U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

November 15, 2023

The Honorable Gary Gensler
Chair
United States Securities and Exchange Commission

Financial Audit: Securities and Exchange Commission's FY 2023 and FY 2022 Financial Statements

Dear Mr. Gensler:

This report transmits the GAO auditor's report on the results of our audits of the fiscal years 2023 and 2022 financial statements of the United States Securities and Exchange Commission (SEC) and its Investor Protection Fund (IPF),[1] which is incorporated in the enclosed *U.S. Securities and Exchange Commission's Fiscal Year 2023 Agency Financial Report.*

As discussed more fully in the auditor's report that begins on page 58 of the enclosed agency financial report, we found

- the SEC and IPF financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;

- SEC maintained, in all material respects, effective internal control over financial reporting for SEC and for IPF as of September 30, 2023; and

- no reportable noncompliance for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

SEC is required by law to annually prepare and submit audited financial statements covering all of its accounts and associated activities to Congress and the Office of Management and Budget.[2] Further, the Securities Exchange Act of 1934, as amended in 2010 by section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires SEC to annually prepare and submit a complete set of audited financial statements for IPF to Congress.[3] In accordance with our authority to audit statements and schedules prepared by

[1]IPF was established in 2010 by section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). IPF funds the activities of SEC's whistleblower award program and the SEC Office of Inspector General Employee Suggestion Program established under sections 922 and 966 of the Dodd-Frank Act, respectively. Pub. L. No- 111-203, §§ 922(a), 966, 124 Stat. 1376, 1844, 1912-13 (July 21, 2010) classified at 15 U.S.C. §§ 78d4(e), 78u-6(b), (g). IPF is a separate SEC fund, and its financial statements present SEC's financial activity associated with these programs. Accordingly, IPF's financial transactions are also included in SEC's overall financial statements.

[2]31 U.S.C. § 3515.

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

executive agencies and their components,[4] we have audited the SEC and IPF financial statements.

Section 963 of the Dodd-Frank Act further requires that (1) SEC annually submit a report to Congress describing management's responsibility for internal control over financial reporting and assessing the effectiveness of such internal control during the fiscal year; (2) the SEC Chair and Chief Financial Officer attest to SEC's report; and (3) GAO assess the effectiveness of SEC's internal control over financial reporting and evaluate, attest to, and report on SEC's assessment.[5] Accordingly, this report also includes our reporting in response to the requirement under section 963 of the Dodd-Frank Act.

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We are sending copies of this report to the appropriate congressional committees. We are also sending copies to the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have questions concerning this report, please contact me at (202) 512-5683 or padillah@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,

M. Hannah Padilla

M. Hannah Padilla
Director
Financial Management and Assurance

Enclosure

[4]31 U.S.C. § 3521(g), (i).

[5]Dodd-Frank Act, § 963(a), (b), 124 Stat. 1910 (July 21, 2010) (classified at 15 U.S.C. § 78d-8(a), (b)).

U.S. Securities and Exchange Commission

FISCAL YEAR 2023

AGENCY FINANCIAL REPORT

Certificate of Excellence in Accountability Reporting

The U.S. Securities and Exchange Commission's (SEC) fiscal year (FY) 2022 Agency Financial Report (AFR) received the Certificate of Excellence in Accountability Reporting from the AGA for the 17th consecutive year. This award is presented to federal government agencies whose annual reports achieve the highest standards in demonstrating accountability and communicating results.

MESSAGE FROM THE CHAIR

OUR MISSION

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

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

For 90 years, the federal securities laws and our work to oversee them have played a crucial role for the public both in good times and in times of stress. The core principles of U.S. securities markets regulation have contributed to America's economic success and geopolitical standing.

At this remarkable agency, we serve investors building for a better future and issuers raising money to fund innovation, while overseeing the $110 trillion capital markets where they meet. The essence of this is captured in our work on behalf of investors, issuers, and the markets connecting them.

The SEC is the cop on the beat watching out for the investing and issuing public. The dedicated staff of this agency does extraordinary work with limited resources. In the face of significant growth in registrants, more involvement in our markets from individual investors, and increased complexity, the SEC's headcount actually shrank from FY 2016 through FY 2022. In FY 2023, we were approximately three percent larger than we were in FY 2016.

America is blessed with the largest, most sophisticated, and most innovative capital markets in the world. But we cannot take this for granted. Even a gold medalist must keep training.

That's why we're updating our rules for the technology and business models of the 2020s. We're updating our rules to promote the efficiency, integrity, and resiliency of the markets. We do so with an eye toward investors and issuers alike, to ensure the markets work for them and not the other way around. Further, we do so to help ensure the capital markets are worthy of the public's trust.

In the FY 2023 Agency Financial Report (AFR), you will learn more about these efforts—and the remarkable SEC staff who carry them out.

Our annual AFR also includes the results of an independent audit of our FY 2023 financial statements. The financial and performance data in this report are complete and accurate under the Office of Management and Budget guidance.

I think readers will continue to find that the SEC does a lot with limited resources. Our responsibility is vast. In addition to overseeing approximately 40,000 entities—including more than 17,000 registered funds, 15,000 investment advisers, 24 national securities exchanges, 99 alternative trading systems, 50 securities-based swap dealers, 3,500 broker-dealers, and seven active registered clearing agencies—the SEC also oversees credit rating agencies, the Public Company Accounting Oversight Board, the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investor Protection Corporation, and the Financial Accounting Standards Board. We also review the disclosures and financial statements of more than 7,800 reporting companies.

I am grateful to work alongside the more than 4,600 remarkable people at the SEC to promote the efficiency, integrity, and resiliency of the markets. On behalf of the Commission, I am honored to present this report.

GARY GENSLER
Chair
November 9, 2023

CONTENTS

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At the SEC, we work together to make a positive impact on the U.S. economy, our capital markets, and people’s lives.

Our mission requires tireless commitment and unique expertise from our staff of dedicated public servants who care deeply about protecting the investing public and others who rely on our markets to secure their financial futures.

SEC.GOV/ABOUT/MISSION

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INTRODUCTION

The SEC's FY 2023 AFR provides detailed financial and performance information that enables the President, Congress, and the public to assess the agency's accomplishments and understand its financial and operational picture. In lieu of a combined Performance and Accountability Report, the SEC will also publish an Annual Performance Report (APR) to provide a more in-depth review of strategic goals and performance results. The APR will be included in the FY 2025 Congressional Budget Justification Report available in 2024.

The FY 2023 AFR satisfies the requirements contained in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, and contains three main sections and supplemental appendices.

Management's Discussion and Analysis

Provides a high-level overview of the SEC—its history, mission, and organizational structure—and the agency's FY 2023 overall performance as related to its strategic goals and initiatives. This section also includes management's assurances on internal controls; an analysis of the SEC's financial position and operations; and the agency's FY 2024 outlook.

Financial Section

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

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

Other Information

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

Appendices

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

ex·chang·es
iks-'chānj-ēz

A place (physical or virtual) where securities traders come together to decide on the price of securities.

se·cu·ri·ties ex•change act of 1934
si-'kyu'r-ə-tēz iks-'chānj 'akt

A law governing the secondary trading of securities (stocks, bonds, and debentures) in the United States. It was this piece of legislation that established the SEC.

se·cu·ri·ties
si-'kyu'r-ə-tēz

Fungible and tradable financial instruments used to raise capital in public and private markets. There are primarily three types of securities: equity—which provides ownership rights to holders; debt—essentially loans repaid with periodic payments; and hybrids—which combine aspects of debt and equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides a high-level overview of the agency, its FY 2023 program and financial performance, and its FY 2024 outlook.

Mission, Vision, Values, and Goals

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

History and Purpose

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

Organizational Structure and Resources

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

Our Year in Review and the Year Ahead

Summarizes efforts made by the SEC in pursuit of its strategic goals in FY 2023, and details specific areas that the SEC will continue to focus on as part of its regulatory and oversight responsibilities.

Financial Highlights

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

Performance Highlights

Discusses the SEC's strategic and performance planning framework; the process used to verify and validate the performance results; the FY 2023 performance results by strategic goal; and key performance accomplishments.

Management Assurances and Compliance with Other Laws

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

Our Mission

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

Our Vision

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

Our Values

INTEGRITY

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

EXCELLENCE

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

ACCOUNTABILITY

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

TEAMWORK

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

FAIRNESS

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

EFFECTIVENESS

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

The SEC's Long-Standing Three-Part Mission Remains its Touchstone

THE CORE PRINCIPLES THE AGENCY has applied since its establishment are timeless:

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

Strategic Goals and Strategic Initiatives

STRATEGIC GOAL 1

Protect the investing public against fraud, manipulation, and misconduct

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

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

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

STRATEGIC GOAL 2

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

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

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

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

STRATEGIC GOAL 3

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

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

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

Strategic Initiative 3.3: Enhance the agency's internal control and risk management capabilities, including by the development of a robust and resilient program for dealing with threats to the security, integrity, and availability of the SEC's systems and sensitive data.

Strategic Initiative 3.4: Modernize the SEC's technology to enable the mission in a cost-effective, secure, and resilient manner.

History and Purpose

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

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

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

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

The SEC was established to regulate and enforce this legislation.

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

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

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

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

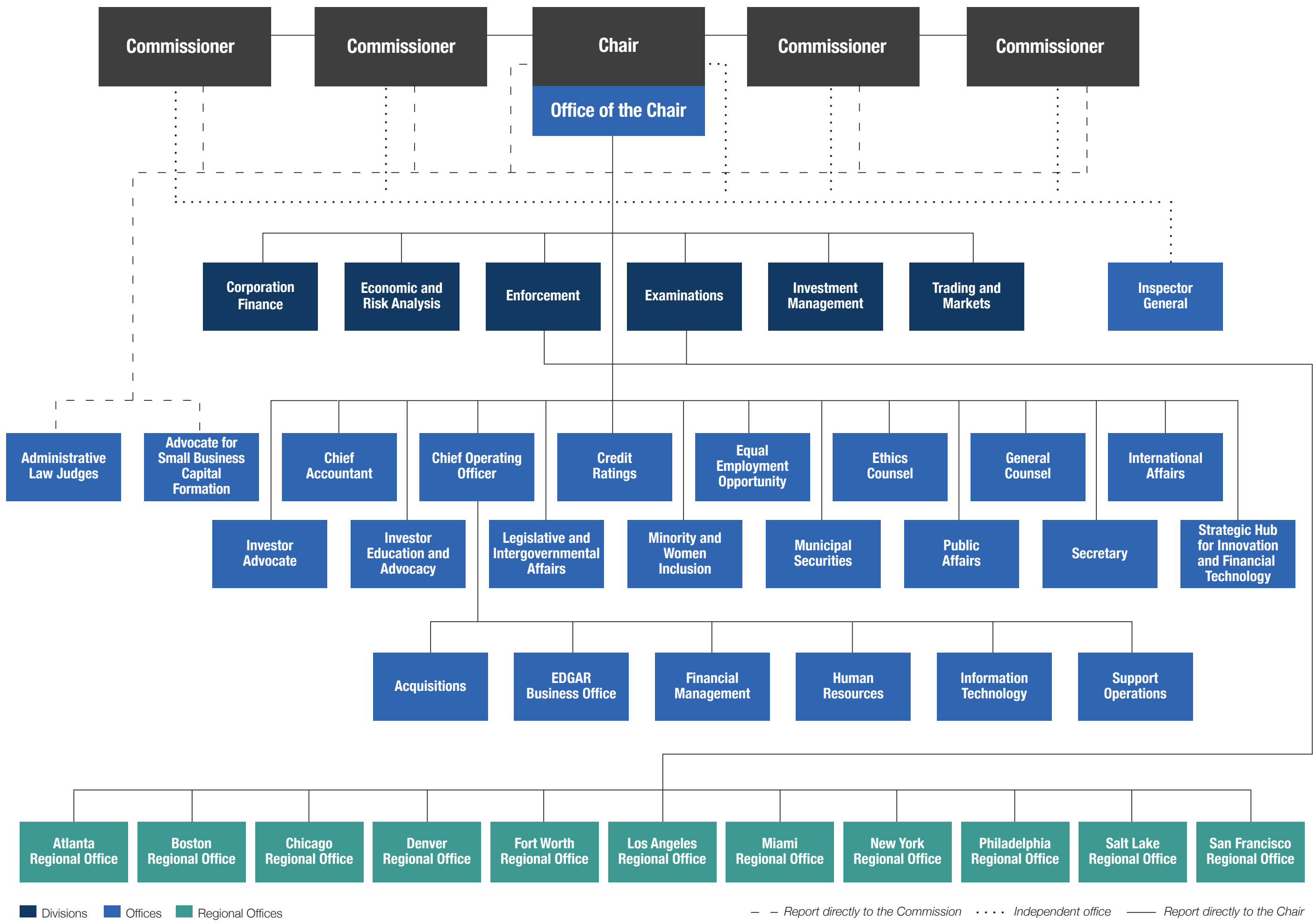
1 More information about the Securities Act of 1933 can be found at SEC.gov/about/about-securities-laws#secact1933.
2 More information about the Securities Exchange Act of 1934 can be found at SEC.gov/about/about-securities-laws#secexact1934.
3 More information about the Dodd-Frank Act can be found at SEC.gov/about/about-securities-laws#df2010.

Organizational Structure and Resources

The agency's functional responsibilities are organized into 6 divisions, 25 offices, and 11 regional offices. In FY 2023, the SEC employed 4,606 permanent full-time equivalents.

The following chart is accurate as of September 30, 2023.

Chart 1.1 | Organization Chart



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

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

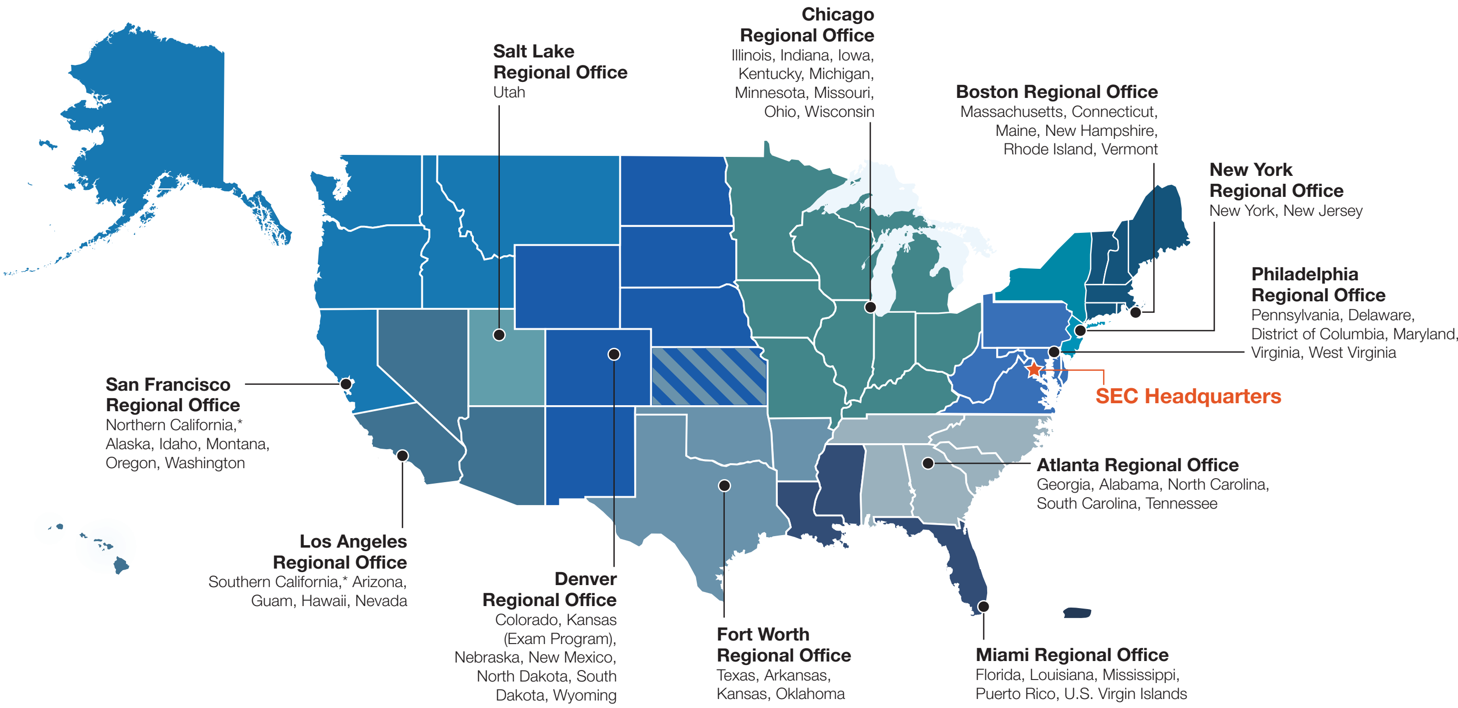
The Chair serves as the chief executive and, by law, no more than three of the Commissioners may belong to the same political party.

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

Office Locations

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

Chart 1.2 | Headquarters and Regional Office Locations



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

Programs

The SEC organizes its divisions and offices within the 10 major programs outlined below, which aligns with how the SEC presents its costs of operations by programs in the Statements of Net Cost on page 68. This is also consistent with the presentation used by the agency in submitting its budget requests.

Table 1.1 | SEC Programs and Program Descriptions

ENFORCEMENT	
Division of Enforcement	Investigates and brings civil charges in federal district court or in administrative proceedings based on violations of the federal securities laws. An integral part of this program's function is seeking penalties and the disgorgement of ill-gotten gains in order to return funds to harmed investors. Also within this program is the Office of the Whistleblower, which rewards individuals who provide the agency with tips that lead to successful enforcement actions.
EXAMINATIONS	
Division of Examinations	Conducts examinations of registrants such as investment advisers, investment companies, broker-dealers, self-regulatory organizations (SRO), transfer agents, and clearing agencies.
CORPORATION FINANCE	
Division of Corporation Finance	Helps investors gain access to materially complete and accurate information about companies and the securities they offer and sell, to facilitate capital formation and to deter fraud and misrepresentation in the public offering, trading, voting, and tendering of securities.
TRADING AND MARKETS	
Division of Trading and Markets	Supervises major market participants and conducts activities to maintain fair, orderly, and efficient standards that foster investor protection and confidence in the markets.
INVESTMENT MANAGEMENT	
Division of Investment Management	Administers the Investment Company Act of 1940[1] and Investment Advisers Act of 1940,[2] which includes developing regulatory policy for investment companies and for investment advisers, monitoring for risks and trends, reviewing regulatory and financial disclosures for compliance with regulatory requirements, and providing guidance to relevant market participants.
ECONOMIC AND RISK ANALYSIS	
Division of Economic and Risk Analysis	Provides economic analyses as part of the Commission's rulemaking process and assists its rule review, examination, and enforcement programs with data-driven, risk-based analytical methods.
GENERAL COUNSEL	
Office of the General Counsel	Serves as the chief legal officer of the Commission and provides independent legal analysis and advice to the Chair, Commissioners, and operating divisions on all aspects of Commission activities. This office also defends the Commission in federal district courts.

1 More information about the Investment Company Act of 1940 can be found at SEC.gov/about/about-securities-laws#invcoact1940.
2 More information about the Investment Advisers Act of 1940 can be found at SEC.gov/about/about-securities-laws#invadvact1940.

Table 1.1 | *Continued from previous page*

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

Table 1.1 | *Continued from previous page*

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

Fostering SEC's Supportive, Inclusive, and Fair Work Environment

THE SEC RECOGNIZES THAT PEOPLE ARE THE AGENCY'S MOST IMPORTANT ASSET. Building and maintaining a workforce that reflects a diversity of backgrounds and experiences, as well as the diversity of the investors and market participants it serves, is essential to the SEC's success in protecting the public and fulfilling its mission.

Employee Affinity Groups (EAG) are one example of how the SEC promotes effective interaction and collaboration throughout the agency and within our communities. EAGs focus on broadening employees' collective appreciation for the diverse world in which we live and work by championing workforce diversity, and endeavor to improve communication, opportunity, and understanding through education, training, and dialogue.

Group leaders and members:

- plan educational and cultural programs for SEC staff;
- participate in annual celebrations of history and heritage marked by national observances;
- host lunch-and-learn seminars;
- provide employee mentoring and development; and
- sponsor networking, outreach, and community service projects.

OUR YEAR IN REVIEW AND THE YEAR AHEAD

During FY 2023, the SEC advanced its three-part mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The following pages provide an overview of enforcement and examinations regimes; discuss policy initiatives; describe ongoing investor education and other outreach activities; and provide an overview of data and operations at the agency.

Division of Investment Management

The Division of Investment Management (IM) oversees the funds and advisers that steward nest eggs for millions of Americans. It oversees more than 30,000 entities—including more than 17,000 registered funds and 15,000 investment advisers. Overall, the combined assets managed by registered investment companies, private funds, and separately managed accounts the division oversees has surpassed $100 trillion.

To advance its work, IM's core activities include reviewing fund filings, providing rulemaking recommendations to the Commission, monitoring risks in the asset management industry, and consulting on enforcement matters.

With respect to filing review, IM staff in FY 2023 reviewed more than 1,900 filings related to more than 4,400 funds and insurance products. In addition, staff also reviewed annual reports—including financial statements—from more than 4,200 funds.

The division's rulemaking activity in FY 2023 was extensive.

IM made several rulemaking recommendations to enhance efficiency and competition in the asset management space. As one example, the Commission adopted final rules to require private fund advisers registered with the Commission to provide detailed disclosure to investors regarding fees, expenses, and performance. The final rules also addressed certain sales practices, conflicts, and compensation schemes of advisers to private funds.

Several of IM's rulemaking recommendations related to market integrity and disclosure. As one example, the Commission proposed an enhanced safeguarding rule for registered investment advisers. Congress in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) gave the SEC updated authorities to require investment advisers to safeguard all client assets over which they have custody—not just funds or securities. Thus, in FY 2023, the Commission proposed to expand and enhance the role of qualified custodians when registered investment advisers maintain custody of assets on behalf of their investors. IM continues to review public comment on the proposal.

The Rulemaking Process

THE STATUTES THAT PROVIDE the framework for the SEC's oversight of the securities markets generally are broadly drafted, establishing basic principles and objectives. To ensure that the intent of Congress is carried out in specific circumstances—and as the securities markets evolve technologically, expand in size, and offer new products and services—the SEC engages in rulemaking.

- Self-regulatory organizations of the U.S. securities industry, such as the stock exchanges, submit their own rulemakings to the SEC for review and public comment.
- Those who must comply with the federal securities laws may seek interpretations of those laws by SEC staff for specific occurrences and circumstances.
- The SEC also issues variety of orders, notices, and other releases related to securities statutes, including notices of meetings of the advisory committees created by regulations such as the Dodd-Frank Act.

Further related to integrity and disclosure, the Commission proposed rules to require firms to analyze conflicts of interest that may emerge when using predictive data analytics to interact with investors. The proposed rules would require firms to identify any such conflicts that result in an investor interaction that places the firm's interests ahead of investors' interests. Firms then would need to eliminate or neutralize the effects of those conflicts. Alongside the Division of Trading and Markets (TM), IM continues to review public comment on the proposal. In addition, the Commission proposed to update the offering process and disclosure requirements for financial products offered by the insurance industry called registered index-linked annuities, which, if adopted, would fulfill a mandate from Congress.

IM also made rulemaking recommendations to enhance the resiliency in the financial system. In FY 2023, the Commission adopted final rules to enhance money market funds' liquidity and investor protection. The final rules will enhance these funds' resiliency and ability to protect against dilution. As another example, the Commission finalized a rule amending Form PF to improve visibility into private funds, which will help protect investors and promote financial stability. Further, IM continues to review public comment on the Commission's proposal regarding open-end fund liquidity, as well as the Commission's joint proposal with the Commodity Futures Trading Commission to improve the quality of the information the SEC receives from all Form PF filers, with a particular focus on large hedge fund advisers.

With respect to monitoring developments and risks in the asset management industry, IM staff monitored a wide range of market developments during FY 2023—such as global market events and developments in the crypto markets.

As to crypto assets, IM staff continued to focus significantly on the investor protection implications of proposed mutual funds and exchange-traded funds (ETFs) seeking to invest in crypto asset-related investments. The staff continues to interact with funds seeking to employ blockchain technology in their operations.

Alongside other divisions and offices within the SEC, IM continues to monitor crypto asset trading, lending, and so-called "decentralized finance" (DeFi) platforms. In addition, alongside other SEC staff, IM continues to monitor "stablecoins." Stablecoins often are used either as collateral or to trade on various crypto asset intermediaries. Some stablecoins likely are offered or sold as part of an investment contract, and therefore implicate the federal securities laws, including those relating to investment companies.

Finally, IM staff support the Commission's examination and enforcement efforts to help ensure compliance with the federal securities laws.

Division of Trading and Markets

The Division of Trading and Markets (TM) oversees the securities markets that connect issuers to investors. TM serves the investing public through market monitoring and supervision, namely by overseeing exchanges, intermediaries, and certain gatekeepers.

The markets and the market participants that TM oversees represent a significant and growing number of both market transactions and trading volume. The division oversees more than 3,500 broker-dealers, 24 national securities exchanges, 99 alternative trading systems, 50 security-based swap dealers, and seven active registered clearing agencies, among other entities.

RULE 605

As part of Regulation National Market System (NMS), Rule 605 generally requires a market center that trades NMS stocks to make available to the public monthly electronic execution reports that include uniform statistical measures of execution quality.

In FY 2023, TM made numerous rulemaking recommendations to the Commission with respect to a wide range of market areas.

Several of these rulemaking recommendations were to enhance the efficiency and competition of market intermediaries. For instance, the Commission proposed four rulemakings in December 2022 regarding the $40 trillion equity markets, key aspects of which haven't been updated since 2005. First, the Commission proposed that broker-dealers meet a Commission best execution standard. Second, the Commission proposed updating a 23-year-old rule, known as Rule 605, regarding disclosure of order execution quality. Third, the Commission proposed to enhance competition by addressing possible trading advantages that off-exchange market centers have over national securities exchanges, such as through harmonizing and adjusting the minimum pricing increments that all trading venues use. Lastly, the Commission proposed to enhance competition for orders made by individual investors.

In addition, a number of TM's rulemaking recommendations related to market integrity and disclosure. As one example, the Commission adopted final rules regarding fraud and manipulation in the security-based swaps market, which was a mandate under the Dodd-Frank Act. In addition, the Commission implemented another Dodd-Frank Act mandate when it adopted a set of final rules to remove references to credit ratings from Rules 101 and 102 of Regulation M.

SHORT SALE

Any sale of a security that the seller does not own, or any sale that is consummated by the delivery of a security borrowed by, or for the account of, the seller.

Further, TM worked with IM on the rulemaking mentioned above regarding conflicts of interest that may emerge when firms use predictive data analytics to interact with investors.

Several TM rulemaking recommendations also addressed resiliency. For example, the Commission adopted a rule to shorten the settlement cycle in securities markets in half, which will lower risk, promote efficiency, and enhance liquidity. The Commission also finalized a rule to enhance cross-market and off-exchange oversight for some of the most active participants in the capital markets. Further, the Commission issued a proposal with regard to clearinghouse resilience, risk management, use of service providers, and recovery and wind-down plans.

The Commission also issued three separate proposals related to cybersecurity and technology resiliency in the financial sector—relating to Regulation S-P (alongside IM), new requirements to address cybersecurity risks for market entities, and Regulation Systems Compliance and Integrity (Regulation SCI).

TM staff continue to review public feedback on a wide range of proposals issued in FY 2022, such as matters related to the efficiency and resiliency of the Treasury markets. Those proposals address registering and regulating Treasury dealers and platforms, as well as facilitating greater clearing of treasuries in both cash and funding markets. Further, building on TM's FY 2023 review of public feedback regarding the proposals, the Commission in early FY 2024 adopted final rules in two areas related to Dodd-Frank Act mandates. One adoption will bring greater transparency to regulators and the investing public regarding short sale-related data, and the other will achieve similar goals for the securities lending markets.

Regarding crypto assets, TM along with various divisions and offices, continued to monitor crypto asset intermediaries. Given that most crypto tokens are subject to the securities laws, it follows that most crypto asset intermediaries have to comply with securities laws as well.

To help address rampant fraud, abuse, and noncompliance in the crypto asset space, TM staff provided assistance to the Division of Enforcement on many crypto asset matters and made certain rulemaking recommendations to the Commission. For example, the Commission issued a reopening release that reiterated the applicability of existing rules to platforms that trade crypto asset securities, including DeFi systems. This release also provided supplemental information for systems that would be included in a new, proposed exchange definition.

Division of Corporation Finance

The Division of Corporation Finance (CF) works to ensure that investors are provided with material information to make informed investment or voting decisions. Further, CF provides interpretive assistance to companies—large and small, public and private—as they navigate the requirements of the federal securities laws, particularly the Securities Act of 1933 and the Securities Exchange Act of 1934. Taken together, CF works to advance all three parts of the SEC's mission.

In FY 2023, CF made several rulemaking recommendations to the Commission.

VARIABLE INTEREST ENTITY

An organization in which consolidation is not based on a majority of voting rights.

To improve disclosure and enhance investor protection, the Commission adopted final rules related to how insiders buy and sell company stock, clawbacks of senior executives' compensation when based on materially misstated financials, and cybersecurity disclosures by public companies. Further, the Commission issued for public comment a rule proposal related to conflicts of interest regarding certain securitizations.

In addition, CF continued to evaluate public comment on rules proposed in FY 2022, including proposals focused on climate risk-related disclosures, special purpose acquisition companies (SPACs), and shareholder proposals. Over the course of FY 2023, CF developed—and in FY 2024, the Commission adopted—a set of final rules to shorten the deadlines by which beneficial owners must inform the public of their position.

Throughout the fiscal year, CF selectively reviewed offering documents and periodic reports from among the 7,800 public companies. CF also reviewed registration statements from companies seeking to become public. Due to recent initial public offering and SPAC surges, the number of public companies increased significantly, resulting in additional reviews of annual reports and transactional filings by newer reporting companies. In addition to reviewing and providing comments on these documents, CF issued public statements sharing the staff's views on how existing rules may require disclosure regarding the impact of Russia's invasion of Ukraine and disruptions in crypto asset markets. CF also reviewed disclosures made under recently implemented rules, such as the pay versus performance rules that became effective in FY 2023.

CF also continued to play an integral role in the agency's efforts to implement the Holding Foreign Companies Accountable Act (HFCAA) and ensure that investors have the information they need to make informed investment decisions with respect to investments in China-based issuers. During the year, CF issued guidance to assist China-based issuers with their disclosure obligations. CF also continued to issue comments designed to obtain enhanced disclosure for investors about key China-related matters, such as variable interest entity structures and risks. In addition, CF led the agency's efforts to identify public companies affected by the HFCAA and to ensure that the disclosures required by that statute were made by those issuers.

Division of Enforcement

The Division of Enforcement (ENF) serves as a cop on the beat on behalf of the investing public, working to address fraud, manipulation, and other abuses. Through holding wrongdoers accountable for violating the federal securities laws, ENF works to help ensure the markets are worthy of the public's trust.

In FY 2023, based on ENF's investigations and recommendations, the Commission filed a wide range of enforcement actions to protect the investing public.

CRYPTO ASSET

A digital asset that is issued and/or transferred using distributed ledger or blockchain technology, including, but not limited to, so-called "virtual currencies," "cryptocurrencies," "coins," and "tokens." A crypto asset may or may not meet the definition of a "security" under the federal securities laws.

ENF has continued to investigate and litigate possible violations of the federal securities laws in the growing and evolving crypto asset space. For example, the Commission charged the CEO and co-founder of FTX, alleging that he concealed the diversion of customer funds to a privately-held crypto hedge fund while raising more than $1.8 billion, including approximately $1.1 billion from U.S. investors. The Commission also charged an individual with orchestrating an attack on Mango Markets, alleging that he manipulated a so-called governance token. Further, the Commission brought enforcement actions alleging the unregistered offer and sale of securities through crypto asset lending programs, including a litigated action against Genesis and Gemini; a settled action ordering Nexo to pay a $22.5 million penalty; and a settled action ordering Kraken to cease its crypto asset staking-as-a-service programs.

To enforce compliance throughout the crypto ecosystem and address areas of investor risk, the SEC charged so-called crypto asset intermediaries, including Beaxy, Bittrex, Binance, and Coinbase, alleging that they operated as unregistered securities exchanges, brokers, and clearing agencies. Further, in the Binance matter, the SEC alleged that the firm defrauded investors about purported surveillance and controls over manipulative trading on its U.S.-based crypto asset trading platform, which were in fact virtually non-existent.

The SEC also brought enforcement actions against celebrities, athletes, and "influencers" for touting crypto asset securities without disclosing that they received compensation, including Kim Kardashian; Lindsay Lohan, Jake Paul, and Soulja Boy; and Paul Pierce.

Further, in FY 2023, ENF continued its evergreen focus on financial reporting and disclosures made to investors. ENF investigated and recommended several actions against gatekeepers responsible for preventing and detecting misconduct. For example, the SEC brought actions against multiple individuals and firms engaged in the critical gatekeeping function of auditing, including actions related to deficient audits of public companies and other registrants, and for more systemic issues in audit firms system of quality controls. In addition, the Commission charged a broker-dealer for violating recordkeeping requirements concerning its underwriting business and a fund administrator for missing red flags relating to a fraud against a private fund and its investors.

