United States
Securities and Exchange
Commission

In Brief

Fiscal 2006

Congressional Budget Request

February 2005

Securities and Exchange Commission

($ in thousands)

Fiscal Year 2005 Enacted:	
Appropriated Offsetting Collections, Current Year	$856,000.0
Available Balances, Prior Year	$ 57,000.0
Sub-total Fiscal Year 2005 Spending Authority	$913,000.0
Planned Unobligated Balances, End of Year	-$ 25,000.0
Total Fiscal Year 2005 Obligations	$888,000.0
Fiscal Year 2006 Request:	
Appropriated Offsetting Collections, Current Year	$863,117.0
Planned Available Balances, Prior Year	$ 25,000.0
Total Fiscal Year 2006 Request	$888,117.0

Appropriations Language

For necessary expenses for the Securities and Exchange Commission, including services as authorized by 5 U.S.C. 3109, the rental of space (to include multiple year leases) in the District of Columbia and elsewhere, and not to exceed $3,000 for official reception and representation expenses, $888,117,000, to remain available until expended; of which not to exceed $10,000 may be used toward funding a permanent secretariat for the International Organization of Securities Commissions; and of which not to exceed $100,000 shall be available for expenses for consultations and meetings hosted by the Commission with foreign governmental and other regulatory officials, members of their delegations, appropriate representatives and staff to exchange views concerning developments relating to securities matters, development and implementation of cooperation agreements concerning securities matters and provision of technical assistance for the development of foreign securities markets, such expenses to include necessary logistic and administrative expenses and the expenses of Commission staff and foreign invitees in attendance at such consultations and meetings including: (1) such incidental expenses as meals taken in the course of such attendance; (2) any travel and transportation to or from such meetings; and (3) any other related lodging or subsistence: *Provided,* That fees and charges authorized by sections 6(b) of the Securities Exchange Act of 1933 (15 U.S.C. 77f(b)), and 13(e), 14(g) and 31 of the Securities Exchange Act of 1934 (15 U.S.C. 78m(e), 78n(g), and 78ee), shall be credited to this account as offsetting collections: *Provided further,* That not to exceed $863,117,000 of such offsetting collections shall be available until expended for necessary expenses of this account: *Provided further,* That $25,000,000 shall be derived from prior year unobligated balances for funds previously appropriated to the Securities and Exchange Commission: *Provided further,* That the total amount appropriated under this heading from the general fund for fiscal year 2006 shall be reduced as such offsetting fees are received so as to result in a final total fiscal year 2006 appropriation from the general fund estimated at not more than $0.

Position and Cost Data for Fiscal Years 2004 - 2006

	FY 2004 Actuals			FY 2005 Enacted			FY 2006 Request		
	FTEs	Positions	Cost	FTEs	Positions	Cost	FTEs	Positions	Cost
Enforcement									
Headquarters	408	479		468	507		484	507	
Regions and Districts	736	829		790	831		791	831	
Total	1,144	1,308		1,258	1,338		1,275	1,338	
Compliance Inspections and Examinations									
Investment Management									
Headquarters	55	62		68	96		70	96	
Regions and Districts	422	451		430	451		431	451	
Subtotal	477	513		498	547		501	547	
Market Regulation									
Headquarters	71	106		90	126		94	126	
Regions and Districts	277	296		282	296		283	296	
Subtotal	348	402		372	422		377	422	
Total	825	915		870	969		878	969	
General Counsel									
Headquarters	114	132		123	132		128	132	
Regions and Districts	13	13		13	13		13	13	
Total	127	145		136	145		141	145	
Corporation Finance	403	543		509	543		526	543	
Market Regulation	157	186		174	195		180	195	
Investment Management	173	190		184	200		190	200	
Chief Accountant	47	64		57	64		59	64	
International Affairs	21	26		23	26		24	26	
Economic Analysis	22	32		26	32		26	32	
Information Technology	97	131		113	131		117	131	
Agency Direction									
Executive Staff	27	31		27	31		28	31	
Secretary	24	29		26	29		27	29	
Total	51	60		53	60		55	60	
External Affairs									
Legislative Affairs	7	7		8	9		8	9	
Public Affairs	7	11		9	11		9	11	
Investor Education and Assistance	34	38		37	38		37	38	
Chairman's Correspondence	3	3		3	3		3	3	
Total	51	59		57	61		57	61	
Risk Assessment	0	15		7	15		13	15	
Executive Director									
Executive Director	6	9		8	9		8	9	
Financial Management	36	42		42	42		42	42	
Administrative Services	79	83		83	83		83	83	
Human Resources	60	62		60	62		61	62	
Filings & Information Services/FOIA	114	114		108	113		111	113	
Total	295	310		301	309		305	309	
Equal Employment Opportunity	9	13		10	13		10	13	
Inspector General	9	9		10	11		11	11	
Administrative Law Judges	11	12		11	12		11	12	
Total Permanent FTE and Positions	3,442	4,018		3,799	4,124		3,878	4,124	
Headquarters Total Permanent	1,994	2,429		2,284	2,533		2,360	2,533	
Regional Office Total Permanent	1,448	1,589		1,515	1,591		1,518	1,591	
Temporary	108	108		72	72		72	72	
Staff Salaries			$375,864,000			$455,253,200			$477,249,600
Personnel Benefits			105,425,300			122,776,400			128,047,600
Other Personnel Compensation			5,769,600			6,509,300			5,948,900
Sub-total Cost of Salaries	3,550	4,126	$487,058,900	3,871	4,196	$584,538,900	3,950	4,196	$611,246,100
Other Expenses									
Benefits for Former Personnel			64,000			67,200			67,200
Travel and Transportation of Persons			10,538,700			14,924,000			10,506,000
Transportation of Things			189,100			286,700			186,700
Communications and Rental			65,699,800			86,827,900			91,455,700
Printing and Reproduction			21,335,500			16,289,800			14,289,800
Other Services			105,679,600			144,903,600			126,596,800
Supplies and Materials			2,946,100			4,280,400			3,309,400
Equipment			43,244,500			34,870,800			25,684,300
Building Alterations			17,597,600			26,010,700			4,775,000
Claims and Indemnities			658,300			0			0
Sub-total Cost of Other Expenses			$267,953,200			$328,461,100			$276,870,900
Spending Authority			---			$913,000,000			---
Unobligated Balance			---			-$25,000,000			---
Obligations			$755,012,100			$888,000,000			$888,117,000

Note: FTE numbers have been updated from the President's Budget request to reflect current hiring assumptions.

Summary of Changes
($ in thousands)

	FY 2005 Enacted	FY 2006 Request	Net Change
Spending Authority	$913,000.0	$888,117.0	-$24,883.0
Planned Unobligated Balance	-$ 25,000.0	---	+$25,000.0
Anticipated Obligations	$888,000.0	$888,117.0	+$ 117.0
Full-time Equivalents	3,871	3,950	+79
Positions	4,196	4,196	---

Explanation of Changes:	Positions	FTE	Amount
One-time FY 2005 Adjustments			
Building alterations	---	---	-16,002.1
Equipment and furniture	---	---	-5,000.0
Information technology	---	---	-16,966.3
Subtotal	---	---	-$37,968.4
FY 2005 Base Changes			
Annualization of FY 2005 pay raise	---	---	+5,524.3
Annualization of FY 2005 positions	---	+79	+11,234.4
FY 2006 pay raise	---	---	+9,966.8
Promotions	---	---	+6,032.1
Increased space rent & utilities	---	---	+5,327.8
Subtotal	---	+79	+$38,085.4
Total Change	---	+79	+$ 117.0

Narrative Explanation of Changes

One-time Adjustments from FY2005

1. Building alterations. The decrease of $16.0 million results from completion of the SEC's new headquarters building at Station Place, as well as the Northeast Regional Office's move into new space.

2. Furniture and equipment. A related decrease of $5.0 million also stems from the SEC's move into its new headquarters building at Station Place and the one-time need to purchase certain items for the new facility.

3. Information Technology. The $17.0 million reduction in information technology spending reflects adjustments associated with the completion of the Enforcement imaging project backlog and the SEC's Alternate Data Center, in addition to shifts in the implementation timelines of several new systems. This funding level will allow the SEC to continue providing of an appropriate level of user support and core system maintenance.

Base Changes for FY2006

1. Annualization of 2005 pay raise. The requested $5.5 million provides for the annualization of the 2005 3.5 percent pay raise that became effective in January 2005.

2. Annualization of FY 2005 positions. The additional 79 FTE and $11.2 million will provide for the fiscal 2006 annualization of the staff the SEC is hiring in fiscal 2005.

3. FY 2006 pay raise. The requested $10.0 million provides funding for a 2.3 percent pay raise, effective January 2006.

4. Promotions. The requested $6.0 million provides funding for career ladder promotions of eligible staff brought on board in fiscal 2005.

5. Increased space rent and utilities. The requested $5.3 million is for mandatory increases associated with the rental of space. These funds will cover full-year costs associated with the agency's move into a new headquarters at Station Place in fiscal 2005, as well as higher rates for space rent at other SEC facilities.

SEC Strategic Goals

Goal 1: Enforce Compliance With Federal Securities Laws

The Commission seeks to detect violations quickly, publicize misconduct where appropriate to alert investors to possible wrongdoing, and take prompt action to halt the misconduct and its effects. SEC staff uncover securities violations through many sources, includeing surveillance activities, research and data analysis, tips and complaints from the public, the media, and the agency's examination and disclosure review functions.

Goal 2: Sustain an Effective and Flexible Regulatory Environment

Federal securities laws seek to promote fair, orderly, and competitive markets that protect investors from undisclosed risk while fostering innovation and market access.

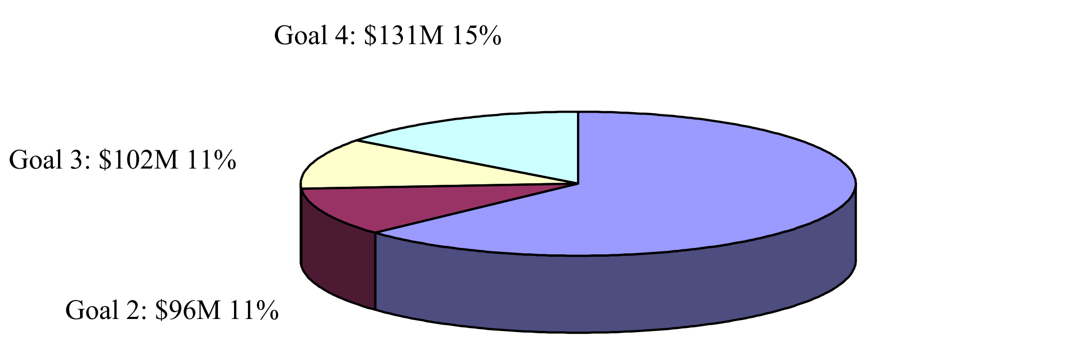
Goal 3: Encourage and Promote Informed Investment Decisionmaking

The federal securities laws place great emphasis on ensuring that the issuers of securities provide clear, complete, and truthful information to the investing public because an educated investor ultimately provides the best defense against fraud and abuse.

Goal 4: Maximize the Use of SEC Resources

An efficient, well-managed, anticipatory SEC is critical to protecting investors and the markets. As such, the Commission concentrates on enhancing organizational effectivenss, as well as investing in staff, new technologies, and new internal controls.

