advocacy to the TCR system.[28] Moreover, in FY 2022, we investigated the former SEC Ombudsman and found that the former Ombudsman failed to enter TCRs on investor matters received by the Office of the Ombudsman that warranted entry, as required by the SEC's *Commission-Wide Policies and Procedures for Handling TCRs*. Specifically, the agency's policy and corresponding administrative regulation[29] state that all SEC staff are responsible for entering TCRs into the TCR system or forwarding them to a TCR point of contact within specified timeframes, and "when in doubt, staff should err on the side of entering a TCR." Instead, the former Ombudsman directed staff within the Office of the Ombudsman to refer investors to enter their own TCRs on matters related to alleged securities law violations or fraud. As previously noted, through the TCR program, the SEC receives and responds to credible allegations of possible violations of the federal securities laws. Improper handling of TCRs may impede the SEC's ability to timely and effectively protect investors.

Improper handling of TCRs may impede SEC investor protection efforts

Ongoing and Anticipated OIG Work. In FY 2023, we will continue to assess how well the SEC effectively and efficiently meets its regulatory oversight responsibilities. We will follow-up on open recommendations intended to improve controls around the examination program, and we will complete an ongoing audit of the SEC's whistleblower program and an evaluation of Enforcement's efforts and goals to expedite investigations, where possible and appropriate. Finally, we will initiate a review of the SEC's oversight of entity compliance with Regulation Best Interest and Form CRS.[30]

[28] U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Actions May Be Needed To Improve Processes for Receiving and Coordinating Investor Submissions* (May 24, 2021).

[29] U.S. Securities and Exchange Commission, SEC Administrative Regulation 3-2, *Tips, Complaints, and Referrals (TCR) Intake Policy*; November 29, 2016.

[30] Regulation Best Interest, the new Form CRS Relationship Summary, and two separate interpretations under the Investment Advisers Act of 1940 are part of a package of rulemakings and interpretations adopted by the Commission on June 5, 2019, to enhance and clarify the standards of conduct applicable to broker-dealers and investment advisers, help retail investors better understand and compare the services offered and make an informed choice of the relationship best suited to their needs and circumstances, and foster greater consistency in the level of protections provided by each regime, particularly at the point in time that a recommendation is made.

CHALLENGE: Protecting Systems and Data

Because the work of the SEC touches nearly every part of the nation's capital markets and advances international regulatory, supervisory, and enforcement cooperation, it is critically important to protect agency systems and data. In 2022, the Administration along with the Cybersecurity and Infrastructure Security Agency (CISA) warned that malicious cyber activity against the United States homeland could have an impact on our nation's organizations, and threats are more pronounced because of international events.[31] The U.S. Government Accountability Office (GAO) also reported that cyber risks are growing, and cyberattacks targeting critical infrastructure—including financial services—could affect entire systems and result in catastrophic financial loss.[32] Individuals or groups with malicious intentions attempt to intrude into agency systems to obtain sensitive information, commit fraud and identity theft, disrupt agency operations, or launch attacks against other systems and networks. Even in the absence of those intentions, inadequate safeguards can lead to the unauthorized disclosure, modification, use, or disruption of information that can compromise the integrity of agency operations. Therefore, the SEC must continue to take steps to safeguard the security, integrity, and availability of its information systems and sensitive data.

SEC management has recognized that "efficient, effective, and responsible use of data and information technology (IT) is a crucial focus of the agency."[33] In its FY 2023 Congressional Budget Justification, the agency requested additional funds for IT initiatives to expand progress in key areas such as cybersecurity, secure cloud infrastructure, and data management. CISA is also continuing to publish guidance to make the federal civilian workforce more resilient to cyber threats.

> *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.*
>
> *Source: U.S. Securities and Exchange Commission, Fiscal Year 2021 Agency Financial Report; November 15, 2021.*

The SEC's FY 2023 budget request addresses plans to hire additional personnel within the Office of Information Technology (OIT) who would provide expertise in cloud computing; strengthen security controls, policies, and procedures; and help the agency comply with requirements mandated in a recent Executive Order to move the agency toward a "zero trust" approach to cybersecurity.[34] Additionally, as we describe further below, opportunities exist to better protect SEC systems and data, including by evaluating and addressing the underlying cause(s) and impact of a material weakness related to insufficient user access controls, strengthening the agency's cybersecurity posture, and continuing to mature its information security program.

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[31] The White House (March 21, 2022). *FACT SHEET: Act Now to Protect Against Potential Cyberattacks;* and CISA, *Shields Up* website (https://www.cisa.gov/shields-up, last accessed on September 9, 2022).

[32] U.S. Government Accountability Office, *CYBER INSURANCE Action Needed to Assess Potential Federal Response to Catastrophic Attacks* (GAO-22-104256, June 2022).

[33] U.S. Securities and Exchange Commission, *Fiscal Year 2023 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2021 Annual Performance Report;* March 28, 2022.

[34] Executive Order 10460, *Improving the Nation's Cybersecurity*; May 12, 2021.

Evaluating and Addressing the Cause(s) and Impact of a Material Weakness Related to Insufficient User Access Controls

In its FY 2021 Agency Financial Report, the SEC disclosed a newly discovered material weakness associated with lack of controls related to user access to a Commission system. Specifically, the SEC reported that the information tracking and document storage system for documents related to recommendations for certain Commission actions did not include controls sufficient to prevent access by staff who should not view such documents.[35] This is important because, while the Commission has both investigatory and adjudicatory responsibilities, the Administrative Procedure Act contemplates the separation of those functions among the agency staff who assist the Commission in each.[36] Therefore, agency employees who are investigating or prosecuting an adjudicatory matter before the Commission generally may not participate in the Commission's decision-making in that or a factually related matter. However, the identified user access control deficiency did not ensure the necessary separation of the Commission's enforcement and adjudicatory functions for administrative adjudications. The SEC's FY 2021 Agency Financial Report further noted that, while a review of the affected system was underway, action had been taken to remediate the control deficiency.

Then, in April 2022, the Commission released a statement that provided additional information about the control deficiency, along with the results of the SEC's review of the impact of the control deficiency on two ongoing federal court litigations: *SEC v. Cochran*, No. 21-1239 (S. Ct.), and *Jarkesy v. SEC*, No. 20-61007 (5th Cir.). The statement reads, in part:

> *The Commission has determined that, for a period of time, certain databases maintained by the Commission's Office of the Secretary were not configured to restrict access by Enforcement personnel to memoranda drafted by Adjudication staff. As a result, in a number of adjudicatory matters, administrative support personnel from Enforcement, who were responsible for maintaining Enforcement's case files, accessed Adjudication memoranda via the Office of the Secretary's databases. Those individuals then emailed Adjudication memoranda to other administrative staff who in many cases uploaded the files into Enforcement databases.*[37]

With respect to these two matters, according to the Commission's statement, agency enforcement staff had access to certain adjudicatory memoranda, but this access "did not impact the actions taken by the staff investigating and prosecuting the cases or the Commission's decision-making in the matters."

The SEC is continuing to review and has not yet disclosed the full impact the internal control deficiency caused by the insufficient user access controls had on the remaining affected adjudicatory matters. The Commission's statement indicated that the agency's review team will continue to assess the remaining

[35] U.S. Securities and Exchange Commission, *Agency Financial Report Fiscal Year 2021*; November 15, 2021.

[36] Pub. L. 79-404 60 Stat. 240 (June 11, 1946).

[37] U.S. Securities and Exchange Commission, *Commission Statement Relating to Certain Administrative Adjudications*; April 5, 2022.

affected adjudicatory matters, and additional findings will be published "in the near future." Furthermore, the Commission stated that, going forward, it will work to better protect the separation of adjudicatory work-product within the system for administrative adjudications, including by enhancing systems for controlling access to Adjudication memoranda.

In conjunction with the ongoing FY 2022 evaluation of the SEC's implementation of the Federal Information Security Modernization Act of 2014 (FISMA), we assessed the SEC's incident response related to this control deficiency, and found that the agency generally complied with applicable requirements. Nonetheless, the OIG will continue to independently review the control deficiency to understand and, as appropriate, report the full impact of this material weakness. We also will continue to monitor the agency's progress towards redesigning or replacing the systems in question.

Strengthening the SEC's Cybersecurity Posture

The SEC is aware that protecting information systems and data is a priority, as cyber actors may exploit poor security configurations (either misconfigured or left unsecured), weak controls, and other poor cyber hygiene practices to gain initial access or as part of other tactics to compromise a system. In FY 2022, the SEC's OIT made progress by taking corrective action sufficient to close one cybersecurity-related recommendation from a previous OIG report.[38] However, as Table 2 summarizes, work remains to close other cybersecurity-related recommendations we issued before FY 2021.

TABLE 2. Certain Open Cybersecurity Recommendations as of October 2022*

Report Title	Date Issued	Recommendation(s)
Opportunities Exist To Improve the SEC's Management of Mobile Devices and Services (Report No. 562)	9/30/20	Recommendations 5 and 6 Current estimated corrective action completion date: February 2023

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 pages 13 and 14 of this document.*

Recognizing there is more work to be done, in FY 2023, the SEC plans to increase efforts 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.
- Continue the implementation of a secure application development structure across all agency development teams and projects.[39]

[38] U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Can More Strategically and Securely Plan, Manage, and Implement Cloud Computing Services* (Report No. 556; Nov. 7, 2019), Recommendation 3.