In addition, ENF investigated and recommended actions against investment advisers for violating investor protection rules. For example, the SEC filed actions against two related investment adviser firms for charging clients excessive advisory fees. In another matter, the SEC filed an action against an investment adviser for inflating the net asset values of its public mutual fund and private hedge fund as part of a massive overvaluation scheme. The SEC also brought several

first-of-their-kind cases involving investment advisers, including the first case enforcing the Liquidity Rule, which prohibits mutual funds from investing more than 15 percent of their net assets in illiquid investments. Further, the SEC brought the first cases charging violations of the amended Marketing Rule, which requires investment advisers advertising hypothetical performance to comply with requirements designed to prevent fraud.

The SEC's Whistleblower Program, created to incentivize individuals to report accurate and timely information about possible violations of federal securities laws, had yet another successful year. Eligible whistleblowers are entitled to awards of between 10 and 30 percent of monetary sanctions collected in SEC enforcement actions and certain related actions. Since the program's inception in 2011, the SEC has awarded more than $1.9 billion to whistleblowers. In FY 2023, the Commission awarded whistleblowers nearly $600 million, including an award of nearly $279 million, the SEC's largest ever.

To protect whistleblowers, ENF investigated, and the Commission charged, both public and private companies for violations of whistleblower protection rules, including when companies required employees to attest that they had not filed a complaint against the company with any federal agency or required employees to waive their rights to financial whistleblower awards.

Division of Examinations

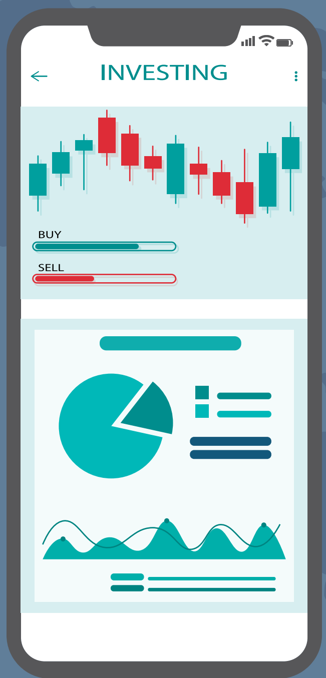
The Division of Examinations (EXAMS) serves on the front lines to help ensure market participants comply with the securities laws. Through its examinations, the division provides the Commission with valuable information to inform rulemaking, identify and monitor risks, improve industry practices, and pursue misconduct.

During FY 2023, EXAMS continued to prioritize reviews of practices, products, and services that present heightened risks to investors or market integrity, with a particular focus on risks to retail investors. Among other priorities, EXAMS conducted examinations concerning how firms satisfy their obligations under Regulation Best Interest and the fiduciary standard under the Investment Advisers Act of 1940 (Advisers Act). The division also focused on whether advisers, including advisers to private funds, have complied with the Marketing Rule under the Advisers Act. Additional priority areas in the fiscal year included information security and operational resiliency; crypto assets and emerging financial technology; Regulation SCI; and environmental, social, and governance investing.

The division also remained flexible and agile in its risk-based approach so that it could respond to various market events and challenges during the year. For example, EXAMS staff engaged closely with registrants to review operational and compliance challenges related to ongoing geopolitical events. Going forward, the division will continue to adjust examination priorities as appropriate to help carry out the SEC's mission.

In FY 2023, EXAMS published nine Risk Alerts as part of its continued efforts to raise awareness of critical compliance and industry risks, as well as to promote stronger industry compliance.

Tips for Investing in a Social World



REAL-TIME DISCUSSION PLATFORMS AND SOCIAL SENTIMENT may lead you to make emotionally driven or impulsive investment decisions.

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

Division of Economic and Risk Analysis

The Division of Economic and Risk Analysis (DERA) provides critical economic analysis to inform Commission activities such as examinations, enforcement, and policymaking. In FY 2023, DERA economists analyzed the economic effects of Commission and self-regulatory organization (SRO) rules; provided guidance in investigations and settlement negotiations; assisted in determining the amounts and feasibility of distributions to harmed investors; and provided testimony in litigated cases.

Collaborating with economists and other SEC staff, DERA data scientists engaged in several projects to enhance evidence-based decision-making within the Commission and to identify potential securities law violations by market participants.

Office of Investor Education and Advocacy

From participating in outreach campaigns to publishing Investor Alerts, Bulletins, and other new content on Investor.gov, the Office of Investor Education and Advocacy (OIEA) provides retail investors with knowledge and tools to help them build a secure financial future.

In FY 2023, OIEA and the SEC's 11 regional offices participated in more than 500 investor education events. Importantly, these outreach efforts targeted different segments of the population, including students, teachers, older investors, military service members and veterans, and traditionally underserved communities.

In October 2022, the SEC staff hosted outreach events during World Investor Week, a global effort promoted by the International Organization of Securities Commissions. SEC staff participated in nearly 60 outreach events. OIEA also promoted a new video featuring Chair Gensler regarding the risks inherent with celebrity endorsements of investment products and posted new videos to teach investors how to spot and avoid scams.

Also in FY 2023, OIEA unveiled a public service campaign focused on older investors. The campaign highlighted how older investors can continue to learn about investing for retirement, spotting fraud, and conducting due diligence on investment professionals.

Over the course of FY 2023, OIEA issued a variety of Investor Alerts and Bulletins to warn investors of possible fraudulent schemes and educate investors on a range of investing topics. For example, in March 2023, OIEA published an Investor Alert regarding investments that involve crypto asset securities (the most common complaint type that OIEA staff received in FY 2023 related to crypto assets). In response to the Hawaii wildfires, OIEA issued an Investor Alert regarding investment scams related to natural disasters. In addition, OIEA issued an Investor Bulletin jointly with the Financial Industry Regulatory Authority (FINRA) to help educate investors on the various ways they can hold their securities.

In FY 2024, OIEA will continue to prioritize engaging with new and inexperienced investors—particularly those who traditionally are underserved—on matters relating to crypto asset securities and beyond. OIEA also plans to expand its research efforts to improve retail investors' experience with the agency's online resources.

Office of the Advocate for Small Business Capital Formation

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

Throughout the year, OASB met with small businesses and their investors, as well as with entrepreneurial support organizations and other thought leaders. OASB did so through, among other things, 31 outreach events and onsite visits. Such engagement helped OASB both to develop its perspectives on issues facing the small business ecosystem as well as to share its educational resources with the small business community. Discussions provided insights on issues like the unique obstacles faced by women and minority entrepreneurs, the importance of building and gaining access to networks, and how to increase diversity among capital allocators.

In April 2023, OASB hosted the SEC's 42nd annual Small Business Forum. The virtual event took place over four days, bringing together more than 400 attendees, 12 speakers, and all five of the Commissioners. Many event attendees represented women- or minority-owned businesses. In September 2023, the SEC delivered a report to Congress summarizing the Forum, attendees' 20 capital raising policy recommendations, and the Commission's responses to those recommendations.

Over the course of the fiscal year, viewership of the SEC's Capital Raising Hub (the "Hub") increased by more than 40 percent. The Hub is the SEC's centralized portal for educational resources for small businesses and their investors. OASB continued to develop a wide range of new educational resources for the Hub.

Further, OASB provided administrative support to the SEC's Small Business Capital Formation Advisory Committee, which provides advice and recommendations to the Commission on rules, regulations, and policy matters relating to small businesses. The Committee met four times in FY 2023 and put forward recommendations relating to: (1) the market for companies going public; (2) promoting access to capital for founders, particularly underrepresented founders, who are building businesses outside of prominent entrepreneurial hubs; (3) equity research; and (4) the Commission's February 2022 proposal related to the regulation of private fund advisers. The Commission later adopted final rules regarding private fund advisers in August 2023.

A majority of the Committee members ended their four-year terms in April 2023, and the Committee shared a Parting Perspectives Letter that highlighted several objectives for the Commission to consider in carrying out its mission.

In FY 2024, OASB will continue to engage with small businesses and their investors to solicit views on relevant capital raising issues. OASB will also provide educational resources regarding the SEC's capital raising rules.

Office Hours with Gary Gensler

In "Office Hours with Gary Gensler," Chair Gensler breaks down for everyday viewers how the SEC works on behalf of investors, issuers, and the markets connecting them. Topics include crypto assets, the Treasury markets, celebrity endorsements, and more. Check out these short, informative videos by visiting the SEC's YouTube channel at youtube.com/c/SECViews.

Office of the Investor Advocate

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

During FY 2023, OIAD hosted more than 140 investor engagement activities, including investor-focused meetings, events, activities, and roundtables. In July 2023, for example, OIAD hosted a public roundtable jointly with the North American Securities Administrators Association and the Wisconsin Department of Financial Institutions. At the roundtable, investors, investigators, and regulators discussed identifying fraud and avoiding suspicious investments.

The Investor Advocate appoints an Ombuds to serve as a liaison to assist retail investors with questions or concerns relating to the Commission or SROs. In FY 2023, the Office of the Ombuds provided tailored guidance to more than 2,600 individuals who voiced questions or concerns. The Office of the Ombuds also submitted to ENF numerous allegations of securities law violations for review and potential action. Further, in response to complaints relating to mandatory arbitration, the Office of the Ombuds led a study of and completed a report on mandatory arbitration among registered investment advisers.

In March 2023, the Office of the Ombuds hosted its fourth annual Investor Advocacy Clinic Summit, where students and professors from law school investor advocacy clinics across the country engaged with SEC subject matter experts about issues impacting their retail investor clients. More than 1,800 viewers tuned in for the event's live outreach portion.

INVESTMENT ADVISER

A firm or person that, for compensation, engages in the business of providing investment advice to others about the value of, or investing in, securities—stocks, bonds, mutual funds, exchanged-traded funds, and certain other investment products—and/or in issuing reports or analyses regarding securities as part of a regular business.

In FY 2023, OIAD's Office of Investor Research (OIR) engaged in a number of research initiatives. Most significantly, collaborating with IM, OIR conducted extensive investor testing to inform the design of a new registration form for registered index-linked annuity products. This research fulfilled a Congressional directive to conduct such testing, helping ensure that a purchaser using the new form receives the information necessary to make knowledgeable decisions. OIR also published several Working Papers, published a research paper on the use of visual aids in mutual fund investment decisions, collaborated with other SEC divisions and offices, and contributed technical expertise to the Ombuds' mandatory arbitration study.

In FY 2023, OIAD's Office of the Chief Counsel (OCC) reviewed and analyzed the potential impact of approximately 38 Commission rulemakings and approximately 127 SRO rulemakings on investors. OCC also worked with various stakeholders to identify areas in which investors would benefit from changes in the regulations of the Commission.

The IAC advises and consults with the Commission on regulatory priorities, including initiatives to protect investor interests, promote investor confidence, and maintain market integrity. The IAC includes four subcommittees and one working group to help formulate its policies and recommendations. The Committee held four quarterly public meetings and approved six recommendations to the Commission in FY 2023.

In FY 2024, OIAD will continue engaging directly with retail investors through investor-focused meetings, events, activities, and roundtables. OIAD will monitor market events that may affect retail investors. Further, OIAD will continue to partner with other federal financial regulatory agencies and state regulatory agencies. Additionally, Ombuds staff will continue assisting retail investors regarding problems they may have with the Commission or with SROs.

Reshaping SEC Operations

In FY 2023, the SEC continued to work with the General Services Administration (GSA) to rightsize the agency's leasing footprint. In the last nine years, the SEC has shed 140,000 rentable square feet across SEC facilities. In FY 2023, the agency completed the closure of one of its headquarters office buildings in Washington, DC. As a result, the SEC will no longer pay rent, taxes, and operating expenses for that building, which totaled $14.9 million in FY 2023.

In March 2023, the SEC also began a new chapter of hybrid operations for the SEC with regard to in-office presence. The new policy has provided the SEC with the benefits of both in-person collaboration and telework.

Also in March, the SEC and the National Treasury Employees Union finalized the terms of a new Collective Bargaining Agreement, which covers a variety of topics important to SEC employees and managers, including telework, work schedules, leave, space, and employee benefits.

In FY 2024, the SEC will continue to reassess its nationwide space footprint. The agency currently is in the process of analyzing its revised space requirements at each of its office locations so it can make effective decisions for rightsizing while considering construction requirements and lease provisions with GSA.

IT Modernization and Security

During FY 2023, the SEC continued to enhance its new core cloud capability and enterprise data warehouse while also migrating applications and datasets into these new environments. Further, the agency worked to modernize several key systems, including applications supporting e-Discovery; tips, complaints, and referrals; and enforcement case management.

The SEC proposed to strengthen the security of the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system by instituting multi-factor authentication and designating an administrator to manage each filer's EDGAR account.

In FY 2023, the Office of Information Technology (OIT) successfully closed 24 Office of Inspector General prior-year IT-related audit recommendations.

In FY 2023, the SEC continued to take substantive steps to identify, assess, and mitigate cybersecurity risks. These actions included pursuing a Zero Trust Architecture Implementation Plan. The SEC further expanded internal network visibility and enhanced internal vulnerability scanning capabilities. These improvements are critical components of the SEC's capabilities to protect against and respond to malicious cyber activity. These activities will continue in FY 2024.

Data Improvements

In FY 2023, the SEC continued to develop an implementation plan regarding the Financial Data Transparency Act and the OPEN Government Data Act. These two statutes require the SEC to adopt data standards for information collection that improve the availability, utility, and quality of public data assets and to better engage public data users as a distinct customer base.

The SEC also published a comprehensive Data Strategy in FY 2023 that will help improve the quality of high-value data assets, such as data related to the Consolidated Audit Trail (CAT), crypto assets, and corporate financial data.

The implementation of the Data Strategy and the development of recommendations for an enterprise data quality program will continue in FY 2024. In FY 2024, the SEC will also continue to carry out its work to analyze CAT as well as other data assets.

Human Capital Investments

The SEC continues to foster and advance a top-tier work environment for all employees. The 2022 Federal Employee Viewpoint Survey, released during FY 2023, showed that the SEC remained an employer of choice across the federal government. The Partnership for Public Service named the SEC as the third-best place to work among midsized federal agencies, improving upon the agency's fifth-place ranking a year earlier.

In FY 2023, the SEC leveraged best practices, including data analytics, to advance human capital goals, such as filling mission-critical and technology-related roles. With funding provided by Congress, in FY 2023 the agency successfully hired 463 staff. The SEC also released a new strategic plan for diversity, equity, inclusion, and accessibility (DEIA), and SEC leadership continues to promote fair hiring practices as well as a diverse talent pipeline.

In FY 2024, the SEC will continue striving to operate a model Equal Employment Opportunity program. The Office of Equal Employment Opportunity (OEEO) looks forward to reviewing the upcoming report from the Office of Inspector General on OEEO programs, and to addressing its findings and recommendations.

Office of Minority and Women Inclusion

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

Through efforts led by OMWI, the SEC has continued to prioritize its commitment to DEIA. In FY 2023, OMWI led the effort to develop and finalize the SEC's FY 2023 – 2026 DEIA Strategic Plan, a collaborative effort with input across the Commission and the staff. The DEIA Strategic Plan aligns with the SEC FY 2022 – 2026 Strategic Plan's goal for the agency to support a skilled workforce that is diverse, equitable, inclusive, and fully equipped to advance agency objectives.

With OMWI's guidance, the SEC continued to promote equity and inclusion across the agency, such as through attracting, hiring, developing, and retaining high-quality staff from a variety of backgrounds. In FY 2023, the SEC participated in, hosted, or supported 81 diversity-related outreach and recruitment events, including hosting a Diversity Career Fair for attorney opportunities at the SEC. In addition, OMWI continued to communicate SEC priorities and provide avenues for underrepresented groups to engage in SEC policy discussions.

Additionally, the SEC continued to foster a workplace culture in which everyone feels they can bring their whole selves to work, serve the public, and advance in their careers. As part of the SEC's transition to a new chapter of hybrid operations, OMWI provided guidance to SEC managers and supervisors on how to remain mindful of bias and lead with empathy. Relatedly, OMWI offered two DEIA trainings regarding identifying and mitigating biases that may arise during the hiring process.

The SEC Employee Affinity Groups (EAGs) play an important role in the agency's workplace culture. In FY 2023, EAGs helped to plan, coordinate, and conduct 32 SEC-sponsored programs and activities to commemorate Special Observance heritage or awareness months.

Further, OMWI continued its outreach and technical assistance efforts to promote minority-owned, women-owned, and veteran-owned businesses. In addition, OMWI revised the self-assessment tool that entities may use to complete and submit volunteer self-assessments regarding their diversity policies and procedures.

In FY 2024, OMWI will assess the DEIA Strategic Plan's implementation and effectiveness, continue to expand its diversity initiatives such as through paid internship programs, and enhance the DEIA Assessment Program—a program intended to provide SEC divisions and offices with tools to advance DEIA within their teams. OMWI will also invite SEC-regulated market participants to submit self-assessments of their diversity policies and practices through the revised self-assessment tool.

FINANCIAL HIGHLIGHTS

This section provides an analysis of the financial position, results of operations, and the underlying causes for significant changes in balances presented in the SEC's FY 2023 financial statements.

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

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

Sequestration Order for FY 2023

On March 1, 2013, the President issued the Sequestration Order. As determined by the Office of Management and Budget (OMB), for FY 2023, the Sequestration Order was applicable to mandatory appropriations, which included the Reserve Fund and the IPF, as follows:

Reserve Fund

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

Investor Protection Fund

The budget authority of $660 million was reduced by 5.7 percent, or $38 million.

Overview of Financial Position

Assets. At September 30, 2023, the SEC's total assets were $13.6 billion, a decrease of $524 million, or 4 percent, from FY 2022.

Accounts Receivable, Net decreased by $1.4 billion primarily due to several large orders late in September of FY 2022 against several broker-dealers totaling $1.1 billion. As of the end of September of FY 2022, only $125 million was collected for this order, with the remainder collected during FY 2023.

Fund Balance with Treasury increased by $499 million. This is primarily due to increases in the SEC's Salaries and Expenses and IPF balances.

Investments increased by $327 million between FY 2022 and FY 2023. This is primarily due to increases in disgorgement and penalties collections invested, net of disbursements to fund administrators for planned distributions, and higher investment interest rates in effect during FY 2023 compared to FY 2022.

Chart 1.3 | FY 2023 Assets by Type

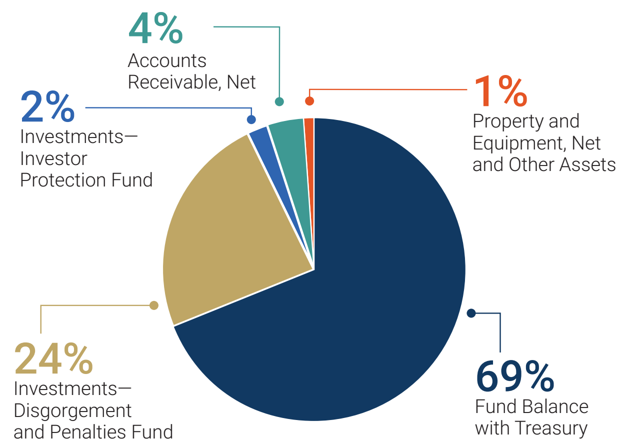


Table 1.2 | Assets as of September 30, 2023 and 2022

(DOLLARS IN MILLIONS)	2023	2022
Fund Balance with Treasury	$ 9,330	$ 8,831
Investments—Disgorgement and Penalties Fund	3,212	2,826
Investments—Investor Protection Fund	358	417
Accounts Receivable, Net	559	1,926
Property and Equipment, Net	107	92
Other Assets	11	9
Total Assets	**$ 13,577**	**$ 14,101**

Liabilities. At September 30, 2023, the SEC's total liabilities were $5.1 billion, a decrease of $918 million, or 15 percent, from FY 2022.

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

Custodial liabilities decreased by $910 million due to several large disgorgement orders from late September of FY 2022 that were collected during FY 2023. The largest order was against several broker-dealers totaling $1.1 billion. As of September 30, 2022, only $125 million had been collected for this order. The reduction in the liability is due to the collections for these orders being deposited to the U.S. Treasury General Fund.

Accounts payable increased by $300 million, mostly due to a $293 million increase in whistleblower awards payable as of September 30, 2023, compared to the previous year. Contingent liabilities decreased by $419 million. This balance represents a recognized liability for estimated whistleblower awards where the payment is considered probable. The SEC recognized estimated awards in the amount of $112 million that were probable as of September 30, 2023, while recognizing $531 million as of September 30, 2022.

Ending Net Position. The SEC's net position, comprised of both unexpended appropriations and the cumulative results of operations, increased by $394 million during FY 2023.

Chart 1.4 | FY 2023 Liabilities by Type

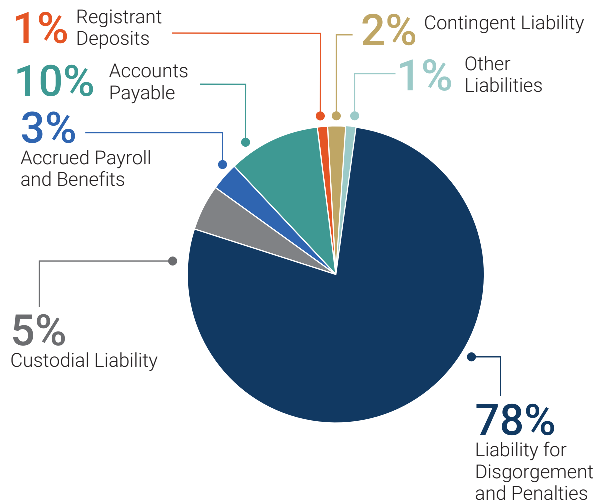


Table 1.3 | Liabilities as of September 30, 2023 and 2022

(DOLLARS IN MILLIONS)	2023	2022
Liability for Disgorgement and Penalties	$ 4,007	$ 3,900
Custodial Liability	244	1,154
Accrued Payroll and Benefits	167	166
Accounts Payable	510	210
Registrant Deposits	59	56
Contingent Liability	112	531
Liability for Non-Entity Assets	—	—
Other Liabilities	13	13
Total Liabilities	**$ 5,112**	**$ 6,030**

Results of Operations

Earned Revenues. Total earned revenues for the year ended September 30, 2023, increased by $116 million, or 5 percent, from FY 2022.

Filing fee revenue decreased by 9 percent during FY 2023 when compared to the prior year, due to a decrease in filing volume. The filing fee rate increased from $92.70 per million transacted in FY 2022 to $110.20 per million transacted in FY 2023.

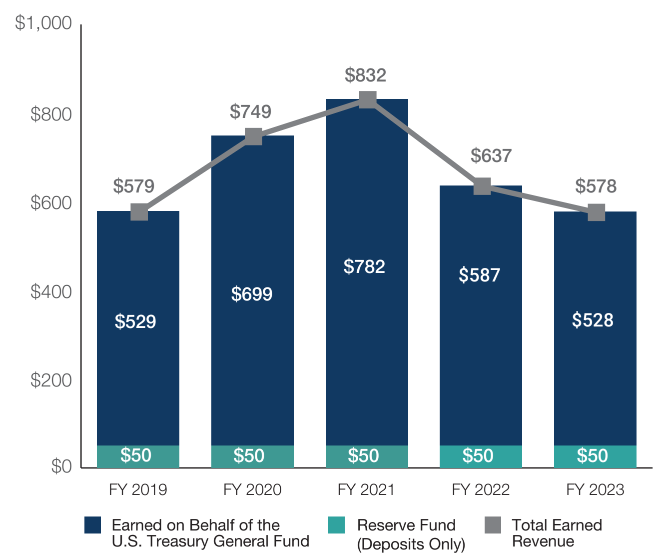
Section 31 fee revenue increased by $175 million primarily due to a higher average fee rate in effect for most of FY 2023 compared to the prior year, which was offset by a 14 percent decrease in transaction volume. For FY 2023, the SEC's Section 31 fee rate in effect was $22.90 per million through February 26, after which it was adjusted to $8 per million. During FY 2022, the fee rate in effect was $5.10 per million through May 13, 2022, when it was adjusted higher to the $22.90 per million rate.

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

Table 1.4 | Earned Revenues
For the years ended September 30, 2023 and 2022

(DOLLARS IN MILLIONS)	2023	2022
Section 31 Securities Transaction Fees	$ 1,974	$ 1,799
Securities Registration, Tender Offer, and Merger Fees (Filing Fees)	578	637
Total Earned Revenues	**$ 2,552**	**$ 2,436**

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



For the year ended September 30, 2023, filing fee revenues totaled $578 million. In FY 2023, $50 million of filing fee revenues was deposited into the Reserve Fund, of which $3 million was sequestered. The excess of $528 million was earned on behalf of the U.S. Treasury General Fund.

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

After FY 2023 deposits of $50 million, prior year sequestration totaling $3 million was returned, new FY 2023 sequestration totaling $3 million was recorded, and Reserve Fund resources totaling $54 million were obligated for the year ended September 30, 2023, leaving a remaining unobligated balance of $4 million of available resources at the end of FY 2023.

Program Costs. Total Program Costs were $2.4 billion for the year ended September 30, 2023, a decrease of $284 million, or 11 percent, compared to FY 2022. The decrease was primarily due to a decrease in net whistleblower costs between the current and prior fiscal year.

Chart 1.6 | FY 2023 Filing Fee Revenue
(DOLLARS IN MILLIONS)

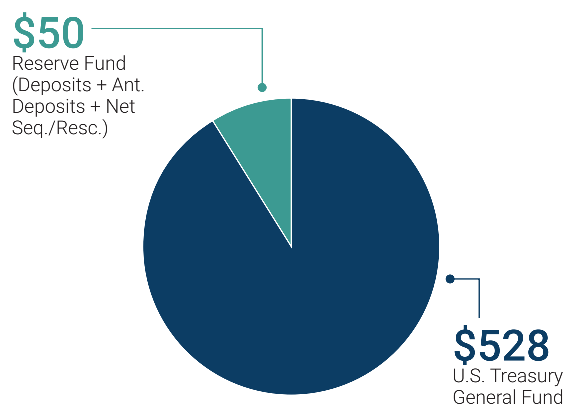
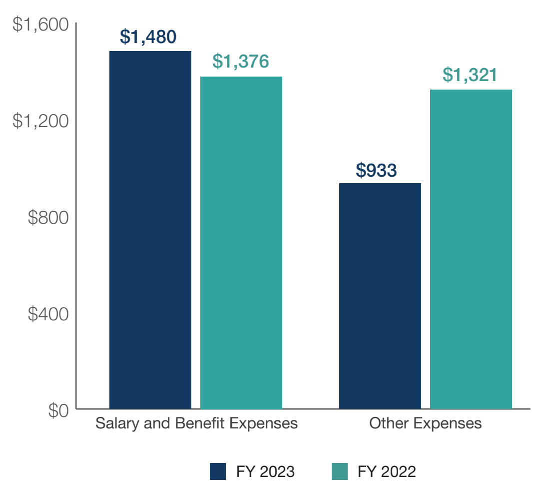


Chart 1.7 | Program Costs
(DOLLARS IN MILLIONS)



Budgetary Resources

For the year ended September 30, 2023, the SEC's total budgetary resources equaled $3.3 billion, a 23 percent increase from FY 2022.

Unobligated Balance from Prior Year Budget Authority. The increase in unobligated balance brought forward is a result of a $162 million increase in the IPF balance brought forward due to a reduction in whistleblower awards during FY 2022.

Spending Authority from Offsetting Collections. The increase in spending authority from offsetting collections ($574 million) is primarily due to an increase in the collection of Section 31 fees during FY 2023 compared to the previous year. This is mostly due to the higher fee rate in effect for most of FY 2023 compared to the previous year.

Chart 1.8 | FY 2023 Sources of Funds

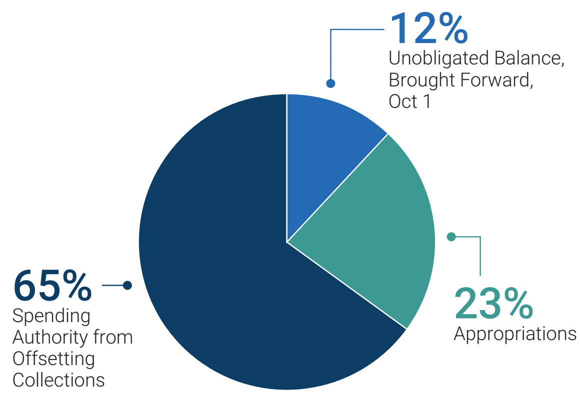


Table 1.5 | Total Budgetary Resources
For the years ended September 30, 2023 and 2022

(DOLLARS IN MILLIONS)	2023	2022
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)		
Salaries and Expenses Fund	$ 87	$ 94
Reserve Fund	9	6
Investor Protection Fund	306	144
Total Unobligated Balance, Brought Forward, October 1	402	244
Appropriations (Discretionary and Mandatory)		
Salaries and Expenses Fund	50	414
Reserve Fund	50	50
Investor Protection Fund	645	394
Spending Authority from Offsetting Collections	2,160	1,586
Total Budgetary Resources	**$ 3,307**	**$ 2,688**

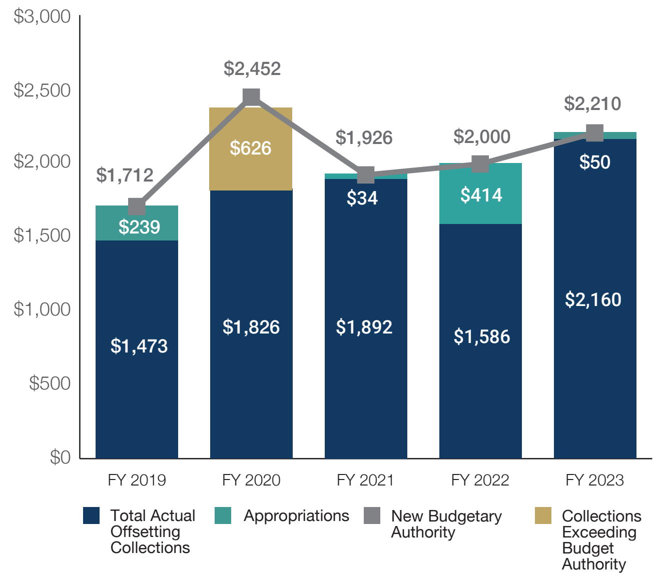
Spending Authority from Offsetting Collections and Appropriations

During the fiscal year, the SEC receives an appropriation to fund its operations. This appropriation establishes the SEC's new budget authority in its Salaries and Expenses Fund for the fiscal year. The SEC received new budget authority of $2.2 billion for FY 2023.

The SEC's Section 31 fee collections are used to offset the appropriation, and as the collections are received, the appropriated authority is returned to the U.S. Treasury General Fund. The SEC collected $2.160 billion in Section 31 transaction fees for the year ended September 30, 2023. The shortfall of $50 million between Offsetting Collections and Budget Authority were Appropriations received.

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

(DOLLARS IN MILLIONS)



Investor Protection Fund

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

For the year ended September 30, 2023, the balance of the IPF increased by $31 million when compared to the prior fiscal year.

During FY 2023, the SEC deposited $660 million: $643 million from IPF replenishments and $17 million from investment interest in Treasury securities. The SEC paid $322 million to whistleblowers, while $431 million in awards were accrued as payable, a $293 million increase from the prior year.

Also, $24 million in prior fiscal year sequestration was returned to the IPF and $38 million in FY 2023 funding was sequestered, resulting in a net sequestration totaling $14 million.

Limitations of the Financial Statements

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

Table 1.6 | Investor Protection Fund Activity
For the years ended September 30, 2023 and 2022

(DOLLARS IN MILLIONS)	2023	2022
Balance of Fund at Beginning of Fiscal Year, October 1	$ 306	$ 144
Amount Deposited Into or Credited to the Fund During the Fiscal Year	660	390
Amount Awarded but Unpaid During the Fiscal Year	(293)	56
Amount Paid from the Fund During the Fiscal Year to Whistleblowers	(322)	(287)
Net Sequestration	(14)	3
Balance of the Fund at the End of the Reporting Period*	**$ 337**	**$ 306**

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

PERFORMANCE HIGHLIGHTS

The SEC's performance data provides a foundation for both programmatic and organizational decision making, and is critical for gauging the agency's success in meeting its strategic goals. The SEC is committed to using performance management best practices to promote greater accountability. This section provides a summary table of all agency performance metrics by strategic goal and highlights a few key performance metrics for FY 2023. Overall, it outlines the SEC's strategic and performance planning framework and highlights the agency's progress toward reaching its performance targets.

The SEC's FY 2023 Annual Performance Report (APR) will be issued with the agency's FY 2025 Congressional Budget Justification Report, and will provide a complete discussion of the agency's strategic goals, including a description of performance goals and objectives, data sources, performance results and trends, strategic goal costs, and information about internal reviews and evaluations. The below summary of the SEC's verification and validation of all performance data will also be included in the APR. The SEC's APR is expected to be available in 2024 at SEC.gov/reports.

Strategic and Performance Planning Framework

The SEC's FY 2023 strategic and performance planning framework is based on the Commission's FY 2022–FY 2026 Strategic Plan. The Strategic Plan outlines the agency's mission, vision, values, strategic goals, and strategic initiatives. The SEC's work is structured around 3 strategic goals that also serve as its strategic objectives, as well as 10 strategic initiatives the agency plans to achieve in support of those goals and objectives.

Verification and Validation of Performance Data

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

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

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

PERFORMANCE AT A GLANCE

The following table summarizes the status of the SEC's performance—as measured by each individual performance goal (PG)—in support of the agency's 3 strategic goals and 10 strategic initiatives.