FY 2006 Budget Request by Strategic Goal
($ in millions)



2004 Accomplishments by Strategic Goal

In August 2004, the SEC made public its new strategic plan for fiscal 2004 through fiscal 2009. The document presents the agency's new vision, mission, and values, and details the SEC's four goals for the five-year period. These goals are: to enforce compliance with the federal securities laws, to sustain an effective and flexible regulatory environment, to encourage and promote informed investment decisionmaking, and to maximize the use of SEC resources.

In 2004, the SEC achieved a great deal in each of these four areas. The highlights are discussed below, while the full details of the agency's accomplishments are presented in the budget chapters that follow.

Goal 1: Enforce Compliance with the Federal Securities Laws

As a result of the recent expansion of its staff, the Commission was able to significantly expand and improve its efforts to enforce compliance with the federal securities laws. For example, the SEC's examination program initiated the use of risk-targeted sweeps targeted at emerging risk areas. The agency's enforcement staff opened record numbers of investigations and cases.

Examination Program: In 2004, the SEC significantly improved its oversight of the investment management industry. For example, the Office of Compliance Inspections and Examinations (OCIE) enlisted front-line examiners across the country to identify major and emerging risks throughout the industry. OCIE then addressed these risk areas in part through initiating risk-targeted sweep examinations, on topics such as mutual fund market timing and late trading, use of fair value pricing by international funds, and valuation activities by high-yield municipal and small capitalization mutual funds. As a result of these risk-targeted sweeps, OCIE referred many egregious violations to enforcement staff and developed recommendations on needed regulatory improvements. The percentage of investment adviser and investment company exams and broker-dealer exams resulting in enforcement referrals approximately doubled relative to fiscal 2003 levels. OCIE also performed a record number of cause inspections of funds and advisers in response to investor complaints, tips, and industry sources that are monitored as part of the new risk assessment program.

The broker-dealer examination staff also used the risk assessment process to identify major and emerging risks throughout the industry, prompting new risk-targeted sweeps. Among the topics covered were broker-dealer participation in mutual fund market timing and late trading, fixed-income mark-ups, and the misuse of non-public information from Private Investment in Public Equity structures and loan syndicates. OCIE's other broker-dealer exams in 2004 covered a wide range of topics. For example, the staff:

- Examined the internal risk management controls of large broker-dealers and firms that applied to be consolidated supervised entities (CSEs).

- Evaluated select firms' compliance procedures, assessing whether their broker-dealers have appropriate systems in place to identify and control compliance risks, communicate concerns to senior management, and promptly correct problems.

- Analyzed several large firms' risk management controls with respect to structured finance activities, in the wake of violations by Enron and related entities.

- Reviewed compliance with sales practices, supervision, and disclosure requirements in the sale of variable insurance products and issued a public report with the National Association of Securities Dealers (NASD) on the sales of variable annuities.

- Checked for excessive mark-ups in the sales of both corporate and municipal bonds, and reviewed the pricing of bonds by municipal bond inter-dealers.

The self-regulatory organization (SRO) examination program dedicated substantial resources to examining exchanges' new electronic features, particularly with respect to compliance with order handling rules. After uncovering substantial "trading ahead" violations in one such inspection, staff initiated a risk-targeted sweep of specialists and SROs to identify, deter, and discipline similar conduct industry-wide. Also, OCIE launched a new initiative to obtain regulatory information from SROs more regularly, so OCIE can monitor their activities more effectively in the period between inspections.

<u>Enforcement Program</u>: The enforcement program, including its regional offices, increased its staffing by approximately 21% over 2003 levels as a result of increased funding authorized by the Sarbanes-Oxley Act of 2002. With these new employees, the SEC's enforcement staff opened approximately 970 investigations, particularly in the mutual fund, investment adviser, and broker-dealer mutual fund sales practices areas. The staff instituted about 375 administrative proceedings and 260 civil proceedings, and prevailed in the great majority of the enforcement actions decided by district courts or administrative law judges. Over $3.5 billion in disgorgement and penalties has thus far been designated for return to harmed investors using Fair Funds created under the Sarbanes-Oxley Act. In addition, the SEC gained seven new international partners for enforcement-related information sharing through the International Organization of Securities Commissions' (IOSCO) Multilateral Memorandum of Understanding.

The following is a sampling of the year's significant enforcement actions:

- *Mutual Fund Market Timing, Late Trading, and/or Selective Disclosure Actions.* The Commission brought 29 enforcement actions against certain investment advisers of mutual funds, brokers, and related parties for market timing and late trading transactions. In essence, these transactions allowed certain entities to trade in mutual funds either at times when other investors were not allowed to trade or through rapid in-and-out transactions disallowed to other investors. Over $1 billion has been ordered to be paid in these cases.

- *SEC v. Computer Associates International, Inc.* The Commission filed seven separate actions against Computer Associates and seven former top executives alleging that the company, one of the world's largest software companies, prematurely recognized revenue totaling over $3 billion, and that the former executives obstructed the Commission's investigation. In addition to other relief, over $225 million was ordered to be returned to shareholders.

- *SEC v. Royal Dutch Petroleum Company and the "Shell" Transport and Trading Co., PLC.* The Commission filed enforcement proceedings against two foreign-based oil companies in connection with their overstatement of 4.47 billion barrels of previously reported proved hydrocarbon reserves. In settlement of the actions, defendants consented to, among other things, a cease and desist order and the payment of $1 million in disgorgements and $120 million in penalties. The SEC cooperated extensively with the U.K. Financial Services Authority and the Netherlands Authority for the Financial Markets on this matter.

- *The Specialists Cases.* The Commission and the NYSE found that seven specialist firms executed orders for their dealer accounts ahead of executable public customer or "agency" orders. In settling, the firms agreed to pay a total of $247 million in penalties and disgorgement and to improve compliance procedures.

- *SEC v. Scott D. Sullivan.* The Commission filed a settled action charging Sullivan, the former CFO of WorldCom, Inc., with engaging in a fraudulent scheme to conceal WorldCom's poor financial performance. In connection with the same conduct, Sullivan pleaded guilty to federal criminal charges.

- *SEC v. Jeffrey K. Skilling and Kenneth L. Lay.* The Commission amended its complaint, adding Jeffrey K. Skilling, Enron's former President, CEO, and COO, and Kenneth L. Lay, Enron's former Chairman and CEO, for their roles in the scheme to defraud Enron investors. The Commission's investigation is continuing.

<u>Goal 2: Sustain an Effective and Flexible Regulatory Environment</u>

In 2004, the Commission implemented an ambitious regulatory agenda that will have far-reaching impacts on the securities markets for years to come. Among the major topics covered were mutual fund regulation, National Market System reform, securities firm supervision, disclosure, and accounting policy.

<u>Mutual Fund Regulation</u>: Among its many major regulatory initiatives related to the mutual fund industry in 2004, the Commission:

- Adopted a comprehensive package of fund governance rules that, will, among other things, require an independent board chairman and a board comprised of 75% independent directors. These rules are designed to bolster the effectiveness of independent directors and solidify the role of the fund board as the primary advocate for fund shareholders.

- Adopted rules to require that all registered investment advisers adopt codes of ethics, and that funds and their advisers have comprehensive compliance policies and procedures in place, including the appointment of a designated chief compliance officer. These rules are designed to reinforce the fundamental importance of integrity in the investment management industry.

- Enhanced mutual fund disclosure by requiring that shareholder reports include dollar-based expense information, improving disclosure regarding a portfolio manager's potential conflicts of interest with the fund, requiring improved disclosure of breakpoint discounts, and proposing significant amendments to the information that broker-dealers must provide their customers in connection with mutual fund transactions.

- Adopted an amendment to rule 12b-1 to prohibit the use of brokerage commissions to compensate broker-dealers for distribution of a fund's shares. This action will eliminate a practice that potentially compromises best execution of a fund's portfolio trades, increases portfolio turnover, and biases broker-dealers' recommendations to their customers.

- Proposed a rule to require certain advisers to hedge funds to register with the Commission as investment advisers. This rule is designed to provide the protections of the Investment Advisers Act of 1940 to hedge fund investors and to enhance the Commission's ability to protect the securities markets. The Commission adopted this proposal in December 2004.

- Proposed to address late trading abuses by permitting same-day pricing for fund orders only if they are received by the fund, its designated transfer agent, or a registered clearing agency before the fund's designated pricing time.

- Put forth a series of initiatives to address market timing, especially so-called "arbitrage market timing." The initiatives include improved fair value pricing disclosure; enhanced disclosures related to a fund's anti-market timing policies and practices; and a proposal that funds impose a mandatory 2% redemption fee when investors redeem their shares within five days of purchase.

National Market System and SRO Governance: The Commission launched a major initiative to update and modernize the regulatory structure of the U.S. equity markets, in response to the rapid changes in their business practices and tightening competition. Most notably, the Commission proposed Regulation NMS, which would:

- Create a uniform trade-through rule for all national market centers;

- Require uniform market access;
- Establish a uniform quoting increment to address sub-penny trading and promote greater transparency;
- Amend the arrangements for disseminating market information; and
- Modernize and restructure the national market system rules under the Exchange Act.

In addition, the staff reviewed the governance of SROs and recommended that the Commission propose rules to address, among other issues, the extent to which SRO governance practices are comparable to standards now required for listed issuers, and whether there is sufficient transparency regarding the operations of SROs.

Securities Firm and Market Supervision: In fiscal 2004, the Commission approved two major revisions to the trading practices rules: the adoption of amendments to the safe harbor for issuer repurchases and the adoption of revisions to short sale regulation (Reg SHO). In January 2004, the Commission also proposed amendments to the penny stock rules to update the definition of "penny stock" in light of legal and market changes, and to modify disclosure requirements in light of new technology. In April 2004, the Commission adopted rule amendments to Exchange Act Rule 15c3-1 (the "net capital rule") that created an alternative capital calculation and a voluntary group-wide supervision program for broker-dealer holding companies that do not have a principal regulator. The Commission also implemented the supervised investment bank holding company provisions of the Exchange Act, which permit broker-dealer holding companies that do not include banks to elect Commission group-wide supervision.

In 2004, the SEC participated in several major IOSCO initiatives, including the development of international principles related to securities analysts' conflicts of interest and the activities of credit rating agencies. The SEC also participated in dialogues with the European Union and the Committee of European Securities Regulators to explore opportunities to enhance market oversight and converge countries' regulatory approaches.

Disclosure: In 2004, the Commission launched several regulatory initiatives to improve disclosures to investors so they can make better-informed investment decisions. For example, the Commission:

- Proposed rules that would, under certain circumstances, require companies to include security-holder nominees for election as director in their proxy materials.
- Put forth rules and forms to provide tailored disclosure requirements and guidance for 1933 and 1934 Act filings involving asset-backed securities.
- Proposed amendments to disclosure requirements for 1933 Act Form S-8 and 1934 Act Form 8-K to deter fraud and abuse by reporting shell companies.

- Enacted rules to enhance disclosure regarding the operation of board of directors nominating committees and the means, if any, by which security-holders may communicate with directors. These rules will make more transparent to security-holders the operation of the boards of directors of the companies in which they invest.

- Proposed rules that would facilitate foreign private issuers' conversion to International Financial Reporting Standards.

Accounting Policy: The SEC provided extensive supervision of the Public Company Accounting Oversight Board's (PCAOB) regulation of the accounting profession. For example, the Commission approved new rules covering the PCAOB's bylaws, code of ethics, process for setting auditing standards, registration of auditing firms, and annual budget. In addition, the staff oversaw about 200 PCAOB quality reviews of accounting firms. As required under the Sarbanes-Oxley Act, the Commission conducted independent rulemaking before approving a number of auditing standards adopted by the PCAOB, including PCAOB Standard No. 2 which detailed the requirements for auditor reporting on internal controls over financial reporting. In addition, the SEC provided continued support for the work of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) on the convergence of accounting standards around the world.