[39] U.S. Securities and Exchange Commission, *Fiscal Year 2023 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2021 Annual Performance Report;* March 28, 2022.

The SEC also has an open recommendation from a recent GAO report on assessing security controls related to telework. The CARES Act of 2020 contains a provision for GAO to monitor the federal response to the pandemic. Specifically, GAO was asked to examine federal agencies' preparedness to support expanded telework. In September 2021, GAO issued its report, which contained two recommendations for the SEC regarding the assessment and documentation of relevant IT security controls and enhancements.[40] Although the agency's comments to the report state that the SEC expected to complete actions to remediate the recommendations by the second quarter of FY 2022, as of September 15, 2022, remediation work was still underway for the recommendation related to ensuring that the agency documents relevant IT security controls and enhancements in the security plan for the system that provides remote access for telework. GAO concluded that if agencies do not sufficiently document relevant security controls, assess the controls, and fully document remedial actions for weaknesses identified in security controls, then agencies are at increased risk that vulnerabilities in their systems that provide remote access could be exploited.

The SEC also faces cybersecurity challenges with respect to its access, use, and security of data available through the Consolidated Audit Trail (CAT). Pursuant to an SEC rule (Rule 613), self-regulatory organizations have submitted a national market system plan to create, implement, and maintain a consolidated order tracking system, or CAT, that when fully implemented will 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. In its FY 2023 budget request, the SEC noted that the CAT continues to roll out functionality as the phased launch of broker-dealer reporting and regulator functionality progresses. Because CAT data is highly sensitive, the SEC must continue working to establish an environment and applications to appropriately secure the data accessed and used by the SEC as it becomes available.

Maturing the SEC's Information Security Program

Effective information security controls are essential to protecting the SEC's information systems and the data contained therein. To help the SEC establish and maintain effective information security controls and to comply with 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.[41] The OIG contracted with Kearney & Company, P.C. (Kearney) to conduct the FY 2021 independent evaluation and, on December 21, 2021, issued the report titled, *Fiscal Year 2021 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 570).[42]

As stated in Report No. 570, since FY 2020, OIT improved aspects of the SEC's information security program. Among other actions taken, the SEC refined its management of security training roles and responsibilities, enhanced its security training strategy, implemented the agency's policy for specialized security training, optimized a vulnerability disclosure policy, refined its configuration management

[40] U.S. Government Accountability Office, *COVID-19: Selected Agencies Overcame Technology Challenges to Support Telework but Need to Fully Assess Security Controls* (GAO-21-583, September 2021).

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

[42] As previously stated, the FY 2022 FISMA evaluation is ongoing and will be completed in the first quarter of FY 2023.

processes related to reconciliation of software code in production, improved its incident response information-sharing capabilities, and improved its contingency planning capabilities. Notably, these improvements occurred despite the unique challenges presented by Coronavirus Disease 2019 (COVID-19).

In FY 2021, the SEC's maturity level was primarily "Consistently Implemented" or "Managed and Measurable"

Although the SEC strengthened its program, Kearney determined for FY 2021 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").[43] As stated in Report No. 570, the SEC's maturity level for the five Cybersecurity Framework security functions ("identify," "protect," "detect," "respond," and "recover") and related domains was primarily Level 3 ("Consistently Implemented") or Level 4 ("Managed and Measurable"). Although the SEC's program, as a whole, did not reach the level of an effective information security program, the agency showed significant improvement at the domain level. Specifically, the agency's assessed maturity level for the Security Training domain increased from Level 2 ("Defined") to Level 5 ("Optimized"). Table 3 shows the SEC's FISMA ratings in FY 2020 and FY 2021.

TABLE 3. Summary of SEC FISMA Ratings (FY 2020 and FY 2021)

Domain	Assessed Rating By FY	
	2021	2020
Risk Management	Level 3: *Consistently Implemented*	Level 3: *Consistently Implemented*
Supply Chain Risk Management	Level 1: *Ad Hoc*	*Not Applicable*
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 5: *Optimized*	Level 2: *Defined*
Information Security Continuous Monitoring	Level 3: *Consistently Implemented*	Level 3: *Consistently Implemented*
Incident Response	Level 4: *Managed and Measurable*	Level 4: *Managed and Measurable*
Contingency Planning	Level 4: *Managed and Measurable*	Level 4: *Managed and Measurable*

Source: OIG-generated based on Exhibit 1 from Report No. 570.

Report No. 570 included eight new recommendations to strengthen the SEC's information security program, and highlighted opportunities to improve in all nine FY 2021 Inspector General FISMA reporting metric areas. To date, the SEC has taken corrective action sufficient to close three of these eight recommendations. However, five recommendations from prior year FISMA reports remain open (two from

[43] *FY 2021 Inspector General Federal Information Security Modernization Act of 2014 (FISMA) Reporting Metrics, Version 1.1*; May 12, 2021.

FY 2017,[44] one from FY 2018,[45] and two from FY 2020[46]). We commend agency management for the actions taken to date, and encourage management to promptly act on all opportunities for improvement identified in previous 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.

Finally, we continue to track the agency's progress related to an audit of the SEC's enterprise architecture (*Additional Steps Are Needed For the SEC To Implement a Well-Defined Enterprise Architecture*; Report No. 568, issued September 29, 2021). In our report, we highlighted six recommendations to improve the SEC's implementation of a well-defined enterprise architecture (four of which remain open), and one recommendation to improve the SEC's oversight of enterprise architecture support services contracts (which is closed). We understand that the agency has efforts underway to develop an enterprise roadmap for future years, and the remaining four recommendations 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 2023, we will continue to assess the SEC's efforts to secure its systems and data and mature its information security program. Specifically, we will continue to assess the reported user access control deficiency matter, follow-up on open recommendations, complete the ongoing FY 2022 FISMA evaluation, and initiate the FY 2023 FISMA evaluation. We will also review the SEC's efforts to establish a secure environment and applications to use CAT data, determine whether the SEC implemented adequate security controls to safeguard information and IT resources during maximum telework, and assess steps the SEC has planned or taken to address "zero trust" requirements.

[44] 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).

[45] 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).

[46] U.S. Securities and Exchange Commission, Office of Inspector General, *Fiscal Year 2020 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 563; December 21, 2020).

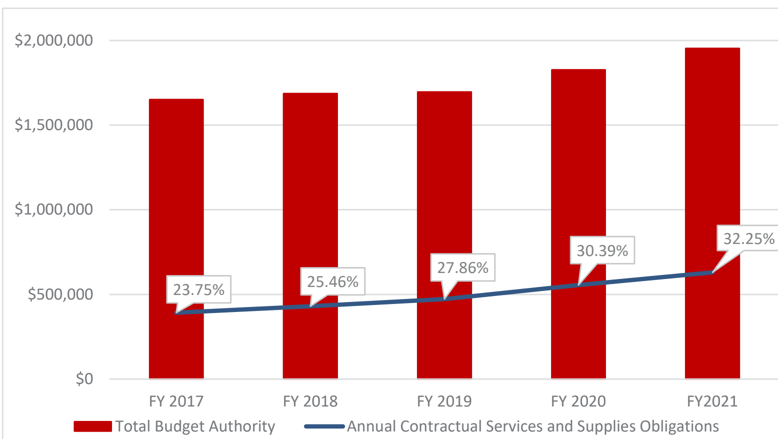
CHALLENGE: Improving Contract Management

Synopsis and Trends in SEC Contracting

The SEC substantially relies on contractor support to accomplish its mission. Contractor support is obtained through a variety of methods, including enterprise-wide contracts, U.S. General Services Administration multiple award schedule contracts, government-wide acquisition contracts, and multi-agency contracts. As markets are ever evolving and increasing in complexity, the SEC relies on contractors for technical and subject matter expertise including, but not limited to, professional legal and investigation-related services; support in areas of accounting, analytics, and examinations; and human resources support services.

To fund its contract requirements, the SEC's FY 2023 budget request included nearly $610 million for contractual services and supplies,[47] which represents about 28 percent of the total $2.149 billion requested for agency operations. As we reported in last year's statement on the SEC's management and performance challenges, annual obligations for contractual services and supplies, when expressed as a percentage of the SEC's total annual budget authority, has been increasing. This trend continued in FY 2021, with annual obligations for contractual services and supplies equaling about 32 percent of the SEC's total annual budget authority. (See Figure 4.)

FIGURE 4. SEC Annual Contractual Services and Supplies Obligations, in Thousands, as a Percentage of Total Annual Budgetary Authority (FY 2017 – FY 2021)

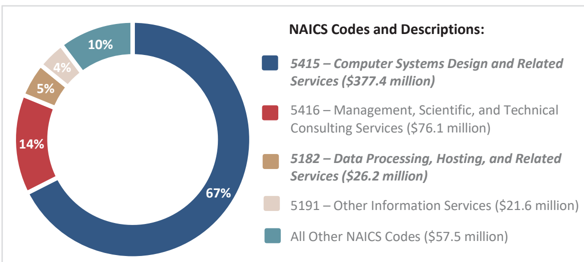


Source: OIG-generated based on annual actual obligations by object class as reported in the SEC's Congressional Budget Justifications for FY 2019 through FY 2023.

[47] According to OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (August 2022), 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).