STRATEGIC GOAL 1

Protect the investing public against fraud, manipulation, and misconduct

Performance Goal	Measurement	FY 2023
PG 1. Percentage of enforcement actions in which the Commission obtained relief on one or more claims	Percentage	✗
PG 2. Percentage of Fair Fund and disgorgement fund plans that have distributed 80 percent of the available funds for distribution within 24 months of the approval of the distribution plan	Percentage	✓
PG 3. Percentage of investment advisers and broker-dealers examined during the year	Investment advisers	✓
	Broker-dealers	✓
PG 4. Number of regulatory initiatives to improve investor disclosure	Division of Corporation Finance	✗
	Division of Investment Management	✗
	Division of Trading and Markets	✓
PG 5. Percentage of disclosure-based regulatory initiatives that consider whether it would be appropriate to include a provision to structure disclosures (to the extent that the benefits justify the economic costs) to enhance comparability	Division of Corporation Finance	✓
	Division of Investment Management	✓
	Division of Trading and Markets	✓
PG 6. Investor Engagement Activities	Activities	✓

STRATEGIC GOAL 2

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

Performance Goal	Measurement	FY 2023
PG 7. Number of regulatory initiatives that enhance transparency in private markets or update the disclosure framework to reflect evolving technologies, business models, and capital markets	Division of Corporation Finance	✓
	Division of Investment Management	✗
	Division of Trading and Markets	✓
PG 8. Number of supervisory cooperation requests from foreign authorities for SEC assistance and SEC requests for assistance on supervisory cooperation from foreign authorities	Requests from foreign authorities	✓
	SEC requests for assistance	✓
PG 9. Percentage of supervisory engagements with broker-dealers and clearing agencies to address systemic and infrastructure risks	Percentage	✓
PG 10. Number of examinations that request information related to an entity's information security	Examinations	✗
PG 11. Percentage of Systemically Important Financial Market Utilities examined by the examinations program	Percentage	✓
PG 12. Number of new investor education materials on emerging and popular investment topics	New investor education materials issued	✓
	Users indicating a positive change	✓

STRATEGIC GOAL 3

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

Performance Goal	Measurement	FY 2023
PG 13. Results of Federal Employee Viewpoint Survey	*Best Places to Work* ranking[1]	N/A
PG 14. Index Results from SEC Federal Employee Viewpoint Survey: Diversity, Opportunity, and Employee Inclusion	Diversity and opportunity	✓
	Employee inclusion	✓
PG 15. Diversity Outreach	Events	✓
PG 16. Equal Employment Opportunity Compliance – Sentiment and Assessment	Positive rating on FEVS Q8[2]	✓
	Percentage of "yes" (or N/A) responses to EEOC questions[3]	✓
PG 17. Employee Views on Intra-Agency Collaboration	Cooperation (Q14)[4]	✓
	Knowledge share (Q17)[5]	✓
PG 18. Percentage of Plan of Action and Milestones (POA&Ms) closed within six months from identification	Percentage	✓
PG 19. Percentage of SEC information systems encrypting data-at-rest and encrypting data-in-transit, as reported per FISMA[6]	Data-at-rest	✓
	Data-in-transit	✓
PG 20. Timely completion of corrective actions responsive to audit findings	Submitted within 12 months	✓
	Not yet submitted within 12 months	✓
PG 21. Number of innovative or analytical models, tools, capabilities, platforms, and other solutions deployed or made available to SEC staff	Number	✗
PG 22. Percentage of FISMA[6]-reportable systems that are current (not legacy systems)	Percentage	✓

Note: For more detailed information, please refer to the SEC's FY 2023 APR, which will be available in 2024 at SEC.gov/reports.

✓ *Target met* ✗ *Target not met*

1 The Partnership for Public Service is expected to publish the FY 2023 *Best Places to Work* rankings in December 2023.
2 Federal Employee Viewpoint Survey Q8: "I can disclose a suspected violation of any law, rule or regulation without fear of reprisal."
3 As prescribed by the Equal Employment Opportunity Commission, 156 questions for evaluating whether agencies have in place policies and procedures necessary to support a Model EEO Program.
4 Federal Employee Viewpoint Survey Q14: "The people I work with cooperate to get the job done."
5 Federal Employee Viewpoint Survey Q17: "Employees in my work unit share job knowledge."
6 Federal Information Security Modernization Act

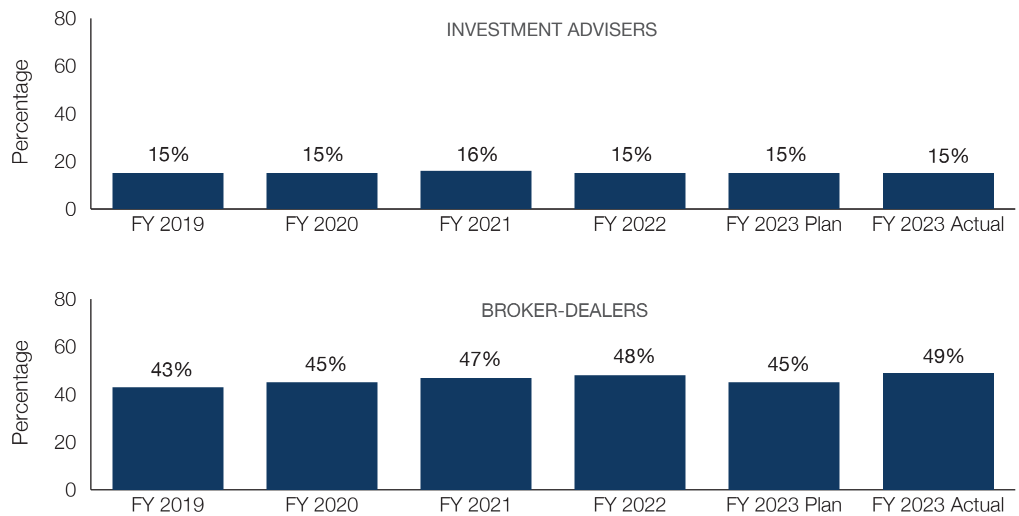
SELECT METRICS

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

Strategic Goal 1: Protect the investing public against fraud, manipulation, and misconduct

Chart 1.10

Performance Goal 3. Percentage of investment advisers and broker-dealers examined during the year



Description: Investment advisers (IA) and broker-dealers (BD) are critical market participants in terms of their interactions with retail investors. This metric indicates the percentage of IAs and BDs examined by the SEC or a self-regulatory organization (SRO) as a percentage of the total number of registrants. This metric takes into account all types of examinations, including, for example, risk priority examinations, cause inspections to follow up on tips and complaints, and limited scope special inspections to probe emerging risk areas.

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

Responsible Division/Office: Division of Examinations

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

The Division of Examinations (EXAMS) is dedicated to protecting the investing public by annually conducting thousands of examinations that promote compliance, prevent fraud, monitor risk, and inform policy. EXAMS implements a risk-based program designed to focus its resources on those firms, market participants, and practices that pose the greatest potential risk of securities law violations that can harm investors and the markets. The division's examinations are critical to helping the SEC in its efforts toward ensuring markets are free of fraud, manipulation, and other misconduct.

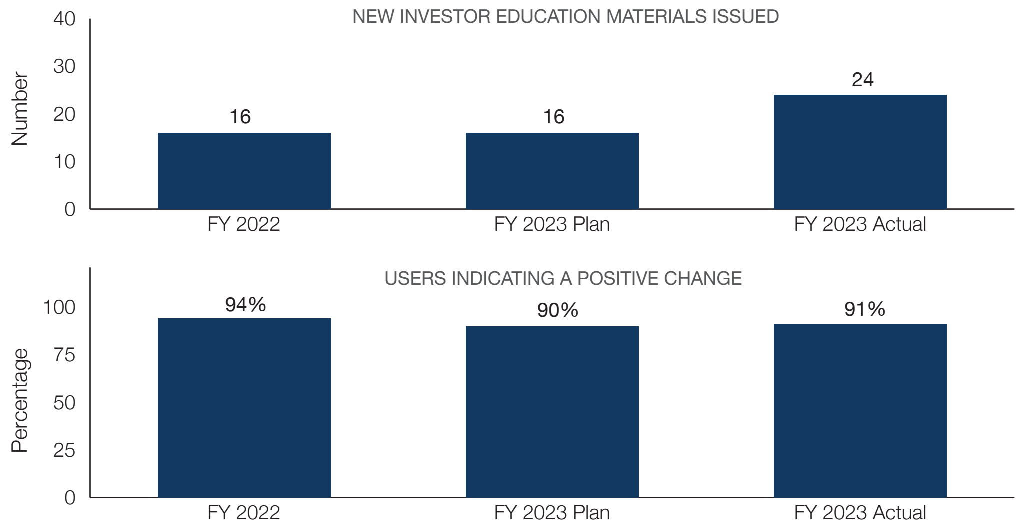
During FY 2023, EXAMS completed more than 3,100 examinations, a majority of which focused on key market participants interacting with the investing public, including investment advisers and broker-dealers. The division's examinations focused on important risk areas, including information security and operational resiliency, crypto assets and emerging financial technology, compliance with recently adopted rules (including those related to standards of care and adviser marketing), and additional areas representing significant risks to individual investors, such as the custody and safekeeping of client assets, conflicts of interest, and the activities of advisers to private funds. Overall, coverage rates in FY 2023 by the division and broker-dealer self-regulatory organizations met expectations—as illustrated in Chart 1.10—and reflect the continued emphasis on these important market participants.

In addition to conducting examinations, the program spent considerable time and attention during the year on other significant efforts focused on enhancing the protection of investors. This included engaging in various outreach efforts to promote compliance, working with rulemaking offices to inform policy, and other internal improvement initiatives intended to improve program performance. Going forward, EXAMS will continue to prioritize these efforts along with examinations of investment advisers and broker-dealers to assist the SEC in fulfilling its mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

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

Chart 1.11

Performance Goal 12. Number of new investor education materials on emerging and popular investment topics



Note: Data for FY 2019 – FY 2021 is not available.

Description: Through the Office of Investor Education and Advocacy (OIEA), and often in conjunction with other organizations, the SEC issues Investor Alerts and Bulletins to inform investors about different permutations of fraud, new investment products, and other topical issues. This metric measures: (a) the number of new investor education materials issued by OIEA; and (b) the percentage of users who indicated that the investor education materials may positively impact their behavior in the future.

Target: New Investor Education Materials Issued – Exceeded; Users Indicating a Positive Change – Exceeded

Responsible Division/Office: Office of Investor Education and Advocacy

Data Source: Investor.gov; Qualtrics Experience Management Platform

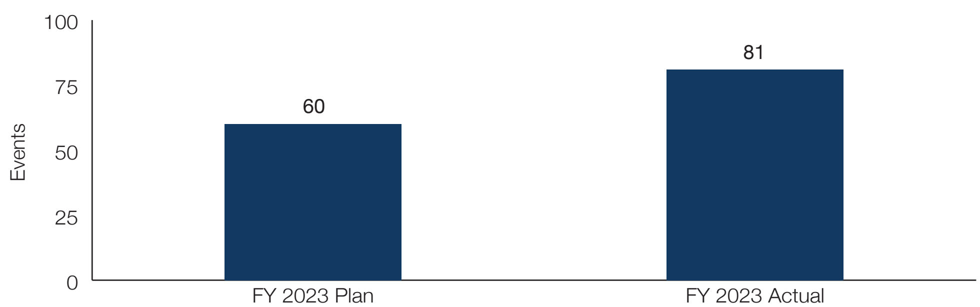
In response to significant developments and trends impacting retail investors, the SEC's Office of Investor Education and Advocacy (OIEA) led investor education initiatives focused on diverse and underserved communities as well as on emerging and popular investment topics, including publishing new investor education materials. To support these efforts, OIEA continued to gather information regarding the behavior of individual investors, the type of information they need and use when making investment decisions, and the usefulness of the SEC's investor education efforts and related programs.

As illustrated in Chart 1.11, in FY 2023, OIEA issued 24 Investor Alerts and Bulletins to warn investors of possible fraudulent schemes and educate them on other important investing topics. For example, in March 2023, OIEA published an Investor Alert urging investors to be cautious if considering an investment involving crypto asset securities. Later in the year, OIEA and the Financial Industry Regulatory Authority (FINRA) issued a joint Investor Bulletin to provide more clarity to individual investors about ways they can hold their securities. In response to the Hawaii wildfires, OIEA issued an Investor Alert on natural disasters and investment scams to remind investors that bad actors may use natural disasters to lure victims into investment scams, and that the fraudsters may directly target individuals receiving money from insurance companies or other sources. Ninety-one percent of respondents to Investor.gov's customer satisfaction survey indicated that the information from Investor Alerts and Bulletins may positively impact them in the future.

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

Chart 1.12

Performance Goal 15. Diversity Outreach



Note: Data for FY 2019 – FY 2022 is not available.

Description: This metric captures the number of SEC-wide diversity outreach recruitment events.

Target: Exceeded

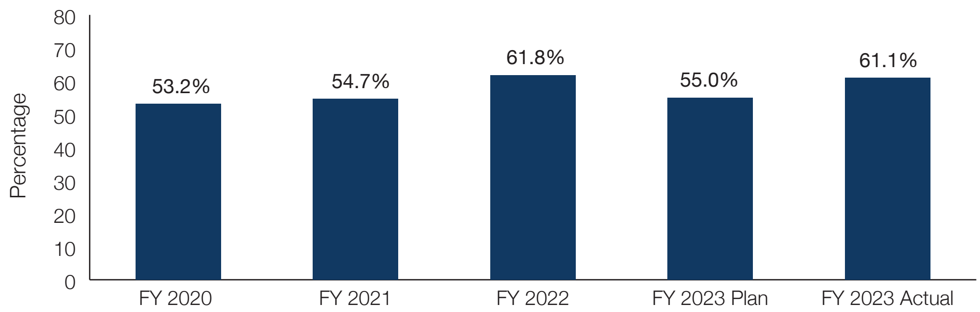
Responsible Division/Office: Office of Minority and Women Inclusion

Data Source: SEC Public Engagement and Outreach Tracker; Office of Minority and Women Inclusion Outreach Reporting Tracker

Enhancing workforce diversity remained a core focus for the SEC in FY 2023, and emphasis continued to be placed on strategic outreach and targeted recruitment. The Office of Minority and Women Inclusion (OMWI) maintained its dedication to building a talent pipeline that encompassed executives, professionals, recent graduates, and students in support of Strategic Initiative 3.1 of the SEC's FY 2022 – 2026 Strategic Plan to recruit staff with the right mix of skills, experience, and expertise that promotes diversity, equity, inclusion, and accessibility within the workforce. In pursuit of further diversifying this talent pool, OMWI took proactive measures during this year's critical hiring surge. The expansion of strategic diversity partnerships from the previous year allowed OMWI to utilize these relationships effectively, ensuring that its outreach and promotional efforts reached a broader yet more precisely targeted audience. Most notable was the inaugural Diversity Career Fair for attorneys, which was hosted at the SEC's headquarters and provided an opportunity for candidates from the partner organizations to directly engage with hiring managers and staff from various divisions and offices. As a result of this and countless other efforts in FY 2023, the SEC exceeded its outreach goal, as illustrated in Chart 1.12. OMWI played a pivotal role in this achievement by coordinating, participating, and/or facilitating the agency's involvement in more than 80 outreach events, with a clear focus on cultivating a diverse talent pool for careers within the SEC.

Chart 1.13

Performance Goal 18. Percentage of Plan of Action and Milestones (POA&Ms) closed within six months from identification



Note: Data for FY 2019 is not available.

Description: POA&Ms are corrective action plans for tracking and planning the resolution of vulnerabilities and risks associated with information security and privacy. They detail resources required to accomplish the elements of the plan, any milestones in meeting the tasks, and scheduled completion dates for the milestones to address threats to the security, integrity, and availability of the SEC's systems and sensitive data. Organizations implement a consistent process for developing POA&Ms that uses a prioritized approach to risk mitigation that is uniform across the organization. A risk assessment guides the prioritization process for items included in the POA&Ms. Risk mitigation resources include, for example, personnel, new hardware or software, and tools. (NIST SP 800-37, Rev 2)

Target: Exceeded

Responsible Division/Office: Office of Information Technology

Data Source: Information Securities — Enterprise Governance, Risk, and Compliance Capability

In accordance with Federal Information Security Modernization Act (FISMA) requirements and National Institute of Standards and Technology (NIST) guidelines, the SEC tracks information security control deficiencies, system vulnerabilities, and other information technology risks as plans of actions and milestones (POA&Ms). POA&Ms place an emphasis on continuous monitoring and management of cybersecurity risks to enable the SEC to leverage data and technology, both as an enterprise and within its individual programs, to gain efficiencies and inform policymaking. Monitoring and measuring POA&Ms' time-to-closure supports ongoing efforts to effectively manage risk.

As illustrated in Chart 1.13, in FY 2023, the Office of Information Technology closed 61 percent of POA&Ms within six months of their identification, thus exceeding the target goal of 55 percent. Achieving success for this performance goal is attributed to effective cross-organizational cooperation and mature governance efforts. Information system operations and development teams planned, tested, and implemented numerous actions to resolve POA&Ms for information systems within their purview. Oversight of these efforts is monitored using a near-real-time governance system and reported during routine status meetings that provide key stakeholders—including the Chief Operating Officer, Chief Information Officer, and Chief Information Security Officer—with ongoing awareness of progress toward closing POA&Ms. This monitoring and reporting also provides leadership with the opportunity to adjust priorities and resources, as necessary, to further support organizational risk management objectives.

MANAGEMENT ASSURANCES AND COMPLIANCE WITH LAWS

In FY 2023, the SEC demonstrated its continued commitment to maintaining strong internal controls. Internal control is an integral component of effective agency management, providing reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of reporting, and compliance with laws and regulations. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes management's responsibility to assess and report on internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The FMFIA requires federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable reports and to maintain accountability over the assets. The FMFIA also requires agencies to annually assess whether financial management systems conform to related requirements (FMFIA § 4). Guidance for implementing the FMFIA is provided through Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Appendix A, *Management of Reporting and Data Integrity Risk*.

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

Annual Assurance Statement

SEC management is responsible for establishing and maintaining an effective system of internal control that meets the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the SEC conducted its annual assessment of its system of internal control. Based on the results of this assessment, the SEC can provide reasonable assurance that its system of internal control over operations, reporting, and compliance was operating effectively as of September 30, 2023.

SEC management is also responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting. Based on the results of its annual assessment of internal controls, the SEC can provide reasonable assurance that internal controls and procedures over financial reporting were operating effectively during the year ended September 30, 2023.

The SEC also conducted reviews of its financial management systems in accordance with OMB Circular A-123 Appendix D, *Management of Financial Management Systems—Risk and Compliance*. Based on the results of these reviews, the SEC can provide reasonable assurance that its financial management systems substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 as of September 30, 2023.

GARY GENSLER
Chair
November 8, 2023

CARYN E. KAUFFMAN
Chief Financial Officer
November 8, 2023

Management's Assessment of Internal Control

The Chair and CFO's FY 2023 Annual Assurance Statement for FMFIA provides reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2023. The associated objectives are effective and efficient operations; compliance with applicable laws and regulations; and reliability of reporting.

The basis for management's assessment of, and assurance about, the SEC's system of internal control for FY 2023 was composed of multiple components. A central component was the sub-assurance statements provided by each division director and/or office head about their division or office's system of internal control. These statements were made based on each person's knowledge of their division or office's daily operations, and internal reviews supported by control testing, as well as recommendations for improvement from audits, investigations, and reviews conducted by the SEC Office of Inspector General (OIG) or GAO.

Management considered the contents of these sub-assurance statements along with other sources of information that included, but were not limited to, the following:

- An entity-level evaluation of the internal control system's adherence to the *Standards for Internal Control in the Federal Government*;
- Internal management reviews and self-assessments;
- Reviews of financial management systems under OMB Circular A-123 Appendix D, *Management of Financial Management Systems–Risk and Compliance*;
- Reports pursuant to the Federal Information Security Modernization Act (FISMA) and OMB Circular A-130, *Managing Information as a Strategic Resource*;
- Reviews on improper payments;
- Reviews that support compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act);
- Reports and other information from Congress or agencies such as OMB, the Office of Personnel Management, the Office of Government Ethics, and/or the General Services Administration (GSA) reflecting the adequacy of internal controls; and
- Additional reviews relating to a division or office's operations.

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

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

OVERVIEW OF SEC'S

Climate Risk Efforts

During FY 2023, the SEC strategically addressed climate risk—the risk of potential climate impacts on the SEC's infrastructure, operations, and financial position—through a framework that includes governance, strategic planning, and risk management.

Governance

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

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

- Advising on the agency's climate-related risks and potential mitigation techniques and the potential impacts on the SEC's strategic goals and annual budget;
- Elevating, as necessary, climate-related risks and mitigation opportunities to the Risk Management Oversight Committee (RMOC); and
- Providing guidance on, and monitoring the SEC's responses to, climate-related risks and opportunities.

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

The SEC has an internal program to assess and report climate risks, led by a degreed engineer who receives support from agency professional staff. The program lead is responsible for greenhouse gas (GHG) emissions data collection and reporting for the SEC, as well as providing recommendations to CSOC.

Strategic Planning

A critical element of the SEC's Strategic Plan is to protect two of the agency's most important assets: its people and its data. The SEC FY 2022 – 2026 Strategic Plan includes initiative 3.3, "Enhance the agency's internal control and risk management capabilities, including by the development of a robust and resilient program for dealing with threats to the security, integrity, and availability of the SEC's systems and sensitive data."

> A critical element of the SEC's Strategic Plan is to protect two of the agency's most important assets: its people and its data.

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

Risk Management

To mitigate the climate-related risks identified above, the SEC employs strategies to reduce the likelihood and impact of damage or disruptions to SEC assets or operations. These strategies include:

- Geographically dispersing regional offices;
- Utilizing GSA space which provides access to best practices and standards for design, construction, and building operations;
- Implementing SEC's design standards requiring regional offices to locate on the 2nd floor or above;
- Locating computer and filing rooms in building core areas;
- Designating alternate worksites for mission-essential functions;
- Maintaining data center redundancies and fail-over capabilities; and
- Transitioning to cloud computing.

> The SEC uses an electronic repository system for contract files that has decreased both the use of paper and the need for physical space in the headquarters building and off-site storage.

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

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

Sustainability Actions Taken and Underway

As part of its climate risk management and sustainability efforts, the SEC is conducting an inventory of its GHG emissions. The agency also has undertaken several efforts that will help promote sustainability, reduce emissions, or mitigate climate risks.

For example, in FY 2023, the SEC completed an office space consolidation project to reduce the headquarters footprint to better align with the agency's post-pandemic telework posture. As a result of this consolidation effort, the agency realized a 16.4 percent reduction in rentable square feet at its headquarters location. The smaller footprint yields rent savings as well as reduced GHG emissions from SEC facilities.

The SEC uses an electronic repository system for contract files that has decreased both the use of paper and the need for physical space in the headquarters building and off-site storage. As a result of this effort, the agency reduced its paper footprint while meeting federal records management mandates. For many of its IT and electronics hardware procurements, the SEC leverages the government's buying power through the use of Government-wide Acquisition Contracts and Federal Supply Schedules that include energy efficiency and sustainability requirements.

> The agency continues to use data centers that are optimized to meet energy savings as these vendor facilities are powered using 100 percent renewable energy.

The Commission continues to take action to reduce the use of paper by promoting electronic filings. In June 2022, the Commission adopted rule and form amendments that require certain Forms 144 to be filed electronically, for the reasons described in the release, and those amendments went into effect on April 13, 2023. The Commission also proposed rules requiring the electronic submission of certain other forms, filings, and materials under the Securities Exchange Act of 1934. Upon adoption, these amendments would help to further reduce paper submissions to the Commission.

The SEC adjusted the way it handles forensic information related to its enforcement activity. Previously, all forensic information received and produced was developed on hard media, with numerous hard disk drives required to maintain duplicate copies of the data. Further, these hard drives not only contained plastic, aluminum, and steel, but also trace quantities of lead, mercury, beryllium, thallium, and arsenic. Shredding a hard drive—the typical method for securely disposing of the drives—releases toxins such as polychlorinated biphenyls and polychlorinated dibenzodioxins. During FY 2023, the SEC moved to shared network resources, dramatically reducing the number of individual hard drives purchased, used, and disposed of by the SEC. The E-Discovery program also significantly decreased the volume of physical productions (e.g., data that are processed, analyzed, and reviewed) received from and provided to opposing parties for use in litigation, such as hard drives, DVDs/CDs, paper, and thumb drives, as a result of the program's move to electronic productions of data.

The agency continues to use data centers that are optimized to meet energy savings as these vendor facilities are powered using 100 percent renewable energy. The agency's transition to cloud computing and investments in virtualization technologies should help lower space and power consumption costs over time. In addition, the SEC's Office of Records Management Services made significant strides in supporting the SEC's transition to digital records and reducing the reliance on paper records.

Enterprise Risk Management

The SEC's Office of the Chief Risk Officer (OCRO) leads the agency's enterprise risk management (ERM) efforts, as required under OMB Circular A-123 and OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, and champions risk management throughout the agency. ERM assists the agency in achieving its strategic and operational objectives by providing an enterprise-wide approach for managing the most significant risks and challenges. The SEC employs a structured approach to identify enterprise risks that may arise from a variety of internal and external environments. Priority risks are categorized and documented by the SEC's RMOC in the SEC Enterprise Risk Profile.

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

The continued integration of internal controls and risk management is critical to the full implementation and success of a comprehensive enterprise risk framework. In FY 2023, the SEC initiated efforts to better understand risks to the SEC through improved operational risk management and internal control processes, and increased collaboration between OCRO and the SEC's divisions and offices. In addition, the RMOC continued to expand and improve its use of data in risk tolerance decision-making.

Other Reviews

The Payment Integrity Information Act of 2019

The Payment Integrity Information Act of 2019 (PIIA) updated government-wide improper payment reporting requirements by repealing and replacing all previous improper payment legislation. PIIA requires agencies to review all programs and activities they administer to identify those that may be susceptible to significant erroneous payments. For all programs and activities in which the risk of erroneous payments is significant, agencies are to estimate the annual amount of erroneous payments made in those programs. The SEC's risk assessments have consistently indicated that none of the agency's programs are susceptible to significant improper payments; therefore, per OMB guidelines, the SEC is required to conduct risk assessments every three years, or sooner if a program has a significant change in legislation, a significant increase in funding, or a determination of possible significant improper payments in the following year. The agency's latest risk assessment was conducted in FY 2022. The results of this assessment continued to support the determination that all of the SEC-evaluated programs are low risk. Based on these results, and consistent with OMB guidelines, the SEC did not conduct a risk assessment for FY 2023 and is not required to conduct another risk assessment until FY 2025.

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

Digital Accountability and Transparency Act of 2014/Data Quality Plan

The DATA Act (Pub. L. 113-101) was enacted to establish government-wide financial data standards to increase the availability, accuracy, and usefulness of federal spending information. The DATA Act requires that federal agencies report financial spending data in accordance with data standards established by the U.S. Department of the Treasury (Treasury) and OMB. The DATA Act requires federal agencies to disclose direct federal agency expenditures and link federal contract spending information to programs of federal agencies to enable taxpayers to track federal spending more effectively using USASpending.gov. In accordance with the DATA Act, the SEC formalized financial system and manual controls over the completeness and accuracy of federal spending data reported both internally and externally. The SEC submitted the mandatory monthly transmissions required in FY 2023.

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

Financial Management System Conformance

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that each agency implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The purpose of the FFMIA is to advance federal financial management by verifying that financial management systems provide accurate, reliable, and timely financial management information in order to manage daily operations, produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements. Although the SEC, as an independent agency, is exempt from the requirement to determine substantial compliance with the FFMIA, the agency assesses its financial management system annually for conformance with the requirements of OMB Circular A-123 Appendix D and other federal financial system requirements.

Summary of Current Financial System and Future Strategies

The FY 2023 assessment of the current financial system demonstrated that a low risk rating would be appropriate, and that the agency substantially complied with the requirements of Section 803(a) of the FFMIA. The SEC's financial system, Delphi, is supported by an approved Federal Shared Service Provider (FSSP) and meets all of the requirements of the FFMIA. In FY 2023, the SEC continued to work with its FSSP, the Department of Transportation's Enterprise Services Center, to enhance its existing system. The SEC believes that continuing to invest in technology-based solutions will further improve the sustainability of our controls.

Federal Information Security Modernization Act (FISMA)

FISMA requires federal agencies to "develop, document, and implement an agency-wide information security program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source." In addition, FISMA requires federal agencies to conduct annual assessments of their information security and privacy programs; develop and implement remediation efforts for identified weaknesses and vulnerabilities; and report compliance to OMB.

The SEC's Inspector General, Chief Information Officer (CIO), and Senior Agency Official for Privacy (SAOP) perform a multi-part review of the Commission's compliance with FISMA requirements each year. The OIG report is due one month following the close of the third quarter, and the CIO and SAOP reports are due one month following the close of the fiscal year.

Oversight[1] and Compliance

During FY 2023, the SEC's Office of Information Technology (OIT)—in partnership with OIT project teams, information system owners, and division/office business owners—completed security assessment and authorization activities for 60 FISMA reportable systems. OIT completed 270 privacy reviews in accordance with the Privacy Act of 1974, the Paperwork Reduction Act, the E-Government Act of 2002, and assessments required by OMB Circular A-130. As a result, OIT published 18 privacy impact assessments, 11 privacy assessment reports, and two Privacy Act statements for systems that collect, maintain, or disseminate personally identifiable information (PII).

OIT facilitated the remediation of 691 deficiencies via Plans of Action and Milestones (POA&Ms) associated with the SEC's assessments of its network infrastructure and major applications.

The SEC OIG performed the annual independent evaluation of the SEC's information security program, as required by the E-Government Act of 2002. During FY 2023, the OIG closed 24 prior-year IT-related audit recommendations. GAO performed the annual financial statement audit, which includes within its scope an audit of security controls for SEC financial management systems. OIT completed corrective actions for one prior-year IT-related GAO audit recommendation.

Governance and Technology

OIT continues to update governance procedures and processes consistent with OMB policy and National Institute of Standards and Technology guidance. In support of these efforts, OIT utilizes a centralized information security governance, risk, and compliance (GRC) management system to maintain the Commission's information system inventory, FISMA compliance data, POA&Ms, and incident tracking. OIT published significant updates to agency-wide policy regulations covering non-public information, acceptable use of technology, and user rules of behavior. OIT also continues to improve its operational security capabilities by maturing the Information Security Continuous Monitoring program and implementing zero trust cybersecurity principles in accordance with OMB M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles*. In coordination with the U.S. Department of Homeland Security's Cybersecurity and Infrastructure Security Agency (CISA), OIT achieved milestones established by OMB for the

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

implementation of the Continuous Diagnostic and Mitigation Dashboard program in support of ongoing federal government-wide initiatives to improve IT risk management activities.

The SEC continued to improve security through several key initiatives in FY 2023. OIT made improvements to security monitoring and logging in support of ongoing efforts to comply with OMB M-21-31, *Improving the Federal Government's Investigative and Remediation Capabilities Related to Cybersecurity Incidents*, as well as through the deployment of tools and techniques for enhancing application security, vulnerability scanning, and asset inventory. These initiatives will be key factors for moving to a Continuous Security Assessment and Authorization posture in FY 2024. OIT also made significant strides toward a zero trust architecture in line with OMB M-22-09 and CISA Zero Trust Maturity Model guidance. Efforts included a comprehensive network perimeter re-design, deployment of Secure Access Service Edge technology, and enforcement of multi-factor authentication for all SEC users.

Training and Communications

OIT delivered Privacy and Information Security Awareness (PISA) training to all SEC personnel during FY 2023. OIT continued utilizing robust processes to manage PISA compliance on a continuous basis using automation capabilities of the SEC enterprise learning management system, and ramifications (e.g., network access restrictions) were imposed for not completing the training on time. In October 2022, OIT Security conducted a four-part outreach series for Cybersecurity Awareness Month that educated SEC users on key cybersecurity topics using interactive online learning activities and communications. In January 2023, OIT Security launched SEC's inaugural Data Privacy Week, presenting an opportunity for all staff to engage in refresher training on the best practices for managing data privacy and safeguarding personally identifiable information (PII) maintained in SEC's information systems and records. Daily articles and interactive content highlighted topics covering PII, breach identification and response, encryption, and proper document destruction methods. In addition, OIT organized and hosted the agency's seventh annual Breach Response Team tabletop exercise to strengthen the agency's capabilities for strategically responding to a high impact breach. The office also initiated virtual instructor-led training with the Chicago Regional Office on the topic of "Protection of PII." This interactive course was designed to remind employees about their roles and responsibilities in safeguarding sensitive data, protecting SEC resources, and reporting privacy breaches.

OIT continued to promote information security and privacy awareness throughout the year via the agency's internal newsletter. For example, OIT conducted quarterly phishing exercises for all SEC employees and contractors, and advanced the complexity of the phishing exercises to further challenge staff and improve their ability to discern real messages from phishing attempts. The training modules were also updated, and personnel identified by these exercises as being susceptible to phishing were required to undergo supplemental phishing training in addition to meeting the annual security awareness training requirement. OIT continues to offer staff access to an industry-leading online platform for web-based training. Finally, OIT worked with SEC University to develop OIT learning channels for all staff and also assign learning paths for Cloud Product owners and Agile developers.

cus·to·di·al ac·tiv·i·ty
ˌkə-ˈstō-dē-əl ak-ˈti-və-tē

Revenue that is collected, and its disposition, by a federal agency on behalf of other entities is accounted for as a custodial activity of the collecting entity. SEC custodial collections include amounts collected from violators of securities laws as a result of enforcement proceedings.

con·tin·gent li·a·bil·i·ty
kən-ˈtin-jənt ˌlī-ə-ˈbi-lə-tē

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

ap·pro·pri·a·tion
ə-ˌprō-prē-ˈā-shən

Budget authority to incur obligations and to make payments from the Treasury for specified purposes.