Goal 3: Encourage and Promote Informed Investment Decisionmaking

The Commission promotes informed decisionmaking among investors through two main activities: reviewing market participants' disclosures to investors in order to help make them more complete, accurate, and timely; and conducting investor education programs. The SEC made great strides forward in both of these areas in 2004, as described below.

Disclosure Reviews: During 2004, the agency continued to improve its selective review program. Under the Sarbanes-Oxley Act, the SEC is required to review each reporting company at least once every three years and to direct resources toward those issuers, filings, or industries that most warrant review. While the Division of Corporation Finance was unable to review one-third of reporting companies during the year due to its inability to quickly hire and train additional staff, it did strengthen its review processes by adopting new approaches to selecting filings for review and focusing its resources on the review of material issues in filings.

During 2004, a number of companies made significant quantitative and qualitative changes to their disclosure in response to staff comments. The following are three examples of such changes:

- A company revised its financial statements to reduce its net income by more than $65 million when the staff questioned when it recognized sales, how it estimated product returns, and whether its intangible assets should be impaired.

- An oil and gas company reduced its proved reserves by 30% when it included only those reserves supported by engineering studies and used Commission definitions in its calculations.

- A number of drug companies substantially expanded the disclosure in their initial public offering registration statements to more clearly describe the stage of development for each product, the status of FDA applications and approvals, and the results of preliminary tests and clinical trials, as well as to more clearly explain relationships with other affiliated and unaffiliated drug companies.

The Sarbanes-Oxley Act also requires the SEC to review investment company issuer filings at least once during a three-year period. In response, the SEC increased the staff resources devoted to reviewing investment company financial statements. During the fiscal year, the staff performed about 6,100 of these reviews, representing 54% of all financial statements contained in annual reports to shareholders. As a result, the agency is on track to meet this Sarbanes-Oxley Act requirement.

Investor Education: The Office of Investor Education and Assistance (OIEA) serves as the SEC's primary point of contact for the tens of thousands of investors who complain each year about the possible mishandling of their investments by securities professionals. The staff also responds to a wide range of questions from the public on how the securities industry works and where to find information about products, issuers, and securities professionals.

During 2004, OIEA received about 73,500 complaints, questions, and other contacts from investors and closed about 73,400 pending matters. The staff closed roughly 60,700 of these matters, or 83% of the total, within seven days. OIEA's investor education staff provided policy guidance on several key rulemaking initiatives, participated in numerous public-private initiatives to promote financial literacy, and continuously updated the Investor Information section of the SEC's website. During 2004, the staff distributed about 300,500 investor brochures through the U.S. General Services Administration's Federal Citizen Information Center. In addition, the SEC's investor education web pages received about 6.1 million hits.

Goal 4: Maximize the Use of SEC Resources

The agency significantly improved its operational effectiveness in 2004 through investments in its staff, organizational improvements, and enhancements to its information technology systems. The highlights of these efforts are described below.

Risk Assessment: Since the time Chairman Donaldson was appointed, he has focused on finding ways for the agency to better anticipate potential problems across the securities industry—"looking over the hill and around the corner" for the next emerging abuse of the securities laws. The Chairman initiated a thorough internal review of how the agency identifies current problems and—equally important—future risks. As a result of this review, the SEC launched a new risk management program and created an Office of Risk Assessment (ORA), the first of its kind at the Commission.

The goal of this program is twofold: to become better equipped to anticipate potential problems, and then to prevent these problems from affecting the markets. Toward these ends, the first step was to infuse the agency's various divisions and offices with a commitment to risk assessment in their own spheres of responsibility. Although managed from the top down, internal risk teams for the major program areas employed a "bottom-up" approach to mapping risk within each of the divisions. The SEC initiated risk-targeted sweep exams and targeted enforcement investigations in an effort to proactively explore identified risk areas. Such efforts have helped focus the SEC's operations on those areas that present the biggest risks to investors. At the same time, the SEC formed three multi-disciplinary risk management teams, covering the areas of full disclosure, investment management and market regulation, and infrastructure, which began an intensive dialogue on how to better orient the agency's planning and operations toward the goal of addressing risk. The Director of ORA, who was hired in mid-2004, began coordinating these internal risk teams and helping the entire agency anticipate potential problems across the securities industry, focusing on the early identification of new or resurgent forms of fraud and questionable activities.

This structure allows for centralized agency-wide risk assessment, enhanced by distributed risk management. It also promotes the use of formalized systems and procedures to identify, measure, and monitor critical risks. Finally, the structure helps the agency redeploy resources as needed to address critical risks.

Staff Recruitment, Retention, and Training: The Commission received authority from Congress to hire more than 840 new staff in February 2003, and in July 2003 the agency was allowed to expedite the hiring of accountants, economists, and examiners. These two actions set the stage for a tremendous wave of hiring in 2004. With the help of a significantly enhanced recruitment and orientation program, and without compromising quality, the agency increased the size of its workforce by roughly 16% in fiscal 2004 alone.

The SEC also continued to develop several important programs to retain employees with valuable skills. For example, the agency restructured its compensation and benefits programs to reward superior or exceptional performance through its new Pay-for-Performance system. The Commission also expanded benefits through the student loan repayment program; health benefits enhancements, including dental and vision benefits; life cycle accounts to help employees balance their work and life responsibilities; and the childcare subsidy program. Moreover, the SEC worked to enhance its telework programs and create a "virtual workforce" that can perform duties from home or from other non-SEC locations.

The Commission continued its commitment to staff training through the creation of the SEC University (SEC-U). The University partnered with divisions to design and implement a securities law curriculum that can be delivered in the field offices through videoconferencing. In addition, staff developed a new employee orientation program, a structured interview process to assist managers in the hiring process, and a training program for new supervisors.

The SEC-U also launched an e-Learning Center that provides employee access to a wide variety of professional development courses.

Separately, in addition to hiring a Director of Risk Assessment, the Chairman also rounded out the agency's senior management team by hiring a new Chief Accountant, new Chief Economist, and Chief Information Officer.

Organizational Improvement: The SEC's 2004-2009 Strategic Plan was approved by the Commission and made publicly available in August 2004. The Plan presented the agency's new vision, mission, and values. Also detailed were the SEC's new goals, the specific initiatives the agency intended to undertake to accomplish those goals, and proposed measures for monitoring the agency's progress. Management and staff from over 16 offices throughout the Commission participated in preparing the plan.

One of Chairman Donaldson's first actions upon arriving at the SEC was to reorganize the Chairman's Office, splitting the former Chief of Staff position into three separate roles: a Managing Executive for Policy and Staff, a Managing Executive for External Affairs, and a Managing Executive for Operations and Management. This private-sector reporting structure has allowed the Chairman's Office to more actively manage a broader range of high-profile issues and achieve ambitious initiatives within each of these critical areas.

Separately, the SEC completed comprehensive workforce and workflow reviews of all SEC divisions and offices (with an emphasis on content as much as on employees and their activities), leading to improved and more efficient organizational structures and an improved alignment between agency resources, needs, and mission priorities. For example, the SEC split its administrative and personnel functions into two offices, the Office of Administrative Services and the Office of Human Resources, so these activities can be performed more efficiently and effectively. These reviews helped ensure that all resources, new and existing, were efficiently allocated on the basis of well-defined program objectives so that we have "the right people, in the right place, at the right time."

Chairman Donaldson also launched the "dashboards" initiative to regularly track divisions' and offices' progress in achieving programmatic, operational, staffing, and budgetary objectives. These management reports form the basis for the Chairman and senior managers to gauge performance, exchange ideas on common problems, and adjust operations and resources as necessary.

Audited Financial Statements: Under the Accountability of Tax Dollars Act of 2002, the SEC underwent its first full financial audit, performed by the U.S. Government Accountability Office (GAO). The SEC's audited financial statements, as well as its annual performance report, are being prepared for publication in the agency's first Performance and Accountability Report (PAR).

Information Technology: The Office of Information Technology (OIT) implemented an aggressive agenda under the SEC's new Chief Information Officer. A few select highlights of the many initiatives launched in 2004 are listed below:

- The SEC launched a major new initiative to increase the usage of "tagged data" in SEC filings, through tools such as XBRL. In the agency's first effort to obtain structured filing data, Forms 3, 4, and 5 were automated using XML tagging formats. As a result, individuals can submit these filings conveniently through web-based access, and the public and SEC staff can obtain the data in a format useful for analysis.

- OIT continued its progress in implementing a document imaging and management system for the agency. The initial stages of the effort focused on the Division of Enforcement's large backlog of paper-based discovery documents. Concurrently, OIT upgraded many elements of the agency's IT infrastructure to allow it to handle the large-scale transmission of image files.

- The point-to-point network redesign initiated in 2003 was made fully operational by mid-2004, providing continuous communications between SEC sites in the event that a disaster forces headquarters or the operations center to close.

- In 2004, OIT implemented the initial stages of a comprehensive redesign of its capital planning and investment control (CPIC) processes. The initial changes focused on new operating budget approvals and investment approval thresholds, and were put into effect in fiscal 2005.

- The SEC's enterprise architecture (EA) planning improved substantially in 2004, with the finalization of the EA repository and an internal website to provide EA information to all SEC staff. As a result, all project sponsors and managers are able to readily access the SEC's business reference model, information resource catalog, and other core elements of the agency's EA in planning their projects.

- OIT also continued its initiative to certify and accredit the agency's financial and other major systems, and OIT launched a process to manage this activity on an ongoing basis. Also, the Office established plans to improve its overall IT security, based on the recommendations of the GAO as part of the agency's financial audit.

- The SEC worked to enhance the IT tools used by agency staff, enhancing their productivity and efficiency at the workplace, at home, or on travel. For example, OIT deployed a new generation of personal digital assistants (PDAs) for critical agency staff, providing wireless e-mail, telephony and information access. The agency also expanded its use of highly sophisticated data-mining technologies and deployed new computer monitors that save desk space and allow enforcement staff to more easily read and search electronic documents.

Physical Security/Continuity of Operations (COOP): The SEC focused significant attention on the physical security of the agency and on its ability to maintain operations in the event of a significant disruption. In 2004, the agency hired a new chief of security and created a new Security Branch responsible for managing physical security for all SEC facilities, the agency's security contracts, and the SEC's emergency preparedness and COOP planning. One of the Branch's major initiatives was a formal exercise of senior SEC executives to test the effectiveness of the agency's COOP planning. SEC staff also participated in evacuation drills and shelter-in-place drills to improve their readiness during an emergency. Staff designated as emergency workers participated in an exercise to test the alternate work site in the Washington, DC area, and a second COOP site outside the area was established. Finally, the agency purchased an emergency communications system that will allow senior management to contact staff and relay messages during an emergency.

Facilities: The SEC has renegotiated the leases on most of its offices around the country and has been heavily involved in negotiations for new facilities for the Northeast Regional Office (NERO) and the Boston District Office (BDO). A special workflow integration analysis was conducted for BDO and initiated for NERO, so that the new space will be designed to maximize the productivity of SEC staff. Construction and build-out continued on the SEC's Washington, DC headquarters at Station Place, with move-in scheduled for the spring of 2005.

Major Environmental Issues

Today's financial, investing, and corporate environment demands that the SEC be proactive and creative in how it fulfills its mission. The SEC must anticipate and appropriately respond to increasing industry growth and complexity, the public's increasing interest and participation in the securities markets, ongoing technological changes, the continued internationalization of the securities markets, and the development of new legislative proposals and statutory responsibilities. The SEC also needs to enhance its contingency planning activities and ensure that the securities industry is as prepared as feasible to continue operations in response to any unforeseen events or emergencies.