As contract obligations are approaching nearly a third of the agency's annual budget authority, it is essential that the SEC's acquisition workforce effectively manage these resources. Government contracts continue to be an attractive target for fraudsters. In 2021, GAO issued two reports related to contract fraud schemes within the government, focusing on programs within the Department of Defense and the Department of Energy.[48] The SEC is not invulnerable to such schemes and must remain vigilant, closely monitoring areas of risk. For example, GAO identified fraudulent billing schemes as a risk to the procurement process, and the SEC OIG has participated in cross-agency investigative efforts to fight fraudsters who impersonate government officials and submit false purchase orders associated with real government contracts, the terms of which are publicly available.

FIGURE 5. Top NAICS Codes Associated With the SEC's FY 2022 Contract Obligations



Source: OIG-generated from data retrieved from SAM.gov on October 6, 2022.

Although the SEC procures a wide range of services and supplies, the majority of the agency's contract support by dollars obligated is for IT services. These services include, among others, application management, business solutions delivery, IT infrastructure and support services, information security, IT governance and program strategy, data management, and software services. We reviewed the top North American Industry Classification System (NAICS) codes[49] associated with SEC contracts in FY 2022, as reported through the System for Award Management (*SAM.gov*),[50] and noted that, of the nearly $560 million obligated to contract actions that year and included in the system, the SEC obligated about 72 percent (or about $404 million) to vendors doing business under just two IT service-related NAICS codes: one for computer systems design and related services, and another for data processing, hosting, and related services. (See Figure 5.) This represents a slight increase over FY 2021 and a more significant increase over FY 2020 (when obligations under the same two NAICS codes totaled about $401 million and $351 million, respectively).[51]

[48] U.S. Government Accountability Office, *DOD FRAUD RISK MANAGEMENT Actions Needed to Enhance Department-Wide Approach, Focusing on Procurement Fraud Risks* (GAO-21-309, August 2021); and *DEPARTMENT OF ENERGY CONTRACTING Improvements Needed to Ensure DOE Assesses Its Full Range of Contracting Fraud Risks* (GAO-21-44, January 2021).

[49] 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. Federal Acquisition Regulation 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. In this document, "top NAICS codes" refers to those codes that represent the largest amounts in terms of total annual amounts obligated.

[50] 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.

[51] Based on data retrieved from SAM.gov on October 6, 2022.

A growing majority of contract support concentrated in IT services—and, therefore, in those segments of the agency's acquisition workforce that procure, administer, and oversee contracts for such services—potentially increases the risk to the SEC. Indeed, since 2015, GAO has reported that management of IT acquisitions and operations is a high risk area needing attention by the executive branch and Congress, stating, "federal IT investments too frequently fail or incur cost overruns and schedule slippages while contributing little to mission-related outcomes. These investments often suffer from a lack of disciplined and effective management, such as project planning, requirements definition, and program oversight and governance."[52] We have previously reported on needed improvements in the SEC's management of IT investments.[53] And while last July the SEC completed efforts sufficient to close our remaining recommendations for corrective action stemming from that report, the agency has also increased its investments (and, therefore, its potential risk) related to IT service contracts.

Management of IT acquisitions and operations is a high risk area across the executive branch

Notably, the SEC procures many of its IT services through its OneIT enterprise contract vehicle, which has a 10-year ordering period and a contract ceiling of $2.5 billion. In September 2018, the SEC began awarding time-and-material (T&M), labor-hour (LH), and firm-fixed price task orders under the OneIT contract vehicle, which included separate pools for small businesses only (restricted) and all awardees, including large businesses (unrestricted). As of June 2022, the agency had awarded task orders to 27 companies, including 5 large businesses and 22 small businesses, obligating a total of almost $450 million for task orders under this vehicle. The SEC's Office of Minority and Women Inclusion (OMWI) collaborated with key stakeholders to advertise to vendors opportunities and specifics of the OneIT program. This advertising included a publically available brochure targeted to minority-owned and women-owned businesses. OMWI received positive feedback and is looking to expand the concept to other large SEC contracts being awarded. As such, the SEC's Office of Acquisitions (OA) and OMWI are continuing to work collaboratively to increase outreach to minority-owned and women-owned businesses and continue efforts to increase the SEC's vendor diversity.

Focus on Diversity, Equity, and Inclusion

OA and OMWI are collaborating to voluntarily implement the requirements of Executive Order 13895, which states that the federal government should pursue a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality.[54] This advancing of equality includes promoting equitable delivery of government benefits and equitable opportunities, such as government contracting and procurement opportunities, which should be available on an equal basis to all eligible providers of goods and services.

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[52] U.S. Government Accountability Office, *HIGH-RISK SERIES Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP, March 2021).

[53] U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Has Processes To Manage Information Technology Investments But Improvements Are Needed* (Report No. 555; September 19, 2019).

[54] Executive Order 13895, *Advancing Racial Equity and Support for Underserved Communities through the Federal Government*; January 20, 2021. Independent agencies are strongly encouraged to comply with the provisions of this Executive Order.

Additionally, recent OMB guidance implements commitments to increase the share of contracts awarded to small disadvantaged businesses to 15 percent by 2025.[55] To do this, OMB directs federal agencies to take specific management actions, including increasing the number of new entrants to the federal marketplace and reversing the general decline in the small business supplier base.

Diversity, equity, and inclusion is a focus of OA and, in its FY 2023 budget request, OA requested two additional positions to support a number of priorities, including support for workload increases to review and expand diversity, equity, and inclusion efforts in contracting opportunities. Furthermore, OMWI continues to collaborate with OA to promote access to contracting and sub-contracting opportunities for minority-owned and women-owned businesses, through outreach activities. In March 2022, we initiated an audit to (1) assess the SEC's processes for encouraging small business participation in agency contracting, in accordance with federal laws and regulations; and (2) determine whether, in FYs 2020 and 2021, the SEC accurately reported small business awards. The audit is ongoing and will be completed in FY 2023.

T&M Contracts

Since our 2019 statement on the SEC's management and performance challenges, we have reported that T&M contracts (including LH contracts) lack incentives for contractors to control costs or use labor efficiently and, therefore, are considered higher-risk.[56] Last year, we noted again that the SEC's use of T&M contracts has continued to increase. We encouraged management to assess the SEC's use of these contracts and to formulate actions to reduce their use whenever possible. In response, agency management committed to continuing to closely monitor its use of T&M contracts and "exercise rigorous oversight of these types of contracts."[57] Management further noted that OA has made a number of improvements to better manage T&M contracts, including a new independent government cost estimate guide, contract compliance reviews, information sharing on T&M invoicing, and an automated determination and findings workflow for "more robust and consistent support for the use of T&M" contracts. To date, we have not fully assessed the effectiveness of management's reported additional controls;[58] however, the annual amount obligated to T&M contracts continues to raise concerns about risk to the SEC. As Figure 6 shows, according to data from *usaspending.gov*, the total amount obligated to T&M contracts increased since FY 2018 from about 40 percent to about 53 percent of all SEC contract obligations (which are declining).[59] In addition, as of October 7, 2022, 476 of the SEC's 1,055 total active contracts (or about 45 percent) were T&M contracts.

[55] Office of Management and Budget, Memorandum M-22-03, *Advancing Equity in Federal Procurement*; December 2, 2021.

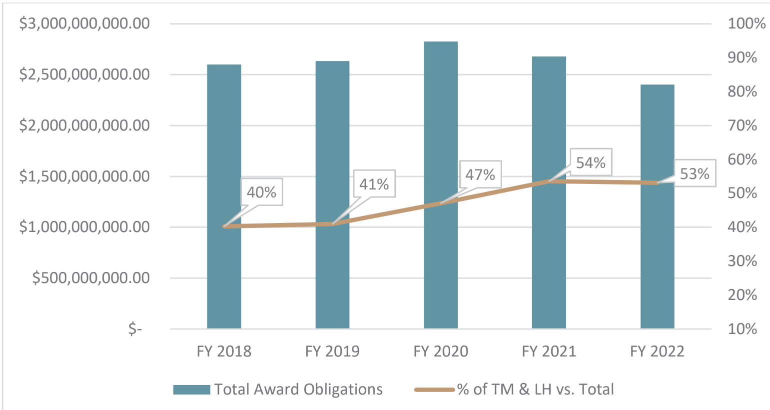
[56] As stated in Federal Acquisition Regulation 16.602, *Labor-hour contracts*, LH contracts are a variation of T&M contracts and differ only in that materials are not supplied by the contractor.

[57] U.S. Securities and Exchange Commission, *Fiscal Year 2021 Agency Financial Report*; November 15, 2021.

[58] We plan to initiate an audit of this issue in FY 2023.

[59] According to *usaspending.gov*, total (that is, cumulative) award obligations for all active SEC contracts as of October 7, 2022, was about $2.40 billion, of which total award obligations for T&M contracts was about $1.28 billion.

FIGURE 6. Percentage of SEC T&M Award Obligations Compared to Total SEC Award Obligations (FY 2018 – FY 2022)



Source: OIG-generated based on data retrieved from usaspending.gov on October 7, 2022.

As we have reported in prior years' statements on the SEC's management and performance challenges, Federal Acquisition Regulation 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."