FINANCIAL SECTION

This section contains the SEC's financial statements, the financial statements of the SEC's Investor Protection Fund (IPF), and additional information for FYs 2023 and 2022. Information presented here satisfies the financial reporting requirements of the Accountability of Tax Dollars Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). The SEC prepares these statements and accompanying notes in compliance with U.S. generally accepted accounting principles for the federal government and OMB Circular A-136, *Financial Reporting Requirements*.

SEC Financial Statements

Balance Sheets

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

Statements of Net Cost

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

Statements of Changes in Net Position

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

Statements of Budgetary Resources[1]

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

Statements of Custodial Activity

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

Accompanying Notes to the Financial Statements

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

Required Supplementary Information (Unaudited)[2]

Reports the Combining Statements of Budgetary Resources by fund account.

IPF Financial Statements

IPF Financial Statements

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

Accompanying Notes to the IPF Financial Statements

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

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

“Sound financial management is the cornerstone of effective and prudent stewardship of the taxpayer resources. I am proud of the hard work, skill, and dedication of the staff over the past year on the agency’s budgetary performance, internal controls, and financial reporting.”

CARYN E. KAUFFMAN, CFO

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to join Chair Gensler in presenting the SEC's Agency Financial Report (AFR) for FY 2023 and hope you will find this report a useful summary of our performance results and financial statements.

Our independent auditor, the U.S. Government Accountability Office (GAO), issued an unmodified opinion on the SEC's financial statements and internal controls. As noted in GAO's report on the internal controls over the Investor Protection Fund (IPF), we had a significant deficiency during FY 2023 related to the improper deposit of amounts into the fund over multiple months totaling approximately $8.4 million. Corrective actions were taken prior to the end of the fiscal year, including transferring out the excess funds. More specifically, since the evaluation of collections eligible for deposit is performed daily and is a very manual process, the SEC added additional review processes to its internal controls over the analysis of eligible collections to be deposited into the IPF. These additional controls resulted in the remediation of this significant deficiency as of September 30, 2023. The SEC recognizes the importance of a strong system of internal controls in achieving sound financial reporting. The financial statements, financial analysis, and highlights of the agency's performance within this AFR demonstrate how the SEC uses its financial resources to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

Among our accomplishments during the past year was the successful implementation of the Treasury's Bureau of the Fiscal Service G-Invoicing platform, which will enhance government-wide financial management and improve the quality of intragovernmental (IGT) transactions. Providing a common platform and data standard will facilitate reconciliation of IGT activities and elimination of accounting differences from the Financial Report of the U.S. Government.

We continue to focus on technology advancements to improve our financial operations. In FY 2022, the Commission adopted the Filing Fee Disclosure and Payment Methods Modernization rule to improve the accuracy and efficiency of filing fee payments. The rule discusses additional validation measures to help promote greater accuracy of fee calculations, and the system enhancements to implement those measures are being developed. Registrants now have the option to submit test filings prior to the effective date for large, accelerated filers in January 2024. The rule will be incrementally phased in for all filers through 2025.

Sound financial management is the cornerstone of effective and prudent stewardship of the taxpayer resources. I am proud of the hard work, skill, and dedication of the staff over the past year on the agency's budgetary performance, internal controls, and financial reporting.

Sincerely,

CARYN E. KAUFFMAN
Chief Financial Officer
November 9, 2023

REPORT OF INDEPENDENT AUDITORS

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

Independent Auditor's Report

To the Chair of the United States Securities and Exchange Commission

In our audits of the fiscal years 2023 and 2022 financial statements of the United States Securities and Exchange Commission (SEC)[1] and its Investor Protection Fund (IPF),[2] we found

- the SEC and IPF financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;

- SEC maintained, in all material respects, effective internal control over financial reporting for SEC and for IPF as of September 30, 2023; and

- no reportable noncompliance for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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

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[1]Section 963 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires that (1) SEC annually submit a report to Congress describing management's responsibility for, and assessing the effectiveness of, internal control over financial reporting during the fiscal year; (2) the SEC Chair and Chief Financial Officer attest to SEC's report; and (3) GAO assess the effectiveness of SEC's internal control over financial reporting and evaluate, attest to, and report on SEC's assessment. Pub. L. No. 111-203, § 963(a), (b), 124 Stat. 1376, 1910 (July 21, 2010) classified at 15 U.S.C. § 78d-8(a), (b). SEC evaluated its internal control over financial reporting in accordance with the Office of Management and Budget's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982.

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

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

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

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

Opinion on the Financial Statements

SEC is required by law to annually prepare and submit audited financial statements covering all accounts and associated activities of the Commission to Congress and the Office of Management and Budget.[5] Further, the Securities Exchange Act of 1934, as amended in 2010 by section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires SEC to annually submit a complete set of audited financial statements for IPF to Congress.[6] IPF's financial transactions are also included in SEC's overall financial statements. In accordance with our authority to audit statements and schedules prepared by executive agencies and their components,[7] we have audited the SEC and IPF financial statements.

SEC's financial statements comprise the balance sheets as of September 30, 2023, and 2022; the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the financial statements. IPF's financial statements comprise the balance sheets as of September 30, 2023, and 2022; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

In our opinion, SEC's financial statements present fairly, in all material respects, SEC's financial position as of September 30, 2023, and 2022, and its net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles. In our opinion, IPF's financial statements present fairly, in all material respects, IPF's financial position as of September 30, 2023, and 2022, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

In accordance with the Dodd-Frank Act, we have assessed the effectiveness of SEC's internal control over financial reporting, evaluated SEC's assessment of such effectiveness, and are attesting to and reporting on SEC's assessment of its internal control over financial reporting.

We also have audited SEC's internal control over financial reporting as of September 30, 2023, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In our opinion, SEC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023, for SEC and for IPF, based on criteria established under FMFIA. As discussed below in more detail, our 2023 audit identified deficiencies in SEC's controls over transfers to the IPF that collectively represent a significant deficiency in SEC's internal control over financial

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[5] 31 U.S.C. § 3515.

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

[7] 31 U.S.C. § 3521(g), (i).

reporting during fiscal year 2023.[8] We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on SEC's fiscal year 2023 financial statements.

In addition to the significant deficiency in internal control over transfers to the IPF, we also identified other deficiencies in SEC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant SEC management's attention. We have communicated these matters to SEC management and, where appropriate, will report on them separately.

Significant Deficiency in Internal Control over Transfers to the Investor Protection Fund

During our fiscal year 2023 audit, we identified control deficiencies over SEC's process for identifying and depositing eligible collections of monetary sanctions into the IPF, which led to errors in the amount of funds available in the IPF. Because of these deficiencies, SEC was unable to reasonably assure that collections transferred into the IPF were appropriate.

When the IPF balance is equal to or below $300 million, SEC identifies eligible collections to transfer to the IPF until the balance exceeds $300 million.[9] During our testing, we found several instances where SEC transferred collections when the balance exceeded $300 million.[10] The errors occurred in four of the twelve months we reviewed. These errors were due to a formula error in the funds identification workbook and inadequate supervisory review of the workbook. The funds identification workbook identifies the Fund Balance with Treasury and investment amounts at the case action level that are available to transfer to the IPF.

SEC agreed with the errors identified and corrected the amount recorded in the IPF during fiscal year 2023. SEC also revised their controls over the transfers for the months of August and September to address the deficiencies. We tested the control activities in August and September and found that SEC had remediated the identified control deficiencies.

While remediated as of September 30, 2023, these issues collectively represent a significant deficiency in SEC's internal control over financial reporting during fiscal year 2023.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial

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

[9]Collections of Enforcement-related monetary sanctions must be deposited into the IPF when funding provisions in section 21(g)(3) of the Securities Exchange Act of 1934 (classified as amended at 15 U.S.C. § 78u-6(g)(3)) are triggered.

[10]The balance of the IPF is reported on the Unobligated Balance, End of Year line item on the IPF Statement of Budgetary Resources.

Reporting section of our report. We are required to be independent of the SEC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Management is responsible for

- the preparation and fair presentation of SEC's and IPF's financial statements in accordance with U.S. generally accepted accounting principles;
- preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles;
- preparing and presenting other information included in SEC's agency financial report, and ensuring the consistency of that information with the audited financial statements and the RSI;
- designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- assessing the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and
- its assessment about the effectiveness of internal control over financial reporting as of September 30, 2023, included in the accompanying Management's Report on Internal Control over Financial Reporting.

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

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether effective internal control over financial reporting was maintained in all material respects, and (2) issue an auditor's report that includes our opinions.

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audits.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances.

- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered SEC's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Perform other procedures we consider necessary in the circumstances.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are to provide reasonable assurance that

- transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and

- transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

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

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

SEC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in SEC's agency financial report. The other information comprises the Inspector General's Statement on Management and Performance Challenges, Summary of Financial Statement and Audit and Management Assurances, Payment Integrity Reporting Details, and Civil Monetary Penalty Adjustment for Inflation, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

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

In connection with our audits of SEC's and IPF's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2023 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to SEC and IPF. Accordingly, we do not express such an opinion.

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

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

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

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to SEC and IPF that have a direct effect on the determination of material amounts and disclosures in SEC's and IPF's financial statements and perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to SEC and IPF. We caution that noncompliance may occur and not be detected by these tests.

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

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

Agency Comments

In commenting on a draft of this report, SEC stated that it is pleased that GAO found that its financial statements and notes were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. SEC recognized the significant deficiency reported and stated that SEC staff put corrective actions in place to remediate the significant deficiency by September 30, 2023. The complete text of SEC's response is reprinted in enclosure I.

M. Hannah Padilla

M. Hannah Padilla
Director
Financial Management and Assurance

November 9, 2023

ENCLOSURE I: MANAGEMENT'S RESPONSE TO AUDIT OPINION

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

OFFICE OF THE CHAIR

November 9, 2023

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

Dear Ms. Padilla:

Thank you for the opportunity to review and comment on the draft audit report of the Government Accountability Office (GAO). I am pleased that the GAO's FY 2023 audit found that the Securities and Exchange Commission's (SEC) financial statements and notes were presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles.

I appreciate the important role that the GAO's audit plays in evaluating financial reporting and internal controls practices. We remain committed to sound financial management and strong internal controls.

Although GAO noted a significant deficiency in our internal controls over the deposits of collections into the Investor Protection Fund during the fiscal year, SEC staff immediately put corrective actions in place to remediate the significant deficiency by September 30, 2023. We recognize the role a strong internal control program plays to help the SEC achieve its mission—and we appreciate GAO's prompt attention to this matter.

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

Sincerely,

Gary Gensler
Chair

SEC FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION

Balance Sheets

As of September 30, 2023 and 2022

(DOLLARS IN THOUSANDS)	2023	2022
ASSETS (NOTE 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 9,329,772	$ 8,831,476
Investments, Net (Note 5)	3,569,579	3,243,003
Accounts Receivable (Note 6)	4	—
Advances and Prepayments	10,907	8,636
Total Intragovernmental	12,910,262	12,083,115
With the Public:		
Cash and Other Monetary Assets (Note 4)	41	1
Accounts Receivable, Net (Note 6)	559,026	1,926,171
Property and Equipment, Net (Note 7)	107,719	91,436
Total With the Public	666,786	2,017,608
Total Assets	$ 13,577,048	$ 14,100,723
LIABILITIES (NOTE 8):		
Intragovernmental:		
Accounts Payable	$ 5,659	$ 2,123
Other Liabilities		
Payroll Taxes Payable	792	598
Custodial Liability	243,893	1,154,376
Liability for Non-Entity Assets	439	223
Benefit Program Contributions Payable	5,591	5,326
Other Liabilities	3,595	3,792
Total Intragovernmental	259,969	1,166,438
With the Public:		
Accounts Payable	504,783	207,849
Federal Employee Leave and Benefits Payable	145,483	147,376
Registrant Deposits	58,357	56,001
Other Liabilities		
Accrued Payroll	21,022	19,038
Liability for Disgorgement and Penalties (Note 16)	4,007,133	3,899,686
Contingent Liabilities (Note 10)	111,988	530,695
Other Accrued Liabilities (Note 8)	3,386	3,266
Total With the Public	4,852,152	4,863,911
Total Liabilities	5,112,121	6,030,349
Commitments and Contingencies (Note 10)		
NET POSITION:		
Unexpended Appropriations – Funds from Dedicated Collections (Note 11)	265,026	217,841
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	8,199,901	7,852,533
Total Net Position	$ 8,464,927	$ 8,070,374
Total Liabilities and Net Position	$ 13,577,048	$ 14,100,723

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

Statements of Net Cost

For the years ended September 30, 2023 and 2022

(DOLLARS IN THOUSANDS)	2023	2022
PROGRAM COSTS:		
Enforcement	$ 887,207	$ 1,283,163
Examinations	506,205	471,875
Corporation Finance	188,383	180,002
Trading and Markets	123,742	118,327
Investment Management	97,332	91,274
Economic and Risk Analysis	84,376	73,921
General Counsel	70,377	64,216
Other Program Offices	111,865	103,514
Agency Direction and Administrative Support	318,641	288,096
Inspector General	24,690	22,820
Total Program Costs	2,412,818	2,697,208
Less: Earned Revenue Not Attributed to Programs	2,551,661	2,435,831
Net Cost of Operations (Note 15)	$ (138,843)	$ 261,377

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

Statements of Changes in Net Position

For the years ended September 30, 2023 and 2022

(DOLLARS IN THOUSANDS)	2023		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	$ 217,841	$ —	$ 217,841
Appropriations Received	49,752	—	49,752
Appropriations Used	(2,567)	—	(2,567)
Net Change in Unexpended Appropriations	47,185	—	47,185
Total Unexpended Appropriations: Ending	265,026	—	265,026
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	7,852,533	—	7,852,533
Appropriations Used	2,567	—	2,567
Non-Exchange Revenue (Note 12)	659,663	—	659,663
Imputed Financing	74,073	—	74,073
Other (Note 12)	—	(527,778)	(527,778)
Net Cost of Operations	388,935	(527,778)	(138,843)
Net Change in Cumulative Results of Operations	347,368	—	347,368
Cumulative Results of Operations: Ending (Note 11)	8,199,901	—	8,199,901
Net Position	$ 8,464,927	$ —	$ 8,464,927

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

Statements of Changes in Net Position *(continued)*

For the years ended September 30, 2023 and 2022

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

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

Statements of Budgetary Resources

For the years ended September 30, 2023 and 2022

(DOLLARS IN THOUSANDS)	2023	2022
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	$ 402,111	$ 244,350
Appropriations (Discretionary and Mandatory)	745,162	857,903
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	2,160,254	1,585,831
Total Budgetary Resources	$ 3,307,527	$ 2,688,084
STATUS OF BUDGETARY RESOURCES:		
New Obligations and Upward Adjustments (Total)	$ 2,882,793	$ 2,323,030
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	391,696	199,158
Exempt from Apportionment, Unexpired Accounts	3,905	6,128
Unapportioned, Unexpired Accounts	29,133	159,768
Unobligated Balance, End of Year (Total)	424,734	365,054
Total Budgetary Resources	$ 3,307,527	$ 2,688,084
OUTLAYS, NET:		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 315,804	$ 777,788
Distributed Offsetting Receipts	(17,382)	(2,726)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ 298,422	$ 775,062

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

Statements of Custodial Activity

For the years ended September 30, 2023 and 2022

(DOLLARS IN THOUSANDS)	2023	2022
REVENUE ACTIVITY:		
Sources of Cash Collections:		
Disgorgement and Penalties	$ 1,345,965	$ 263,941
Other	4,205	1,969
Total Cash Collections	1,350,170	265,910
Accrual Adjustments (Note 13)	(910,483)	1,035,073
Total Custodial Revenue	439,687	1,300,983
DISPOSITION OF COLLECTIONS:		
Amounts Transferred to:		
Department of the Treasury	1,350,170	265,910
Amounts Yet to be Transferred	(910,483)	1,035,073
Total Disposition of Collections	439,687	1,300,983
NET CUSTODIAL ACTIVITY	$ —	$ —

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

NOTES TO THE FINANCIAL STATEMENTS

As of September 30, 2023 and 2022

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

The SEC reporting entity also does not include the Public Company Accounting Oversight Board (PCAOB), a private-sector, nonprofit corporation created to oversee the audits of public companies, brokers, and dealers registered with the SEC. When the Sarbanes-Oxley

Act of 2002 created the PCAOB, it gave the SEC the authority to oversee the PCAOB's operations, to appoint or remove Board members, to approve the PCAOB's budget and rules, and to entertain appeals of PCAOB inspection reports and disciplinary actions.

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

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

B. Basis of Presentation and Accounting

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

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

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

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

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

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

C. Use of Estimates

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

D. Intra- and Inter-Agency Relationships

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

E. Fund Accounting Structure

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

1. Funds from Dedicated Collections: Statement of Federal Financial Accounting Standards 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended, states that, "funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and

other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues." The SEC's funds from dedicated collections are deposited into Fund X0100, *Salaries and Expenses*; Fund X5567, *Investor Protection Fund*; and Fund X5566, *Reserve Fund*.

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

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

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

2. Miscellaneous Receipt and Other Accounts: Miscellaneous Receipt Accounts hold non-entity receipts and accounts receivable from custodial activities that the SEC cannot deposit into funds under its control. These accounts include registration fee collections in excess of amounts deposited into the Reserve Fund, receipts pursuant to certain SEC enforcement actions, and other small collections that will be sent to the U.S. Treasury General Fund upon collection. These activities are recognized in Fund 0850.150, *Registration, Filing, and Transaction Fees, Securities and Exchange Commission*; Fund 1060, *Forfeitures of Unclaimed Money and Property*; Fund 1091, *Post Judgement Interest*; Fund 1099, *Fines, Penalties, and Forfeitures, Not Otherwise Classified*; Fund 1435, *General Fund Proprietary Interest, Not Otherwise Classified*; and Fund 3220, *General Fund Proprietary Receipts, Not Otherwise Classified*.

Miscellaneous Receipt Accounts are reported as "All Other Funds" on the Statement of Changes in Net Position. The SEC has custodial responsibilities, as disclosed in *Note 1.L, Liabilities*. Fund X3875, *Budget Clearing Account*, is a suspense account that temporarily holds immaterial cash balances.

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

F. Entity and Non-Entity Assets

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

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

G. Fund Balance with Treasury

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

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

H. Investments

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

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

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

I. Accounts Receivable and Allowance for Uncollectible Accounts

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

Entity Accounts Receivable

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

Non-Entity Accounts Receivable

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

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

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

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

Allowance for Uncollectible Accounts

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

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

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

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

J. Advances and Prepayments

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

K. Property and Equipment, Net

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

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

L. Liabilities

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

Enforcement-Related Liabilities

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

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

Liability Classification

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

M. Employee Retirement Systems and Benefits

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

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

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

N. Injury and Post-Employment Compensation

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

O. Annual, Sick, and Other Leave

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

P. Exchange and Non-Exchange Revenue

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

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

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

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

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

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

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

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

Q. Budgets and Budgetary Accounting

Salaries and Expenses

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

Investor Protection Fund

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

Reserve Fund

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

Borrowing Authority

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

R. Disgorgement and Penalties

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

NOTE 2. ENTITY AND NON-ENTITY ASSETS

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

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

At September 30, 2023, SEC entity and non-entity assets consisted of the following:

(DOLLARS IN THOUSANDS)	Entity	Non-Entity	Total
Intragovernmental:			
Fund Balance with Treasury:			
SEC Funds	$ 8,700,565	$ —	$ 8,700,565
Registrant Deposits	—	58,357	58,357
Disgorgement and Penalties (Note 16)	—	570,822	570,822
Custodial and Other Non-Entity Assets	—	28	28
Investments, Net:			
Disgorgement and Penalties (Note 16)	—	3,211,439	3,211,439
Investor Protection Fund	358,140	—	358,140
Accounts Receivable	4	—	4
Advances and Prepayments	10,907	—	10,907
Total Intragovernmental Assets	9,069,616	3,840,646	12,910,262
Cash and Other Monetary Assets:			
Disgorgement and Penalties (Note 16)	—	41	41
Accounts Receivable, Net:			
SEC Funds	89,864	—	89,864
Disgorgement and Penalties (Note 16)	—	466,038	466,038
Custodial and Other Non-Entity Assets	—	3,124	3,124
Property and Equipment, Net (Note 7)	107,719	—	107,719
Total Assets	$ 9,267,199	$ 4,309,849	$ 13,577,048

At September 30, 2022, SEC entity and non-entity assets consisted of the following:

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

NOTE 3. FUND BALANCE WITH TREASURY

The status of Fund Balance with Treasury as of September 30, 2023 and 2022 consisted of the following:

(DOLLARS IN THOUSANDS)	2023	2022
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	$ 65,539	$ (59,374)
Unavailable	105,220	97,592
Obligated Balance not Yet Disbursed	1,416,964	1,047,282
Non-Budgetary Fund Balance with Treasury	7,742,049	7,745,976
Total Fund Balance with Treasury	$ 9,329,772	$ 8,831,476

Obligated and unobligated balances reported for the status of Fund Balance with Treasury differ from the amounts reported in the Statement of Budgetary Resources because budgetary balances are supported by amounts other than Fund Balance with Treasury. These amounts include funds to be reimbursed from other federal agencies as well as Investor Protection Fund investments, which are reversed from the unobligated available amount to account for Fund Balance with Treasury only, resulting in the negative balance for that line.

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

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

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

NOTE 4. CASH AND OTHER MONETARY ASSETS

The SEC had a cash balance of $41 thousand as of September 30, 2023. The SEC receives collections throughout the year. Any collections received after the U.S. Treasury Department cut-off for deposit of checks are treated as deposits in transit and recognized as Cash on the Balance Sheet. The SEC had a cash balance of $1 thousand as of September 30, 2022.

NOTE 5. INVESTMENTS

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

At September 30, 2023, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	$ 3,186,341		$ 24,624	$ 474	$ 3,211,439	$ 3,210,913
Market-Based Notes	197,528	Effective	8,086	196	205,810	205,453
Market-Based Bills	1,133,296	S/L	16,538	—	1,149,834	1,149,943
One-Day Certificates	1,855,517	N/A	—	278	1,855,795	1,855,517
Investor Protection Fund – Entity	358,086		—	54	358,140	358,086
One-Day Certificates	358,086	N/A	—	54	358,140	358,086
Total	$ 3,544,427		$ 24,624	$ 528	$ 3,569,579	$ 3,568,999

At September 30, 2022, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Disgorgement and Penalties	$ 2,821,424		$ 4,826	$ —	$ 2,826,250	$ 2,825,123
Market-Based Notes	—	Effective	—	—	—	—
Market-Based Bills	780,120	S/L	4,826	—	784,946	783,819
One-Day Certificates	2,041,304	N/A	—	—	2,041,304	2,041,304
Investor Protection Fund – Entity	416,753		—	—	416,753	416,753
One-Day Certificates	416,753	N/A	—	—	416,753	416,753
Total	$ 3,238,177		$ 4,826	$ —	$ 3,243,003	$ 3,241,876

Intragovernmental Investments in Treasury Securities

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

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

NOTE 6. ACCOUNTS RECEIVABLE, NET

At September 30, 2023, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	Gross Receivables	Allowance	Net Receivables
Intragovernmental Entity Accounts Receivable:			
Reimbursable Activity	$ 4	$ —	$ 4
Entity Accounts Receivable:			
Securities Transaction Fees	89,647	$ —	89,647
Other	217	—	217
Non-Entity Accounts Receivable:			
Disgorgement and Penalties[1]	2,368,781	1,902,743	466,038
Filing Fees	489	52	437
Other	45,753	43,066	2,687
Subtotal Non-Intragovernmental Accounts Receivable	2,504,887	1,945,861	559,026
Total Accounts Receivable	$ 2,504,891	$ 1,945,861	$ 559,030

1

Disgorgement and Penalties Accounts Receivable by Tiers (Note 1.I)			
(DOLLARS IN THOUSANDS)	Gross Receivable	Allowance	Net Receivable
Tier 1	$ 1,568,688	$ 1,247,936	$ 320,752
Tier 2	137,018	54,345	82,673
Tier 3	663,075	600,462	62,613
Total Non-Entity Accounts Receivable: Disgorgement and Penalties	$ 2,368,781	$ 1,902,743	$ 466,038

At September 30, 2022, accounts receivable consisted of the following:

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

[2]

Disgorgement and Penalties Accounts Receivable by Tiers (Note 1.I)

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

Refer to *Note 1.I, Accounts Receivable and Allowance for Uncollectible Accounts*, for methods used to estimate allowances. The SEC does not recognize interest revenue on accounts considered to be uncollectible. The SEC estimates that accumulated interest on accounts receivable considered to be uncollectible is $44.1 million and $11.9 million as of September 30, 2023 and 2022, respectively. This estimate does not include interest accumulated on debts written off or officially waived.

Disgorgement and penalties net accounts receivable of $466 million and $1.6 billion at September 30, 2023 and 2022, respectively, includes amounts designated as payable to the U.S. Treasury General Fund per court order, as well as amounts held for distribution to harmed investors. As discussed in *Note 1.L, Liabilities*, the receivables designated as payable to the U.S. Treasury General Fund, their offsetting liabilities, and the associated revenues, are classified as custodial. As of September 30, 2023 and 2022, the custodial disgorgement and penalties accounts receivable balance designated as payable to the U.S. Treasury General Fund, net of allowance, was $241.2 million and $1.2 billion, respectively.

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

NOTE 7. PROPERTY AND EQUIPMENT, NET

At September 30, 2023, property and equipment consisted of the following:

Class of Property *(DOLLARS IN THOUSANDS)*	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture and Equipment	S/L	$ 50	$ 300	3–5	$ 73,192	$ 59,388	$ 13,804
Software	S/L	300	300	3–5	367,669	285,184	82,485
Leasehold Improvements	S/L	300	N/A	10	89,070	77,640	11,430
Total					$ 529,931	$ 422,212	$ 107,719

During FY 2023, activity impacting Net Book Value consisted of the following:

(DOLLARS IN THOUSANDS)	Net Book Value
Balance Beginning of Year	$ 91,436
Capitalized Acquisitions	58,018
Dispositions	(903)
Depreciation Expense	(40,832)
Balance End of Year	$ 107,719

At September 30, 2022, property and equipment consisted of the following:

Class of Property *(DOLLARS IN THOUSANDS)*	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Capitalization Threshold for Bulk Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture and Equipment	S/L	$ 50	$ 300	3–5	$ 106,086	$ 91,647	$ 14,439
Software	S/L	300	300	3–5	322,482	255,913	66,569
Leasehold Improvements	S/L	300	N/A	10	95,278	84,850	10,428
Total					$ 523,846	$ 432,410	$ 91,436

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

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

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

The SEC recorded two impairments during FY 2023. In December 2022, a partially amortized application was retired early, resulting in a loss of $263 thousand. Additionally, in May 2023, a system that was in development was cancelled due to technical and staffing delay issues. The Office of Information Technology is currently modernizing this application in another development effort, and most of the earlier work is not needed in this modernization. The cancelled system write-off resulted in a loss of $640 thousand.

NOTE 8. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

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

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

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

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

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

At September 30, 2023, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Liabilities Not Requiring Budgetary Resources	Total
Intragovernmental:				
Accounts Payable	$ 5,659	$ —	$ —	$ 5,659
Other Liabilities				
Payroll Taxes Payable	792	—	—	792
Custodial Liability	—	—	243,893	243,893
Liability for Non-Entity Assets	—	—	439	439
Benefit Program Contributions Payable	4,728	863	—	5,591
Recognition of Lease Liability (Note 9)	—	3,595	—	3,595
Total Other Liabilities	5,520	4,458	244,332	254,310
Total Intragovernmental	11,179	4,458	244,332	259,969
With the Public:				
Accounts Payable	504,783	—	—	504,783
Federal Employee Leave and Benefits Payable	954	144,529	—	145,483
Registrant Deposits	—	—	58,357	58,357
Other Liabilities				
Accrued Payroll	21,022	—	—	21,022
Liability for Disgorgement and Penalties (Note 16)	—	—	4,007,133	4,007,133
Contingent Liabilities (Note 10)	—	111,988	—	111,988
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	2,327	—	2,327
Other	—	—	1,059	1,059
Total Other Liabilities	21,022	114,315	4,008,192	4,143,529
Total With the Public	526,759	258,844	4,066,549	4,852,152
Total Liabilities	$ 537,938	$ 263,302	$ 4,310,881	$ 5,112,121

Other Liabilities (intragovernmental and with the public) totaled $4.4 billion as of September 30, 2023, of which all but $117.3 million is current. Current liabilities are liabilities that are expected to be paid within the fiscal year following the reporting date. The non-current portion of Other Liabilities includes the appropriate portions of Unfunded FECA and Unemployment Liability, Contingent Liabilities, and Lease Liability. Current liabilities not covered by budgetary resources totaled $1.5 million as of September 30, 2023. As of September 30, 2023, the SEC's unfunded leave balance was $139.4 million.

At September 30, 2022, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Liabilities Not Requiring Budgetary Resources	Total
Intragovernmental:				
Accounts Payable	$ 2,123	$ —	$ —	$ 2,123
Other Liabilities				
Payroll Taxes Payable	598	—	—	598
Custodial Liability	—	—	1,154,376	1,154,376
Liability for Non-Entity Assets	—	—	223	223
Benefit Program Contributions Payable	4,368	958	—	5,326
Recognition of Lease Liability (Note 9)	—	3,792	—	3,792
Total Other Liabilities	4,966	4,750	1,154,599	1,164,315
Total Intragovernmental	7,089	4,750	1,154,599	1,166,438
With the Public:				
Accounts Payable	207,849	—	—	207,849
Federal Employee Leave and Benefits Payable	870	146,506	—	147,376
Registrant Deposits	—	—	56,001	56,001
Other Liabilities				
Accrued Payroll	19,038	—	—	19,038
Liability for Disgorgement and Penalties (Note 16)	—	—	3,899,686	3,899,686
Contingent Liabilities (Note 10)	—	530,695	—	530,695
Other Accrued Liabilities				
Recognition of Lease Liability (Note 9)	—	3,224	—	3,224
Other	—	—	42	42
Total Other Liabilities	19,038	533,919	3,899,728	4,452,685
Total With the Public	227,757	680,425	3,955,729	4,863,911
Total Liabilities	$ 234,846	$ 685,175	$ 5,110,328	$ 6,030,349

Other Liabilities (intragovernmental and with the public) totaled $5.6 billion as of September 30, 2022, of which all but $537.2 million was current. The non-current portion of Other Liabilities includes the appropriate portions of the Unfunded FECA and Unemployment Liability, Contingent Liabilities, and Lease Liability. Current liabilities not covered by budgetary resources totaled $1.5 million as of September 30, 2022. As of September 30, 2022, the SEC's unfunded leave balance was $141.4 million.

NOTE 9. LEASES

Operating Leases

At September 30, 2023, the SEC leased office space at 15 locations under operating lease agreements that expire between FY 2024 and FY 2042. The SEC paid $105.9 million and $105.8 million for rent for the years ended September 30, 2023 and 2022, respectively.

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

Under existing commitments, expected future lease payments through FY 2029 and thereafter are as follows:

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	Federal Non-Cancelable	Non-Federal Non-Cancelable	Non-Cancelable Expected Future Lease Payments
2024	$ 3,163	$ 1,812	$ 4,975
2025	3,163	—	3,163
2026	3,145	—	3,145
2027	2,945	—	2,945
2028	2,945	—	2,945
2029 and thereafter	2,700	—	2,700
Total	$ 18,061	$ 1,812	$ 19,873

In February 2022, the San Francisco Regional Office was delegated Government Services Administration (GSA) lease extension authority; however, this extension is not cancelable until February 2024. The total expected future lease payments reflect an estimate of base rent and contractually required costs.

During FY 2021, the SEC entered into a cancelable 15-year occupancy agreement for a new SEC headquarters facility with the GSA, and the $244.5 million appropriated in FY 2018 for this purpose was obligated. See *Note 14.B, Other Budgetary Disclosures*, "Legal Restrictions on Unobligated Budgetary Resources." Occupancy of the new SEC headquarters facility is currently not expected until 2027 at the earliest. Until that time, the SEC is expected to continue its occupancy of Station Place 1 and Station Place 2 through lease extensions negotiated under GSA lease extension authority. The SEC did not renew its lease of Station Place 3 when it expired in September 2023. As a result, the SEC will no longer pay rent, taxes, and operating expenses for that building, which totaled $14.9 million in FY 2023.

Expense Recognition of "Rent Holiday" and Broker Commission Credit

In the execution of lease agreements, many times lessors offer incentives for the occupation of office space. These include months of free rent or reduced rent at the occupied space or a temporary space while the new office is being prepared for occupancy. When a rent holiday or broker commission credit is taken at the beginning of the lease term or at the beginning of occupancy of the temporary space, a rent expense is accrued, even though no payment is due or a reduced amount is due. This accrued expense is recognized as an unfunded liability because funding will not be provided until the future period in which payment is due. The accrual and amortization of rent holiday and broker commission credit discounts allow the rent expense to be allocated equally to each period of the lease term. The accrued lease liability for rent holidays was $2.3 million and $3.2 million as of September 30, 2023 and 2022, respectively. The accrued lease liability for broker commission credits taken was $3.6 million and $3.8 million as of September 30, 2023 and 2022, respectively.