These conditions present extraordinary challenges to the Commission. The Commission has been and remains dedicated to effective enforcement of the federal securities laws as a critical component of maintaining investor confidence in the fairness and transparency of our securities markets. The following list highlights particular issues that currently drive the environment in which the Commission operates.

Investment Company and Investment Adviser Issues

At the start of fiscal 2005, there were more than 36,800 investment company portfolios that were managed or sponsored by more than 980 investment company complexes. These investment companies managed roughly $8 trillion in assets at the start of fiscal 2005, almost 10% more than a year earlier. This amount is nearly double the $4.5 trillion of insured deposits at commercial banks and equals the $8 trillion of financial assets at commercial banks. Almost 54 million U.S. households, representing 48% of total households, own mutual funds, with assets under management of about $7.6 trillion, making this the largest segment of the investment company industry. Of this amount, stock funds account for more than half of all mutual fund assets, compared to less than one-quarter in 1990. In addition, industry observers estimate that approximately three-quarters of stock fund net sales come from retirement plans.

The investment adviser industry also has undergone significant growth over the last several years. At the beginning of 2005, 8,535 investment advisers were registered with the Commission, up from 6,650 in 2000. Their assets under management totaled $24 trillion, compared to less than $10 trillion at the beginning of fiscal year 1995.

The investment adviser community is extremely bifurcated, with over 50% of advisers having five or fewer employees and average assets under management of just $174 million. Typically, these small firms operate from a single office location and 70% provide advisory services to less than 100 clients. At the other end of the spectrum, the 100 largest advisory organizations account for roughly 75% of the industry's $24 trillion of assets under management. These 100 largest organizations are comprised of 670 individually registered advisers that are located worldwide and over 225 fund complexes that sponsor over 3,000 individual portfolios. These large organizations typically have as affiliates broker-dealers and investment banks and other firms such as insurance companies and commercial banks. The presence of these affiliates increases the complexity of the organizational and business arrangements and also creates an environment that can give rise to many and varied conflicts of interest that must be addressed by the firms and the SEC.

The SEC has implemented a risk-based approach to inspecting the activities of asset management firms. Risk-targeted sweep examinations allow the SEC to concentrate attention quickly on areas of concern or interest within a specific firm or across the industry.

Broker-Dealer Developments

The SEC regulates and supervises more than 5,000 registered broker-dealer firms with over 96,000 registered branch offices across the country. While the number of broker-dealers has remained relatively stable in recent years, the number of branch offices has increased dramatically in comparison. The identification and oversight of those branch offices that have the greatest potential for sales practice abuses remains one of the Commission's top examination activities.

There are approximately 100 large broker-dealers, based on factors including the size of assets and equity, and number of customer accounts. As with investment companies and investment advisers, the largest broker-dealers pose the most financial risk to the financial system and thus require a greater amount of time and staff resources. The SEC also regulates and examines these entities on the basis of risk.

Public Interest and Participation

The increasing level of public participation in the markets continues to directly affect the Commission's activities. Although the volume of investor contacts tends to vary with market confidence and trading volumes, the Commission works diligently to ensure that it is responsive to all questions and complaints that the agency receives from the investing public. In fiscal 2004, the SEC's Office of Investor Education and Assistance received nearly 74,000 investor complaints, questions, and other contacts.

In addition to public inquiries, the SEC continues to receive a significant amount of media attention. The SEC anticipates receiving a significant number of calls and requests from reporters as the Commission continues undertaking several major initiatives and multiple high-profile enforcement actions.

Review of Corporate Filings

Confidence in the marketplace is founded on strict enforcement of the requirements for broad and timely dissemination of material information, rigorous interpretation and application of high quality accounting standards, and transparency, reliability, and objectivity in financial reporting. In the quest for innovative solutions to their financing needs, companies have turned to new and diverse financial instruments, such as structured notes, hedging transactions, and derivatives. The challenge for the filing review program is to encourage corporate capital formation while continuing to satisfy investors' information needs.

Enforcement Challenges

The Commission has been and remains dedicated to effective enforcement of the federal securities laws, a critical component of investor confidence in the fairness and transparency of our securities markets. Recent developments have presented extraordinary challenges to the Commission's law enforcement program. For example, exposure of issues relating to research analyst reports, investment companies, investment advisers, and broker-dealer sales practices have highlighted major problems resulting from conflicts of interest inherent in the financial services business. In addition, the Commission continues to respond to the financial and accounting failures of major corporations that have rocked our markets; in fiscal 2004, a significant number of filed enforcement actions involved financial disclosure and issuer reporting violations by major corporations, officers and directors, and auditors. Numerous investigations of the financial services industry and of financial disclosure also are underway; both of these types of investigation demand significant staff resources because they are fact and document intensive and include reviews of the conduct of a variety of individuals and entities.

New securities products, technologies, and globalization also have created opportunities for fraud and abuse, and the Commission is devoting significant staff resources to wide-ranging investigations of these conflicts. While the Internet has become a great resource for both investors and the securities industry, it unfortunately remains a resource with the potential for fraud and abuse. The Division of Enforcement alone receives over 1,300 e-mails every day from Internet users reporting suspicious conduct. The Commission has brought more than 445 Internet-related enforcement actions to date, charging over 1,350 individuals and entities, and coordinated its efforts with other law enforcement authorities, including the Department of Justice, the Federal Bureau of Investigation, the Federal Trade Commission, the U.S. Secret Service, and a range of other civil and criminal law enforcement authorities.

Technology

The SEC's information technology environment continues to be characterized by rapid changes in the securities markets and expanding technical capabilities. Externally, the Commission faces significant challenges regarding the regulation and supervision of the major securities markets, including broker-dealers' automated trading systems. In particular, the staff must respond to technology-driven advancements in the way securities trade, including the development of innovative electronic trading systems, new market entrants, and changing investment patterns. One of the staff's most important responsibilities is to monitor these changes and ensure that the U.S. regulatory structure remains current.

There is also substantial public awareness of, and demand for, market-sensitive information received by the SEC. Significant regulatory changes and advances in information technology now present important opportunities for widespread dissemination of information to investors. The SEC will continue to implement creative approaches to electronic filing and dissemination of information that ensure investor protection and improve understanding of public company disclosures. In addition, the Commission will continue to focus on using new tools and scanning technology to assist in analyzing the large volumes of data the agency regularly receives in the course of investigations.

Internationalization

U.S. capital markets are one of the major international centers for financial commerce. At year end, more than 1,200 foreign companies from 55 countries were filing periodic reports with the Commission—representing the highest number of foreign listings of any country. During 2004, approximately 63 foreign companies from 21 countries entered U.S. securities markets for the first time, and the total dollar amount of securities registered for sale by foreign issuers exceeded $146 billion.

U.S.-based financial institutions, such as broker-dealers, investment advisers, and mutual fund complexes, have become global in their operations. Many of these institutions are major participants in foreign markets. This growing internationalization has spurred Commission involvement in international efforts to reduce disparities between the standards developed by home country securities regulators, including those involving accounting and auditing issues. In addition, globalization continues to impact SEC's market oversight and enforcement program, where the SEC routinely seeks information from foreign authorities, and also responds to requests from its counterparts for reciprocal assistance.

The Commission faces challenging issues related to converging international standards. It is addressing the increasingly complex interaction between SEC initiatives and global efforts to create sound governance, supervision, and legal frameworks for all market participants, including broker dealers, mutual funds, hedge funds, and credit rating agencies. To further its work on these issues, SEC staff will continue to be leading participants in international organizations such as the International Organization of Securities Commissions, the Financial Stability Forum, and the Council of Securities Regulators of the Americas. The Commission also has established a dialogue with the Council of European Securities Regulators, and will continue to participate in the U.S. delegation to the Financial Action Task Force on Money Laundering.

Contingency Planning

The securities industry, with guidance from the SEC, continues to develop a wide range of initiatives to improve the ability of the markets, clearing organizations, and broker-dealers to respond to the security threats that they face today. These initiatives include updates in contingency plans, expanded audits of critical systems and communications lines, and improvements in back-up facilities for core functions.

The SEC also continues to enhance its own contingency planning activities. By conducting regular security exercises, completing build-out of both its alternative data center and alternative continuity of operations site, among other activities, the Commission remains steadfast in its efforts to ensure the safety of all SEC employees and the agency's ability to continue operations in the event of a major emergency or unforeseen event. Given the current threat environment, the Commission will continue to devote significant energy to further strengthening its security posture for the foreseeable future.

2006 Request by Strategic Goal

The SEC's 2006 request does not include funding for major new activities; the agency intends to reallocate resources as necessary to implement a variety of initiatives to better fulfill the SEC's mission and enhance operational effectiveness.

Some of the main initiatives are highlighted below, and described in further detail within the chapters for each division and office that follow.

Goal 1: Enforce Compliance with the Federal Securities Laws

In 2006, the SEC will continue to develop and expand the innovative approaches to enforcing compliance with the federal securities laws, through the use of risk assessment techniques, new technologies, and better emphasis on those entities and activities that pose the greatest threat to investors. These efforts are described below for the SEC's examination and enforcement programs.

Examination Program: A significant new source of work for this program will exist after February 1, 2006 when many advisers to hedge funds will be required to become registered with the SEC. These additional 1,000 or more advisers that manage an estimated 7,000 hedge funds will add significantly to workload of the examination staff.

To address this increased workload, recommendations of the Adviser Task Force formed in 2005 will be implemented. Among the anticipated recommendations of this Task Force is a surveillance program that is expected to begin during the second half of 2006. The surveillance program will provide information to examiners to help them identify aberrant patterns of fund and adviser activities and the possible existence of fraud or abusive schemes that require follow-up through on-site or written examinations of selected firms.

The Office of Compliance Inspections and Examinations (OCIE) will conduct risk-targeted sweep inspections focused on emerging risks in the investment company and investment adviser industries. In 2004, the use of such risk-targeted sweep exams contributed to a doubling of the percentage of exams that resulted in referrals to the Division of Enforcement. OCIE also will continue to implement a new initiative to deploy monitoring teams at the largest investment advisory groups, which manage a large percentage of the industry's $24 trillion in assets.

OCIE anticipates inspecting between 40% and 50% of the funds and advisers that have higher risk profiles and conducting at least 500 routine inspections of randomly selected fund groups and advisers. During these inspections, examiners will probe and analyze the effectiveness of firms' compliance programs, review compliance with recently adopted rules, scrutinize e-mails of selected persons, and apply appropriate forensic tests. OCIE also will conduct cause inspections as necessary to respond to investor complaints, tips, and media reports.

With respect to the broker-dealer program, OCIE will continue to build its risk assessment efforts and enhance its risk ranking system to focus resources on higher-risk firms and issues of greatest concern. OCIE will continue to oversee the largest, most complex brokerage firms and other financial institutions through risk management, compliance, and other examinations, as well as ongoing monitoring by staff. Staff also will examine the risk management and internal controls of the larger broker-dealers on a regular basis.

Staff will examine consolidated supervised entities (CSEs) that use an alternative method to compute certain net capital charges for their broker-dealers and consent to group-wide SEC supervision. Reviewing these entities' internal risk management controls will require a large investment of exam resources. The staff will continue to focus on firms' compliance with sales practice and net capital rules. In particular, OCIE will focus on brokerage firms' conflicts of interests and sales practice violations such as churning, unauthorized trading, unsuitable investments, and failure to disclose risks. Examiners also will assess broker-dealer compliance with anti-money laundering rules, broker-dealer relationships with hedge funds, and broker-dealer follow-up on past supervisory deficiencies.