Furthermore, in June 2022, GAO reported that T&M and LH contracts are considered riskier than fixed price contracts because contractors bill the government by the hour and could conceivably work less efficiently so that they could charge more hours. As a result, GAO recommended that selected agencies assess steps they can take to use lower-risk contract types, and highlighted potential opportunities for agencies to assess ongoing use of T&M contracts in their acquisition portfolios.[60] Moreover, the Federal Acquisition Regulation encourages contracting officers to assess contract types periodically, after experience obtained during the performance of a T&M contract provides a basis for firmer pricing. A January 2021 OMB memorandum also discourages agency reliance on high-risk contracts, such as T&M contracts, stating that, "By managing contract types effectively, agencies have better leverage to ensure timely, efficient, and cost-effective completion of contractor work supporting critical and high priority goals."[61]

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[60] U.S. Government Accountability Office, *Opportunities Exist to Reduce Use of Time-and-Materials Contracts* (GAO-22-104806, June 2022). GAO included in its review four Department of Defense agencies and field activities (the Air Force, Army, Defense Finance and Accounting Service, and Washington Headquarters Services), and three civilian agencies (the Social Security Administration, the Department of Homeland Security, and the Department of State).

[61] Office of Management and Budget, Memorandum M-21-11, *Increasing Attention to Federal Contract Type Decisions* (January 5, 2021).

Ongoing and Anticipated OIG Work. In FY 2023, we will continue to assess the SEC's contract management and acquisition processes through audits and evaluations and the work of our Acquisitions Working Group. We will complete an ongoing audit of the SEC's small business contracting program. In addition, we will assess the SEC's use of T&M contracts to help ensure such contracts are used only when appropriate and effective controls are in place to minimize the risk to the government. Lastly, we will report on any acquisition-related matters identified as a result of other ongoing and planned reviews of SEC programs and operations, and continue to support the SEC's efforts to train contracting officers and contracting officer's representatives about the potential for procurement-related fraud.

CHALLENGE: Ensuring Effective Human Capital Management

Although each component within the SEC is critical to achieving effective human capital management, the Office of Human Resources (OHR) is ultimately responsible for the strategic management of the SEC's human capital. OHR consults with management, establishes and administers human capital programs and policies, and ensures compliance with federal laws and regulations and negotiated agreements. It is critical that OHR develops and maintains the knowledge, skillsets, and expertise to guide the SEC through the challenges that inevitability arise in the management of a large professional workforce.

Indeed, retention, attrition, recruitment, and hiring of skilled personnel have all emerged as challenges within the SEC, along with the challenges associated with managing the agency's workforce throughout the COVID-19 pandemic.

Retention, Attrition, Recruitment, and Hiring

Effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control.

Source: U.S. Government Accountability Office, Standards for Internal Control in the Federal Government (GAO-14-704G, September 2014), Principle 10 - Design Control Activities, section 10.03.

The SEC recognizes the importance of an effective, highly-skilled, and diverse workforce. As such, in its strategic plan, the SEC states that it "will focus on recruiting, retaining, and training staff with the right mix of skills and expertise."[62] Moreover, Goal 1 of OHR's Human Capital Strategic Plan is to "Attract Diverse and Highly Talented People to the Agency."[63] OMWI also plays an important part in the agency's recruitment and retention efforts by providing leadership and guidance in ensuring diversity and inclusion with respect to the SEC workforce. In its Diversity and Inclusion Strategic Plan, the SEC highlights the importance of diversity, equity, and inclusion in the workplace, stating, "we recognize that our people are our most important asset. We also recognize that diversity, inclusion, and opportunity are essential to the agency's ability to effectively carry out its mission. These fundamental and value-enhancing tenets of our mission-oriented culture dictate that we continuously work to attract, hire, develop, and retain high-quality, diverse talent."[64]

Retention and Attrition

Despite OHR's and OMWI's efforts and the SEC being recognized as one of the best places to work in the federal government,[65] the SEC seems to be facing challenges to its retention efforts. As the figures below demonstrate, the SEC has seen a significant increase in attrition over the last few years, from 3.8 percent in FY 2020 to an estimated 6.4 percent in FY 2022 (as of September 20, 2022)—the highest attrition rate in 10 years. Most concerning is the increased attrition in Senior Officer and attorney positions, expected to be about 20.8 percent and about 8.4 percent for FY 2022, respectively.

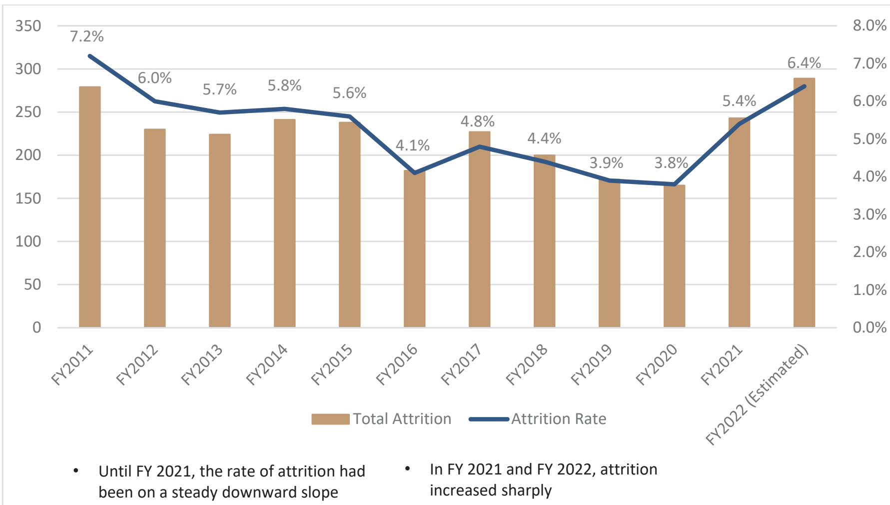
[62] U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2018-2022*, Strategic Initiative 3.1; October 11, 2018. The agency's draft strategic plan for FY 2022 to FY 2026 (Goal 3) similarly emphasizes the importance of attracting, hiring, developing, and retaining high-quality, diverse talent.

[63] U.S. Securities and Exchange Commission, Office of Human Resources, *FY 2020-2022 Human Capital Strategic Plan*; March 2020.

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

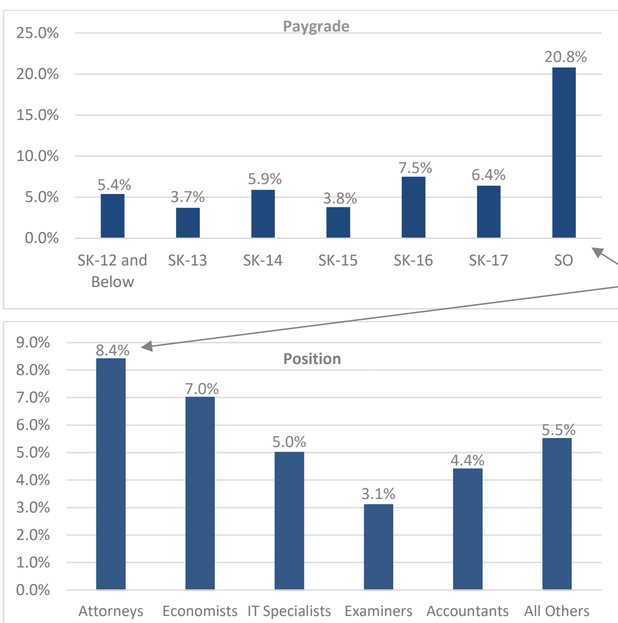
[65] Partnership for Public Service, *2021 Best Places to Work in the Federal Government Rankings*.

FIGURE 7. Total SEC Attrition (in Number of Positions) and Attrition Rate (FY 2011 – FY 2022)



Source: OIG-generated based on data provided by OHR.

FIGURE 8. SEC FY 2022 Expected Attrition by Paygrade and Position



In FY 2022, the greatest attrition was among SEC Senior Officers and attorneys

Source: OIG-generated based on data provided by OHR.

The SEC is not alone in facing a crisis to retain mission-critical talent during what has been dubbed "The Great Resignation." Critical elements of the federal workforce are in a state of stress. For example, according to the Partnership for Public Service, FY 2021 government-wide attrition rates averaged 6.1 percent, with certain groups experiencing even higher rates, such as women (6.4 percent) and executives (9.2 percent).[66]

The SEC may be able to address some of the concerns surrounding attrition by ensuring that it provides for succession planning through robust employee development and performance management. For example, in August 2022, the SEC launched a new program called LEAD (Leadership, Evaluation, Accession, and Development) to help SEC employees develop the leadership skills necessary to apply for future Senior Officer opportunities. However, performance management remains an area of opportunity for growth. For example, the SEC has discontinued the Performance Incentive Bonus program it implemented just 1 year ago. In addition, one recommendation from our 2018 report entitled, *The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework,* remains open.[67] This recommendation—for the SEC to finalize standard operating procedures for the agency's performance management program—is an important component of the SEC's effort to ensure effective performance management. Agency management has reported that remediation work is underway, yet limited resources and competing priorities have created delays. In FY 2023, GAO is set to issue its triennial report on personnel management within the SEC,[68] which should provide further guidance to the SEC in this area.