NOTE 10. COMMITMENTS AND CONTINGENCIES

A. Commitments: Securities Investor Protection Act

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

SIPA authorizes SIPC to create a fund to maintain all monies received and disbursed by SIPC. SIPA gives SIPC the authority to borrow up to $2.5 billion from the SEC in the event that the SIPC Fund is or may appear insufficient for purposes of SIPA. To borrow the funds, SIPC must file with the SEC a statement of the uses of such a loan and a repayment plan, and then the SEC must certify to the Secretary of the Treasury that the loan is necessary to protect broker-dealer customers and maintain confidence in the securities markets and that the repayment plan provides as reasonable assurance of prompt repayment as may be feasible under the circumstances. The U.S. Treasury would make these funds available to the SEC through the purchase of notes or other obligating instruments issued by the SEC. Such notes or other obligating instruments would bear interest at a rate determined by the Secretary of the Treasury.

As of September 30, 2023, the SEC had not loaned any funds to the SIPC, and there are no outstanding notes or other obligating instruments issued by the SEC.

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

B. Commitments and Contingencies: Investor Protection Fund

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

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

Contingent liabilities are reported as follows:

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

At September 30, 2023, commitments and contingencies consisted of the following:

		Estimated Range of Loss	
(DOLLARS IN THOUSANDS)	Accrued Liabilities	Lower End	Upper End
2023 Whistleblower Awards:			
Probable	$ 111,988	$ 44,002	$ 132,007
Reasonably Possible	—	312,361	937,083

At September 30, 2022, commitments and contingencies consisted of the following:

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

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

In the event that whistleblower awards reduce the Investor Protection Fund unobligated balance below $300 million, the Investor Protection Fund will be replenished, as described in *Note 1.Q, Budgets and Budgetary Accounting*, "Investor Protection Fund." The unobligated balances of the Investor Protection Fund at September 30, 2023 and 2022 were $337 million and $306 million, respectively. Since the contingent liabilities balance does not exceed the unobligated balance at September 30, 2023, additional replenishments will not be needed before these liabilities are awarded and paid.

C. Other Commitments

In addition to future lease commitments discussed in *Note 9, Leases*, the SEC is obligated for the purchase of goods and services that have been ordered but not received. As of September 30, 2023, net obligations for all SEC activities were $1.4 billion, of which $537.9 million was delivered and unpaid. As of September 30, 2022, net obligations for all SEC activities were $1.0 billion, of which $234.8 million was delivered and unpaid.

NOTE 11. FUNDS FROM DEDICATED COLLECTIONS

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

For FY 2023, the assets, liabilities, net position, and net income from operations relating to funds from dedicated collections consisted of the following:

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
Balance Sheet as of September 30, 2023						
ASSETS						
Intragovernmental:						
Fund Balance with Treasury	$ 8,202,803	$ 448,625	$ 48,105	$ 8,699,533	$ —	$ 8,699,533
Investments, Net	—	358,140	—	358,140	—	358,140
Accounts Receivable	4	—	—	4	—	4
Advances and Prepayments	10,907	—	—	10,907	—	10,907
Total Intragovernmental	8,213,714	806,765	48,105	9,068,584	—	9,068,584
With the Public:						
Accounts Receivable, Net	89,864	—	—	89,864	—	89,864
Property and Equipment, Net	47,051	—	60,668	107,719	—	107,719
Total With the Public	136,915	—	60,668	197,583	—	197,583
Total Assets	$ 8,350,629	$ 806,765	$ 108,773	$ 9,266,167	$ —	$ 9,266,167
LIABILITIES						
Intragovernmental:						
Accounts Payable	$ 5,659	$ —	$ —	$ 5,659	$ —	$ 5,659
Other Liabilities						
Payroll Taxes Payable	792	—	—	792	—	792
Benefit Program Contributions Payable	5,591	—	—	5,591	—	5,591
Other Liabilities	3,595	—	—	3,595	—	3,595
Total Intragovernmental Liabilities	15,637	—	—	15,637	—	15,637
With the Public:						
Accounts Payable	65,768	431,406	7,609	504,783	—	504,783
Federal Employee Leave and Benefits Payable	145,483	—	—	145,483	—	145,483
Other Liabilities						
Accrued Payroll	21,022	—	—	21,022	—	21,022
Contingent Liabilities	—	111,988	—	111,988	—	111,988
Other Accrued Liabilities	2,327	—	—	2,327	—	2,327
Total With the Public	234,600	543,394	7,609	785,603	—	785,603
Total Liabilities	250,237	543,394	7,609	801,240	—	801,240

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

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
NET POSITION						
Unexpended Appropriations	265,026	—	—	265,026	—	265,026
Cumulative Results of Operations	7,835,366	263,371	101,164	8,199,901	—	8,199,901
Total Net Position	$ 8,100,392	$ 263,371	$ 101,164	$ 8,464,927	$ —	$ 8,464,927
Total Liabilities and Net Position	$ 8,350,629	$ 806,765	$ 108,773	$ 9,266,167	$ —	$ 9,266,167
Statement of Net Cost for the year ended September 30, 2023						
Gross Program Costs	$ 2,181,015	$ 195,364	$ 36,456	$ 2,412,835	$ (28)	$ 2,412,807
Less Earned Revenues Not Attributable to Program Costs	1,973,900	—	50,000	2,023,900	(28)	2,023,872
Net Cost of Operations	$ 207,115	$ 195,364	$ (13,544)	$ 388,935	$ —	$ 388,935
Statement of Changes in Net Position for the year ended September 30, 2023						
Unexpended Appropriations:						
Beginning Balances	$ 217,841	$ —	$ —	$ 217,841	$ —	$ 217,841
Appropriations Received	49,752	—	—	49,752	—	49,752
Appropriations Used	(2,567)	—	—	(2,567)	—	(2,567)
Net Change in Unexpended Appropriations	47,185	—	—	47,185	—	47,185
Total Unexpended Appropriations: Ending	265,026	—	—	265,026	—	265,026
Cumulative Results of Operations:						
Beginning Balances	7,965,841	(200,928)	87,620	7,852,533	—	7,852,533
Appropriations Used	2,567	—	—	2,567	—	2,567
Non-Exchange Revenue	—	659,663	—	659,663	—	659,663
Imputed Financing	74,073	—	—	74,073	—	74,073
Net Cost of Operations	207,115	195,364	(13,544)	388,935	—	388,935
Net Change in Cumulative Results of Operations	(130,475)	464,299	13,544	347,368	—	347,368
Cumulative Results of Operations: Ending	7,835,366	263,371	101,164	8,199,901	—	8,199,901
Net Position	$ 8,100,392	$ 263,371	$ 101,164	$ 8,464,927	$ —	$ 8,464,927

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

For FY 2022, the assets, liabilities, net position, and net income from operations relating to funds from dedicated collections consisted of the following:

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
Balance Sheet as of September 30, 2022						
ASSETS						
Intragovernmental:						
Fund Balance with Treasury	$ 8,101,892	$ 51,910	$ 43,508	$ 8,197,310	$ —	$ 8,197,310
Investments, Net	—	416,753	—	416,753	—	416,753
Accounts Receivable	—	—	—	—	—	—
Advances and Prepayments	8,636	—	—	8,636	—	8,636
Total Intragovernmental	8,110,528	468,663	43,508	8,622,699	—	8,622,699
With the Public:						
Accounts Receivable, Net	276,260	—	—	276,260	—	276,260
Property and Equipment, Net	40,854	—	50,582	91,436	—	91,436
Total With the Public	317,114	—	50,582	367,696	—	367,696
Total Assets	$ 8,427,642	$ 468,663	$ 94,090	$ 8,990,395	$ —	$ 8,990,395
LIABILITIES						
Intragovernmental:						
Accounts Payable	$ 2,123	$ —	$ —	$ 2,123	$ —	$ 2,123
Other Liabilities						
Payroll Taxes Payable	598	—	—	598	—	598
Benefit Program Contributions Payable	5,326	—	—	5,326	—	5,326
Other Liabilities	3,792	—	—	3,792	—	3,792
Total Intragovernmental Liabilities	11,839	—	—	11,839	—	11,839
With the Public:						
Accounts Payable	62,483	138,896	6,470	207,849	—	207,849
Federal Employee Leave and Benefits Payable	147,376	—	—	147,376	—	147,376
Other Liabilities						
Accrued Payroll	19,038	—	—	19,038	—	19,038
Contingent Liabilities	—	530,695	—	530,695	—	530,695
Other Accrued Liabilities	3,224	—	—	3,224	—	3,224
Total With the Public	232,121	669,591	6,470	908,182	—	908,182

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

(DOLLARS IN THOUSANDS)	Salaries & Expenses	Investor Protection Fund	Reserve Fund	Total Combined Funds from Dedicated Collections	Eliminations	Total Consolidated Funds from Dedicated Collections
Total Liabilities	243,960	669,591	6,470	920,021	—	920,021
NET POSITION						
Unexpended Appropriations	217,841	—	—	217,841	—	217,841
Cumulative Results of Operations	7,965,841	(200,928)	87,620	7,852,533	—	7,852,533
Total Net Position	$ 8,183,682	$ (200,928)	$ 87,620	$ 8,070,374	$ —	$ 8,070,374
Total Liabilities and Net Position	$ 8,427,642	$ 468,663	$ 94,090	$ 8,990,395	$ —	$ 8,990,395
Statement of Net Cost for the year ended September 30, 2022						
Gross Program Costs	$ 2,010,965	$ 630,320	$ 55,955	$ 2,697,240	$ (43)	$ 2,697,197
Less Earned Revenues Not Attributable to Program Costs	1,799,041	—	50,000	1,849,041	(43)	1,848,998
Net Cost of Operations	$ 211,924	$ 630,320	$ 5,955	$ 848,199	$ —	$ 848,199
Statement of Changes in Net Position for the year ended September 30, 2022						
Unexpended Appropriations:						
Beginning Balances	$ 213,922	$ —	$ —	$ 213,922	$ —	$ 213,922
Appropriations Received	414,402	—	—	414,402	—	414,402
Appropriations Used	(410,483)	—	—	(410,483)	—	(410,483)
Net Change in Unexpended Appropriations	3,919	—	—	3,919	—	3,919
Total Unexpended Appropriations: Ending	217,841	—	—	217,841	—	217,841
Cumulative Results of Operations:						
Beginning Balances	7,723,290	40,087	93,575	7,856,952	—	7,856,952
Appropriations Used	410,483	—	—	410,483	—	410,483
Non-Exchange Revenue	—	389,305	—	389,305	—	389,305
Imputed Financing	43,992	—	—	43,992	—	43,992
Net Cost of Operations	211,924	630,320	5,955	848,199	—	848,199
Net Change in Cumulative Results of Operations	242,551	(241,015)	(5,955)	(4,419)	—	(4,419)
Cumulative Results of Operations: Ending	7,965,841	(200,928)	87,620	7,852,533	—	7,852,533
Net Position	$ 8,183,682	$ (200,928)	$ 87,620	$ 8,070,374	$ —	$ 8,070,374

NOTE 12. STATEMENT OF CHANGES IN NET POSITION

A. Other

In FY 2023, the negative $527.8 million in "Other" reported in the Statement of Changes in Net Position consists of securities registration, tender offer, merger, and other fees from registrants (filing fees) as well as other non-entity exchange revenue deposited into the U.S. Treasury General Fund. Filing fees and other non-entity exchange revenue are recognized as exchange revenue on the SEC's Statement of Net Cost, and the transfer-out to the U.S. Treasury General Fund is recognized as a negative other financing source on the SEC's consolidated Statement of Changes in Net Position. See *Note 1.P, Exchange and Non-Exchange Revenue*.

In FY 2022, the negative $586.8 million in "Other" consists of the transfer-out of filing fees and other non-entity exchange revenue to the U.S. Treasury General Fund.

B. Non-Custodial Non-Exchange Revenues

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

For the period ended September 30, 2023 and 2022, Non-Custodial Non-Exchange Revenues consisted of the following:

Non-Exchange Revenue *(DOLLARS IN THOUSANDS)*	FY 2023	FY 2022
Deposits of Monetary Sanctions to the Investor Protection Fund	$ 643,276	$ 387,168
Investment Interest Revenue in the Investor Protection Fund	16,387	2,137
Total Amount of Federal Revenues Collected	$ 659,663	$ 389,305

NOTE 13. CUSTODIAL ACTIVITY

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

NOTE 14. STATEMENT OF BUDGETARY RESOURCES AND OTHER BUDGETARY DISCLOSURES

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

A comparison between the FY 2023 SBR and the actual FY 2023 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2025 Budget, which will contain FY 2023 actual data, is not yet available. The FY 2025 Budget with actual amounts for FY 2023 will be available at a later date at whitehouse.gov/omb/budget/. The comparison will be presented in next year's financial statements.

There are no differences between the FY 2022 Statement of Budgetary Resources and the FY 2022 data in the Budget.

B. Other Budgetary Disclosures

General Provisions of Appropriation

The SEC's annual Appropriations Act provides $2,149,000,000 in new budget authority for FY 2023. The Act contains general provisions that limit the amount that can be obligated for international conferences, International Organization of Securities Commission dues, and representation expenses. The Act requires the SEC to fund its Office of Inspector General with a minimum of $18,979,000 in new budget authority. The Act also provides for costs associated for move, replication, and related costs associated with a replacement lease for the Commission's District of Columbia headquarters facilities, not to exceed $57,405,000, to remain available until expended; and for move, replication, and related costs associated with a replacement lease for the Commission's San Francisco Regional Office facilities, not to exceed $3,365,000.

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

For FY 2023, the Unobligated Balance from Prior Year Budget Authority, Net consisted of available unobligated balance brought forward from the prior year in the amount of $365 million as well as FY 2023 recoveries of prior-year obligations totaling $37.1 million. For FY 2022, the Unobligated Balance from Prior Year Budget Authority, Net consisted of available unobligated balance brought forward from the prior year in the amount of $194.1 million as well as FY 2022 recoveries of prior-year obligations totaling $50.3 million.

Undelivered Orders at the End of the Period

Undelivered orders consist of orders of goods and services that the SEC has not received. The SEC's total undelivered orders were $889.9 million and $821.1 million for the years ended September 30, 2023 and 2022, respectively. Of the $889.9 million total undelivered orders at September 30, 2023, $353.3 million were with federal trading partners and $536.6 million were with non-federal trading partners. The total undelivered orders contained unpaid and paid undelivered orders, with unpaid orders making up the majority of the total. The SEC's total unpaid undelivered orders were $879 million and $812.5 million for the years ended September 30, 2023 and 2022, respectively. Of the $879 million unpaid undelivered orders at September 30, 2023, $342.4 million were with federal trading partners and $536.6 million were with non-federal trading partners.

Legal Restrictions on Unobligated Budgetary Resources

Unobligated budgetary resources are restricted for the following:

a) $244.5 million appropriated in FY 2018, $18.7 million appropriated in FY 2021, and $57.4 million appropriated in FY 2023 for costs associated with relocation under a replacement lease for the Commission's headquarters facilities, of which $257.2 million has been obligated and $2.3 million expended as of September 30, 2023;

b) $37.2 million appropriated in FY 2019 and $10.5 million appropriated in FY 2020 for costs associated with the relocation under a replacement lease for the Commission's New York Regional Office facilities, of which $40.6 million has been obligated and $15.7 million expended as of September 30, 2023;

c) $12.7 million appropriated in FY 2021, $4.4 million appropriated in FY 2022, and $3.4 million appropriated in FY 2023 for costs associated with the relocation under a replacement lease for the Commission's San Francisco Regional Office facilities, of which $13.7 million has been obligated and $814 thousand expended as of September 30, 2023; and

d) $6.7 million appropriated in FY 2022 for costs associated with the relocation under a replacement lease for the Commission's Fort Worth Regional Office facilities, of which $4.2 million has been obligated and $932 thousand expended as of September 30, 2023.

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

Borrowing Authority

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

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

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

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

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

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

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

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

For the year ended September 30, 2023:

(DOLLARS IN THOUSANDS)	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 430,688	$ (569,531)	$ (138,843)
Components of Net Cost That Are Not Part of Net Outlays:			
Property and Equipment Depreciation	$ —	$ (40,832)	$ (40,832)
Property and Equipment Disposal Reevaluation	—	(903)	(903)
Securities Registration, Tender Offer, Merger, and Other Fees from Registrants (Note 1.P)	—	577,752	577,752
Treasury Investment Fees	(72)	72	—
Increase/(Decrease) in Assets:			
Accounts Receivable	4	(186,396)	(186,392)
Advances and Prepayments	2,271	—	2,271
(Increase)/Decrease in Liabilities:			
Accounts Payable	(3,536)	(296,934)	(300,470)
Federal Employee Leave and Benefits Payable	—	1,893	1,893
Other Liabilities			
Benefit Program Contributions Payable	(265)	—	(265)
Accrued Payroll and Payroll Taxes Payable	(194)	(1,984)	(2,178)
Contingent Liabilities	—	418,707	418,707
Other Accrued Liabilities	197	897	1,094
Financing Sources:			
Imputed Costs	(74,073)	—	(74,073)
Total Components of Net Cost That Are Not Part of Net Outlays	(75,668)	472,272	396,604
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	—	58,018	58,018
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(16,334)	(1,023)	(17,357)
Total Components of Net Outlays That Are Not Part of Net Cost	(16,334)	56,995	40,661
Net Outlays	$ 338,686	$ (40,264)	$ 298,422

For the year ended September 30, 2022:

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

NOTE 16. DISGORGEMENT AND PENALTIES

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

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

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

In FY 2023, total Disgorgement and Penalties assets of $4.2 billion included $4 billion held for distribution to harmed investors and $241.2 million to be transferred to the U.S. Treasury General Fund. In FY 2022, total Disgorgement and Penalties assets of $5.1 billion included $3.9 billion held for distribution to harmed investors and $1.2 billion to be transferred to the U.S. Treasury General Fund.

At September 30, 2023 and 2022, the net inflows and outflows for Fund Balance with Treasury, Investments, and Accounts Receivable related to disgorgement and penalties consisted of the following:

(DOLLARS IN THOUSANDS)	2023	2022
Fund Balance with Treasury:		
Beginning Balance	$ 578,124	$ 482,078
Collections	2,848,950	1,635,806
Purchases and Redemptions of Treasury Securities	(224,015)	(227,378)
Disbursements	(642,996)	(661,273)
Transfers and Deposits to the Investor Protection Fund	(643,276)	(387,168)
Transfers and Deposits to the U.S. Treasury General Fund	(1,345,965)	(263,941)
Total Fund Balance with Treasury (Note 2)	570,822	578,124
Cash and Other Monetary Assets:		
Beginning Balance	1	141
Net Activity	40	(140)
Total Cash and Other Monetary Assets (Notes 2 and 4)	41	1
Investments, Net:		
Beginning Balance	2,826,250	2,575,475
Net Activity	385,189	250,775
Total Investments, Net (Notes 2 and 5)	3,211,439	2,826,250
Accounts Receivable, Net:		
Beginning Balance	1,646,914	338,520
Net Activity	(1,180,876)	1,308,394
Total Accounts Receivable, Net (Notes 2 and 6)	466,038	1,646,914
Total Disgorgement and Penalties	$ 4,248,340	$ 5,051,289

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

To prepare the Financial Report of the U.S. Government (FR), the U.S. Department of the Treasury's Bureau of the Fiscal Service requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the SEC's financial statements and the SEC's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2022 FR can be found at: fiscal.treasury.gov/reports-statements/financial-report/current-report.html.

FY 2023 Balance Sheet

As of September 30, 2023

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2023 SEC Balance Sheet	Line Items Used to Prepare FY 2023 Government-wide Balance Sheet: Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Total	Reclassified Financial Statement Line *(DOLLARS IN THOUSANDS)*
ASSETS:						**ASSETS:**
Intragovernmental:						Intragovernmental:
Fund Balance with Treasury	$ 9,329,772	$ 8,699,533	$ —	$ 630,239	$ 9,329,772	Fund Balance with Treasury
Investments, Net	3,569,579	358,140	—	3,211,439	3,569,579	Investments, Net
Accounts Receivable	4	4	—	—	4	Accounts Receivable, Net
Advances and Prepayments	10,907	10,907	—	—	10,907	Advances and Prepayments
Total Intragovernmental	12,910,262	9,068,584	—	3,841,678	12,910,262	Total Intragovernmental
With the Public:						With the Public:
Cash and Other Monetary Assets	41	—	—	41	41	Cash and Other Monetary Assets
Accounts Receivable, Net	559,026	89,864	—	469,162	559,026	Accounts Receivable, Net
Property and Equipment, Net	107,719	107,719	—	—	107,719	General Property, Plant, and Equipment, Net
Total With the Public	666,786	197,583	—	469,203	666,786	Total With the Public
Total Assets	$ 13,577,048	$ 9,266,167	$ —	$ 4,310,881	$ 13,577,048	**Total Assets**
LIABILITIES:						**LIABILITIES:**
Intragovernmental:						Intragovernmental:
Accounts Payable	$ 5,659	$ 5,659	$ —	$ —	$ 5,659	Accounts Payable
Other Liabilities						
Payroll Taxes Payable	792	792	—	—	792	Other Liabilities (Without Reciprocals)
Custodial Liability	243,893	—	—	243,893	243,893	Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
Liability for Non-Entity Assets	439	—	—	439	439	Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
Benefit Program Contributions Payable	5,591	5,591	—	—	5,591	Benefit Program Contributions Payable
Other Liabilities (RC 22)	3,595	3,595	—	—	3,595	Other Liabilities – Reimbursable Activities (RC 22)
Total Other Liabilities	254,310	9,978	—	244,332	254,310	*Total Other Liabilities*
Total Intragovernmental	259,969	15,637	—	244,332	259,969	Total Intragovernmental

FY 2023 Balance Sheet *(continued)*

As of September 30, 2023

		Line Items Used to Prepare FY 2023 Government-wide Balance Sheet				
Financial Statement Line *(DOLLARS IN THOUSANDS)*	**FY 2023 SEC Balance Sheet**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Total**	**Reclassified Financial Statement Line** *(DOLLARS IN THOUSANDS)*
With the Public:						
Accounts Payable	504,783	504,783	—	—	504,783	Accounts Payable
Federal Employee Benefits Payable	145,483	145,483	—	—	145,483	Federal Employee and Veteran Benefits Payable
Registrant Deposits	58,357	—	—	58,357	58,357	Advances from Others and Deferred Revenue
Other Liabilities			—			
Accrued Payroll	21,022	21,022	—	—	21,022	Other Liabilities
Liability for Disgorgement and Penalties	4,007,133	—	—	4,007,133	4,007,133	Other Liabilities
Contingent Liabilities	111,988	111,988	—	—	111,988	Other Liabilities
Other Accrued Liabilities	3,386	2,327	—	1,059	3,386	Other Liabilities
Total Other Liabilities	4,143,529	135,337	—	4,008,192	4,143,529	*Total Other Liabilities*
Total with the Public	4,852,152	785,603	—	4,066,549	4,852,152	Total with the Public
Total Liabilities	5,112,121	801,240	—	4,310,881	5,112,121	**Total Liabilities**
Commitments and Contingencies						
NET POSITION:						**NET POSITION:**
Unexpended Appropriations – Funds from Dedicated Collections	265,026	265,026	—	—	265,026	Unexpended Appropriations – Funds from Dedicated Collections
Cumulative Results of Operations – Funds from Dedicated Collections	8,199,901	8,199,901	—	—	8,199,901	Cumulative Results of Operations – Funds from Dedicated Collections
Total Net Position	$ 8,464,927	$ 8,464,927	$ —	$ —	$ 8,464,927	**Total Net Position**
Total Liabilities and Net Position	$ 13,577,048	$ 9,266,167	$ —	$ 4,310,881	$ 13,577,048	**Total Liabilities and Net Position**

FY 2023 Statement of Net Cost

For the year ended September 30, 2023

		Line Items Used to Prepare FY 2023 Government-wide Statement of Net Cost					
Financial Statement Line *(DOLLARS IN THOUSANDS)*	**FY 2023 SEC Statement of Net Cost**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Total**	**Reclassified Financial Statement** *(DOLLARS IN THOUSANDS)*
Program Costs:							**Non-Federal Costs**
Total Program Costs	$ 2,412,818	$ 1,981,983	$ —	$ (61)	$ —	$ 1,981,922	Non-Federal Gross Cost
							Intragovernmental Costs
		237,884	—	—	—	237,884	Benefit Program Costs
		74,073	—	—	—	74,073	Imputed Costs
		59,291	(28)	72	—	59,335	Buy/Sell Costs
		59,604	—	—	—	59,604	Other Expenses
		430,852	(28)	72	—	430,896	**Total Intragovernmental Costs**
Total Program Costs	2,412,818	2,412,835	(28)	11	—	2,412,818	***Total Reclassified Gross Costs***
Less: Earned Revenues not Attributed to Programs	2,551,661						**Non-Federal Earned Revenue**
		2,023,664	—	527,789	—	2,551,453	Non-Federal Earned Revenue
							Intragovernmental Revenue
		236	(28)	—	—	208	Buy/Sell Revenue
Total Earned Revenues	$ 2,551,661	$ 2,023,900	$ (28)	$ 527,789	$ —	$ 2,551,661	***Total Reclassified Earned Revenue***
Net Cost of Operations	$ (138,843)	$ 388,935	$ —	$ (527,778)	$ —	$ (138,843)	**Net Cost of Operations**

FY 2023 Statement of Changes in Net Position

For the year ended September 30, 2023

Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2023 SEC Statement of Changes in Net Position	Line Items Used to Prepare FY 2023 Government-wide Statement of Changes in Net Position: Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Total	Reclassified Financial Statement
UNEXPENDED APPROPRIATIONS:						
Beginning Balances	$ 217,841	$ 217,841	$ —	$ —	$ 217,841	Net Position, Beginning of Period
Appropriations Received	49,752	49,752	—	—	49,752	Appropriations Received as Adjusted
Appropriations Used	(2,567)	(2,567)	—	—	(2,567)	Appropriations Used
Net Change in Unexpended Appropriations	47,185	47,185	—	—	47,185	
Total Unexpended Appropriations	265,026	265,026	—	—	265,026	
CUMULATIVE RESULTS OF OPERATIONS:						
Beginning Balances	7,852,533	7,852,533	—	—	7,852,533	Net Position, Beginning of Period
Appropriations Used	2,567	2,567	—	—	2,567	Appropriations Expended
Non-Exchange Revenue	659,663	643,276	—	(161,174)	482,102	Other Taxes and Receipts
	—	16,387	—	161,174	177,561	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)
Total Non-Exchange Revenues	659,663	659,663	—	—	659,663	*Total Reclassified Non-Exchange Revenues*
Imputed Financing	74,073	74,073	—	—	74,073	Imputed Financing Sources (Federal)
Other	(527,778)	—	—	(527,562)	(527,562)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		—	—	(216)	(216)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
Total Other	(527,778)	—	—	(527,778)	(527,778)	*Total Reclassified Other*
Net Cost of Operations	(138,843)	388,935	—	(527,778)	(138,843)	Net Cost of Operations (+/-)
Net Change in Cumulative Results of Operations	347,368	347,368	—	—	347,368	
Cumulative Results of Operations: Ending	8,199,901	8,199,901	—	—	8,199,901	
Net Position	$ 8,464,927	$ 8,464,927	$ —	$ —	$ 8,464,927	Net Position, End of Period

FY 2023 Statement of Changes in Net Position *(continued)*

For the year ended September 30, 2023

		Line Items Used to Prepare FY 2023 Government-wide Statement of Changes in Net Position				
Financial Statement Line *(DOLLARS IN THOUSANDS)*	FY 2023 SEC Statement of Changes in Net Position	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Total	Reclassified Financial Statement
NON-EXCHANGE STATEMENT OF CUSTODIAL ACTIVITY						
Non-Exchange Custodial Revenue from the Statement of Custodial Activity						
Total Cash Collections	$ 1,350,170	$ —	$ —	$ 1,350,170	$ 1,350,170	Other Taxes and Receipts
Accrual Adjustments	(910,483)	—	—	(910,483)	(910,483)	Other Taxes and Receipts
Total Custodial Revenue	439,687	—	—	439,687	439,687	*Total Reclassified Custodial Revenue*
Disposition of Non-Exchange Custodial Collections from the Statement of Custodial Activity						
Amounts Transferred to Department of the Treasury	1,350,170	—	—	1,350,170	1,350,170	Non-Entity Collections Transferred to the General Fund of the U.S. Government
Amounts Yet to be Transferred	(910,483)	—	—	(910,483)	(910,483)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
Total Disposition of Collections	$ 439,687	$ —	$ —	$ 439,687	$ 439,687	*Total Reclassified Disposition of Custodial Collections*

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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

U.S. SECURITIES AND EXCHANGE COMMISSION

Combining Statements of Budgetary Resources by Fund

For the year ended September 30, 2023

(DOLLARS IN THOUSANDS)	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 1435, 1492, 3220, 3875	5567	5566	
BUDGETARY RESOURCES:				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	$ 87,251	$ 306,469	$ 8,391	$ 402,111
Appropriations (Discretionary and Mandatory)	49,752	645,410	50,000	745,162
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	2,160,254	—	—	2,160,254
Total Budgetary Resources	$ 2,297,257	$ 951,879	$ 58,391	$ 3,307,527
STATUS OF BUDGETARY RESOURCES:				
New Obligations and Upward Adjustments (Total)	$ 2,214,136	$ 614,171	$ 54,486	$ 2,882,793
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	82,017	309,679	—	391,696
Exempt from Apportionment, Unexpired Accounts	—	—	3,905	3,905
Unapportioned, Unexpired Accounts	1,104	28,029	—	29,133
Unobligated Balance, End of Year (Total)	83,121	337,708	3,905	424,734
Total Budgetary Resources	$ 2,297,257	$ 951,879	$ 58,391	$ 3,307,527
OUTLAYS, NET:				
Outlays, Net (Discretionary and Mandatory)	$ (51,160)	$ 321,561	$ 45,403	$ 315,804
Distributed Offsetting Receipts	(1,049)	(16,333)	—	(17,382)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ (52,209)	$ 305,228	$ 45,403	$ 298,422

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

Combining Statements of Budgetary Resources by Fund

For the year ended September 30, 2022

(DOLLARS IN THOUSANDS)	Salaries and Expenses and Other Funds	Investor Protection Fund	Reserve Fund	Total
	X0100, 1435, 1492, 3220, 3875	5567	5566	
BUDGETARY RESOURCES:				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 14)	$ 94,057	$ 144,442	$ 5,851	$ 244,350
Appropriations (Discretionary and Mandatory)	414,402	393,501	50,000	857,903
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,585,831	—	—	1,585,831
Total Budgetary Resources	$ 2,094,290	$ 537,943	$ 55,851	$ 2,688,084
STATUS OF BUDGETARY RESOURCES:				
New Obligations and Upward Adjustments (Total)	$ 2,041,732	$ 231,575	$ 49,723	$ 2,323,030
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	44,883	154,275	—	199,158
Exempt from Apportionment, Unexpired Accounts	—	—	6,128	6,128
Unapportioned, Unexpired Accounts	7,675	152,093	—	159,768
Unobligated Balance, End of Year (Total)	52,558	306,368	6,128	365,054
Total Budgetary Resources	$ 2,094,290	$ 537,943	$ 55,851	$ 2,688,084
OUTLAYS, NET:				
Outlays, Net (Discretionary and Mandatory)	$ 435,669	$ 287,256	$ 54,863	$ 777,788
Distributed Offsetting Receipts	(59)	(2,667)	—	(2,726)
Agency Outlays, Net (Discretionary and Mandatory) (Note 15)	$ 435,610	$ 284,589	$ 54,863	$ 775,062

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

INVESTOR PROTECTION FUND FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Balance Sheets

As of September 30, 2023 and 2022

(DOLLARS IN THOUSANDS)	2023	2022
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 448,625	$ 51,910
Investments, Net (Note 3)	358,140	416,753
Total Intragovernmental	806,765	468,663
Total Assets	$ 806,765	$ 468,663
LIABILITIES (NOTE 4):		
With the Public:		
Accounts Payable	431,406	138,896
Contingent Liabilities (Note 5)	111,988	530,695
Total with the Public	543,394	669,591
Total Liabilities	543,394	669,591
Commitments and Contingencies (Note 5)		
NET POSITION:		
Cumulative Results of Operations – Funds from Dedicated Collections	263,371	(200,928)
Total Cumulative Results of Operations	263,371	(200,928)
Total Net Position	$ 263,371	$ (200,928)
Total Liabilities and Net Position	$ 806,765	$ 468,663

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Net Cost

For the years ended September 30, 2023 and 2022

(DOLLARS IN THOUSANDS)	2023	2022
PROGRAM COSTS:		
Awards to Whistleblowers	$ 195,336	$ 630,277
Employee Suggestion Program	28	43
Total Program Costs	195,364	630,320
Net Cost of Operations (Note 7)	$ 195,364	$ 630,320

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Changes in Net Position

For the years ended September 30, 2023 and 2022

(DOLLARS IN THOUSANDS)	2023	2022
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balances	$ (200,928)	$ 40,087
Non-Exchange Revenue	659,663	389,305
Net Cost of Operations	195,364	630,320
Net Change in Cumulative Results of Operations	464,299	(241,015)
Cumulative Results of Operations: Ending	263,371	(200,928)
Net Position	$ 263,371	$ (200,928)

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

U.S. SECURITIES AND EXCHANGE COMMISSION
INVESTOR PROTECTION FUND

Statements of Budgetary Resources

For the years ended September 30, 2023 and 2022

(DOLLARS IN THOUSANDS)	2023	2022
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, Net (Mandatory)	$ 306,469	$ 144,442
Appropriations (Mandatory)	645,410	393,501
Total Budgetary Resources	$ 951,879	$ 537,943
STATUS OF BUDGETARY RESOURCES (NOTE 6):		
New Obligations and Upward Adjustments (Total)	$ 614,171	$ 231,575
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	309,679	154,275
Unapportioned, Unexpired Accounts	28,029	152,093
Unobligated Balance, End of Year (Total)	337,708	306,368
Total Budgetary Resources	$ 951,879	$ 537,943
OUTLAYS, NET:		
Outlays, Net (Total) (Mandatory)	321,561	287,256
Distributed Offsetting Receipts	(16,333)	(2,667)
Agency Outlays, Net (Mandatory) (Note 7)	$ 305,228	$ 284,589

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

NOTES TO THE INVESTOR PROTECTION FUND FINANCIAL STATEMENTS

U.S. SECURITIES AND EXCHANGE COMMISSION

As of September 30, 2023 and 2022

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Structure

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

B. Basis of Presentation and Accounting

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

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

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

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

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

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

C. Use of Estimates

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

D. Intra- and Inter-Agency Relationships

Transactions with Other SEC Funds

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

Transactions with Other Federal Agencies

Whistleblower payments may be made from the Investor Protection Fund as a result of monetary sanctions paid to other federal agencies in related actions, but only if there has been a Commission enforcement action resulting in sanctions of over one million dollars and the Commission has determined that the whistleblower is eligible for an award and recommended the percentage. In those instances, the SEC remains liable for paying the whistleblower. The SEC also may pay whistleblower awards for certain actions brought by other entities, including designated federal agencies, in cases where those awards might otherwise be paid under the other entity's whistleblower program, where the other action has a more direct or relevant connection to the SEC's whistleblower program. The SEC will pay on the other action, even if the action does not have a more direct or relevant connection to the SEC's whistleblower program, when the other entity's program is not comparable to the Commission's own program or if the maximum award that the Commission could pay on the related action would not exceed $5 million.