The staff will continue to receive regular information and data from self-regulatory organizations (SROs) to monitor their activities outside the formal inspection process. OCIE will conduct cycle inspections of SRO surveillance, disciplinary, examination, arbitration and listing programs, and will conduct cause and risk-based SRO inspections as appropriate.

<u>Enforcement Program</u>: The Commission expects the current level of demands on the Division of Enforcement to continue unabated. The Commission plans to continue to employ enforcement procedures and methods vigorously, such as trading suspensions; asset freezes; temporary restraining orders; coordination with criminal authorities; and focused, expedited investigations. The staff will continue to develop increasingly sophisticated approaches to organizing and gathering data from a wide range of sources, including through the assistance of foreign securities authorities. Mindful of the Commission's responsibilities under the federal securities laws, the staff will continue to maintain a presence in all core areas of enforcement, including market manipulation, insider trading, and offering fraud. Conflicts in the financial services sector, as well as serious financial accounting frauds, promise to remain the most important program areas.

Developing better ways to manage and preserve the growing volume of documents related to investigations will remain a high priority. In major investigations, thousands of documents from many different sources may be received and these documents may be used in taking testimony from over 100 witnesses. Document management thus consumes significant staff time. The SEC will continue to develop its new program to scan, image optically, and data code evidentiary material to inventory, control, and preserve case documents. These improvements are critical to remain competitive with opposing counsel, to ensure availability of documents in case of damage to SEC buildings, and to better use the Commission's staff resources.

The staff anticipates that the number of defendants choosing to litigate or engage in protracted litigation prior to settlement will increase. The Commission plans to continue to commit resources to protracted litigation, an essential element in maintaining a credible law enforcement program, and to halt ongoing market manipulations and alert investors to false or misleading disclosures made by issuers. Litigated financial fraud cases, in particular, require extensive resources as they proceed through lengthy discovery, motion practice, and trial. In addition, litigation staff will continue to be increasingly involved in emergency court cases in an attempt to secure investor funds before they are lost forever, including freezes of foreign assets. The increasing complexity of the Commission's enforcement actions, the increase in emergency and subpoena enforcement actions, and the Commission's efforts to increase sanctions imposed on defendants all will continue to place demands on the division's litigation resources.

Goal 2: Sustain an Effective and Flexible Regulatory Environment

The SEC will continue to consider regulatory proposals that will have widespread effects on the securities markets, in areas such as investment management regulation, securities firm supervision, disclosure, and accounting policy. Some of the major highlights are described below.

Investment Management Regulation: The staff will continue to develop a new registration system for investment advisers. Advisers currently submit Part 1 of their registration form on-line, creating a publicly accessible database of information about advisers, including their disciplinary history. A new Part 2 will give advisory clients a narrative picture of the advisory firm, including information about how the adviser addresses conflicts of interest.

The agency anticipates launching several other initiatives with respect to the investment management industry. The staff expects to recommend that the Commission amend the requirements for the books and records that investment advisers must keep, revise the current rules governing advisers' payment of cash solicitation fees, propose rule amendments to clarify how funds with multiple managers can pay performance or incentive fees, and alter the conditions under which investment advisers may enter into principal transactions with their clients. In addition, the staff anticipates considering ways to make disclosures from mutual funds and other investment companies more useful to investors, through better use of new technologies, the Internet, and more reader-friendly formats.

Securities Firm and Market Supervision: The SEC likely will face significant new challenges regarding the regulation and supervision of the major securities markets, including broker-dealer trading systems and SROs. By 2006, initiatives devoted to modernizing the national market system and addressing self-regulatory corporate governance and transparency should be in place. As necessary, staff will monitor and review the implementation of these significant undertakings. In addition, staff will seek to monitor and implement any new rules the Commission approves to improve the efficiency of the options markets and mitigate the conflicts of interest that may be impeding price competition in those markets.

With respect to the Commission's recently adopted amendments to the "net capital" rule, the staff will modify the rules for CSEs in order to maintain consistency with the Basel Standards, in light of amendments to the Basel Capital Accord. The staff also will address any interpretive issues that arise through the implementation of these amendments.

In addition to the above projects, the staff expects to:

- Analyze the results of the short sale pilot and consider whether to propose additional amendments to the short sale rules.

- Draft rulemaking or interpretive guidance on the scope of the soft dollar safe harbor in the 1934 Act.

- Complete an analysis of the comments received on the straight through processing (STP) concept release and, as appropriate, pursue an effort to improve affirmation rates in institutional transactions.

- Continue active participation in international groups, such as the International Organization of Securities Commissions (IOSCO), the Joint Forum, and the Joint Group. In particular, the Joint Group expects to finalize and present to the Basel Committee its final recommendations relating to the treatment of positions held by banks and investment firms in the trading book, with SEC staff taking a lead role in this project. In addition, the SEC will participate in IOSCO's efforts to address financial fraud, including in international audits and the activities of market intermediaries that undertake structured financing transactions.

Disclosure: After analyzing the comments received on the concept release related to tagged data and the experience gained from the voluntary tagging program, the Division of Corporation Finance will determine whether to recommend that the Commission propose rules requiring companies to tag financial data in SEC filings. Such an initiative will make firms' disclosures much easier for the public and SEC staff to analyze. The staff also expects to propose for Commission adoption amendments that would enhance disclosures related to executive compensation, the independence of registrants' boards of directors, related party transactions between executive officers and directors, and related party transactions with a registrant. In addition, the staff anticipates recommending that the Commission revise the current shareholder communications system that specifies how companies may communicate with the beneficial owners of their securities held in street or nominee name.

Accounting Policy: The Office of the Chief Accountant (OCA) will continue its extensive oversight of the Public Company Accounting Oversight Board (PCAOB) in conducting its auditor regulation activities. The PCAOB is expected to conduct quality reviews of approximately 350 firms during the period, the same level as in 2005. The PCAOB also is scheduled to be heavily involved in the promulgation and interpretation of auditing standards, which are subject to review and approval by the Commission.

OCA will continue its oversight of accounting standard-setting activities, such as the Financial Accounting Standards Board's (FASB) efforts related to revenue recognition and accounting for financial instruments. OCA also intends to monitor FASB's implementation of recommendations to move toward a more principles-based approach to setting accounting standards in the U.S., along with any new standards resulting from the SEC's study of off-balance sheet transactions. The SEC also will track the implementation of International Financial Reporting Standards, along with the ongoing effort by FASB and the International Accounting Standards Board (IASB) to achieve convergence among accounting standards around the world.

Goal 3: Encourage and Promote Informed Investment Decisionmaking

The Commission works to achieve this objective through two main efforts: reviewing the disclosure of securities market participants to make them more complete, accurate, and timely; and educating and assisting investors who have questions or concerns related to the securities markets. In 2006, the Commission expects to perform the activities listed below.

Disclosure Reviews: The Division of Corporation Finance intends to complete roughly 4,720 reviews of reporting companies, 4% more than in 2005. This level of review, equal to 38% of all reporting companies, will deter fraud in public securities transactions, satisfy the review requirements of the Sarbanes-Oxley Act of 2002, and help ensure that investors receive material information about emerging and novel issues. In addition, the Division expects to review the filings of 780 new issuers, including IPO registration statements, new issuer registration statements, and Regulation A exempt offering statements.

The Division of Corporation Finance expects to continue issuing initial comments on 1933 and 1934 Act registration statements and transactional filings within 30 days of receipt. The Division will work to decrease the amount of time attributed to staff review after receiving a response to its initial comments on annual reports, registration statements, and other transactional filings. The Division expects its comments will continue to elicit significant changes in financial and other disclosures in the filings of new issuers and reporting companies.

The Division anticipates implementing the recommendations of the filing and disclosure process review. The agency expects to make changes to the business process, eliminate selected filing forms, and streamline the data required from filers by using structured financial statements.

The Division of Investment Management expects to review the financial statements of about 37% of investment company portfolios under the Sarbanes-Oxley Act. The Division also will review most new portfolios of open-end and closed-end funds, all new insurance contracts, and most portfolios of new unit investment trusts. The staff also will examine proxy statements and post-effective amendments that reflect material changes in disclosure or fund operations.

Investor Education: The Office of Investor Education and Assistance (OIEA) serves as the SEC's primary point of contact for the tens of thousands of investors who complain each year about the possible mishandling of their investments by securities professionals. The staff also responds to a wide range of questions from the public on how the securities industry works and where to find information about products, issuers, and securities professionals. The staff anticipates receiving approximately 72,000 new investor complaints, questions, and other contacts in 2006. The staff will close 72,000 open matters and will increase the percentage of matters closed within seven days to 84%.

OIEA also carries out the SEC's investor education program, which includes producing and distributing educational materials, collaborating with state and federal agencies, creating public-private partnerships, participating in educational events, and consulting with other SEC staff on proposed rulemaking as it impacts individual investors. In 2006, the Office expects to continue providing policy guidance, distribute approximately 300,000 investor brochures, and receive approximately 7 million hits on its web pages.

Goal 4: Maximize the Use of SEC Resources

In 2006, the SEC will continue to concentrate on ensuring that taxpayer dollars are used to maximum effect to fulfill the agency's mission. Below are listed some examples of the efforts to be undertaken in 2006 to enhance the SEC's operational effectiveness.

Risk Assessment: In 2006, the Office of Risk Assessment (ORA) will continue to expand the depth and complexity of risk assessment activities throughout the agency. The Office will lead the efforts of multi-disciplinary risk teams to detect new risks and assist division and office efforts to mitigate and manage previously identified risks on an ongoing basis.

ORA will continue to strengthen the SEC's risk assessment infrastructure, both within the divisions and offices and for the agency as a whole. Working with other offices, ORA will identify new technologies, such as data mining systems or new databases, which can help agency staff detect and track risks. Outside experts will be enlisted to provide advice on market trends and risk assessment efforts generally. The Office also will consider ways to enhance risk assessment and management activities in the SEC's regions and districts.

Staff Recruitment, Retention, and Training: The SEC expects to have achieved normal vacancy levels, and will focus its attention on making the agency the "employer of choice" within the federal government. The agency will continue to evaluate its compensation and benefits packages to ensure they are competitive with other financial regulators, expand work/life programs where appropriate, and possibly negotiate a new Collective Bargaining Agreement. The Office of Human Resources (OHR) will pursue the development of a comprehensive human capital management information system that can assist with human capital planning and forecasting and provide employees with comprehensive benefits information. OHR also will continue to leverage information from its existing automated staffing system, Avue, in order to analyze staffing trends within the agency.

OHR expects to increase the number and variety of classes offered through the SEC University (SEC-U). As SEC-U becomes fully operational, the staff anticipates offering more classes on-site, many in partnership with local universities. Courses will include continuing education courses required for attorneys and accountants, securities industry training, and employee development and management courses.

Organizational Improvement: The SEC expects to continue using "dashboard" management reports to track the agency's progress on its budgetary, staffing, and operational objectives. The reports will be refined as necessary to gauge the success of the agency's evolving programs. The Chairman's Office will continue to meet with division and office heads to review the dashboards, identify cross-cutting problems, and adjust operations and resources as necessary. Moreover, the SEC will continue to conduct comprehensive workforce and workflow reviews of divisions and offices (with an emphasis on content as much as on employees and their activities), with an eye towards maintaining an alignment between agency resources, needs, and mission priorities.