Recruitment and Hiring

Recruitment is a major area of interest to both OHR and OMWI. Recruitment efforts are critical to ensuring a skilled and diverse candidate pool from which to fill SEC vacancies. In its FY 2023 Congressional Budget Justification, the SEC requested a total of 5,261 positions, an increase of 454 positions from FY 2022, in which the SEC was authorized 4,807 positions. With FY 2022 attrition rates estimated to be at 6.4 percent—or about 289 positions—efforts to recruit and hire an additional 454 new positions in FY 2023 could present challenges for OHR, OMWI, and SEC management. Moreover, the federal government is facing stiff competition from the private sector as increased wages and workforce engagement make private sector positions attractive to both new and seasoned professionals. The federal government hiring process also has been cited as a detriment when attracting talent to the federal government. For example, the federal government takes on average 98 days—more than twice as long as the private sector—to hire a new employee. [69] During our recent audit of the SEC's hiring process, discussed in more detail below, we found that of the 438 external hiring actions that we included in our analysis, nearly 50 percent took 100 business days or more to complete.[70]

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[66] Partnership for Public Service. "Who Is Quitting and Retiring: Important Fiscal 2021 Trends in the Federal Government."

[67] 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).

[68] Section 962 of Dodd-Frank includes a provision for GAO to report triennially on the SEC's personnel management, including the competence of professional staff; the effectiveness of supervisors; and issues related to employee performance assessments, promotion, and intra-agency communication. *See* Pub. L. No. 111-203, 124 Stat. 1376, 1908-1909 (2010) (codified at 15 U.S.C. § 78d-7).

[69] Partnership for Public Service. "Roadmap for Renewing Our Federal Government."

[70] U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Can Improve in Several Areas Related to Hiring* (Report No. 572; February 28, 2022).

To address some of these recruitment concerns, OHR recently issued its FY 2022-2024 Recruitment and Outreach Strategic Plan, which identifies strategies to attract diverse talent and to aid in filling mission critical occupations that have been deemed hard-to-fill. Such strategies include creating branding and marketing that speaks to prospective applicants; developing and implementing a multi-media recruitment and agency branding campaign that highlights the successes of current SEC employees; developing a comprehensive internal communications strategy; and creating an overarching recruitment, outreach, and engagement tool to enhance the recruitment process.

Given the importance of an effective process when recruiting and hiring new employees, and the likelihood that the SEC will be heading into an intensive hiring effort, the OIG recently reviewed the SEC's hiring process and identified areas for improvement. The OIG's audit report, *The SEC Can Improve in Several Areas Related to Hiring*, addressed a number of critical areas related to the SEC's hiring process.[71] First, we determined that management can improve its controls to ensure Workforce Transformation and Tracking System (WTTS) data fields are accurate, consistent, and complete. We found that:

- 83 of the 91 hiring actions sampled (or about 91 percent) had at least one data entry issue in the WTTS data fields we reviewed, and almost 9 percent of the WTTS data entries we reviewed were either inaccurate, inconsistent, or incomplete;
- the SEC's WTTS data continued to include unannotated anomalies; and
- certain hiring actions were not consistently identified in WTTS.

These conditions occurred because (1) OHR's WTTS job aid did not include sufficient instructions regarding the dates and information expected in key WTTS data fields, and (2) some data fields were not included on the WTTS reports used by OHR staff to ensure the SEC's hiring action data was accurate, complete, and consistently recorded. As a result, OHR can further improve the reliability of the SEC's WTTS data to assist in workforce management and internal and external reporting of agency hiring information.

In addition, our assessment of OHR's quarterly Service Level Commitment (SLC) reviews found that (1) OHR did not perform SLC reviews in a consistent manner, (2) the review process was inefficient and prone to inaccuracies, and (3) SLC reviews did not align with the SLC presented to and agreed upon by the other SEC divisions and offices. This occurred because OHR did not establish clear guidance, including in the SLC itself, for the variety of hiring types and scenarios that can occur, or how to measure each one. The organization also did not ensure it could measure the SLC steps, as presented, in WTTS and did not effectively use the WTTS reporting capabilities in its SLC reviews. As a result, OHR limited its ability to rely on the SLC and SLC reviews as key controls for efficiently and effectively identifying areas of needed improvement in the SEC's hiring process, and for collaborating with the divisions and offices OHR serves.

Furthermore, we found that the SEC's pay-setting guidance needed improvement and OHR could clarify the new hire pay-setting information shared both internally and externally. Specifically, (1) the pay-setting

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[71] Id.

information available to SEC employees and hiring officials was not comprehensive, (2) the internally published pay matrices were outdated, and (3) publicly advertised SEC salary information was misleading for new hires. We also identified inaccuracies in some of the underlying pay band information included in the 2021 pay matrices, and other pay-setting concerns. Incomplete, outdated, and misleading new hire pay-setting guidance and information have caused confusion and may have limited hiring officials' ability to review and respond to pay-setting requests. Although it does not appear that inaccurate information in the 2021 pay matrices impacted any newly hired SEC employee's pay, it could have had certain hiring scenarios occurred. We also concluded that OHR generally complied with the key hiring authority requirements tested; however, staffing case files for 18 of 32 attorney hiring actions we reviewed (about 56 percent) lacked supporting documentation, including proof of law degrees and/or bar membership. This occurred because OHR did not clarify review processes and documentation requirements for attorney qualifications. In addition, OHR's internal reviews of staffing case files needed improvement. As a result, the SEC risked hiring attorneys who did not meet all qualifications required for their position.

Lastly, we identified a matter that did not warrant recommendations related to (1) the SEC's SLC as compared to the Office of Personnel Management's end-to-end hiring process model timelines, and (2) feedback from the SEC divisions and offices OHR serves. We discussed this matter with agency management for their consideration.

We made 11 recommendations to further strengthen the SEC's controls over hiring actions, including recommendations to improve (1) the reliability of WTTS data, (2) assessments of the agency's hiring timelines, (3) the agency's compensation program, and (4) staffing case file documentation requirements. Management concurred with all 11 of our recommendations and, as of the date of this document, had taken action sufficient to close 5 of them. The remaining recommendations are open and will be closed by the OIG upon completion and verification of corrective action.

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 2022. Since the outset of the national public health crisis 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 was 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, as the 2020 Office of Personnel Management Federal Employee Viewpoint Survey shows.[72] 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.

[72] Office of Personnel Management, *Government-wide Management Report: Results from the 2020 OPM Federal Employee Viewpoint Survey*; April 26, 2021.

Safety remains a top priority when planning for employee return to the workplace

On August 9, 2021, the agency began to allow vaccinated employees to voluntarily return to the workplace. In calendar year 2022, peak occupancy across all SEC building locations has averaged around 7 percent. The SEC has not yet mandated that its employees return to the office in pre-COVID-19 levels. On July 25, 2022, the agency announced that, because of the recent uptick in COVID-19 community levels, the planned return-to-office date was shifted from September 6, 2022, to January 9, 2023. Occurring alongside the agency's monitoring of community levels, the SEC is also negotiating a new collective bargaining agreement with the National Treasury Employees Union, which will include updated provisions related to telework and remote work. The parties are also engaged in bargaining related to the mandatory return-to-office plan. While these negotiations are ongoing, both the National Treasury Employees Union and SEC leadership make regular announcements to staff and management, respectively, about their progress. At this point, further negotiations require assistance from the Federal Mediation and Conciliation Service as the parties endeavor to avoid invoking the Federal Services Impasse Panel for a final decision on the terms of the new collective bargaining agreement and return-to-office plan. The uncertainty surrounding the plans for return-to-office and the potential for expanded telework and/or workplace flexibilities makes it more difficult to plan for future human capital management solutions.

Ongoing and Anticipated OIG Work. In FY 2023, we plan to evaluate the agency's workplace safety protocols developed in response to the COVID-19 pandemic, including the COVID-19 workplace safety plan and related measures, such as those established pursuant to OMB Memorandum M-21-15, Executive Order 13991, and other applicable guidance. We also will complete a review of the agency's upward mobility program. Furthermore, we will monitor the SEC's progress in addressing prior open audit recommendations related to human capital management. To assess the SEC's efforts to promote diversity, equity, inclusion, accessibility, and opportunity, we will complete an ongoing audit of the agency's small business contracting. We will also assess the operations and controls over the agency's equal employment opportunity program.

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.

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MANAGEMENT'S RESPONSE TO INSPECTOR GENERAL'S STATEMENT

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

OFFICE OF THE CHAIR

November 7, 2022

Mr. Nicholas Padilla, Jr.
Acting Inspector General
U.S. Securities and Exchange Commission
Washington, D.C. 20549

Dear Mr. Padilla:

Thank you for your "Statement on the SEC's Management and Performance Challenges," (Statement) dated October 13, 2022. We remain committed to enhancing the financial and operational effectiveness of the SEC and value the Office of Inspector General's (OIG) important role in this effort. The audits and investigations conducted by OIG during this past year have served to strengthen the agency, and OIG's dedication to helping us improve is much appreciated.

OIG identified four areas where the SEC faces management and performance challenges as it strives to fulfill its mission. We are dedicated to building on the progress we have already made in these four areas, and the suggestions you offer will help inform our decision making. 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

As it has in previous years, OIG's Statement highlights the challenge associated with the growth in size, number, and complexity of markets, products, and participants within the SEC's purview. We continue to recognize this challenge and take steps to further improve our ability to meet our mission. Many of these steps are outlined in the proposed SEC Strategic Plan for fiscal years 2022 through 2026, which was recently approved by the Commission for public comment.[1] As proposed, the Strategic Plan would establish three primary goals focusing the agency's efforts and resources on protecting the investments of American families; developing and implementing a regulatory framework capable of keeping pace with evolving markets, business models, and technologies; and supporting a skilled, diverse, equitable, and inclusive workforce.