E. Funds from Dedicated Collections

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

F. Entity Assets

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

G. Fund Balance with Treasury

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

H. Investments

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

I. Liabilities

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

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

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

J. Program Costs

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

K. Non-Exchange Revenue

Disgorgement and Penalty Transfers

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

Interest Earnings on Investments with Treasury

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

L. Budgets and Budgetary Accounting

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

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

NOTE 2. FUND BALANCE WITH TREASURY

The status of Fund Balance with Treasury as of September 30, 2023 and 2022 consisted of the following:

(DOLLARS IN THOUSANDS)	2023	2022
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ (20,378)	$ (110,385)
Unavailable	37,598	23,399
Obligated Balance not Yet Disbursed	431,405	138,896
Total Status of Fund Balance with Treasury	$ 448,625	$ 51,910

Unobligated balances reported for the status of Fund Balance with Treasury do not agree with the amounts reported in the Statement of Budgetary Resources due to the fact that funds for unobligated balances are held in investments as well as in Fund Balance with Treasury. Investor Protection Fund investments are reversed from the unobligated available amount in order to account for Fund Balance with Treasury only, resulting in the negative balance for that line.

There were no differences between the Fund Balance with Treasury reflected in the Investor Protection Fund financial statements and the balance in the Treasury accounts.

Cash Flow

The Investor Protection Fund cash flows during FY 2023 consisted of:

- Net cash inflows from investment redemptions of $58.7 million;
- Net cash inflows from investment interest of $16.3 million (which include $16.3 million of interest collections);
- Net cash inflows from fund replenishment required under the Dodd-Frank Act of $643.3 million; and
- Net cash outflows for payment of whistleblower awards totaling $135 million for amounts that were awarded prior to FY 2023, $186.5 million for amounts that were awarded during FY 2023, and payment of expenses of operating the Office of Inspector General Employee Suggestion Program of $28 thousand.

Cash flows during FY 2022 consisted of:

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

NOTE 3. INVESTMENTS

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

At September 30, 2023, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Investor Protection Fund – Entity						
One-Day Certificates	$ 358,086	N/A	$ —	$ 54	$ 358,140	$ 358,086
Total	$ 358,086		$ —	$ 54	$ 358,140	$ 358,086

At September 30, 2022, investments consisted of the following:

(DOLLARS IN THOUSANDS)	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment, Net	Market Value Disclosure
Non-Marketable Market-Based Securities						
Investor Protection Fund – Entity						
One-Day Certificates	$ 416,753	N/A	$ —	$ —	$ 416,753	$ 416,753
Total	$ 416,753		$ —	$ —	$ 416,753	$ 416,753

Intragovernmental Investments in Treasury Securities

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

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

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

NOTE 4. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

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

At September 30, 2023, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Accounts Payable	$ 431,406	$ —	$ 431,406
Contingent Liabilities	—	111,988	111,988
Total Liabilities	$ 431,406	$ 111,988	$ 543,394

At September 30, 2022, liabilities consisted of the following:

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

NOTE 5. COMMITMENTS AND CONTINGENCIES

Commitments: Dodd-Frank Whistleblower Program

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

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

Contingent liabilities are reported as follows:

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

At September 30, 2023, commitments and contingencies consisted of the following:

		Estimated Range of Loss	
(DOLLARS IN THOUSANDS)	Accrued Liabilities	Lower End	Upper End
2023 Whistleblower Awards:			
Probable	$ 111,988	$ 44,002	$ 132,007
Reasonably Possible	—	312,361	937,083

At September 30, 2022, commitments and contingencies consisted of the following:

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

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

In the event that whistleblower awards reduce the Investor Protection Fund unobligated balance below $300 million, the Investor Protection Fund will be replenished as described in the "Disgorgement and Penalty Transfers" section of *Note 1.K, Non-Exchange Revenue*. The unobligated balances of the Investor Protection Fund at September 30, 2023 and 2022 were $337 million and $306 million, respectively. Since the contingent liabilities balance does not exceed the unobligated balance at September 30, 2023, additional replenishments will not be needed before these liabilities are awarded and paid.

NOTE 6. STATEMENT OF BUDGETARY RESOURCES AND OTHER BUDGETARY DISCLOSURES

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

A comparison between the FY 2023 Statement of Budgetary Resources and the actual FY 2023 data in the Budget of the U.S. Government (Budget) cannot be presented, as the FY 2025 Budget, which will contain FY 2023 actual data, is not yet available. The comparison will be presented in next year's financial statements. The FY 2025 Budget, with actual amounts for FY 2023, will be available at a later date at whitehouse.gov/omb/budget/.

There are no differences between the FY 2022 Statement of Budgetary Resources and the FY 2022 data in the Budget.

B. Other Budgetary Disclosures

There were no budgetary resources obligated for undelivered orders as of September 30, 2023 and 2022.

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

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

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

Components of net cost that are not part of net outlays consist of increases and decreases in liabilities, such as accounts payable and contingent liabilities. For the year ended September 30, 2023, the SEC paid $321.5 million to whistleblowers, including $186.5 million awarded during FY 2023. Refer to *Note 4, Liabilities Covered and Not Covered by Budgetary Resources,* and *Note 5, Commitments and Contingencies*, for more information about accounts payable and contingent liabilities.

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

For the year ended September 30, 2023:

(DOLLARS IN THOUSANDS)	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 28	$ 195,336	$ 195,364
Components of Net Cost That Are Not Part of Net Outlays:			
(Increase)/Decrease in Liabilities:			
Accounts Payable	—	(292,509)	(292,509)
Other Liabilities (Contingent Liabilities)	—	418,706	418,706
Total Components of Net Cost That Are Not Part of Net Outlays	—	126,197	126,197
Components of Net Outlays That Are Not Part of Net Cost:			
Non-Exchange Interest Receipts Reported as Distributed Offsetting Receipts	(16,333)	—	(16,333)
Total Components of Net Outlays That Are Not Part of Net Cost	(16,333)	—	(16,333)
Net Outlays	$ (16,305)	$ 321,533	$ 305,228

For the year ended September 30, 2022:

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

dis·gorge·ment
dis-ˈgȯrj-ment

The act of returning or repaying ill-gotten gains obtained from fraudulent activities. When disgorgement is ordered, the judge or the Commission may also order that any money collected, including penalties paid, be placed in a Fair Fund for distribution to investors who were the victims of the violation.

ze·ro trust ˈar· chi·tec·ture
zir-(ˌ)ō ˈtrəst ˈär-kə-ˌtek-chər

A security approach based on system design principles that avoids implicit trust of elements, components, nodes, or services based on an acknowledgment that threats exist both inside and outside traditional network boundaries.

cryp·to as·set
ˈkrip-(ˌ)tō ˈa-ˌset

A digital asset that is issued and/or transferred using distributed ledger or blockchain technology, including, but not limited to, so-called "virtual currencies," "cryptocurrencies," "coins," and "tokens." A crypto asset may or may not meet the definition of a "security" under the federal securities laws.

OTHER INFORMATION

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

Inspector General's Statement on Management and Performance Challenges

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

Summary of Financial Statement Audit and Management Assurances

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

Payment Integrity Reporting Details

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

Civil Monetary Penalty Adjustment for Inflation

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

INSPECTOR GENERAL'S STATEMENT ON MANAGEMENT AND PERFORMANCE CHALLENGES

The Reports Consolidation Act of 2000 requires the U.S. Securities and Exchange Commission (SEC), Office of Inspector General (OIG), to issue a report summarizing what we determine to be the most serious management and performance challenges facing the agency. The SEC is required to include this report in its annual agency financial report. This report represents the SEC OIG's independent perspective on the top management challenges facing the SEC in fiscal year 2024 and beyond.

To identify this year's top management challenges, we reviewed our Fiscal Year (FY) 2023 Top Management Challenges report and related progress made by the SEC, as well as the SEC's strategic plan and objectives. We also considered our recent oversight work (audits, evaluations, and investigations); general knowledge of the SEC's operations; and the reports of others, including the U.S. Government Accountability Office (GAO). Further, we conducted significant outreach to the SEC's leadership team and senior officials across the agency and considered their comments on a draft version of this report to leverage and incorporate their knowledge, experience, and perspectives regarding the SEC's progress to date and the challenges that the agency continues to face. Not surprisingly, some of the SEC's top management and performance challenges are shared by other federal agencies and institutions.

Similar to prior years, the SEC's top management and performance challenges are:

- Meeting Regulatory and Oversight Responsibilities
- Recruiting and Retaining a Skilled Workforce
- Protecting Systems and Data
- Synopsis and Trends in Contracting

The SEC OIG is committed to providing independent, objective, and comprehensive oversight of the SEC's programs and operations, to provide transparency for the public and to assist agency management in meeting the challenges to fulfill the SEC's mission on behalf of the American people. In FY 2024, we will continue to conduct work that focuses on the SEC's ongoing efforts to address these and other challenges.

Challenge

Meeting Regulatory and Oversight Responsibilities

The U.S. Securities and Exchange Commission (SEC, agency, or Commission) is charged with protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. This includes regulating and overseeing more than $100 trillion in annual securities trading in the nation's equity markets, as well as the activities of more than 29,000 registered entities, including investment advisers, mutual funds, exchange-traded funds, broker-dealers, and transfer agents; ten credit rating agencies; and 24 national securities exchanges. The SEC also oversees the Public Company Accounting Oversight Board, the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investor Protection Corporation, and the Financial Accounting Standards Board.

With its three-part mission, the SEC plays an integral role in the nation's economy. Healthy capital markets support economic growth. And with 61 percent of Americans owning stocks or mutual funds, robust equity markets and investor protection are critical to the financial security of most individual Americans. It is essential that the SEC performs well and operates efficiently and with integrity. Agency management and the OIG recognize that the SEC's ability to fulfill its mission becomes more challenging as the markets, investment products, and participants within the SEC's purview increase in size, number, and complexity. We describe below the continuing challenges of (1) managing resources while meeting the SEC's regulatory agenda; (2) keeping pace with changing markets and innovations; and (3) leveraging technology and analytics to meet mission requirements and respond to significant developments and trends.

Managing Resources While Meeting the Regulatory Agenda

Last year, we identified challenges and risks posed by the SEC's substantial rulemaking agenda. Rulemaking is the public notice and comment process by which the SEC develops and promulgates regulations that govern the securities markets, and it is a key component in the agency's three-part mission. The SEC's strategic plan calls for developing and implementing "a robust regulatory framework that keeps pace with evolving markets, business models, and technologies."[1] Rulemaking typically involves developing a proposal to address a perceived issue, including analyzing the proposed rule's potential benefits and costs; publishing the proposal for public comment; considering the comments received; and finalizing agency action. Depending on the rulemaking, this work is largely accomplished by managers and staff from the divisions of Trading and Markets, Investment Management, Corporation Finance, and Economic and Risk Analysis, as well as personnel from the Office of the General Counsel, the Office of the Secretary, and the

Chair's policy team. Commissioners, supported by their staff, vote on placing proposed rules before the public for comment and on the adoption of final rules.

Our October 2022 report on the SEC's management and performance challenges[2] identified challenges and risks posed by the SEC's rulemaking agenda. By the end of 2022, the SEC had proposed 27 new rules, one of which was adopted.[3] As of September 2023, the SEC finalized 11 rules and proposed 12 more, most with planned final action dates between October 2023 and April 2024.

At the start of the current Chair's tenure, 12 rules mandated by the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and the Holding Foreign Companies Accountable Act had not yet been issued. As of September 2023, seven of these rules had been finalized, four were at the proposed stage, and the remaining one was awaiting action.

We reported last year the concerns that some SEC managers shared about the strains that this pace and workload posed for the workforce, and Congress explored these issues in hearings.[4] The SEC, in its FY 2024 Congressional Budget Justification,[5] requested 25 additional positions associated with the rulemaking agenda and 12 positions to support rulemaking roles.[6] The requested positions include attorneys, economists, and data analysts, to be spread over the SEC's rulemaking divisions and other offices.

Since last fall when we first identified rulemaking as a top management challenge, we initiated an audit of key rulemaking issues. Specifically, we are reviewing the SEC's processes for (1) giving interested persons an opportunity to participate in rulemaking; and (2) assessing and documenting the impact(s) of proposed rules on competition, efficiency, and capital formation. We are also reviewing agency actions to ensure staff with sufficient and appropriate skills, experience, and expertise are involved in formulating and reviewing proposed rules. This work speaks to the SEC's rulemaking capacity and ability to sustain the current workload. We anticipate completing this work and reporting our results, together with any recommendations, in 2024.

The workload associated with rulemaking does not necessarily end upon the adoption of a rule. New rules may be challenged in court, demanding resources from the SEC's Appellate Litigation team. As cases work their way through the legal system, it may take a year or more to secure a definitive judgment about the validity of a given rule. Thus, the size of the rulemaking agenda may have longer-term implications for the SEC's litigation workload.

Keeping Pace with Changing Markets and Innovations

As we have reported in prior years, the SEC's ability to remain an effective regulator requires that it continuously monitor the market environment, and as appropriate, adjust and modernize its expertise, rules, regulations, and oversight tools and activities. In this regard, two emerging areas present certain challenges for the SEC: crypto assets and artificial intelligence (AI). Given the rapid rise in these and other innovations, the SEC must continuously adapt and build new expertise and capabilities.

CRYPTO ASSETS

The SEC recognizes the rapid growth in crypto assets as one of several "evolutionary risks."[7] Its FY 2024 Congressional Budget Justification asserts that crypto asset markets lack fundamental disclosures about both the assets and the firms that execute investor trades. The Chair has commented repeatedly on widespread noncompliance with existing securities laws by crypto asset market participants. The SEC has brought widely reported enforcement actions related to crypto assets, many of which are being vigorously contested by the defendants.

Nevertheless, as reported by the Financial Stability Oversight Council (FSOC)[8] and GAO,[9] gaps exist in the regulation of crypto asset activities in the United States. Specifically, no federal financial regulator has comprehensive authority to regulate the spot market for crypto assets that are not securities, and there are regulatory gaps in the oversight of certain stablecoins (crypto assets that aim to maintain a stable price and whose values typically are pegged to a reference asset, such as a fiat currency or an exchange-traded commodity). Accordingly, FSOC (which includes the Chair of the SEC) and GAO recommended that Congress consider legislation for federal oversight of these issues.[10] Among other things, FSOC recommended bolstering its members' capacities related to data and analysis, monitoring, supervision, and regulation of crypto asset activities. GAO has further recommended that the seven federal financial regulators establish or adapt an existing coordination mechanism.[11] The SEC's comments on GAO's draft report noted ongoing efforts to coordinate across federal financial regulators through FSOC, the President's Working Group on Financial Markets, the Financial Literacy and Education Commission, joint participation in international bodies, and other bi-lateral and multi-lateral efforts.

For FY 2024, the SEC requested additional positions for the divisions of Examinations, Trading and Markets, and Enforcement, in part, to address critical and evolving risks associated with crypto assets. The Office of the General Counsel and the Office of International Affairs also sought additional positions to focus on crypto asset regulation, policy, and related matters. We address difficulties related to the recruitment of staff knowledgeable regarding crypto asset issues in connection with the SEC's human capital management challenges, discussed later in this report.[12]

Additionally, caselaw concerning the application of the securities laws to crypto assets is limited and still developing. As recent decisions have illustrated, even judges in the same district can reach inconsistent decisions on similar facts or issues.[13] It may take years before the law in this area crystalizes to the point where outcomes are reasonably predictable. This uncertainty may affect the SEC's enforcement decisions and priorities.

ARTIFICIAL INTELLIGENCE

In his July 2023 remarks before the National Press Club, the SEC Chair noted that, "In finance, AI already is being used for call centers, account openings, compliance programs, trading algorithms, sentiment analysis, and more. . . . AI may heighten financial fragility . . . It also could exacerbate the inherent network interconnectedness of the global financial system."[14] Concerns about market integrity include the possibility that AI-generated recommendations may place adviser or broker interests ahead of their investors' interests.

The SEC's Investor Advisory Committee has shared its perspectives on the importance of establishing an ethical AI framework specifically for investment advisers. In an April 2023 letter to the SEC Chair, the Investor Advisory Committee encouraged any new AI guidance to investment advisers to follow the key tenets of equity, consistent and persistent testing, and governance and oversight. In the Committee's view, doing so would support better financial outcomes for all. Finally, the Investor Advisory Committee encouraged the SEC to:

- consider best practices with which advisory firms may comply while maintaining some degree of flexibility to respond to technological advances related to AI;
- use information and input gathered from an agency request for information and comment and from investment adviser examinations to draft best practices regarding the ethical use of AI;
- continue adding staff with AI and machine learning expertise; and
- task the Division of Examinations with monitoring compliance with the new ethical AI framework.[15]

In July 2023, the SEC proposed new requirements to address risks to investors from conflicts of interest associated with the use of predictive data analytics by broker-dealers and investment advisers.[16] The goal is to prevent firms from placing their interests ahead of investors' interests. Public comments on this proposed rule were due October 10, 2023.

Although AI has great potential to improve capital markets, AI and "deep fake" audio and video technologies may also be used by malicious actors for fraudulent purposes, including impersonation. For example, generative AI can imitate the tone and substance of a legitimate investment professional and may thereby dupe prospective and existing customers into transferring funds or providing personal financial information. The difficulty in identifying perpetrators, some of whom may be overseas, can hinder bringing these actors to justice or recovering funds for victims. In FY 2024, we will continue to monitor the SEC's efforts with respect to the use of AI by SEC-regulated entities.

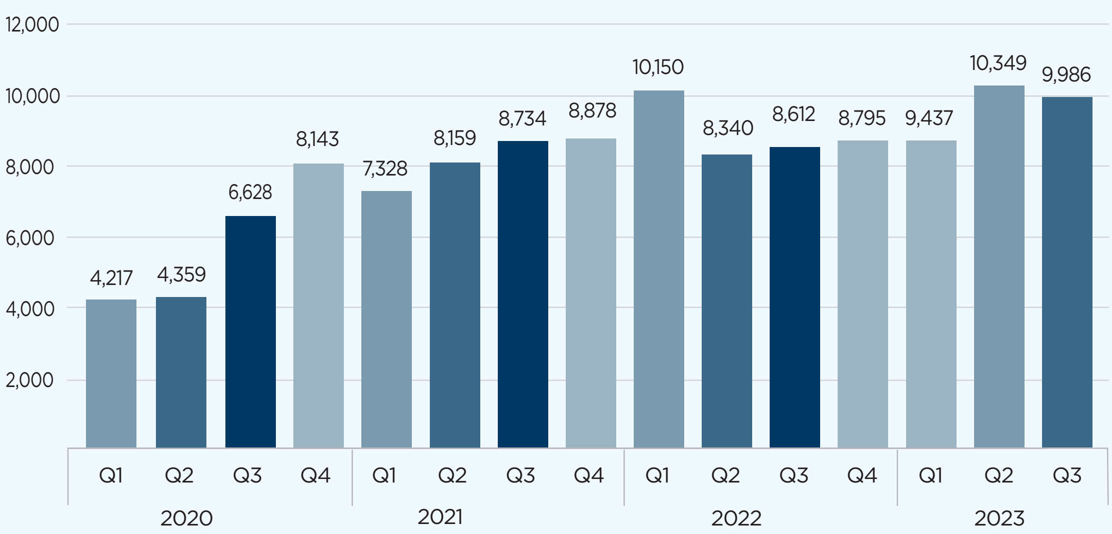
Use of Technology and Analytics to Meet Mission Requirements and Respond to Significant Developments and Trends

We acknowledge the SEC's continued efforts to use technology and analytics to improve efficiency and effectiveness and respond to significant developments and trends in the evolving capital markets. The SEC's strategic plan and technology target reflect the importance of these efforts and affirm the agency's commitment to continue investing in data analytics and new technologies, such as AI and machine learning. To that end, the SEC has hosted numerous seminars and information sessions for its staff, including through an AI/machine learning community of practice, to discuss topics related to analytics and AI/machine learning tools and projects, and to learn about recent advances from industry and academic experts.

One example of improvement through data analytics is the automation of the process by which the Division of Enforcement's (Enforcement) Office of Market Intelligence analyzes the thousands of tips, complaints, and referrals (TCRs) alleging violations of the federal securities laws or conduct that poses a risk of harm to investors. Enforcement continues to use analytics to bulk process incoming TCRs, specifically deprioritizing those categories of allegations that tend to lack merit. Enforcement worked with the Division of Economic and Risk Analysis to automate review of certain TCRs, helping staff to focus on high value submissions, better manage TCRs, and alleviate a backlog.

As Figure 1 shows, however, the number of TCRs received continues to increase, which may stress the agency's capabilities. TCRs have increased from 23,347 in 2020 to 35,897 in 2022, and 2023 is on track to meet or exceed the prior year numbers. In late May/early June 2024, the SEC plans to launch a modernized TCR system with enhanced processing capabilities. We have previously reported on challenges the SEC faced when attempting to modernize its TCR system,[17] and we have encouraged management to leverage lessons learned to help inform decision-making and meet cost and schedule goals, avoiding the overruns and delays previously experienced.[18]

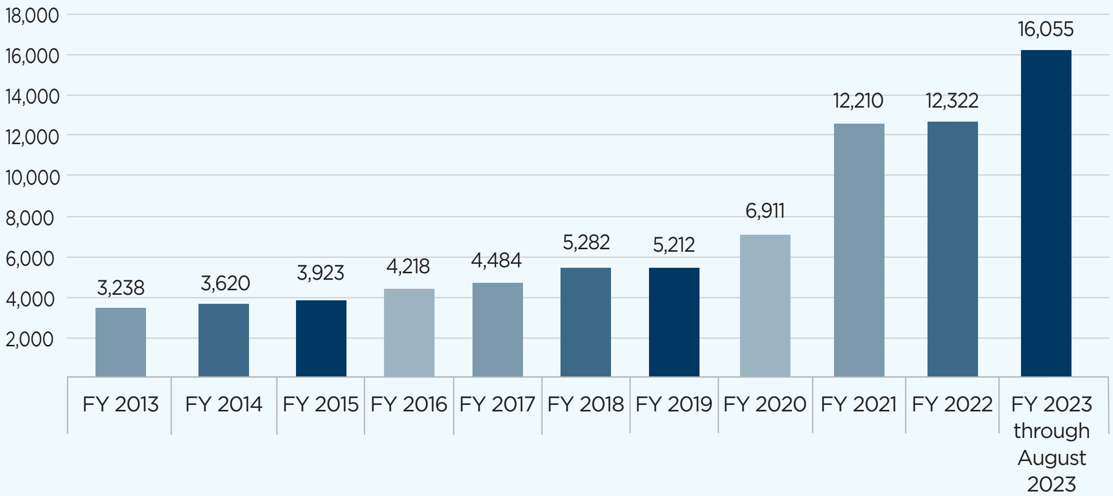
FIGURE 1. Number of TCRs Received (Quarterly, from FY 2020)



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

Likewise, the number of whistleblower complaints has increased steadily since the Office of the Whistleblower (OWB) was established in 2011. As Figure 2 shows, the number of whistleblower tips received annually more than quadrupled over the last ten years. Whistleblower complaints for FY 2023 received through the month of August have increased more than 30 percent above the totals for FYs 2021 and 2022. In January 2022, OWB implemented a new system to modernize, standardize, and automate the tracking and management of whistleblower program information.

FIGURE 2. Number of Whistleblower Tips Received (FY 2013–August 2023)



Source: OIG-generated based on OWB's 2022 annual report to Congress, and data provided by Enforcement. This data is limited to whistleblower tips and does not reflect all tips or complaints received by the Commission during the fiscal year.

In a December 2022 report,[19] we noted that OWB was experiencing a significant backlog in processing whistleblower claims, which increased the amount of time whistleblowers waited before receiving the Commission's Final Order. Prior to our report, the SEC took steps to improve whistleblower claims processing and tracking procedures, including (1) implementing an initiative to more efficiently develop the initial drafts of attorney declarations, (2) adopting certain rule amendments, and (3) implementing a modernized claims tracking system. Management's efforts notwithstanding, we determined, among other findings, that OWB lacked effective controls over manually inputted data entries, resulting in inaccurate or incomplete data.

We made eight recommendations to help further increase efficiencies in the SEC's whistleblower program, better prepare for future whistleblower program growth, reduce risk, and improve controls over whistleblower program data and communication with external parties. Management concurred with our recommendations and has taken actions sufficient to close all of them.

ONGOING AND ANTICIPATED OIG WORK

In FY 2024, we will initiate reviews of the SEC's strategic approach to AI and machine learning (pending Government-wide guidance), investment company filings, and the Division of Corporation Finance disclosure operations. We will also complete our ongoing audit of aspects of the SEC's rulemaking process and related internal controls. Furthermore, we will follow-up on open recommendations intended to expedite Enforcement investigations.

Challenge

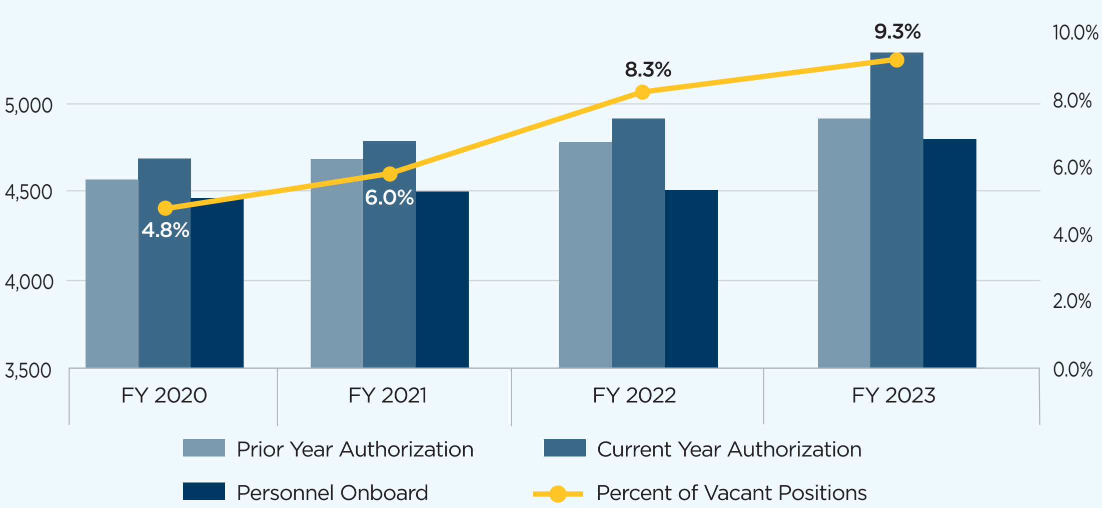
Recruiting and Retaining a Skilled Workforce

Long recognized as one of the Best Places to Work in the Federal Government,[20] the SEC seeks to hire the best and brightest candidates to join its talented workforce by offering rewarding careers at an innovative organization. The agency considers people to be its most important asset and includes as one its top strategic goals supporting a skilled workforce that is diverse, equitable, inclusive, and fully equipped to advance agency objectives.[21] Nevertheless, like many federal agencies, the SEC faces challenges in recruiting and retaining highly skilled staff.

Vacancies and Attrition

As of September 30, 2023, 491 of the SEC's 5,303 authorized positions were unfilled, a vacancy rate of 9.3 percent. The vacancy rate has increased steadily over the past four years, as the agency added new slots, as shown in Figure 3. The SEC added 379 new positions in FY 2023, and its 2024 budget request seeks another 170 slots, 25 of which are directly associated with the rulemaking agenda, with 12 additional positions tied to supporting rulemaking roles.[22]

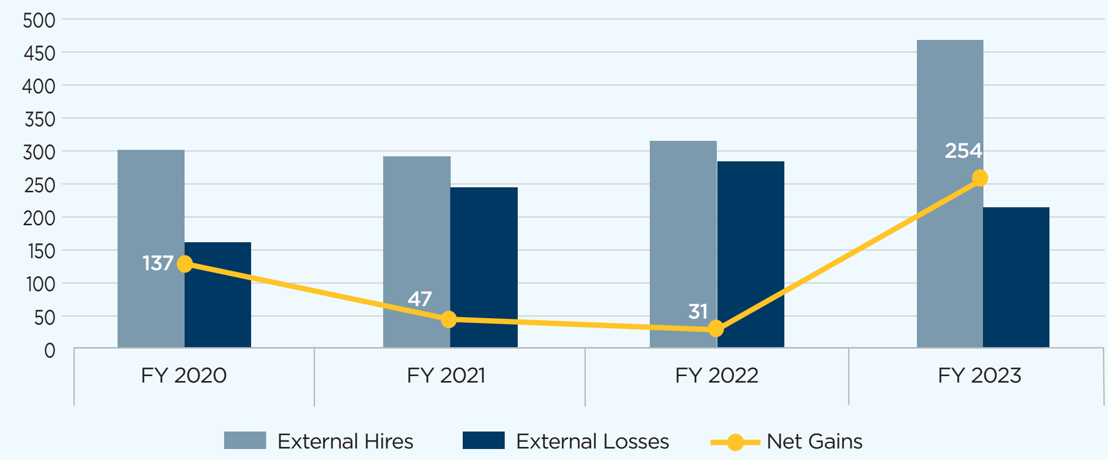
FIGURE 3. Vacant Positions as Percentage of Authorized Positions (FY 2020–FY 2023)



Source: Based on personnel onboard at FY end data provided by OHR and Enacted FY Authorizations provided by the Office of Financial Management.

Attrition also contributes to the vacancy rate. Although the SEC has hired an average of over 300 staff members from external sources annually over the past four years, Figure 4 shows that, until 2023, most of those gains were offset by staff departures.

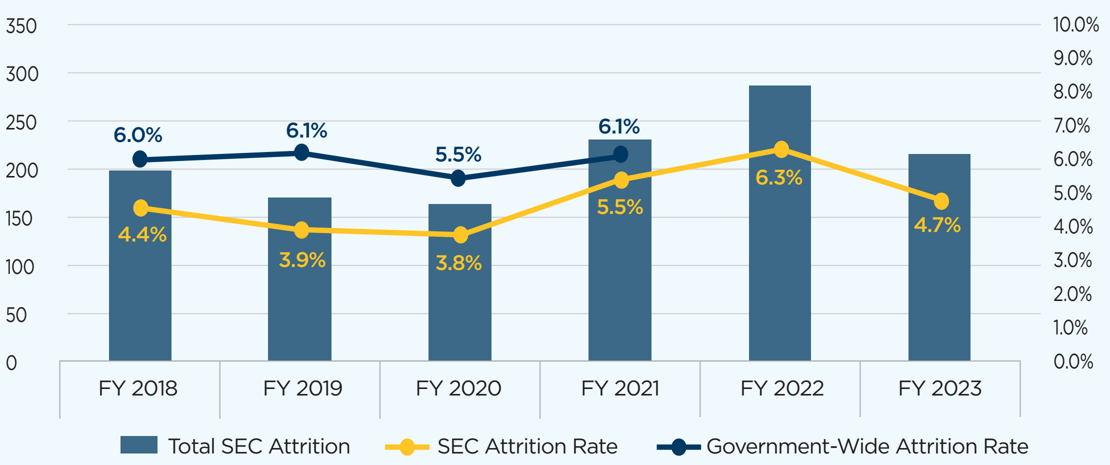
FIGURE 4. Net Gains in Personnel Onboard at Year-End (FY 2020–FY 2023)



Source: Based on FY year end data provided by OHR.

Attrition rose at the SEC from 3.8 percent in FY 2020 to 6.3 percent in FY 2022, before declining to 4.7 percent in FY 2023, as shown in Figure 5. Although the SEC's attrition rate increased prior to declining in FY 2023, it remained below the government-wide attrition rate through FY 2021, the most recent year for which government-wide attrition rates are publicly available.[23]

FIGURE 5. SEC Attrition Rate Compared to Government-Wide Attrition Rate (FY 2018–FY 2023)



Source: Based on SEC attrition data provided by OHR and available government-wide attrition data from the Partnership for Public Service.