Also in 2006, the SEC will begin planning to revise and update its five-year strategic plan. Staff will continue working with contractors to implement an activity-based costing and performance-based budgeting solution to monitor operating costs and achieve greater cost efficiency. A fourth program area will undergo an evaluation by the Office of Management and Budget (OMB) using the Performance Assessment Rating Tool (PART), and previously reviewed programs will again be considered for reassessment.

Audited Financial Statements: The Office of Financial Management (OFM) will again coordinate the preparation and submission of the SEC's quarterly and annual financial statements, along with other external and internal financial reports. OFM also will continue implementing changes to management systems to strengthen agency financial management, ensure compliance with all applicable federal financial management standards, and address audit findings.

Information Technology: In 2006, the Office of Information Technology (OIT) will continue implementing several major initiatives from 2005 and extend them into new parts of the organization. In addition, several new projects will help modernize the agency's IT infrastructure.

- OIT will upgrade the agency Internet website and portal for the Electronic Data Gathering and Retrieval (EDGAR) system (www.sec.gov). In particular, the new site will substantially improve investors' access to filings through a new full-text search function and a more intuitive user interface. The redesign also will enhance the accessibility and searchability of information related to the SEC's rulemaking activities, and the website will be better integrated with the agency's internal document management processes.

- The redesigned case management system will be fully implemented based on work begun in 2005 and fully integrated into the agency's broader suite of workflow management, document management, and knowledge management tools. The result will be a more seamless set of core business processes for enforcement activities and improved reporting for senior attorneys to manage the agency's caseload. This project will include upgrades to the penalties and disgorgements management system, which will be completed in 2007.

- OIT will fully deploy the examination management system throughout headquarters and the field offices. As a result, all of the agency's examinations will be subject to uniform methodologies and audit plans, and examiners will be better able to manage inspection work products.

- The SEC will continue to expand its risk assessment program, with the set of tools piloted in 2005 being extended and fully integrated into the SEC's work processes. As a result, SEC staff can focus their activity on areas of highest risk, as determined by an initial screening performed by risk assessment groups. Also, OIT will begin the design of an agency-wide data warehousing strategy, which will allow risk analysts to conduct sophisticated queries, reports, and quantitative analyses on a combination of disclosure, surveillance, and market data.

- The IT security program plans to expand its intrusion detection and prevention capabilities, improve incident response practices, and provide specialized technical training. OIT also will continue to assess the security of standing applications and infrastructure as part of its ongoing certification and accreditation process.

- The SEC plans to continue transitioning to its "future state" enterprise architecture, changing business processes as necessary to better support its mission. Improvements will include a unified content and document management platform; a consolidated infrastructure for the agency's storage and application servers; agency-wide data warehousing, analytics, and reporting tools; and a common, agency-wide portal for receiving and storing disclosure and surveillance information.

Physical Security / Continuity of Operations (COOP): In 2006, the Security Branch within the Office of Administrative Services (OAS) expects to begin conducting annual security assessments of every SEC facility, and to continue its aggressive drill and training schedule. Additionally, the Security Branch will seek additional training for its staff and SEC employees to maintain the SEC's ability to manage emergency situations.

Facilities: The SEC also expects to complete the move of its headquarters staff into Station Place. The agency will adjust the configuration of staff and acquire any necessary equipment as necessary to increase staff productivity. Once the headquarters, Northeast Regional Office (NERO), and Boston District Office (BDO) moves have been completed, the only outstanding lease action will be the Operations Center, located in Alexandria, Virginia, which will be addressed in 2006. When that competition is completed, there should be no new leases or office moves until current leases expire in the next ten to fourteen years.

Description of Selected Fees

($ in millions)

Source of Fees	2004 Actual	2005 Estimate	2006 Estimate
Registration of securities under the Securities Act of 1933 (Section 6(b))	$375	$570	$689
Securities transactions under the Securities Exchange Act of 1934 (Section 31)	996	1,220	1,435
Actual/Target Offsetting Collections Amounts	$1,371	$1,790	$2,124

Explanation of Fee Collections

The SEC is authorized to levy and collect certain fees under Section 6(b) of the Securities Act of 1933 and Sections 13(e), 14(g) and 31 under the Securities Exchange Act of 1934. Within the Federal Budget, these feeds are classified as offsetting collections.

SEC fee rates are established periodically as required by the "Investor and Capital Markets Fee Relief Act" (P.L. 107-123) ("Fee Relief Act"), in accordance with methodologies developed in conjunction with the Congressional Budget Office and the Office of Management and Budget. Specifically, Section 31 and Section 6(b) fee rates are adjusted periodically so that the total collections for each fee equal target amounts established in the "Fee Relief Act."[1] In the event that the Commission does not have a regular appropriation at the start of its fiscal year, each fee rate is required to remain at its prior year's rate until the regular appropriation is enacted. The Commission will publish the fee rates for fiscal 2006 in the Federal Register no later than April 30, 2005.

Fiscal 2004

In 2004, the SEC collected $375 million in Section 6(b) registration fees. This amount was approximately 20 percent below the $467 million target collection amount established the "Fee Relief Act." From October 1, 2003 through January 27, 2004, the Section 6(b) fee rate was $80.90 per million, due to the Commission's operating under a continuing resolution.

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[1] The "Fee Relief Act" does not contain a target offsetting collections amount for fees collected pursuant to Sections 13(e) and 14(g) of the Securities Exchange Act of 1934. The rates for these fees are changed on an annual basis so as to keep them at the same uniform rate applicable to Section 6(b) registration fees. This harmonization of rates is designed to remove any ambiguity with respect to the fees applicable when a registration of new securities is made in connection with the repurchase of stack or as part of a merger. The SEC collected approximately $22 million in Section 31(e) and 14(g) fees in 2004.

From January 28 through September 30, 2004, the end of the Commission's fiscal year, the fee rate was $126.70 per million.

The Commission also collected $996 million in Section 31 transaction fees, approximately 3 percent below the transaction fee target collection amount of $1.03 billion. From October 1, 2003 through February 20, 2004 the Section 31 transaction fee was set at $46.80 per million, because the Commission was operating under a continuing resolution. From February 21 through March 31, 2004 the fee rate was $39.00 per million, the rate previously announced by the Commission for 2004. The "Fee Relief Act" annually requires the Commission to determine whether a mid-year adjustment of the Section 31 fee rate is required based on whether actual and projected collections for the year as of March 1, 2004 are estimated to be within ten percent of the target collections amount for the entire year. Based on the Commission's calculation, the SEC was required to perform a downward mid-year adjustment of the Section 31 fee rate from $39.00 per million to $23.40 per million rate effective April 1, 2004. This fee rate remained in effect through the end of the fiscal year.

Fiscal 2005

The Commission began 2005 under a continuing resolution that funded agency operations from October 1, 2004 through December 8, 2004. During this period, the fees paid under Section 6(b) of the Securities Act of 1933 remained at the prior year's rate of $126.70 per million. In addition, transaction fees paid under Section 31 of the Securities Exchange Act of 1934 remained at the prior year's rate of $23.40 per million.

Five days after enactment of the Commission's regular appropriation, the fee rate under Section 6(b) of the Securities Act of 1933 was decreased from $126.70 per million to $117.70 per million. Thirty days after enactment of the Commission's regular appropriation, the Section 31 fee rate was increased from $23.40 per million to $32.90 per million.

As required by the "Fee Relief Act," the Commission will make a determination of whether a mid-year adjustment of the Section 31 fee rate is necessary no later than March 1, 2005. This determination, which will be published in the Federal Register, is based on whether the Commission's actual and estimated collections for 2005 fall within ten percent of the target collections amount for 2005. If a mid-year Section 31 fee rate is required, it will become effective on April 1, 2005 and remain effective through the remainder of the fiscal year.

Fiscal 2006

The target collections amount for Section 6(b) registration fees in 2006 is $689 million, while the target amount for Section 31 transaction fees is $1.435 billion. Taken together, we anticipate these two fees will generate $2,124 billion. The Commission will publish the fee rates for fiscal 2006 in the Federal Register by no later than April 30, 2005.

Division of Enforcement

Executive Summary

	2004 Actual	2005 Enacted	2006 Request
FTEs: Headquarters	408	468	484
Regions and Districts	736	790	791
Total	**1,144**	**1,258**	**1,275**
Cost: Salaries and Benefits ($000)	$168,806.8	$201,259.9	$209,168.7
Non-Personnel Expenses ($000)	66,578.3	93,622.4	77,923.4
Total Direct Costs ($000)	**$235,385.1**	**$294,882.3**	**$287,092.1**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓			

The Commission's Division of Enforcement prosecutes violations of the federal securities laws and works closely with the Department of Justice and U.S. Attorneys offices to coordinate and assist in criminal prosecutions. The Commission is creatively meeting its responsibilities for investor protection and is now drawing upon the additional resources previously made available to support these challenges.

Intelligence Analysis: The staff expects to receive and handle a combined total of 400,000 investor complaints, tips, and forwarded e-mail spams, and to open about 1,375 MUIs.

Investigations: The division will continue to maintain a presence in all core areas of enforcement, including market manipulation, insider trading, and offering fraud. Conflicts of interest in the financial services sector, as well as serious financial accounting frauds, promise to remain the most important program areas. The staff will continue to institute and pursue investigations based on the Commission's continued risk-based assessment initiative. The Commission also expects to detail staff to the Department of Justice to support criminal prosecution of securities fraud. We plan to open roughly 990 investigations.

Proceedings: The Commission will continue to commit resources to protracted litigation, an essential element in maintaining a credible law enforcement program, and to seek emergency relief to freeze assets, halt ongoing market manipulations, and alert investors to false or misleading disclosures made by issuers. The increasing complexity of the Commission's enforcement actions, the increase in emergency and subpoena enforcement actions, and the Commission's efforts to increase sanctions imposed on defendants will all tax the division's litigation resources. We plan to open about 385 administrative proceedings and to institute approximately 275 civil proceedings.

Division of Corporation Finance

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters	**403**	**509**	**526**
Cost: Salaries and Benefits ($000)	$57,701.7	$77,041.7	$81,510.0
Non-Personnel Expenses ($000)	$14,793.8	$25,073.4	$19,272.1
Total Direct Costs ($000)	**$72,495.5**	**$102,115.1**	**$100,782.1**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Ensure Compliance with Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓	✓	✓	

The Division of Corporation Finance establishes disclosure requirements and monitors disclosure to provide investors with information necessary to make investment decisions and to help prevent fraud and misrepresentation in securities transactions. The program is operating in a time of significant change in the United States securities markets. Corporate management abuses and apparent failures of checks and balances performed by auditors and audit committees have resulted in significant restatements of financial statements and numerous ongoing civil, regulatory, and criminal proceedings.

Review of Filings: In 2006, the division will complete 4,720 reporting company reviews, 4% more than in 2005. These reviews will satisfy requirements of the Sarbanes-Oxley Act, should deter fraud in public securities transactions, and should ensure that investors receive materially accurate and complete information about emerging and novel issues.

Division of Market Regulation

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters	**157**	**174**	**180**
Cost: Salaries and Benefits ($000)	$23,225.9	$27,491.8	$29,133.6
Non-Personnel Expenses ($000)	6,339.9	9,093.4	6,994.1
Total Direct Costs ($000)	**$29,565.8**	**$36,585.2**	**$36,127.7**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓	✓		

The Division of Market Regulation's mission is to maintain fair, honest, and efficient securities markets. This is accomplished primarily by supervising and regulating the major market participants – 13 registered exchanges, 2 national securities associations, broker-dealers, clearing agencies, transfer agents, the Municipal Securities Rulemaking Board, and securities information processors. As envisioned by the Securities Exchange Act of 1934, the Commission relies on the self-regulation of the securities industry as the primary method of ensuring fair dealing and investor protection. The Commission also directly regulates the markets where Commission rulemaking is more effective than self-regulation.