Our capital markets are the deepest and largest of the world. Maintaining high standards would not be possible without the dedication of our remarkable staff. As I have previously emphasized, however, as our responsibilities as an agency—and the responsibilities for our staff—have

[1] The draft SEC Strategic Plan for Fiscal Years 2022-2026 was released for public comment on August 24, 2022. Based on the comments received, the Commission expects to vote on the final Strategic Plan in early FY 2023.

grown, our resources to meet those responsibilities have not grown in-line.

We live in transformational times, marked by the rapid growth in, among other things, the number of registered entities that we oversee, the amount of data that we process, and the number of private funds managed by registered investment advisers (RIAs). These numbers respectively have grown 12 percent since 2017, 20 percent in each of the last two years, and 40 percent since 2016.

We also stay abreast of rapidly growing technology such as predictive data analytics; the crypto securities marketplace, which affects millions of American investors; emerging and evolving cybersecurity risks; and growing statutory mandates such as rules to implement the Holding Foreign Companies Accountable Act of 2020 and the Dodd-Frank Act of 2010.

The last five years have been a remarkable time for our $100-trillion capital markets. I think we should have grown during these years to meet these resulting challenges. Instead, the agency shrunk from 2016 through 2021, and we've only started to make modest gains this year. From FY 2016 – FY 2021, our Division of Enforcement (ENF) shrunk 5 percent, our Division of Corporation Finance shrunk 19 percent, our Division of Trading and Markets shrunk 1 percent, and our Division of Economic and Risk Analysis shrunk 7 percent. Though Investment Management grew, the growth was driven by the creation of an Analytics Office. Without it, the division would've shrunk.

Our staff has produced extraordinary work even while operating with limited resources. I am grateful to the staff and proud of their commitment to public service. I also am pleased that in recent years, the Federal Employee Viewpoint Survey Response and Results have shown that the SEC rates among the best places to work in the federal government.

Across the agency, we continue to take steps to meet our critical regulatory responsibilities. One area of focus is the SEC's examinations program. We appreciate OIG's acknowledgment in its January 2022 report (Report No. 571) regarding the positive steps that the Division of Examinations (EXAMS) has taken in recent years to optimize limited resources and provide effective oversight of registered investment advisors. These steps include improving how EXAMS selects which registrants to examine and implementing the Government Accountability Office's (GAO) risk management framework. These improvements helped EXAMS increase its total examinations by 3 percent over FY 2020.

The SEC also has prioritized enhancements in ENF. ENF continues to investigate potential misconduct in connection with crypto asset securities and, where appropriate, to recommend that the Commission bring enforcement actions to address such misconduct. In the recently concluded fiscal year, the Commission brought enforcement actions addressing a wide variety of violations and potential violations in the crypto asset space. Further, the addition of 20 positions to ENF's Crypto Assets and Cyber Unit, and the formation of a group of trial attorneys dedicated to crypto asset matters, reflect the priority placed on protecting investors in this rapidly evolving part of the securities markets.

The SEC also is continuing efforts to leverage technology to meet its mission. As you note, the number of Tips, Complaints, and Referrals (TCRs) submitted to the Commission has grown significantly in recent years. ENF's Office of Market Intelligence (OMI) continues to triage all TCRs received, and has incorporated analytics and automation into a risk-based approach to the triage process. These analytics and automation will also be incorporated into the new TCR management system that is currently under development. Additionally, EXAMS has moved its examination tracking tool to a cloud-based platform that improves the system's adaptability, workflow capability, and data standardization. Finally, the SEC is also continuing its use of the Consolidated Audit Trail (CAT) data to detect and investigate trading misconduct, increase market fairness and efficiency, and strengthen compliance.

Protecting Systems and Data

In order to guard against the ever-increasing frequency and enhanced sophistication of cyber threats, protecting information systems and data is a top priority for the agency. The SEC continues to build on its strong cybersecurity foundation by expanding the vulnerability disclosure program, managing a robust cybersecurity incident detection and response program, and expanding the agency's vulnerability scanning capability to address rising security threats present in container virtualization technologies.

In FY 2022, the SEC's Office of Information Technology (OIT) continued its emphasis on high-value asset risk management and compliance. Multiple third parties, including the Cybersecurity and Infrastructure Security Agency (CISA), conducted penetration testing, architecture reviews, and other risk assessment activities to identify vulnerabilities and test incident response mechanisms. The SEC also developed a Zero Trust Architecture Implementation Plan in accordance with Executive Order 14028 and OMB Memorandum M-22-09.[2] We continue to work towards successful implementation of measures required by other OMB Memoranda and CISA Binding Operational Directives and Emergency Directives.

The SEC also remains dedicated to addressing and mitigating the cybersecurity risks identified by OIG and the GAO and to mature the SEC's information security program. These efforts were recognized when, during FY 2022, OIG closed 19 information technology-related audit recommendations across multiple FISMA domains, and GAO closed one information technology-related recommendation (of the two issued).

Your Statement also mentioned an internal control issue related to access to adjudicatory-related materials that was noted in the SEC's FY 2021 Agency Financial Report (AFR). As described in last year's AFR, staff in the Office of the Secretary (OS) remediated the risk presented by this control issue by the time of the issuance of that report in November 2021. Later in FY 2022, the SEC made significant technological modifications to its user access control permissions. The SEC made these modifications to ensure adjudicatory related materials circulated to the Commission are fully separated within the overall system, and to ensure access is limited only to SEC staff authorized to view them, consistent with separation of functions requirements. Additionally, OS revised its overall system user access procedures. OS plans to retire the existing system with a new application. This application is intended to significantly enhance OS staff's ability to manage and control user access to all types of Commission memoranda, including those that are adjudicatory-related.

Looking ahead, the SEC will continue to focus on protecting our information systems and data against persistent and continuously evolving threats, while also working toward full compliance with directives issued by OMB and DHS. We will also continue to focus on implementing prior

[2] OMB M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles*

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year OIG and GAO recommendations related to information security, including those related to the supply chain risk management program and mobile device security.

Improving Contract Management

OIG's Statement highlights the progress that the SEC's Office of Acquisitions (OA) has made to increase the SEC's vendor diversity, including collaboration between OA and the SEC's Office of Minority and Women Inclusion (OMWI). OA and OWMI continue to collaborate effectively in increasing diversity, equity, and inclusion among and within the SEC's supplier base, as you point out in your Statement. For example, OA and OMWI host monthly Vendor Outreach Day (VOD) sessions. During these sessions, interested companies, including small and disadvantaged businesses, are invited to meet with SEC representatives to learn how to do business with the SEC, and are updated on key areas of interest based on vendor capabilities and expertise. OA and OMWI also coordinate in requiring that SEC contractors demonstrate good faith efforts towards the fair inclusion of minorities and women in their workforces, through the Contractor Workforce Inclusion clause incorporated in SEC services contracts with a total value of $100,000 or more. The SEC is also pleased to note that for the 10th straight year, it again exceeded all of the government-wide small business prime contracting goals in FY 2022.

The SEC continues to closely monitor its use of time and materials (T&M) contracts and exercises rigorous oversight of these types of contracts. As mentioned in your Statement, OA has made a number of improvements in recent years to better manage its use of T&M contracts, including an updated independent government cost estimate guide and an automated determination and findings workflow.

Ensuring Effective Human Capital Management

Your Statement notes government-wide human capital challenges and the SEC's recognition of the importance of an effective, highly-skilled, and diverse workforce. Our ability to cultivate such a workforce as well as a diverse, equitable, inclusive, and accessible workplace will be integral to the agency's success. As you note, the SEC's FY 2020 – 2022 Diversity and Inclusion Strategic Plan as well as OHR's FY 2022 – 2024 Recruitment and Outreach Strategic Plan guides the agency's efforts in these areas. The SEC shares OIG's interest in the important areas identified in your Statement: retention, attrition, recruitment, and hiring. The agency is carefully monitoring turnover experience and projections, as well as other data such as the results from the Federal Employee Viewpoint Survey, which can help provide insights into areas where further attention may be needed. As noted in your Statement, the agency is attending to key drivers that can influence retention, such as support for advancement into leadership positions through programs like the recently-launched LEAD (Leadership, Evaluation, Accession and Development) program, as well as ongoing robust learning, leadership development, and mentoring programs offered through SEC University.

In the areas of recruitment and hiring, the agency is continuing to take steps to ensure our talent needs are met. During FY 2022, the agency successfully filled a total of 530 positions (including backfills for staff who departed the agency), of which 19 were Senior Officer Positions. As part of its overall talent strategy, the agency also relaunched the Chair's Attorney Honors Program, revamped the Pathways Career Intern Program, and successfully hired paid interns through the newly-created SEC Scholars Internship Program.