Staffing shortages do not hit evenly across the agency. The Division of Enforcement, responsible for investigating and prosecuting fraud and other violations of the securities laws, has a vacancy rate of 8.1 percent, and the Division of Examinations, which, among other things, conducts risk-based reviews of mutual funds, exchange traded funds, and broker/dealers, has a vacancy rate of 9.3

percent, and thus the agency cannot examine or investigate as many matters as it could if fully staffed. In the Division of Trading and Markets, which, for example, provides day-to-day oversight of self-regulatory organizations (such as the national securities exchanges and clearing agencies), the vacancy rate is 15.6 percent.

While the leaders of these divisions assure us that they are meeting their core missions, they acknowledge that they must curtail work because of unfilled slots. Vacancies can reduce the scope of their work, cause delays and may require them to forgo work that they would undertake if fully staffed. Division leaders also told us that staffing shortages impose higher workloads on existing staff. A triennial review of SEC personnel management completed by GAO in December 2022 estimated that over half of the SEC's workforce believed that their division or office did not have enough staff to manage the volume of work that needs to be completed.[24] Our evaluation of the timeliness of Enforcement investigations reported in February 2023 that 277 of 412 staff who responded—67 percent—disagreed or strongly disagreed that the Enforcement Division's human capital resources were sufficient to handle the investigative workload.[25] Those who responded cited a need for investigative and trial attorneys, accountants, paralegals, and other support staff and stated that they were spread too thin to move cases forward on a timely basis. Division management agreed that increased staffing was needed. Some agency officials cited staff shortages and increasing workloads as a reason that staff members are leaving the SEC.

The vacancy rate at the SEC is unlikely to be reduced significantly in the short term. On September 28, 2023, the SEC paused most hiring actions until further notice, due to the uncertainty surrounding the SEC's FY 2024 appropriations. We will continue to monitor how the hiring pause impacts the SEC's ability to continue to meet its mission priorities.

Hiring Flow and Volume

While the Office of Human Resources (OHR) administers key aspects of the agency's recruiting and staffing process, including consulting with management, establishing and administering human capital programs and policies, and ensuring compliance with federal laws and regulations and negotiated agreements,[26] each component within the SEC plays an important role in the hiring process.

The SEC undertook an intensive effort to fill the 379 new positions authorized for FY 2023, as well as backfill losses due to attrition. Indeed, OHR maintained an average of 500 or more hiring actions in process at any given time throughout FY 2023. The agency filled 850 positions in FY 2023, significantly more than in the preceding three years.[27] While this led to a net gain of 254 positions, the rate of vacancies also increased, from 8.3 percent to 9.3 percent. This occurred in part because internal hires accounted for 44.6 percent of the SEC positions filled in FY 2023, which created 379 additional vacancies. OHR also noted that staffing and workloads among hiring officials within agency components can create practical limitations on the amount of time that can be devoted to completing hiring actions in a given year, and that the necessary pre-employment checks also prolong the hiring cycle. Senior officials across the agency agreed that reducing attrition would help to lower the current vacancy rate. In FY 2024, we will assess the SEC's strategies for recruiting and retaining employees and filling vacancies.

Chair Gensler has acknowledged that the SEC's workforce must contend with increasingly complex markets, a significant growth in registrants, and more involvement in the markets from individual investors. As the size, scale, and complexity of capital markets grow, it is critical that the SEC is adequately staffed to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation so that its ability to meet these demands is not reduced or delayed.

Specialized Recruiting Challenges

As described above, the SEC also faces challenges in recruiting specialists in crypto assets, which Enforcement considers critical to strengthening its capabilities to investigate new and emerging issues in crypto-asset markets.[28] Officials in several SEC divisions cited a small candidate pool of qualified experts and high competition from private sector recruitment as challenges in filling crypto asset-related positions. Officials also reported that many qualified candidates hold crypto assets, which the Office of the Ethics Counsel has determined would prohibit them from working on particular matters affecting or involving crypto assets. This prohibition, according to SEC officials, has been detrimental to recruiting, as candidates are often unwilling to divest their crypto assets to work for the SEC.

Other Recruiting and Attrition Drivers

One of the most significant drivers in both recruitment and attrition is competition with the private sector, particularly on wages. The SEC employs highly skilled professionals, including attorneys, economists, and accountants. Private sector wages can be substantially higher than the SEC's pay scale, making private sector positions attractive to both new and seasoned professionals.[29]

While agency officials we spoke with believed that the recently finalized collective bargaining agreement—which expands telework to eight days per pay period for most employees and extends certain work-life balance flexibilities, as well as other benefits—will be a significant positive factor for recruiting and retaining professional talent, competition with private sector compensation will continue to pose a challenge.

Opportunities for advancement are another important factor in attrition and retention decisions. Relatively few promotion opportunities are available above the SK-14 level, which may lead staff to pursue career options elsewhere. The SEC has made an effort to reduce its external professional hiring at the SK-14 level, dropping it from 74.8 percent in FY 2021 to 63.5 percent in FY 2022. With respect to positions at the lower levels, our recent report on the Upward Mobility Program, which was originally intended to provide promotional opportunities for selected staff at the SK-7-9 levels, found that 30 percent of the program positions went to SK-11 staff who took voluntary downgrades and were then promoted to SK-12 within months.[30] While this practice did not violate SEC rules or regulations, it did call into question the Upward Mobility Program design, including whether SK-11 employees were intended beneficiaries. SEC management said that it would work with the National Treasury Employees Union (NTEU)—the union that represents more than two-thirds of the SEC workforce—to formalize policies and document the intended grade levels of program participants.

Performance management is another opportunity for improvement, though the likely effect on attrition is not clear. GAO's December 2022 report[31] found that in general employees viewed the SEC's performance management system unfavorably, and over half felt that the two-tier rating system ("accomplished performer" or "unacceptable") did not create meaningful distinctions in performance or incentivize high performance. Additionally, while many employees reported they believed performance appraisals under the current system were fair and it was easier for supervisors to rate staff, an estimated 74 percent of employees believed that receiving meaningful performance feedback depended more on individual supervisors than on the structure of the performance management system.[32]

Surveys of departing employees conducted by the SEC generally bear out the salience of compensation, promotion, recognition, and career opportunities, as well as retirement eligibility, as significant reasons for leaving the SEC. However, the exit surveys are not a mandatory part of the off-boarding process. With a response rate of only about 40 percent in FYs 2019 through 2022, the SEC may be missing valuable information and insights regarding retention and attrition. To remedy this, officials in OHR told us that they are updating the off-boarding process so exit surveys are sent to departing employees in a separate email (independent of other off-boarding process items), with automated reminder emails to encourage departing employees to complete the exit survey. More comprehensive and granular data may assist the SEC to develop targeted responses for the contributing factors that are within the agency's power to mitigate.

Transition to a Hybrid Workplace

With the conclusion of the COVID-19 pandemic,[33] the SEC has moved to a hybrid workplace, in which most employees are required to work in the office at least two days per two-week pay period and may telework the remainder of their time. In the agency's view, this balances the benefits of extended telework that accrued during the pandemic, while promoting in-person collaboration and culture-building,[34] including "community days," when all members of a work unit are together in the office. This telework policy is included in the 2023 Collective Bargaining Agreement between the SEC and NTEU. Training in supervising staff in a telework environment, which covers the specifics of telework and work schedule policies within the SEC, has been made available to all managers.

On August 4, 2023, the White House directed Cabinet-level officials to "aggressively execute" a shift to increase the in-office presence of federal employees this fall. This directive did not apply to the SEC as an independent agency. This issue is of great interest to Congress[35] and the SEC workforce and we will continue to monitor any developments to increase the in-office attendance of SEC employees.

This post-pandemic telework posture has had a favorable impact on the agency's budget. The SEC has reduced its headquarters footprint by more than 200,000 square feet, at an annual savings of at least $14 million, with further space reductions possible. The SEC is in the process of reviewing space needs across its regional offices to determine whether further space reductions and related cost savings can be achieved. The projected level of future telework will also affect the SEC's remaining headquarters lease extensions, which contain options to cancel at certain milestones, as well as the space needs for the new headquarters to which the SEC will relocate later this decade.

Both the SEC and NTEU have recognized the substantial benefits of telework, such as protecting the environment, improving employees' work-life balance, improving the SEC's ability to recruit and retain talent, and providing for continuity of operations during emergencies. Both parties also noted that performance expectations are the same for both teleworking and non-teleworking employees. Moreover, telework can be suspended for an employee in the event of time and attendance issues, a decline in performance, or a failure to truthfully report time worked.

Managing telework effectively requires substantial commitment from agency leaders and supervisors, to find new ways to maintain positive employee engagement, mentoring and informal learning, which may not occur organically when staff are not physically together. Supervisors must also maintain an awareness of staff productivity and the quality of their work, to guard against inattention/distraction and the possibility of time and attendance fraud.

Even if some adjustments are made, expanded telework will likely continue at the SEC. The leadership believes that the availability of telework is an important recruitment inducement. Supervisors and staff need the technology, tools, and training to collaborate effectively in a hybrid environment to accomplish the SEC's mission.

ONGOING AND ANTICIPATED OIG WORK

In FY 2024, we will complete (1) an assessment of the operations and controls over the SEC's equal employment opportunity program, and (2) a review of agency actions to ensure staff with sufficient and appropriate skills, experience, and expertise are involved in formulating and reviewing proposed rules. We will assess the SEC's strategies for recruiting and retaining employees and filling vacancies. We will also continue to monitor the SEC's progress in addressing any new recommendations related to human capital management.

Challenge

Protecting Systems and Data

Information security in the financial sector is a significant focus of public and private entities alike, with particular attention to market systems, customer data protection, disclosure of material cybersecurity risks and incidents, and compliance with legal and regulatory obligations under the federal securities laws. The seriousness of the threats and the potential consequences to investors, issuers, and other securities market participants, and the financial markets and economy more generally, are substantial and increasing. Cybersecurity risk management has become essential.

Federal agencies are not immune to these challenges. The Cybersecurity and Infrastructure Security Agency (CISA) is constantly adding new Known Exploited Vulnerabilities to their catalog, including vulnerabilities of major software products. These types of vulnerabilities are frequent attack vectors for malicious cyber actors and pose significant risks to federal enterprises and systems. CISA has issued an Advisory warning[36] that cyber actors routinely exploit poor security configurations (either misconfigured or left unsecured), weak controls, and other poor cyber hygiene practices to gain access or as part of other tactics to compromise federal systems. Since many government information technology (IT) systems, including the SEC's, contain vast amounts of sensitive information, it is important that the agency protect the confidentiality, integrity, and availability of this information—and effectively respond to data breaches and security incidents.

SEC management has recognized that "efficient, effective, and responsible use of data and IT is a crucial focus of the agency."[37] In its FY 2024 Congressional Budget Justification, the agency requested additional funds to implement its multi-year IT strategy, which includes (1) the expansion of AI and machine learning into data accessibility and analysis; (2) the migration of applications to the cloud; (3) the implementation of a zero trust architecture and other compliance with new cybersecurity requirements; and (4) the development of an IT Supply Chain Risk Management program. The budget request includes plans to hire additional personnel to help implement these initiatives and to ensure the SEC's IT investments yield the promised value and benefits for agency programs.

We discuss below recent IT events, as well as the overall security posture of the SEC's systems and data.

Insufficient User Access Controls Allowed Certain Enforcement Staff Access to Restricted Adjudicatory Information

Last year, we reported on a material weakness, disclosed by the agency in an April 2022 Commission statement, associated with a lack of controls related to user access to a Commission system. Specifically, the SEC reported that the database maintained by the Office of the Secretary that contains information and documents related to Commission actions was not configured to restrict access to certain Enforcement staff, and thus unintentionally allowed Enforcement administrative staff to view and export information on the adjudication of administrative matters to which the Enforcement Division was a party. In June 2023, the SEC reported that 91 matters then pending before the Commission were implicated: two matters originally disclosed in April 2022; 28 matters as to which one or more adjudication memoranda specific to the particular matter were accessed by Enforcement administrative staff (also referred to as "Affected Matters"); and 61 additional matters in which one or more adjudication memoranda broadly applicable to numerous pending matters were accessed by Enforcement administrative staff (referred to as "Omnibus Memoranda").

The Commission's internal review found no evidence that access to adjudication memoranda regarding the Affected Matters impacted Enforcement filings or decision-making. The internal review likewise found no evidence that the administrative staff member who accessed the eight Omnibus Memoranda, which recommended procedural actions in then-pending administrative adjudicatory proceedings, contacted any Enforcement staff responsible for investigating and prosecuting the relevant matters about any of these memoranda. Nevertheless, as a matter of discretion, the Commission dismissed 42 pending matters found to be connected to the control deficiency and granted relief for persons subject to collateral bars in an additional 48 matters, to preserve the Commission's resources.

Our independent investigation into this matter confirmed that Enforcement administrative staff accessed the adjudication memoranda without appreciating their significance or the fact that they should not be shared with Enforcement staff generally. We identified lack of staff training, inadequate internal controls and the unanticipated use of a system designed to allow the recording of Commission votes on staff recommendations. The Commission has taken this lapse in controls seriously, taking steps to ensure that sensitive work products are appropriately safeguarded and committing to keeping the public informed about the scope of this issue.

Some Public Comments to SEC Rulemakings Submitted Online Were Not Received Due to a Technological Error

In 2022, the SEC failed to receive 168 comments on 11 pending rulemakings due to a technological error in the agency's online comment system.[38] As a result, after working with the vendor to deploy a fix, the SEC reopened the comment periods for 11 affected rulemaking releases and one request for comment. The agency notified the public that the technological error might also have affected certain comments related to eight self-regulatory organization matters.

As reported in our April 2023 management letter,[39] we identified IT control weaknesses that delayed the SEC's awareness of the technological error and magnified the error's overall impact. Specifically, the responsible Information System Owner and system administrators did not configure alerts or regularly monitor system logs, which would have permitted agency personnel to timely identify and respond to the error. The SEC also did not back up some data submitted through the internet comment form, which delayed recovery of comments. As a result, among other information, we requested confirmation from the agency that it has posted to its public website comment letters not initially received but subsequently recovered and/or resubmitted, so that teams have the opportunity to consider these comments when preparing a recommendation to the Commission regarding a final rulemaking. We also identified another matter for management's consideration regarding comments that are not posted to the SEC's public website or promptly provided to rulemaking staff, and the overall efficiency of related processes. In May 2023, SEC management confirmed for us that rulemaking teams were given the opportunity to consider the comments when preparing a recommendation to the Commission regarding a final rulemaking.

In September 2023, SEC management confirmed for us that the SEC deployed a new comment letter system on April 30, 2023. The agency asserts that the new system has decreased the time that it takes for Office of the Secretary staff to review and approve comment letters and, in turn, transmit comment letters to rule-writers. The OIG has not independently assessed the corrective actions implemented by the agency or validated its assertions.

Strengthening the SEC's Cybersecurity Posture

IMPLEMENTING A ZERO TRUST ARCHITECTURE

On May 12, 2021, President Biden issued Executive Order 14028, *Improving the Nation's Cybersecurity*, initiating a government-wide effort to ensure that baseline security practices are in place and to migrate the federal government to a zero trust architecture. A zero trust approach to cybersecurity focuses on preventing and limiting damage in the event that a malicious actor gains access to a network. Zero trust operates on the principle to "never trust, [and] always verify," with a goal to continuously authenticate and authorize users and devices that seek to obtain and maintain access to systems and data.

In FY 2023, we conducted a review of the SEC's progress toward implementing the zero trust architecture strategy and cybersecurity standards and objectives established in Office of Management and Budget (OMB) Memorandum M-22-09.[40] Overall, the SEC has completed six of nine actions required to be implemented within the first year (i.e., by January 27, 2023). However, at the time of our review, three of the nine tasks had not been completed. The SEC appears to be on track to meet the longer term zero trust requirements by OMB's September 30, 2024, deadline; however, actions are needed to address outstanding tasks and prevent delaying the SEC's achievement of specific zero trust security goals and extending implementation beyond FY 2024.

Failure to timely and effectively implement government-wide zero trust cybersecurity principles may result in the SEC being more susceptible to threat campaigns that target the agency's IT infrastructure, threaten privacy, damage the American economy, and weaken trust in government.

To help us determine whether further action by the OIG is warranted regarding this issue, we requested that management provide the OIG, no later than November 13, 2023, a description of actions the SEC has taken or plans to take to:

1. Configure all SEC public-facing systems that support multi-factor authentication to give users the option of using phishing-resistant authentication.

2. Remove password policies that require special characters.

3. Establish a goal for monitoring and potentially restricting how sensitive electronic documents are shared.

Maturing the SEC's Information Security Program

We annually evaluate the SEC's implementation of the Federal Information Security Modernization Act of 2014 (FISMA).[41] Since FY 2021, the SEC has made progress in improving its information security program by institutionalizing the use of advanced risk management technologies; developing a standard hardware taxonomy across the agency; and updating relevant components of the agency's interconnection inventory. However, the agency faced challenges, including, but not limited to, documenting the results of privacy risk assessments, integrating formal lessons learned on the effectiveness of incident handling policies and procedures, and completing business impact analyses for its information systems. We contracted with Kearney & Company, P.C. (Kearney) to conduct the FY 2022 independent evaluation and, on November 15, 2022, issued the report titled, *Fiscal Year 2022 Independent Evaluation of the SEC's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 574).

Although the SEC strengthened its program, Kearney determined for FY 2022 that the agency's information security program did not meet annual Inspector General FISMA reporting metrics' definition of "effective," which requires more than half of the domains to be rated as Level 4 ("Managed and Measurable").[42] As stated in Report No. 574, the SEC's maturity level for the five Cybersecurity Framework security functions ("identify," "protect," "detect," "respond," and "recover") and related domains was primarily Level 3 ("Consistently Implemented"). As shown in Figure 6 below, there was a significant decrease in both the overall Security Training domain rating (from Optimized in FY 2021 to Defined in FY 2022) and the Contingency Planning domain rating (from Managed and Measurable in FY 2021 to Consistently Implemented in FY 2022). We determined that these decreases were primarily due to changes in the government-wide methodology (prescribed by OMB, along with the Council of the Inspectors General on Integrity and Efficiency, the Chief Information Security Officers Council, and CISA) for the FY 2022 assessment. Specifically, the FY 2022 assessment included fewer metrics overall than the FY 2021 evaluation.

FIGURE 6. Summary of SEC FISMA Ratings (FY 2021 and FY 2022)

Domain	Assessed Rating By FY	
	2022	2021
Risk Management	Level 3: *Consistently Implemented*	Level 3: *Consistently Implemented*
Supply Chain Risk Management	Level 1: *Ad Hoc*	Level 1: *Ad Hoc*
Configuration Management	Level 2: *Defined*	Level 2: *Defined*
Identity and Access Management	Level 2: *Defined*	Level 2: *Defined*
Data Protection and Privacy	Level 3: *Consistently Implemented*	Level 3: *Consistently Implemented*
Security Training	Level 2: *Defined*	Level 5: *Optimized*
Information Security Continuous Monitoring	Level 3: *Consistently Implemented*	Level 3: *Consistently Implemented*
Incident Response	Level 4: *Managed and Measurable*	Level 4: *Managed and Measurable*
Contingency Planning	Level 3: *Consistently Implemented*	Level 4: *Managed and Measurable*

Source: OIG-generated based on Exhibit 1 from Report No. 574 and 570.

Report No. 574 included 13 new recommendations to strengthen the SEC's information security program and highlighted opportunities to improve in all nine of FY 2022 Inspector General FISMA reporting metric areas. To date, the SEC has taken corrective action sufficient to close eight of these 13 recommendations. However, one recommendation from a prior year FISMA report remains open (FY 2017).[43] We commend agency management for the actions taken to date and encourage management to promptly act on all opportunities for improvement identified in previous FISMA reports to help minimize the risk of unauthorized disclosure, modification, use, and disruption of the SEC's sensitive, nonpublic information, and to assist the agency's information security program reach the next maturity level.

ENSURING THE EFFECTIVENESS OF SEC'S DATA LOSS PREVENTION PROGRAMS

An effective data loss prevention (DLP) program reduces the risk of a data breach or a leak of sensitive SEC information by monitoring communication channels and preventing nonpublic data—such as personally identifiable information, law enforcement sensitive data, or business identifiable data—from leaving the agency's network without authorization. An unauthorized disclosure of sensitive SEC data could have significant adverse consequences on both the SEC and the financial sector due to the loss or compromise of confidential, protected, and/or proprietary information; harm to the SEC's reputation; monetary loss; and disruptions to financial markets, critical systems, and/or services.

We assessed DLP-related incident response controls during our FISMA evaluation, and since FY 2020, the SEC has been assessed an acceptable level 4, Managed and Measurable, for their overall incident response controls. Nevertheless, at least one agency official has expressed concerns regarding inefficiencies in the SEC's DLP tool capabilities and the Office of Information Technology's procedures for classifying and providing relevant and prompt information on a data loss breach. Untimely notification of data loss incidents to supervisors and interested parties could result in further avoidable losses and ineffective mitigation and remediation.

Given the sensitivity of data within SEC systems, we believe that a detailed standalone review of the DLP program is warranted and intend to initiate such a review this year.

SAFEGUARDS FOR SEC MOBILE DEVICES

In FY 2023, the SEC's Office of Information Technology made progress by taking corrective action sufficient to close one cybersecurity-related recommendation from a previous report titled Opportunities Exist To Improve the SEC's Management of Mobile Devices and Services, (Report No. 562). However, the SEC has not yet completely addressed a recommendation from Report No. 562 that the agency update existing policies and procedures to include additional controls addressing mobile device inventory, provisioning, applications, sanitization, and operating system updates. As of September 2023, the agency was still in the process of revising its mobile devices standard operating procedures.

ONGOING AND ANTICIPATED OIG WORK

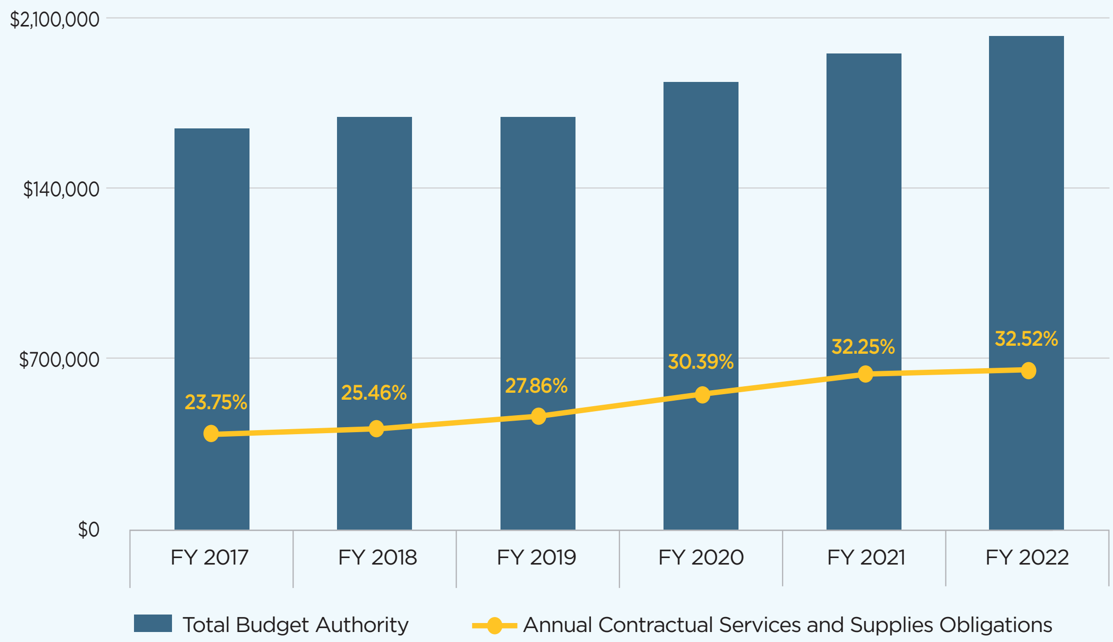
In FY 2024, we will continue to assess the SEC's efforts to secure its systems and data and mature its information security program. Specifically, we will complete ongoing reviews of the SEC's FY 2023 FISMA compliance and its efforts to establish a secure environment and applications to use consolidated audit trail data. We will also initiate the FY 2024 FISMA evaluation and an audit of the SEC's DLP program. Finally, we will evaluate the SEC's strategic approach to AI and machine learning.

Challenge

Synopsis and Trends in Contracting

The SEC relies on contractors for technical and subject matter expertise, including IT support; professional litigation and investigation-related services; support in areas of analytics and examinations; and human resources support services. The portion of the SEC's budget devoted to contract services continues to rise, representing about one-third of the agency's expenditures in FY 2022. (See Figure 7.) For FY 2024, the agency has requested nearly $741 million for contractual services and supplies, about 30 percent of the total $2.436 billion requested for agency operations.

FIGURE 7. SEC Annual Contractual Services and Supplies Obligations, in Thousands, as a Percentage of Total Annual Budget Authority (FY 2017–FY 2022)



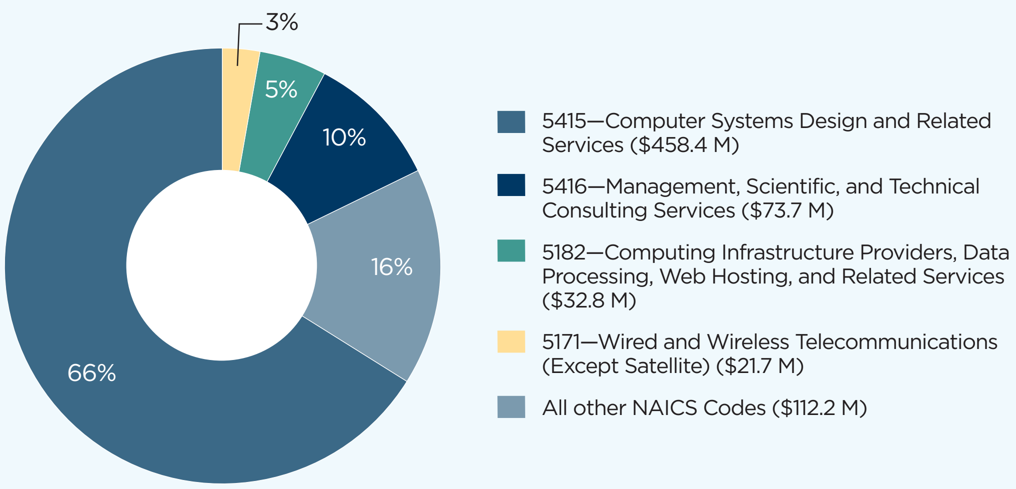
Source: OIG-generated based on annual actual obligations by object class as reported in the SEC's Congressional Budget Justifications for FY 2019 through FY 2024.

Contract management challenges are common across the federal government. From December 2022 through July 2023, federal agencies issued reports detailing inadequate procurement management; inadequate specialized training for contracting officers; problems addressing prohibited telecom items offered on multiple award schedule contracts; lack of adherence to existing acquisition and procurement procedures; and lack of adherence to acquisition policies and procedures. The SEC is not immune to such issues and must ensure that its acquisition workforce remains vigilant and manages contract resources effectively.

As in prior years, the SEC spends the majority of its contract dollars on IT services. These services include application management and development, business solutions delivery, IT infrastructure and operations management, information security, IT governance, and data management.

Of the nearly $700 million obligated for contracts in FY 2023, the SEC obligated about 70 percent (or about $491 million) to vendors doing business in two categories:[44] one for computer systems design and related services, and another for computing infrastructure providers, data processing, web hosting, and related services. (See Figure 8.)

FIGURE 8. SEC's Top Contract Categories (Industry Codes) in FY 2023



Source: OIG-generated from data retrieved from SAM.gov on October 2, 2023.

This high concentration of IT contracting affects the SEC's risks. Since 2015, GAO has designated IT acquisitions and operations as a high-risk area, in need of improvement and attention by the executive branch and by Congress:

> [F]ederal IT investments too frequently fail to deliver capabilities in a timely manner. They also incur cost overruns or schedule slippages while contributing little to mission-related outcomes. These investments often lack disciplined and effective management in areas such as project planning, requirements definition, and program oversight and governance.[45]

Focus on Diversity, Equity, and Inclusion in Contracting

Recent OMB guidance implements President Biden's commitments to increase the share of contracts awarded to small disadvantaged businesses to 15 percent by 2025.[46] To do this, OMB directs federal agencies to take specific management actions, including increasing the number of such new entrants to the federal marketplace and reversing the general decline in the small business supplier base.

To support diversity, equity, and inclusion goals, the Offices of Acquisitions (OA) and Minority and Women Inclusion (OMWI) continue to collaborate to voluntarily implement the requirements of Executive Order 13895, which states that the federal government should pursue a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality.[47] OA and OMWI have committed to developing processes to ensure underserved groups have the opportunity to provide feedback on the SEC's existing Supplier Diversity Program and are afforded opportunities to participate in SEC business opportunities.

The SEC procures many of its IT services through its OneIT enterprise contract vehicle, which has a 10-year ordering period, a contract ceiling of $2.5 billion, and separate pools for acquisitions from small businesses. As of October 2, 2023, 22 of the 27 task orders under the OneIT contract vehicle went to small businesses, representing 47 percent of the total $827 million obligated. In March 2022, we initiated an audit to (1) assess the SEC's processes for encouraging small business participation in agency contracting, in accordance with federal laws and regulations; and (2) determine whether, in FY 2020 and FY 2021, the SEC accurately reported small business awards. In our February 2023 report,[48] we noted that the SEC exceeded government-wide statutory small business contracting goals for prime contract awards and took steps to encourage small business contracting and supplier diversity and inclusion. However, the SEC, we found, could better identify and, as appropriate, respond to trends in its small business contracting activities by:

- analyzing its small business contracting data at the transaction level;
- leveraging supplier diversity data, as appropriate;
- evaluating the effectiveness of vendor outreach events and data collected from such events; and
- monitoring and reporting subcontracting achievements for socioeconomic subgroups.

We also identified opportunities to better leverage the role of the SEC's Office of Small and Disadvantaged Business Utilization. Lastly, we found that OA could maintain better records to support and enhance the accuracy of the SEC's reported small business awards and improve the completeness of contract files. We made eight recommendations for improvement. Management concurred with our recommendations and has taken actions sufficient to close seven of them to date. The remaining recommendation will be closed upon completion and verification of proposed actions.

Time and Materials Contracts

Time and materials (T&M) contracts are to be used when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence. As recognized in the Federal Acquisition Regulation, T&M contracts do not reward a contractor for cost control or labor efficiency. T&M and labor-hour (LH) contracts[49] are generally considered riskier than fixed price contracts because contractors bill the government by the hour and could conceivably work less efficiently so that they could charge more hours. As a result, GAO recommended that agencies use lower-risk contract vehicles where possible, including assessing ongoing use of T&M contracts in their acquisition portfolios.[50] Similarly, the Federal Acquisition Regulation encourages contracting officers to assess contract types periodically, after experience obtained during the performance of a T&M contract provides a basis for firmer pricing.

Last year, we reported that the SEC's use of T&M contracts had increased from about 40 percent in FY 2018 to about 53 percent in FY 2022. In response, Agency management stated that the SEC continues to closely monitor its use of T&M contracts, exercises rigorous oversight of these types of contracts, and has made improvements, including an updated independent government cost estimate guide and an automated determination and findings workflow.[51]

Since last fall, we have initiated an audit to assess the SEC's controls over T&M contracts (including LH contracts) and determine whether those controls ensure compliance with applicable laws, regulations, and SEC policies and procedures. Specifically, we will assess (1) the factors OA considered when awarding T&M contracts; (2) the measures taken to reduce the SEC's use of T&M contracts when possible and appropriate; and (3) the surveillance of T&M contracts, including through use of a Quality Assurance Surveillance Plan, and coordination between contracting officers, contracting officer representatives, and program offices. Our audit will include T&M contracts awarded during FY 2021 and FY 2022. We anticipate completing this work and reporting our results in 2024, at which time we may offer recommendations for improvement.

ONGOING AND ANTICIPATED OIG WORK

In FY 2024, we will monitor the SEC s contract management and acquisition processes through the work of our Acquisitions Working Group. We will also report on any acquisition-related matters identified as a result of other ongoing and planned reviews of SEC programs and operations and continue to support the SEC s efforts to train contracting officers and contracting officer's representatives about the potential for procurement-related fraud.

Endnotes

1 U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2022-2026* (Goal 2); November 23, 2022.

2 U.S. Securities and Exchange Commission, Office of Inspector General, *The Inspector General's Statement on the SEC's Management and Performance Challenges*; October 13, 2022.

3 The SEC's rulemaking index for 2022 shows a total of 36 rules: the 27 new proposals, plus nine other items, including rules that were relisted because their comment periods were re-opened. Historically, the 36 rules listed on the rulemaking index in 2022 is the highest number in a single year since 2012. In 2008, during the financial crisis, the SEC proposed 36 rules, while in 2010 and 2011, it proposed 40 and 51 rules, respectively many in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act.

4 https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408624

https://appropriations.house.gov/legislation/hearings/budget-hearing-fiscal-year-2024-request-us-securities-and-exchange-commission

https://www.appropriations.senate.gov/hearings/review-of-the-fy-2024-budget-for-the-us-securities-and-exchange-commission

https://www.banking.senate.gov/hearings/09/06/2023/oversight-of-the-us-securities-and-exchange-commission

https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408978

5 U.S. Securities and Exchange Commission, *Fiscal Year 2024 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2022 Annual Performance Report*; March 13, 2023.