Securities Firm Supervision: The staff expects to analyze the short sale pilot and to consider whether to propose additional amendments to the short sale rule; monitor self-regulatory organization (SRO) rules governing initial public offerings (IPOs) and research analysts; draft rulemaking or interpretive guidance on the scope of the soft dollar safe harbor provisions in the 1934 Act; and continue assisting in market-related enforcement activities and addressing issues relating to foreign and domestic transfer agents. In addition, the staff will address interpretive issues that may arise from the Commission's recent amendments to the agency's "net capital rules."

Market Supervision: The staff will monitor and review, as necessary, the Commission's recent initiatives devoted to modernizing the national market system and addressing self-regulatory corporate governance and transparency. Staff also will continue to spend considerable time responding to efficiency and competitiveness issues in the options markets and will utilize a new electronic filing system designed to expedite the agency's review and approval of proposed SRO rule changes.

Division of Investment Management

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters	**173**	**184**	**190**
Cost: Salaries and Benefits ($000)	$26,837.8	$31,177.6	$33,013.6
Non-Personnel Expenses ($000)	$6,618.8	$8,031.9	$10,074.5
Total Direct Costs ($000)	**$33,456.6**	**$39,209.5**	**$43,088.1**

FY 2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓	✓	✓	

The Division of Investment Management regulates investment companies and investment advisers under two companion statutes, the Investment Company Act of 1940 (Investment Company Act) and the Investment Advisers Act of 1940 (Investment Advisers Act). The program also administers the Public Utility Holding Company Act of 1935 (PUHCA). The Division seeks to protect investors from fraud, mismanagement, self-dealing, and inadequate disclosures by investment companies and investment advisers, without imposing unnecessary burdens on regulated entities.

The Division's top strategic priorities for 2006 are to:

- Revamp the mutual fund disclosure regime: The staff aims to make mutual funds' and other investment companies' disclosures more useful to investors. The staff intends to explore more reader-friendly disclosure formats and the better use of new technologies and the Internet.

- Complete a new registration system for investment advisers: Advisers currently submit Part 1 of their registration form on-line, creating a publicly accessible database of information about advisers, including their disciplinary history. A new Part 2 will give advisory clients a narrative picture of the advisory firm, including information about how the adviser addresses conflicts of interest.

- Modernize forms and rules under the PUHCA: The staff plans to review and update the forms used to implement the law's reporting requirements. The goals of this process are to eliminate unnecessary burdens on reporting entities and to ensure that the SEC obtains information needed to satisfy the law's regulatory objectives.

Office of Compliance Inspections and Examinations

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Investment Company/Adviser (IC/IA) Program			
Headquarters	55	68	70
Regions and Districts	422	430	431
Subtotal	477	498	501
Broker-Dealer/Self-Regulatory Organization (BD/SRO) Program			
Headquarters	71	90	94
Regions and Districts	277	282	283
Subtotal	348	372	377
Total	**825**	**870**	**878**
Cost: Salaries and Benefits ($000)	$117,792.2	$135,306.2	$139,722.5
Non-Personnel Expenses ($000)	$38,523.0	$42,882.3	$36,064.1
Total Direct Costs ($000)	**$156,315.2**	**$178,188.5**	**$175,786.6**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1	Goal 2	Goal 3	Goal 4
Enforce Compliance With Federal Securities Laws	Sustain an Effective and Flexible Regulatory Environment	Encourage and Promote Informed Investment Decisionmaking	Maximize the Use of SEC Resources
✓			

The Office of Compliance Inspections and Examinations (OCIE) conducts an examination program to detect violations of the federal securities laws and evaluate internal compliance controls. There are about 8,535 investment advisers, 982 fund complexes, over 5,900 broker-dealers, 12 SROs, and over 400 transfer agents subject to SEC exams.

IC/IA Program: OCIE expects to continue enhancing its methodologies for identifying firms that pose high levels of compliance risk. OCIE will conduct risk-targeted sweeps of emerging risk areas and report findings to enforcement and regulatory offices for further action. OCIE also will begin implementation of a long-term program to monitor the largest advisory firms. Under the adviser surveillance program, staff will analyze data from advisers and funds to identify trends warranting full exams. OCIE will conduct routine exams of higher-risk funds and advisers and random exams of other firms.

BD/SRO Program: OCIE will continue to use risk assessment techniques to focus examinations. OCIE also will continue to conduct risk-targeted sweeps of broker-dealers to examine emerging risk areas and report findings to the Commission and regulatory staff. Finally, OCIE's expanded oversight of SROs will evaluate their regulation and oversight over their members.

Office of the General Counsel

Executive Summary

		2004 Actual	2005 Enacted	2006 Request
FTEs:	Headquarters	114	123	128
	Regions and Districts	13	13	13
	Total	**127**	**136**	**141**
Cost:	Salaries and Benefits ($000)	$20,138.4	$23,361.3	$24,838.9
	Non-Personnel Expenses ($000)	$5,136.0	$6,874.1	$5,329.8
Total Direct Costs ($000)		**$25,274.4**	**$30,235.4**	**$30,168.7**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓	✓		✓

The Office of the General Counsel (OGC):

- Serves as counsel to the Commission on all initiatives by the Chairman and the agency's divisions and offices;
- Defends the Commission in federal district courts;
- Represents the Commission in all appellate matters and amicus curiae filings;
- Advises the Commission and prepares opinions on adjudications;
- Counsels the Commission and its staff on ethics matters; and
- Represents the Commission in administrative, real estate, labor law, and similar legal matters.

In 2006, OGC expects to continue managing the agency's appellate litigation, including appeals related to complex enforcement and other legal matters. An estimated 360 litigation cases will be opened and 380 closed. OGC expects to receive and review appeals to the Commission from registered accounting firms as a result of Public Company Accounting Oversight Board (PCAOB) actions and assist in the prosecution of violations of attorney ethics rules under the Sarbanes-Oxley Act of 2002. An estimated 70 adjudicatory matters will be completed, about the same as in 2005, and many of these matters will resolve novel legal questions under the major statutes administered by the Commission. In addition, OGC anticipates reviewing about 200 and commenting on roughly 140 disclosure statements of publicly held debtors, and the Office expects to handle an estimated 3,200 ethics-related inquiries and 180 procurement matters.

Agency Direction

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs:			
Executive Staff	27	27	28
Office of the Secretary	24	26	27
Total	**51**	**53**	**55**
Cost: Salaries and Benefits ($000)	$6,809.9	$7,560.0	$8,025.1
Non-Personnel Expenses ($000)	2,023.2	2,716.1	2,089.0
Total Direct Costs ($000)	**$8,833.1**	**$10,276.1**	**$10,114.1**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓	✓	✓	✓

Agency Direction is comprised of the Chairman and Commissioners and their staff, as well as the Office of the Secretary. The Chairman's and Commissioners' offices develop overall agency policy and provide advice on the wide array of legal, financial, managerial, legislative, and economic issues encountered in the administration of the federal securities laws. The Office of the Secretary schedules Commission meetings, prepares and maintains records of Commission actions, and reviews documents submitted to the Commission for action.

In 2006, the Commission anticipates holding an estimated 65 meetings and considering about 740 calendar items and 500 seriatim actions, including enforcement actions, rule proposals, and other items related to the administration of the federal securities laws. These actions will implement the Commission's mission to protect investors, sustain an effective and flexible regulatory environment, and facilitate capital formation.

The Managing Executive for Policy will assist the Chairman with the initiation, review, and approval of all policy matters. The Managing Executive for External Affairs will manage relations with Members of Congress, the media, and the public. Finally, the Managing Executive for Operations and Management will oversee all efforts to enhance agency productivity, retain qualified SEC staff, manage agency resources effectively and efficiently, control costs, and deploy new technologies.

Office of External Affairs

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs:			
Office of Legislative Affairs	7	8	8
Office of Public Affairs	7	9	9
Office of Investor Education & Assistance	34	37	37
Chairman's Correspondence Unit	3	3	3
Total	**51**	**57**	**57**
Cost: Salaries and Benefits ($000)	$6,541.8	$7,885.5	$8,071.0
Non-Personnel Expenses ($000)	2,261.7	2,916.5	2,987.2
Total Direct Costs ($000)	**$8,803.5**	**$10,802.0**	**$11,058.2**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
		✓	✓

The Managing Executive for External Affairs has primary responsibility for the Office of External Affairs (OExA), which encompasses: the Office of Public Affairs (OPA), the Office of Legislative Affairs (OLA), the Office of Investor Education and Assistance (OIEA), and the Chairman's Correspondence Unit.

Office of Legislative Affairs: OLA staff expects to coordinate the development of materials and to prepare the Chairman or SEC staff witnesses for 25 congressional hearings. The staff expects to handle approximately 10,400 telephone and e-mail inquiries from congressional staff, coordinate 500 briefings and telephone conferences with congressional staff and SEC staff on various topics, and respond to 700 pieces of congressional correspondence.

Office of Public Affairs: OPA staff anticipates that they will receive 45,000 combined media inquiries, draft and distribute roughly 260 news releases, organize and supervise about 200 press briefings and news conferences, and host 600 foreign visitors.

Investor Assistance: OIEA staff anticipates that they will receive approximately 72,000 new investor complaints, questions, and other contacts. The staff will close 72,000 open matters and will increase the percentage of matters closed within 7 days to 84%.

Investor Education: OIEA staff will continue to provide policy guidance and carry out the agency's investor education programs. The staff anticipates distributing about 300,000 investor brochures. In addition, the SEC's investor education web pages will receive approximately 7 million hits.

Office of the Executive Director

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters			
Office of the Executive Director	6	8	8
Office of Financial Management	36	42	42
Office of Administrative Services	79	83	83
Office of Human Resources	60	60	61
Office of Filing and Info. Services	114	108	111
Total	**295**	**301**	**305**
Cost: Salaries and Benefits ($000)	$27,792.3	$31,920.4	$32,928.2
Non-Personnel Expenses ($000)	9,234.8	10,774.7	7,599.3
Total Direct Costs ($000)	**$37,027.1**	**$42,695.1**	**$40,527.3**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	**Goal 2** Sustain an Effective and Flexible Regulatory Environment	**Goal 3** Encourage and Promote Informed Investment Decisionmaking	**Goal 4** Maximize the Use of SEC Resources
✓			✓

The Managing Executive for Operations and Management, in coordination with the Office of the Executive Director (OED), has primary responsibility for the Office of Financial Management (OFM), the Office of Administrative Services (OAS), the Office of Human Resources (OHR), and the Office of Filings and Information Services (OFIS).

Financial Management: OFM staff will coordinate the agency's preparation and submission of quarterly and annual audited financial statements and continue to implement changes to management systems to ensure compliance with current accounting standards and Federal financial reporting requirements. Staff will also continue working with contractors on implementing a performance-based budgeting/activity-based costing solution to monitor operating costs and achieve greater cost efficiency.

Administrative Services: OAS staff will coordinate the SEC's move into Building Two of Station Place. In addition, the Security Branch will continue to manage physical security at all Washington, DC area facilities, advise the regional offices on their plans, and coordinate the SEC's Continuity of Operations (COOP) related activities.