Mr. Nicholas Padilla, Jr.
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The agency also is taking action to implement actions responding to the Hiring Process Audit Report recommendations issued by OIG earlier this year. These actions involve enhancing hiring data to help ensure accuracy in internal management reports; creating a dashboard that can track all SEC hiring actions using a live data feed; refining Service Level Commitments to help clarify roles, expectations, and timelines for various types of hiring and scenarios; strengthening guidance and processes related to pay setting for new hires; and assuring that staffing case file documentation is complete and accurate.

Issues related to COVID-19 also continued to be an area of emphasis throughout FY 2022. As noted in your Statement, the agency continued to prioritize the health and safety of employees while ensuring effective continued mission delivery. This included maintaining and updating essential workforce safety plans, providing support to managers and employees during the ongoing period when many employees continued to opt to telework in accordance with the agency's operating posture, and planning for an eventual return to office, including engaging in negotiations the National Treasury Employees Union on various telework and return-to-office topics.

* * * *

I hope that the actions outlined in this letter demonstrate our commitment to improving the agency's performance and addressing the identified challenges. We look forward to working with you as we continue to identify ways to meet our critical mission even more efficiently and effectively.

Sincerely,

Gary Gensler
Chair

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
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: Unmodified

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 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), the Improper Payments Elimination and Recovery Act of 2012 (IPERIA), and the Fraud Reduction and Data Analytics Act of 2015 (FRDAA).

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 2022 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. The SEC conducted its latest risk assessment in FY 2022. The SEC's determination that all of its evaluated programs are low risk is based upon the results of this 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 of 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]
- 2020 (Federal Register, Volume 85, No. 8, on January 13, 2020 (85 FR 1833));
- 2021 (Federal Register, Volume 86, No. 8, on January 13, 2021 (86 FR 2716)); and
- 2022 (Federal Register, Volume 87, No. 8, on January 12, 2022 (87 FR 1808)).

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.

“

In my view, regulation both protects investors and promotes investor confidence in the same way that traffic laws protect drivers and promote driver confidence. It's at the core of what makes markets work.

CHAIR GARY GENSLER

How can I stay current with SEC's activities?

Our website, SEC.gov, is updated regularly with current endeavors such as outreach efforts, Commission actions, investor alerts, and upcoming events. You can also subscribe to our RSS feeds, sign up to receive email updates, or visit our social media page to stay connected through one (or all!) of our social media channels, including:

- facebook.com/SECInvestorEducation
- twitter.com/SECGov
- twitter.com/GaryGensler
- youtube.com/user/SECViews
- linkedin.com/company/secgov

APPENDICES

“

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, Chair 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.

Chair 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, Chair 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., Chair 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 J. 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.

Caroline A. Crenshaw, COMMISSIONER

Caroline A. Crenshaw was unanimously confirmed by the U.S. Senate, and sworn into office as Commissioner of the U.S. Securities and Exchange Commission 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. In addition to serving 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, Commissioner Crenshaw served as Counsel to Commissioners Kara Stein and Robert Jackson, focusing on strengthening investor protections in our increasingly complex markets and helping to 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.

Mark T. Uyeda, COMMISSIONER

Mark T. Uyeda was sworn into office on June 30, 2022. He was nominated by President Joseph Biden earlier this year and confirmed by the U.S. Senate on June 16.

Commissioner Uyeda has served on the staff of the SEC since 2006, including as Senior Advisor to Chairman Jay Clayton, Senior Advisor to Acting Chairman Michael S. Piwowar, Counsel to Commissioner Paul S. Atkins, and various staff positions in the Division of Investment Management. He most recently served on detail from the SEC to the Senate Committee on Banking, Housing, and Urban Affairs as a securities counsel to the committee's minority staff.

Prior to joining the SEC, Commissioner Uyeda served as Chief Advisor to the California Corporations Commissioner, the state's securities regulator. He also worked as an attorney at the law firms of K&L Gates (formerly known as Kirkpatrick & Lockhart LLP) in Washington, DC, and O'Melveny & Myers LLP in Los Angeles.

Commissioner Uyeda earned his bachelor's degree in business administration at Georgetown University and his law degree with honors at the Duke University School of Law.

He is the first Asian Pacific American to serve as a Commissioner at the SEC.

Jaime Lizárraga, COMMISSIONER

Jaime Lizárraga was sworn into office on July 18, 2022. He was nominated by President Joseph Biden earlier this year and confirmed by the U.S. Senate on June 16.

Commissioner Lizárraga most recently served as Senior Advisor to House Speaker Nancy Pelosi. In that role, Commissioner Lizárraga oversaw issues related to financial markets, small business, international finance, and immigration. He also served as Speaker Pelosi's liaison to, and worked closely with, the Congressional Hispanic Caucus.

Commissioner Lizárraga has more than 30 years of experience in public service. He served as a Senior Professional Staff Member/Director of Legislative Affairs for the Democratic staff of the House Financial Services Committee, Deputy to the Assistant Secretary of Legislative Affairs at the U.S. Department of the Treasury, and Deputy Director of the SEC's Office of Legislative and Intergovernmental Affairs.

Commissioner Lizárraga earned his bachelor's degree with high honors from the University of California San Diego and his master's degree in Public Affairs from the Lyndon B. Johnson School of Public Affairs at the University of Texas.

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 S. Grewal, Director

DIVISION OF EXAMINATIONS
Richard Best, Director

DIVISION OF INVESTMENT MANAGEMENT
William A. Birdthistle, Director

DIVISION OF TRADING AND MARKETS
Haoxiang Zhu, Director

EDGAR BUSINESS OFFICE
Jed Hickman, Director

OFFICE OF ACQUISITIONS
Vance Cathell, Director

OFFICE OF ADMINISTRATIVE LAW JUDGES
Vacant, Chief Administrative Law Judge

OFFICE OF THE ADVOCATE FOR SMALL BUSINESS CAPITAL FORMATION
Vacant, Director

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
Lori H. Price, Director

OFFICE OF EQUAL EMPLOYMENT OPPORTUNITY
Rita Sampson, Director

OFFICE OF THE ETHICS COUNSEL
Danae Serrano, Director/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
Mark Reinhold, Acting Director/Chief Human Capital Officer

OFFICE OF INFORMATION TECHNOLOGY
David Bottom, Chief Information Officer

OFFICE OF INSPECTOR GENERAL
Nicholas Padilla, Acting Inspector General

OFFICE OF INTERNATIONAL AFFAIRS
YJ Fischer, Director

OFFICE OF THE INVESTOR ADVOCATE
Vacant, Director

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 Gibbs, Director

OFFICE OF MUNICIPAL SECURITIES
Dave A. Sanchez, Director

OFFICE OF PUBLIC AFFAIRS
Scott Schneider, Director

OFFICE OF THE SECRETARY
Vanessa Countryman, Secretary

OFFICE OF SUPPORT OPERATIONS
Olivier Girod, Director/Chief FOIA Officer

STRATEGIC HUB FOR INNOVATION
AND FINANCIAL TECHNOLOGY
Valerie A. Szczepanik, Director

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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.

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.

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.

Buybacks
Also known as share repurchases, buybacks occur when a company uses its cash to buy its own outstanding shares over a period of time, reducing the number of shares available on the open market.

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 Sustainability Oversight Committee (CSOC)

An oversight body that monitors and provides recommendations to management on the SEC's operational responses to climate-related risks and opportunities.

Cloud Center of Excellence

The SEC team within OIT that provides guidance, expertise, and change management for the SEC's implementation of cloud technologies. This team manages and maintains the operational standards of the SEC's cloud environment for applications.

Commodity Futures Trading Commission (CFTC)

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.

Contingent Liability

A liability that may occur depending on the outcome of an uncertain future event. Contingent liabilities is recorded if the contingency is likely and the amount of the liability can be reasonably estimated.

Crypto Asset

A digital 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 crypto asset may or may not meet the definition of a "security" under the federal securities laws.

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.

Cybersecurity and Information Security Agency (CISA)
An agency within the Department of Homeland Security, CISA conducts and maintains cybersecurity and critical infrastructure security programs, operations, and associated policy, including national cybersecurity asset response activities. CISA coordinates with federal entities to carry out CISA's cybersecurity and critical infrastructure activities.

Data Quality Plan (DQP)
Required to be developed and maintained by agencies subject to DATA Act reporting that considers the incremental risks to data quality in federal spending data and any controls that would manage such risks in accordance with OMB Circular A-123.

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.

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.

E-Discovery Systems
Systems that collect, manage, search, review, and maintain a repository of electronic images relating to case files in investigations and litigation (e.g., transcripts, documents, trial exhibits, other enforcement- and court-related data).

E-Government Act of 2002
Establishes policies to support IT standards and guidelines, encourage collaboration, and enhance understanding of best practices. The Act aims to promote the use of the Internet and electronic government services; make the federal government more transparent and accountable; and provide enhanced access to government information and services in a manner consistent with laws regarding protection of personal privacy, national security, records retention, access for persons with disabilities, and other relevant laws.

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 Architecture

A conceptual blueprint by which organizations standardize and organize IT infrastructure to align with business goals.

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.

Environmental, Social, and Governance (ESG) Investing

An approach to impact investing, ESG is an investment strategy that aims to generate specific beneficial social or environmental effects in addition to financial gains. ESG investing relies on specific criteria or set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

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 Employee Viewpoint Survey (FEVS)

An annual survey administered by the U.S. Office of Personnel Management that measures federal government employees' perceptions of whether, and to what extent, conditions characterizing successful organizations are present in their agencies.

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 11-k
Used for annual reports of employee stock purchase, savings, and similar plans that are filed with the Commission pursuant to Section 15(d) of the Exchange Act.

Form PF
A confidential reporting form for certain SEC-registered investment advisers to private funds.

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.

Freedom of Information Act (FOIA)
Allows for any person to request federal agency records or information, with the exception of protected items that qualify under the nine exemptions of the law.

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.

General Services Administration (GSA)
Acts as a central point for agencies to procure and/or build office space, products, and other workspace items.

Generally Accepted Accounting Principles (GAAP)
A framework of accounting standards, rules, and procedures defined by the professional accounting industry.

Governance, Risk, and Compliance (GRC) Management System
Helps organizations to structure and manage, track, and monitor GRC, including policies, controls, and other activities.

Government Accountability Office (GAO)
An independent, non-partisan agency that works for Congress, GAO examines how tax payers' dollars are spent and aims to improve the government as its "congressional watchdog."

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.

Government-Wide Acquisition Contract (GWAC)
A task-order or delivery-order contract for information technology established by one agency for government-wide use that is operated: (1) By an executive agent designated by the Office of Management and Budget pursuant to 40 U.S.C. 11302(e); or (2) Under a delegation of procurement authority issued by the General Services Administration prior to August 7, 1996.

Gross Domestic Product
A monetary measure of the market value of all the final goods and services produced and sold in a specific time period by countries.

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.

Inclusion

Refers to a culture that connects each employee to the organization; encourages collaboration, flexibility, and fairness; and leverages diversity throughout the organization so that all employees are able to participate and contribute to their full potential.

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 Advisory Committee (IAC)

Established by Section 911 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this committee advises the SEC on regulatory priorities, the regulation of securities products, trading strategies, fee structures, the effectiveness of disclosure, and on initiatives to protect investor interests and to promote investor confidence and the integrity of the securities marketplace.

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.

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.

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.

National Institute of Standards and Technology (NIST)
Develops cybersecurity standards, guidelines, best practices, and other resources to meet the needs of U.S. industry, federal agencies, and the broader public. OMB mandates that all federal agencies implement NIST's cybersecurity standards and guidance for non-national security.

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.

Office of Personnel Management (OPM)
Manages the civil service of the federal government, coordinates recruiting of new government employees, and manages their health insurance and retirement benefits programs.

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-123 Appendix A, *Management of Reporting and Data Integrity Risk* (OMB Memorandum 18-16)

Revises the 2004 A-123, Appendix A, *Internal Controls Over Financial Reporting*. The revision was necessary due to the 2016 update to OMB Circular No. A-123 and the 2014 update to the U.S. Government Accountability Office Standards for Internal Control in the Federal Government. A reexamination was also necessary in light of the implementation of recent statutory requirements, including the Data Accountability and Transparency Act. The revised memorandum goals are to provide updated guidance to: (1) effectively manage taxpayer assets, including government data; (2) improve data quality; and (3) reduce burdens on agencies by shifting away from compliance activities and toward actions that will support the reporting of high-quality data in support of data-driven decisions, federal government-wide management analyses, and transparency.

OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*

Guidance to assist federal agencies with compliance in payment integrity.

OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*

Provides for the establishment of uniform financial management systems, standards, and reporting. In addition, it rescinds all previously issued versions of Circular No. A-127, *Financial Management Systems*.

OMB Circular A-130, *Managing Information as a Strategic Resource*

Establishes general policy for information governance, acquisitions, records management, open data, workforce, security, and privacy.

OMB Circular A-136, *Financial Reporting Requirements*

Establishes a central point of reference for all federal financial reporting guidance.

OMB Memorandum 19-03

Securities that are not listed on a national securities exchange.

Paperwork Reduction Act of 1980

A United States federal law designed to reduce the total amount of paperwork burden the federal government imposes on private businesses and citizens. The Act imposes procedural requirements on agencies that wish to collect information from the public.

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.

Plan of Action and Milestones (POA&M)

A document that identifies tasks needing to be accomplished. POA&Ms detail resources required to accomplish the elements of the plan, any milestones for meeting the tasks, and scheduled milestone completion dates.

President's Working Group on Financial Markets

Created in 1988 to provide financial and economic policy recommendations to the President, this group is charged with enhancing the integrity, efficiency, orderliness, and competitiveness of our nation's financial markets, and maintaining investor confidence. It is chaired by the Secretary of the Treasury and includes the Chair of the SEC, the Chairman of the Board of Governors of the Federal Reserve, and the Chairman of the Commodity Futures Trading Commission.

Privacy Act of 1974

Establishes a code of practices that govern the collection, maintenance, use, and dissemination of information that is maintained by federal agencies in records or systems.

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 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 SE

A proposed set rules and forms under the Exchange Act that would create a regime for the registration and regulation of security-based swap execution facilities and address other issues relating to security-based swap execution generally.

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.

Risk Management Oversight Committee (RMOC)

Monitors the SEC enterprise risk environment and provides a forum for collaborative, risk-based decision-making.

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.

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.

Security-Based Swap Execution Facilities

A trading system or platform in which multiple participants have the ability to execute or trade security-based swaps by accepting bids and offers made by multiple participants in the facility or system, other than a national securities exchange.

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.

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.

Standards for Internal Control in the Federal Government

Published by the U.S. Government Accountability Office, this book, which is colloquially known as "Green Book" because of its green cover, sets the standards for an effective internal control system for federal agencies.

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.

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.

Universal Proxy Card

Used in contested director elections that list all duly-nominated director candidates submitted by the issuer's management and dissident shareholders, thereby allowing shareholders to vote for their preferred mix of candidates.

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.

USASpending.gov

The official source for spending data for the U.S. Government, this website allows the American public to see how the federal government spends money.

Variable Interest Entity

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.

World Investor Week

An annual global campaign promoted by the International Organization of Securities Commissions and supported by the SEC, Commodity Futures Trading Commission, Financial Industry Regulatory Authority, National Futures Association, North American Securities Administrators Association, and others to raise awareness about the importance of investor education and protection.

Zero Trust Architecture

An agency-developed plan to implement the NIST standards and guidance on Zero Trust Architecture, as required by Executive Order 14028 and OMB Memorandum M-22-09.

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
CFTC	U.S. Commodity Futures Trading Commission
CISA	Cybersecurity and Information Agency
COVID-19	Coronavirus Disease 2019
CPA	Certified Public Accountant
CSOC	Climate and Sustainability Oversight Committee
CSRS	Civil Service Retirement System
DEI	Diversity, Equity, and Inclusion
DEIA	Diversity, Equity, Inclusion, and Accessibility
DERA	Division of Economic and Risk Analysis
DHS	U.S. Department of Homeland Security
DQP	Data Quality Plan
EDGAR	Electronic Data Gathering, Analysis, and Retrieval System
ENF	Division of Enforcement
ERM	Enterprise Risk Management
ESG	Environmental, 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
GHG	Greenhouse Gas
GRC	Governance, Risk, and Compliance
GSA	U.S. General Services Administration
GTAS	Government-Wide Treasury Account Symbol Adjusted Trial Balance System
GWAC	Government-Wide Acquisition Contract
HFCAA	Holding Foreign Companies Accountable Act
HVA	High Value Asset
IAC	Investor Advisory Committee
IM	Division of Investment Management
Inline XBRL	Inline eXtensible Business Reporting

IPF	Investor Protection Fund
IPO	Initial Public Offering
IT	Information Technology
LEAD	Leadership, Evaluation, Accession, and Development Program
LH	Labor-Hour
MMF	Money Market Fund
NAICS	North American Industry Classification System
NIST	National Institute of Standards and Technology
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
OIAD	Office of the Investor Advocate
OIEA	Office of Investor Education and Advocacy
OIG	Office of Inspector General
OIT	Office Information Technology
OMB	Office of Management and Budget
OMI	Office of Market Intelligence
OMWI	Office of Minority and Women Inclusion
OPM	U.S. Office of Personnel Management
OS	Office of the Secretary
PCAOB	Public Company Accounting Oversight Board
PII	Personally Identifiable Information
PIIA	Payment Integrity Information Act of 2019
PISA	Privacy and Information Security Awareness
POA&M	Plan of Action and Milestones
RIA	Registered Investment Adviser
RMOC	Risk Management Oversight Committee
S/L	Straight-Line
SAM	System for Award Management
SBR	Statement of Budgetary Resources
SBS	Security-Based Swap
SEC	U.S. Securities and Exchange Commission
SIPA	Securities Investor Protection Act of 1970
SIPC	Securities Investor Protection Corporation
SLC	Service Level Commitment
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
TRENDS	Tracking and Reporting Examination National Documentation System
TSP	Thrift Savings Plan
U.S.C.	United States Code
USSGL	U.S. Standard General Ledger
VOD	Vendor Outreach Day
WTTS	Workforce Transformation and Tracking System

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As we go forward, our long-standing three-part mission remains our touchstone. We continue to review and recalibrate our efforts by elevating our performance through technology, data analytics, and human capital … We continue to innovate in response to evolving markets … And we continue to focus on the long-term interests of investors who are entrusting their hard-earned savings to our securities markets.

SEC.GOV/ABOUT/WHAT-WE-DO

THE SEC'S FY 2022 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 2022 financial statements.

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