Human Resources: The SEC will expand the services of the SEC University (SEC-U), which coordinates and oversees all professional development at the SEC. Staff will introduce activities for our senior executives and expand current offerings such as the executive coaching program.

Office of Risk Assessment

Executive Summary

	2004 Actual	2005 Enacted	2006 Request
FTEs: Headquarters	**0**	**7**	**13**
Cost: Salaries and Benefits ($000)	$88.7	$1,252.3	$2,333.6
Non-Personnel Expenses ($000)	0.0	561.3	684.5
Total Direct Costs ($000)	**$88.7**	**$1,813.6**	**$3,018.1**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance with Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓	✓	✓	✓

The Office of Risk Assessment (ORA) was formed in fiscal 2004 by Chairman Donaldson to lead the Commission's initiative to anticipate, identify, and manage risks. These efforts will enhance the agency's ability to fulfill its mission. This initiative is improving the agency's ability to anticipate potential problem areas across the securities industry, focusing on early identification of new or resurgent forms of fraud and illegal or questionable activities. As a result, senior managers will be able to make better decisions and actively adjust operations, resources, and methods of oversight to address new challenges and prevent new problems. The initiative also is helping foster better communication, coordination, and cross-fertilization among the Commission's divisions and offices.

In fiscal 2006, ORA will continue to lead and coordinate risk teams across the agency, using a "bottom-up" approach for identifying risks within each program area. These teams will continue to map risks that cross divisional lines and serve as a resource for the risk management activities conducted by the divisions and offices.

ORA also will work to develop further the agency's risk assessment infrastructure. For example, the Office will propose and adopt new technological tools, enhance the internal risk teams, cultivate external partners, formalize the governance of the SEC's risk assessment efforts, and consider ways to build upon risk assessment activities in the regions and districts.

Office of Information Technology

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters	**97**	**113**	**117**
Cost: Salaries and Benefits ($000)	$11,943.4	$15,770.1	$16,702.2
Non-Personnel Expenses ($000)	$110,621.0	$117,616.4	$99,515.5
Total Direct Costs ($000)	**$122,564.4**	**$133,386.5**	**$116,217.7**

FY 2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
			✓

The Office of Information Technology (OIT) will undertake several significant projects in 2006. These projects, a few of which are highlighted below, will modernize existing processes or implement new tools and technology to support SEC staff in their work.

Electronic Data Gathering and Retrieval (EDGAR) and Disclosure Review: The current EDGAR contract will expire in June 2006. OIT staff will support the recompetition of this contract and ensure that the vendors who bid are able to meet the agency's strict requirements and high performance standards. Simultaneously, OIT and program offices will perform a comprehensive review of EDGAR's design and capabilities, beginning a multiyear modernization effort.

Enforcement and Examination Management: OIT will implement a redesigned case management system and a new examination management system in 2006. Staff also will employ new risk assessment tools in examinations and investigations.

Information Security and Disaster Recovery: The IT Security program will expand its intrusion detection and prevention capabilities. File servers and other servers from the field offices will be moved to the SEC's alternate data center and its facility in Alexandria, VA, so that the agency's information will be fully recoverable in case of disaster.

Office of Chief Accountant

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters	**47**	**57**	**59**
Cost: Salaries and Benefits ($000)	$7,893.1	$10,153.2	$10,751.1
Non-Personnel Expenses ($000)	$1,959.3	$3,207.5	$2,462.0
Total Direct Costs ($000)	**$9,852.4**	**$13,360.7**	**$13,213.1**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance with Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓	✓	✓	✓

The Office of Chief Accountant (OCA) is responsible for establishing and enforcing accounting and auditing policy to enhance the transparency and relevancy of financial reporting, and for improving the professional performance of public company auditors in order to ensure that financial statements used for investment decisions are presented fairly and have credibility. Concerns about the adequacy of accounting standards and the quality of independent audits have led to significant SEC and congressional actions, including passage of the Sarbanes-Oxley Act.

In 2006, OCA will continue its oversight of accounting standard-setting activities, including major ongoing Financial Accounting Standards Board (FASB) projects on revenue recognition and accounting for financial instruments. OCA also intends to monitor the FASB's implementation of recommendations directed at moving toward a more principles-based approach to setting accounting standards, along with the implications on accounting standard-setting resulting from its study on off-balance sheet transactions.

The staff will continue to coordinate efforts with the Division of Corporation Finance in the review and comment process for agency filings. In addition, OCA intends to review the expected influx of filings prepared on the basis of international accounting standards by foreign private issuers.

Finally, OCA will continue its extensive oversight of the Public Company Accounting Oversight Board (PCAOB), which is scheduled conduct quality reviews of approximately 350 firms, the same level as in 2005.

Office of Economic Analysis

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters	**22**	**26**	**26**
Cost: Salaries and Benefits ($000)	$4,314.8	$5,645.5	$5,755.9
Non-Personnel Expenses ($000)	1,030.2	1,550.6	1,773.7
Total Direct Costs ($000)	**$5,345.0**	**$7,196.1**	**$7,529.6**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓	✓	✓	

The Office of Economic Analysis (OEA) is the chief advisor to the Commission and its staff on all economic and empirical issues associated with the SEC's regulatory activities. OEA aspires to produce high quality analyses that address the economic issues associated with the regulation of our financial markets, and to convey that knowledge clearly and responsibly to those making policy decisions. In 2006, OEA will support the following top priorities.

Support of Rulemaking: OEA expects rulemaking initiatives to continue at the same pace as in 2005, as will the demand for assistance in Enforcement and Office of Compliance Inspections and Examination issues. OEA expects to review 100 SEC and SRO rules and conduct 85 regulatory flexibility analyses. The staff also will produce 225 memoranda and reports and provide economic advice on 900 regulatory and enforcement issues.

Risk Management: OEA will support the Commission's efforts in the area of risk management by providing empirical analyses and related expertise to the Office of Risk Assessment.

Data: OEA will continue to work with the Division of Corporation Finance in identifying and implementing risk assessment measures, including the use of XBRL technology that will tag financial data as it is reported and allow for more effective validation of the information.

Office of International Affairs

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters	**21**	**23**	**24**
Cost: Salaries and Benefits ($000)	$2,963.8	$3,714.0	$3,968.5
Non-Personnel Expenses ($000)	$1,022.6	$1,176.5	$1,409.7
Total Direct Costs ($000)	**$3,968.4**	**$4,890.5**	**$5,378.2**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓	✓		

To protect U.S. investors, the SEC works with foreign regulators to improve cross-border enforcement cooperation, advance global transparency and disclosure, supervise globally-active U.S. firms, and promote high regulatory standards around the world. The Office of International Affairs (OIA) works to achieve these objectives by negotiating and implementing information-sharing arrangements for enforcement cooperation, formulating regulatory policy for cross-border securities activities, and providing technical assistance to emerging markets.

In 2006, OIA will:

- Assist the Division of Enforcement with international cases and participate in international initiatives related to the supervision of the global securities markets.
- Make approximately 440 requests to foreign authorities for enforcement assistance, and handle approximately 430 requests from foreign authorities for enforcement assistance, reflecting 5% increases from 2005 levels.
- Participate in about 190 international initiatives to promote high regulatory standards and strengthen the global marketplace, up 6% relative to 2005 levels.
- Respond to approximately 300 technical assistance requests from foreign authorities, an increase of about 5% over 2005 levels.

Office of Equal Employment Opportunity

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters	**9**	**10**	**10**
Cost: Salaries and Benefits ($000)	$1,212.3	$1,440.8	$1,476.0
Non-Personnel Expenses ($000)	545.6	611.8	695.8
Total Direct Costs ($000)	**$1,757.9**	**$2,052.6**	**$2,171.8**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
			✓

Proactive prevention programs will remain a top priority for the Office of Equal Employment Opportunity (EEO) in 2006. EEO training modules to be offered to SEC managers and employees will include: Preventing Harassment, Training for National Treasury Employees Union (NTEU) Stewards, Overview Training for SEC Employees, Disability Law and Policy for SEC Managers and NTEU Stewards, and New Employee Orientation. The EEO Office will strengthen its mediation program to promote early resolution of disputes and improve outcomes for individuals involved in EEO conflicts. The strategic plan developed through the Diversity Initiative will position the SEC to become the Employer of Choice.

Office of the Inspector General

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters	**9**	**10**	**11**
Cost: Salaries and Benefits ($000)	$1,587.2	$1,958.5	$2,207.8
Non-Personnel Expenses ($000)	825.6	1,259.5	1,401.7
Total Direct Costs ($000)	**$2,412.8**	**$3,218.0**	**$3,609.5**

2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
			✓

The work of the Office of Inspector General is being driven by the rapid pace of significant internal and external changes affecting the Commission. Unprecedented budget growth, new hiring authorities, staff pay parity, a new performance appraisal system, unionization of its staff, and an upcoming move to a new headquarters building have had, or will have, a major impact on Commission operations. Moreover, after a period of unprecedented growth, the securities industry is now undergoing significant changes involving accounting, corporate governance issues, globalization, the impact of information technology on markets, and numerous other pressures. The Office continues to assess and mitigate impediments to the achievement of Commission goals and objectives.

Audits and Investigations: Although independent, the Office of Inspector General (OIG) supports the Commission and Congress in achieving their objectives in the oversight of the securities industry. Through audits, investigations, and inspections, the OIG helps improve the performance and accountability of Commission programs.

Rapid changes due to government initiatives and developments in the securities industry continue to pose operational risks to the Commission. The Office of Inspector General will use proposed staffing increases to conduct audits of the Commission's financial management and to handle an increased investigations workload. It plans to continue focusing on information technology and other operational risks, using an enhanced risk assessment process.

Office of the Administrative Law Judges

Executive Summary

	2004 Actual	2005 Estimate	2006 Request
FTEs: Headquarters	**11**	**11**	**11**
Cost: Salaries and Benefits ($000)	$1,408.8	$1,600.1	$1,639.4
Non-Personnel Expenses ($000)	439.4	492.7	594.5
Total Direct Costs ($000)	**$1,848.2**	**$2,092.8**	**$2,233.9**

FY 2006 Request: Applicability of SEC Strategic Goals			
Goal 1 Enforce Compliance With Federal Securities Laws	Goal 2 Sustain an Effective and Flexible Regulatory Environment	Goal 3 Encourage and Promote Informed Investment Decisionmaking	Goal 4 Maximize the Use of SEC Resources
✓			

Pursuant to the Administrative Procedure Act and the federal securities laws, administrative law judges preside at evidentiary hearings where the Commission has determined that public hearings are appropriate, in the public interest, and compatible with the protection of investors. The hearings are conducted in a manner similar to non-jury trials in the federal district courts.

In 2006, the administrative law judges plan to dispose of about 68 proceedings, issuing 23 initial decisions. The number of proceedings pending will be around 58.

Amendments to the Rules of Practice, effective July 17, 2003, were aimed at improving the timeliness of administrative proceedings. All orders instituting proceedings (OIP) now specify that the initial decision shall be filed with the Commission's Secretary either 120, 210, or 300 days from the date the OIP is served on the respondent. To accomplish this objective, the rules require submission of a signed settlement offer to the Commission by the respondent within 15 business days from when a stay is granted based on the parties' representation that they have reached an agreement in principle to settle, and submission of the signed offer of settlement and accompanying recommendation by the Commission staff within the next 20 business days. The amended rules announced a Commission policy strongly disfavoring requests for extensions, postponements, and adjournments. On April 19, 2004, the Commission amended the Rules of Practice further to provide that the time limits are tolled where a stay is granted at the request of a government official because of a pending criminal action arising out of the same or similar facts.