6 For FY 2024, the SEC requested an overall increase of 170 positions.

7 U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2022-2026* (Strategic Initiative 2.2) November 23, 2022.

8 Financial Stability Oversight Council, *Report on Digital Asset Financial Stability Risks and Regulation*; October 3, 2022.

9 U.S. Government Accountability Office, *BLOCKCHAIN IN FINANCE Legislative and Regulatory Actions Are Needed to Ensure Comprehensive Oversight of Crypto Assets* (GAO-23-105346; June 22, 2023).

10 As noted by GAO, several lawmakers have proposed legislation that would provide for federal oversight of spot markets for crypto assets and address the prudential risks associated with stablecoins. Additionally, in July 2023, H.R. 4763, Financial Innovation and Technology for the 21st Century Act, was introduced and referred to the House Financial Services Committee and the House Committee on Agriculture to "provide for a system of regulation of digital assets by the Commodity Futures Trading Commission and the Securities and Exchange Commission, and for other purposes."

11 In response to GAO's draft report, the SEC did not agree with all of the report's positions regarding the crypto asset industry's risks and the applicability of the federal securities laws to various aspects of the crypto asset industry. The SEC's response also highlighted existing efforts to coordinate, including with other financial regulators.

12 Our review of Division of Enforcement staffing included measures to expedite and ensure timely completion of investigations, including in crypto asset enforcement actions and to address the causes of delays. We are awaiting documentation that our recommendations have been implemented.

13 SEC v. Ripple Labs, Inc., No. 20-10832 (S.D.N.Y. July 13, 2023) (order granting in part and denying in part cross-motions for summary judgment); SEC v. Terraform Labs Pte. Ltd., No. 23-1346 (S.D.N.Y. July 31, 2023) (order denying motion to dismiss).

14 SEC Chair Gary Gensler, *"Isaac Newton to AI" Remarks before the National Press Club*; July 17, 2023.

15 Investor Advisory Committee letter to SEC Chair Gary Gensler, *Establishment of an Ethical Artificial Intelligence Framework for Investment Advisors*; April 6, 2023.

16 U.S. Securities and Exchange Commission 17 C.F.R. Parts 240 and 275 [Release Nos. 34–97990; IA–6353; File No. S7–12–23] RIN 3235–AN00; 3235–AN14, *Conflicts of Interest Associated With the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers*; SEC Issue Date: July 26, 2023; Federal Register Publish Date: August 9, 2023.

17 U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Observations Noted During TCR System Audit Support Engagement* (May 20, 2015); and U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Progress on the SEC's Tips, Complaints, and Referrals Intake and Resolution System Redesign and Vulnerability Remediation Efforts* (May 31, 2017).

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

19 U.S. Securities and Exchange Commission, Office of Inspector General, *SEC's Whistleblower Program: Additional Actions Are Needed To Better Prepare for Future Program Growth, Increase Efficiencies, and Enhance Program Management* (Report No. 575; December 19, 2022).

20 Partnership for Public Service, *2022 Best Places to Work in the Federal Government*. Effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control.

21 U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2022–2026* (Goal 3); November 23, 2022. *See also* U.S. Securities and Exchange Commission, *Diversity, Equity, Inclusion, and Accessibility Strategic Plan Fiscal Years 2023–2026*; September 18, 2023.

22 U.S. Securities and Exchange Commission, *Fiscal Year 2024 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2022 Annual Performance Report*; March 13, 2023.

23 Partnership for Public Service, *Who is Quitting and Retiring: Important Fiscal 2021 Trends in the Federal Government* (last accessed on October 4, 2023).

24 U.S. Government Accountability Office, *SECURITIES AND EXCHANGE COMMISSION Employee Views of Personnel Management Improved, but Action Needed on Measuring Diversity and Inclusion Goals* (GAO-23-105459; December 22, 2022).

25 U.S. Securities and Exchange Commission, Office of Inspector General, *Enforcement Investigations: Measures of Timeliness Showed Some Improvement But Enforcement Can Better Communicate Capabilities for Expediting Investigations and Improve Internal Processes* (Report No. 576; February 15, 2023).

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

27 This data, provided by OHR, includes all hiring and loss data except for SEC scholars and hardship reassignments.

28 U.S. Securities and Exchange Commission, Office of Inspector General, *Enforcement Investigations: Measures of Timeliness Showed Some Improvement But Enforcement Can Better Communicate Capabilities for Expediting Investigations and Improve Internal Processes* (Report No. 576; February 15, 2023).

29 Some professionals join the SEC with the intention of serving for a limited time, in order to gain skills that enhance their value to private employers.

30 U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Review of Upward Mobility Program* (May 1, 2023).

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

32 U.S. Government Accountability Office, *SECURITIES AND EXCHANGE COMMISSION Employee Views of Personnel Management Improved, but Action Needed on Measuring Diversity and Inclusion Goals* (GAO-23-105459; December 22, 2022).

33 To view our work related to the agency's pandemic response, *see* U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Took Appropriate Workplace Safety Actions in Accordance With Pandemic Guidance But Could Improve Communications* (Report No. 579; July 25, 2023).

34 U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2022-2026* (Goal 3); November 23, 2022.

35 *See*, *e.g.*, House Committee on Oversight and Accountability, Subcommittee Hearing, *Oversight of Federal Agencies' Post-Pandemic Telework Policies* (September 14, 2023).

36 Cybersecurity & Infrastructure Security Agency, Cybersecurity Advisory, Weak Security Controls and Practices Routinely Exploited for Initial Access, AA22-137A, December 8, 2022.

37 U.S. Securities and Exchange Commission, *Fiscal Year 2024 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2022 Annual Performance Report*; March 13, 2023.

38 The SEC was ultimately able to recover all but one of the comments affected by the error.

39 U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Review of SEC Controls Over Public Comments Submitted Online and Actions Taken in Response to a Known Error*; April 14, 2023.

40 U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Readiness Review—The SEC's Progress Toward Implementing Zero Trust Cybersecurity Principles*; September 27, 2023.

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

42 *OMB Office of the Federal Chief Information Officer FY22 Core IG Metrics Implementation Analysis and Guidelines* (last accessed on October 4, 2023).

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

44 The categories are established under the North American Industry Classification System (NAICS), a comprehensive industry classification system that covers all economic activities and groups establishments into industries based on the similarity of their production processes. Among other things, U.S. statistical agencies use NAICS to provide uniformity and comparability in the presentation of statistical data describing the U.S. economy. Federal Acquisition Regulation 19.102(b) requires contracting officers to assign one NAICS code to all government solicitations, contracts, and task and delivery orders based on the product or service being acquired and its principal purpose.

45 U.S. Government Accountability Office, *High Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas* (GAO-23-106203; April 20, 2023).

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

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

48 U.S. Securities and Exchange Commission, Office of Inspector General, *The SEC Supported Federal Small Business Contracting Objectives, Yet Could Make Better Use of Data and Take Other Actions To Further Promote Small Business Contracting* (Report No. 577; February 28, 2023).

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

50 U.S. Government Accountability Office, *FEDERAL CONTRACTING: Opportunities Exist to Reduce Use of Time-and-Materials Contracts* (GAO-22-104806; June 7, 2022). GAO included in its review four Department of Defense agencies and field activities (the Air Force, Army, Defense Finance and Accounting Service, and Washington Headquarters Services), and three civilian agencies (the Social Security Administration, the Department of Homeland Security, and the Department of State).

51 U.S. Securities and Exchange Commission, *Fiscal Year 2022 Agency Financial Report* (November 15, 2022).

MANAGEMENT'S RESPONSE TO INSPECTOR GENERAL'S STATEMENT

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

OFFICE OF THE CHAIR

November 1, 2023

Ms. Deborah J. Jeffrey
Inspector General
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Dear Ms. Jeffrey:

Thank you for your "Statement on the SEC's Management and Performance Challenges," (Statement) dated October 25, 2023. We remain committed to enhancing the financial and operational effectiveness of the SEC. We value the Office of Inspector General's (OIG) important role in this effort, including through its audits and evaluations.

OIG identified four areas where the SEC faces management and performance challenges as we work to fulfill our mission. We continue to build on our progress thus far in these areas, and OIG's suggestions will help inform our decision-making.

In the enclosed "SEC Management Response" section, we describe some specific actions we are taking in the areas OIG highlighted. I believe this information helps to demonstrate our commitment to improve our agency's performance and address areas that OIG identified.

We look forward to working with you to enhance our ability to serve the investing and issuing public.

Sincerely,

Gary Gensler
Chair

Enclosure

RESPONSES TO IDENTIFIED CHALLENGES

OIG Challenge 1 – Meeting Regulatory and Oversight Responsibilities

The SEC regulates and oversees the more than $100 trillion capital markets, more than 30,000 registered entities, ten credit rating agencies, 24 national securities exchanges, the Public Company Accounting Oversight Board, the Financial Industry Regulatory Authority, the Securities Investor Protection Corporation, and the Financial Accounting Standards Board. We also review the disclosures and financial statements of more than 8,700 reporting companies and engage and interact with the investing public daily through activities ranging from investor education programs to events to alerts on SEC.gov. The execution of our mission would not be possible without the dedication of our remarkable staff. Our staff continue to produce extraordinary work even while operating with limited resources. We continue to recognize this challenge and are taking steps to address it, such as critical investments in information technology, data architecture and standards, and key modernizing initiatives, to further improve our ability to meet our mission and strategic goals efficiently and effectively.

As an agency, we remain dedicated to our critical regulatory responsibilities while remaining abreast of the everchanging and dynamic financial markets. As your Statement notes, the SEC has taken proactive steps to fulfill directives from Congress, including rules required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the Holding Foreign Companies Accountable Act. In addition, the SEC recognizes the rapid growth in crypto assets and use of artificial intelligence (AI) and the risks each poses to investors and the financial system. In 2024, the SEC's Division of Examinations (EXAMS) will continue to focus on broker-dealers and advisers offering new products and services or employing new practices, particularly technological and online solutions that service online accounts. The SEC remains focused on certain services, including automated investment tools, AI, and trading algorithms or platforms, and the risks associated with the use of emerging technologies and alternative sources of data. The SEC will also continue to monitor and, when appropriate, conduct examinations of registrants focused on the offer, sale, recommendation of, advice regarding, trading in, and other activities in crypto assets or related products. The SEC also continues to take proactive steps to protect investors and market integrity, including by policing in the area of crypto asset securities. During FY 2023, we brought important enforcement actions to hold wrongdoers accountable in the crypto asset space, charging violations including fraud, touting, unregistered offers and sales of securities, and operating as unregistered exchanges, among other charges.

The SEC will continue to leverage technology and analytics to focus its limited resources on meeting its mission. EXAMS continues to leverage technology to collect and analyze large sets of data to help identify risks. This data analysis helps EXAMS identify examination candidates and monitor and identify potentially problematic activities, as well as determine how best to scope examinations of those activities and firms. In addition, and as the Statement notes, the Division of Enforcement's (ENF) Office of Market Intelligence uses data analytics to vet the tips, complaints, and referrals (TCRs) it receives and to prioritize those that have merit. These efforts have improved our ability to effectively manage the increasing number of TCRs. In 2022, TCRs increased by more than 10,000 to 35,897. We anticipate even greater processing capabilities with the launch of the modernized TCR system in the late spring or early summer of 2024. Similarly, as the Statement notes, ENF has modernized its system for processing and tracking whistleblower tips and has improved claims processing and tracking to address the steady growth of these critical tips.

OIG Challenge 2 – Recruiting and Retaining a Skilled Workforce

Effective management of the agency's human capital is a top SEC priority, as reflected in one of our strategic goals. We are committed to supporting a skilled workforce that is diverse, equitable, inclusive, and fully equipped to advance our mission. A range of areas impact our human resources management program, including hiring, turnover, recruitment, and telework. In the area of recruitment and hiring, the SEC successfully met the challenge of hiring for hundreds of new positions authorized by Congress in FY 2023. During the fiscal year, the agency filled a total of 845 positions (including both new positions and backfills for staff who departed the agency). As a result, the agency achieved the largest net increase in its staffing levels in many years.

In the area of attrition, the agency continues to carefully monitor its annual turnover rate, which in FY 2023 dropped by 1.6 percent to a level of 4.7 percent—significantly below the most recent comparative government-wide data. We are also monitoring other data sources, such as Federal Employee Viewpoint Survey results, which can help provide insights into key drivers of retention and engagement. Other significant factors impacting recruitment and retention and the agency's ability to compete with private sector compensation include access to telework, work-life balance, and pay and benefits. We continue to attend to these areas to help ensure we maintain our ranking as one of the best places to work in the federal government and offer a valuable employment opportunity for both current employees and those who might join us in the future.

OIG Challenge 3 – Protecting Systems and Data

Protecting information systems and data from more frequent and constantly evolving cyberattacks on both the SEC and the federal government remains a top priority for the agency.

In FY 2023, the SEC made significant progress in addressing and mitigating cybersecurity risks. The agency successfully completed remediation efforts to close a total of 25 technology-related audit recommendations from the OIG and the Government Accountability Office. The Office of Information Technology (OIT) also made improvements to security monitoring and logging to support ongoing efforts to comply with OMB M-21-31, *Improving the Federal Government's Investigative and Remediation Capabilities Related to Cybersecurity Incidents*, and deployed tools and techniques for enhancing application security, vulnerability scanning, and asset inventory.

As noted by the OIG, the SEC also made significant progress in meeting OMB requirements related to establishing a zero trust architecture. In the year ahead, OIT will continue pursuing zero trust architecture initiatives in accordance with OMB M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles*, and post-quantum cryptography preparatory steps in accordance with OMB M-23-02, *Migrating to Post-Quantum Cryptography*.

OIG Challenge 4 – Synopsis and Trends in Contracting

In FY 2023, the SEC completed several steps to strengthen its contract management. These include conducting multiple training sessions throughout the year on various contracting-related topics for SEC Contracting Officers, Contracting Officer's Representatives, and other members of the acquisition workforce; implementing new Acquisition Plan and Market Research Report templates to improve the support for contract sourcing decisions; and implementing a new Electronic Subcontract Reporting System (eSRS) process to promote timely processing of reports and reduce the eSRS backlog to zero. The SEC has committed to maximizing small business participation in agency contracting and to advancing diversity and inclusion in its supplier base. The SEC continues to conduct monthly Vendor Outreach Day (VOD) sessions, where companies can meet with SEC representatives to present corporate capabilities and discuss potential business opportunities. In FY 2023, the SEC met with 35 companies through VOD sessions, 24 of which self-reported as small and/or minority-owned or women-owned businesses. The SEC also worked to ensure SEC contractors demonstrate good faith efforts toward the fair inclusion of minorities and women in their workforces for SEC services contracts valued at $100,000 or more. As further evidence of this commitment toward small and diverse business in agency contracting, the SEC is pleased to note that, for the 11th consecutive fiscal year, the agency exceeded all government-wide small business prime contracting goals.

Among the steps the SEC has taken to mitigate risks associated with time and materials contracts, the agency uses third-party compliance reviews of SEC contract actions to evaluate the completeness of contract documentation, among other objectives. The SEC also has increased the use of automated filing and tracking of contract deliverables to support contract management surveillance. We look forward to receiving the OIG's findings and recommendations from its audit of the SEC's policies and practices in this important area.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Table 1.7 | Summary of Financial Statement Audit

Audit Opinion: Unmodified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	—	—	—	—	—

Table 1.8 | Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	—	—	—	—	—	—

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	—	—	—	—	—	—

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Federal Systems Conform

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	—	—	—	—	—	—

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Applicable Federal Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

PAYMENT INTEGRITY REPORTING DETAILS

The Payment Integrity Information Act of 2019 (PIIA) updated government-wide improper payment reporting requirements by repealing and replacing the Improper Payments Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), and the Fraud Reduction and Data Analytics Act of 2015 (FRDAA).

PIIA requires agencies to review all programs and activities they administer to identify those that may be susceptible to significant erroneous payments. For all programs and activities in which the risk of erroneous payments is significant, agencies are to estimate the annual amount of erroneous payments made in those programs.

Guidance provided by the Office of Management and Budget (OMB) in Circular A-136, *Financial Reporting Requirements*, and Appendix C of Circular A-123, *Requirements for Payment Integrity Improvement*, requires agencies to report specific details about the SEC's Improper Payments Elimination Program, which are below. Additionally, the following link further explains improper payments and the information reported in previous AFRs that is not included in the FY 2023 AFR: paymentaccuracy.gov/.

Risk Assessment

PIIA guidelines state that if an agency deems a program to be low risk for improper payments, the agency will re-assess that program's risk at least every three years. An agency is only required to conduct a formal risk assessment earlier than three years if the program experiences a significant change in legislation, a significant increase in funding level, or a determination of possible significant improper payments in the following year. The SEC conducted its latest risk assessment in FY 2022. The SEC's determination that all of its evaluated programs are low risk is based upon the results of this assessment, in which none of its programs and activities were deemed susceptible to significant improper payments at or above the threshold levels set by OMB. These programs have historically had low volumes and risks of improper payments given the controls and processes in place. The SEC recognizes the importance of maintaining adequate internal controls to ensure the accuracy and integrity of payments made by the agency, and the SEC maintains a strong commitment to continuous improvement in the overall disbursement management process.

To perform its risk assessment, the SEC used a systematic method of reviewing each program and activity by considering risk factors likely to contribute to significant improper payments. The risk assessment encompassed a review of existing data that included the Government Accountability Office and the SEC Office of Inspector General audit reports, prior internal controls over financial reporting assessments, and the results of improper payments testing performed in prior years. These risk assessments were performed for the following programs:

- Vendor payments;
- Disgorgement and penalty distributions (made by the SEC to fund tax administrators and directly to harmed investors);
- Returned deposits of registration filing fees under Section 6(b) of the Securities Act of 1933 and Sections 13 and 14 of the Securities Exchange Act of 1934;
- Payroll and benefit payments (includes base pay, overtime pay, and agency contributions to retirement plans, health plans, and thrift savings plans);
- Supplemental retirement payments;
- Purchase Card payments;
- Travel payments; and
- Whistleblower payments.

Recapture of Improper Payments

The SEC determined that implementing a payment recapture audit is not cost-effective and notified OMB of this determination in September 2015. The benefits of recaptured amounts associated with implementing and overseeing the program do not exceed the costs—including staff time and payments to contractors—of a payment recapture audit program. In making this determination, the SEC considered its low improper payment rate based on testing conducted over several years. The SEC also considered whether sophisticated software and other cost-efficient techniques could be used to identify significant overpayments at a low cost per overpayment, or if labor intensive manual reviews of paper documentation would be required. In addition, the SEC considered the availability of tools to efficiently perform the payment recapture audit and minimize payment recapture audit costs.

The SEC will continue to monitor its improper payments across all programs and activities it administers and assess whether implementing payment recapture audits for each program is cost-effective. If the SEC determines, through future risk assessments, that a program is susceptible to significant improper payments and implementing a payment recapture program may be cost-beneficial, the SEC will implement a pilot payment recapture audit to gauge whether such audits would be cost-effective on a larger scale.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990 (FCPIA), 28 U.S.C. 2461 note, as amended by the Debt Collection Improvement Act of 1996, and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (2015 Act), requires agencies to annually adjust for inflation any civil monetary penalties that are assessed or enforced by that agency. This adjustment must be performed for any penalty where either the amount of the penalty or the maximum penalty is set by law. The 2015 Act replaces the inflation adjustment mechanism previously contained in the FCPIA and all previous inflation adjustments made pursuant to the FCPIA with a new mechanism for calculating the inflation-adjusted amount of civil monetary penalties. The 2015 Act implemented this change by first requiring that each agency perform a "catch-up adjustment" to be published by July 1, 2016. Thereafter, agencies are to adjust their penalty amounts every January, starting in January 2017.

The FCPIA also directs the Commission to include in its Agency Financial Report information about the civil monetary penalties within the jurisdiction of the agency, including the adjustment of civil monetary penalties for inflation under the FCPIA. Further, the FCPIA directs the Comptroller General of the United States to annually submit to Congress a report assessing agencies' compliance with the inflation adjustments required by the FCPIA.

The SEC administers four statutes that provide for civil monetary penalties:

- The Securities Act of 1933;
- The Securities Exchange Act of 1934;
- The Investment Company Act of 1940; and
- The Investment Advisers Act of 1940.

In addition, the Sarbanes-Oxley Act of 2002 provides the Public Company Accounting Oversight Board (PCAOB) authority to levy civil monetary penalties in its disciplinary proceedings. These penalties are established by federal law and are enforced by the Commission for purposes of the FCPIA because the Commission may by order affirm, modify, remand, or set aside civil monetary penalties imposed by the PCAOB and may enforce the PCAOB's civil monetary penalty orders in federal district court.

The Commission will adjust for inflation the maximum penalty amounts provided in these statutes as required by the FCPIA and will publish these adjustments in the Federal Register. The catch-up adjustment in July 2016 was published in the Federal Register, Volume 81, No. 127, on July 1, 2016 (81 FR 43042). Annual adjustments have been performed for:

- 2017 (Federal Register, Volume 82, No. 11, on January 18, 2017 (82 FR 5367));
- 2018 (Federal Register, Volume 83, No. 8, on January 11, 2018 (83 FR 1396));
- 2019 (Federal Register, Volume 84, No. 34, on February 20, 2019 (84 FR 5122));[1]
- 2020 (Federal Register, Volume 85, No. 8, on January 13, 2020 (85 FR 1833));
- 2021 (Federal Register, Volume 86, No. 8, on January 13, 2021 (86 FR 2716));
- 2022 (Federal Register, Volume 87, No. 8, on January 12, 2022 (87 FR 1808)); and
- 2023 (Federal Register, Volume 88, No. 7, on January 11, 2023 (88 FR 1614)).

1 This adjustment was performed in February 2019 instead of January 2019 due to a lapse in appropriations that caused the SEC's normal operations to be suspended from December 27, 2018, through January 25, 2019.

APPENDICES

> Every day that I'm blessed to serve at the SEC, I'm going to be animated by thinking about working families: How can we help them invest for their future and prepare for the inevitable bumps along the way? How can those same working families, when taking out a mortgage or a car loan, indirectly tap into the capital markets? How can the markets help companies innovate, hire folks into good jobs, and contribute to economic growth?
>
> CHAIR GARY GENSLER

APPENDIX A: CHAIR AND COMMISSIONER BIOGRAPHIES

Gary Gensler, CHAIR

Gary Gensler was nominated by President Joseph R. Biden to serve as Chair of the U.S. Securities and Exchange Commission on February 3, 2021, confirmed by the U.S. Senate on April 14, 2021, and sworn into office on April 17, 2021.

Before joining the SEC, Gensler was professor of the Practice of Global Economics and Management at the MIT Sloan School of Management, co-director of MIT's Fintech@CSAIL, and senior advisor to the MIT Media Lab Digital Currency Initiative. From 2017–2019, he served as chair of the Maryland Financial Consumer Protection Commission.

Gensler was formerly chair of the U.S. Commodity Futures Trading Commission, leading the Obama Administration's reform of the $400 trillion swaps market. He also was senior advisor to U.S. Senator Paul Sarbanes in writing the Sarbanes-Oxley Act (2002), and was undersecretary of the Treasury for Domestic Finance and assistant secretary of the Treasury from 1997–2001.

In recognition for his service, he was awarded the Alexander Hamilton Award, the U.S. Treasury's highest honor. He is a recipient of the 2014 Frankel Fiduciary Prize.

Prior to his public service, Gensler worked at Goldman Sachs, where he became a partner in the Mergers & Acquisition department, headed the firm's Media Group, led fixed income & currency trading in Asia, and was co-head of Finance, responsible for the firm's worldwide Controllers and Treasury efforts.

A native of Baltimore, Md., Gensler earned his undergraduate degree in economics in 1978 and his MBA from The Wharton School, University of Pennsylvania, in 1979. He has three daughters.

Hester M. Peirce, COMMISSIONER

Hester M. Peirce was appointed by President Donald J. Trump to the U.S. Securities and Exchange Commission and was sworn in on January 11, 2018.

Prior to joining the SEC, Commissioner Peirce conducted research on the regulation of financial markets at the Mercatus Center at George Mason University. She was a Senior Counsel on the U.S. Senate Committee on Banking, Housing, and Urban Affairs, where she advised Ranking Member Richard Shelby and other members of the Committee on securities issues. Commissioner Peirce served as counsel to SEC Commissioner Paul S. Atkins. She also worked as a Staff Attorney in the SEC's Division of Investment Management. Commissioner Peirce was an associate at Wilmer, Cutler & Pickering (now WilmerHale) and clerked for Judge Roger Andewelt on the Court of Federal Claims.

Commissioner Peirce earned her bachelor's degree in Economics from Case Western Reserve University and her JD from Yale Law School.

Caroline A. Crenshaw, COMMISSIONER

Caroline A. Crenshaw was unanimously confirmed by the U.S. Senate, and sworn into office as Commissioner of the U.S. Securities and Exchange Commission on August 17, 2020.

Commissioner Crenshaw brings to the SEC a range of securities law and policy experience and a commitment to public service and the SEC's mission. In addition to serving as a career SEC staff attorney in the Division of Examinations (formerly the Office of Compliance Inspections and Examinations) and the Division of Investment Management, Commissioner Crenshaw served as Counsel to Commissioners Kara Stein and Robert Jackson, focusing on strengthening investor protections in our increasingly complex markets and helping to oversee the institutions that manage millions of Americans' savings. In addition, Commissioner Crenshaw currently serves as a captain in the United States Army Reserve, Judge Advocate General's Corps.

Prior to government service, Commissioner Crenshaw practiced law in the Washington, DC, office of Sutherland, Asbill and Brennan LLP. At Sutherland she represented public companies, broker-dealers, and investment advisers on complex securities law investigations and enforcement matters.

Commissioner Crenshaw graduated cum laude from Harvard College and received a law degree magna cum laude from the University of Minnesota.

Mark T. Uyeda, COMMISSIONER

Mark T. Uyeda was sworn into office on June 30, 2022, after being nominated by President Joseph Biden and confirmed by the U.S. Senate.

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

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

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

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

Jaime Lizárraga, COMMISSIONER

Jaime Lizárraga was sworn into office on July 18, 2022. He was nominated by President Joe Biden and unanimously confirmed by the U.S. Senate.

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

Throughout his 32-year career in public service, Commissioner Lizárraga has advised Congressional leaders and heads of executive agencies on policy and legislative strategy. He previously served on the Democratic staff of the House Financial Services Committee and as a presidential appointee at the U.S. Department of the Treasury and the U.S. Securities and Exchange Commission.

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

APPENDIX B: DIVISIONS AND OFFICES

Headquarters

DIVISION OF CORPORATION FINANCE
Erik Gerding, Director

DIVISION OF ECONOMIC AND RISK ANALYSIS
Jessica Wachter, Director/Chief Economist

DIVISION OF ENFORCEMENT
Gurbir S. Grewal, Director

DIVISION OF EXAMINATIONS
Richard Best, Director

DIVISION OF INVESTMENT MANAGEMENT
William A. Birdthistle, Director

DIVISION OF TRADING AND MARKETS
Haoxiang Zhu, Director

EDGAR BUSINESS OFFICE
Jed Hickman, Director

OFFICE OF ACQUISITIONS
Vance Cathell, Director

OFFICE OF ADMINISTRATIVE LAW JUDGES
Vacant, Chief Administrative Law Judge

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

OFFICE OF THE CHIEF ACCOUNTANT
Paul Munter, Chief Accountant

OFFICE OF THE CHIEF OPERATING OFFICER
Kenneth A. Johnson, Chief Operating Officer

OFFICE OF CREDIT RATINGS
Lori H. Price, Director

OFFICE OF EQUAL EMPLOYMENT OPPORTUNITY
Rita Sampson, Director

OFFICE OF THE ETHICS COUNSEL
Danae Serrano, Director/Designated Agency
Ethics Official

OFFICE OF FINANCIAL MANAGEMENT
Caryn Kauffman, Director/Chief Financial Officer

OFFICE OF THE GENERAL COUNSEL
Megan Barbero, General Counsel

OFFICE OF HUMAN RESOURCES
Mark Reinhold, Director/Chief Human Capital Officer

OFFICE OF INFORMATION TECHNOLOGY
David Bottom, Chief Information Officer

OFFICE OF INSPECTOR GENERAL
Deborah J. Jeffrey, Inspector General

OFFICE OF INTERNATIONAL AFFAIRS
YJ Fischer, Director

OFFICE OF THE INVESTOR ADVOCATE
Cristina Martin Firvida, Director

OFFICE OF INVESTOR EDUCATION
AND ADVOCACY
Lori Schock, Director

OFFICE OF LEGISLATIVE AND
INTERGOVERNMENTAL AFFAIRS
Kevin Burris, Director

OFFICE OF MINORITY AND WOMEN INCLUSION
Allison Wise, Acting Director

OFFICE OF MUNICIPAL SECURITIES
Dave A. Sanchez, Director

OFFICE OF PUBLIC AFFAIRS
Scott Schneider, Director

OFFICE OF THE SECRETARY
Vanessa Countryman, Secretary

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

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APPENDIX C: GLOSSARY OF SELECTED TERMS

Accountability of Tax Dollars Act of 2002

A federal law requiring most federal agencies that are not subject to the Chief Financial Officers Act of 1990 to prepare annual audited financial statements.

Agency Financial Report (AFR)

An annual report that provides financial and high-level performance results that enable the President, Congress, and the public to assess an agency's accomplishments each fiscal year (October 1 through September 30). The report is prepared in accordance with the requirements of Office of Management and Budget Circular A-136, *Financial Reporting Requirements*.

Alternative Trading System (ATS)

Any organization, association, person, group of persons, or system that constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities or for otherwise performing, with respect to securities, the functions commonly performed by a stock exchange. An ATS does not set rules governing the conduct of subscribers other than the conduct of such subscribers' trading on such organization, association, person, group of persons, or system, or discipline subscribers other than by exclusion from trading.

Annual Performance Report (APR)

Outlines the goals and intended outcomes of an agency's programs and initiatives.

Appropriations

Budget authority to incur obligations and to make payments from the Treasury for specified purposes.

Asset

A resource that embodies economic benefits or services that the reporting entity controls.

Best Execution Standard

While not used or defined in the Exchange Act or Commission rules, the Commission proposed a best execution standard on December 14, 2022, which states: "In any transaction for or with a customer, or a customer of another broker, dealer, government securities broker, government securities dealer, or municipal securities dealer (collectively, for purposes of Regulation Best Execution, 'broker or dealer'), a broker or dealer, or a natural person who is an associated person of a broker or dealer, shall use reasonable diligence to ascertain the best market for the security, and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions (for purposes of Regulation Best Execution, 'most favorable price')."

Bitcoin

A digital asset created in January 2009 and based on a white paper called, "Bitcoin: A Peer-to-Peer Electronic Cash System," attributed to a person or persons using the name "Satoshi Nakamoto."

Blockchain

A type of distributed ledger, or peer-to-peer database spread across a network, that records all transactions in the network in theoretically unchangeable, digitally recorded data packages called blocks. Each block contains a batch of records of transactions, including a timestamp and a reference to the previous block, linking the blocks together in a chain. The system relies on cryptographic techniques for secure recording of transactions. A blockchain can be shared and accessed by anyone with appropriate permissions.

Broker-Dealer

A **broker** is any person engaged in the business of effecting transactions in securities for the account of others. A **dealer** is any person engaged in the business of buying and selling securities for his or her own account, through a broker or otherwise.

Chief Financial Officers Act of 1990

Legislation focused on improving the government's financial management, performance, and disclosure.

Clawback

The recovery of compensation. In the case of a clawback under Exchange Act Rule 10D-1 and the related exchange listing standards, compensation is recoverable if it was erroneously awarded due to being originally calculated based on a financial reporting measure that was subject to a subsequent restatement.

Clearing Agencies

Clearing agencies that are registered with the Commission are self-regulatory organizations that typically come in two types: central counterparties and securities depositories. **Central counterparties** compare member transactions (or report to members the results of exchange comparison operations); clear those trades and prepare instructions for automated settlement of those trades; and often act as intermediaries in making those settlements. **Securities depositories** hold securities certificates in bulk form for their participants, maintain ownership records of the securities on their own books, and may otherwise permit or facilitate the settlement of securities without physical delivery of securities certificates.

Climate and Sustainability Oversight Committee (CSOC)

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

Collective Bargaining Agreement

An agreement negotiated between an employer and a union to come to an agreement over employment terms.

Commodity Futures Trading Commission

An independent government agency that regulates the U.S. derivatives markets, which includes futures, swaps, and certain kinds of options.

Consolidated Audit Trail (CAT)

A single, comprehensive database of orders to trade in the National Market System securities and over-the-counter equities that enables regulators to more efficiently and thoroughly track all trading activity in the U.S. equity and options markets.

Contingent Liability

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

Continuous Diagnostic and Mitigation Dashboard Program

A Congressionally established program to provide adequate, risk-based, and cost-effective cybersecurity assessments and more efficiently allocate cybersecurity resources targeted at federal civilian organizations.

Crypto Asset

A digital asset that is issued and/or transferred using distributed ledger or blockchain technology, including, but not limited to, so-called “virtual currencies,” “cryptocurrencies,” “coins,” and “tokens.” A crypto asset may or may not meet the definition of a “security” under the federal securities laws.

Crypto Asset Intermediaries

Persons and entities that conduct a wide range of activities relating to crypto assets for market participants, including but not limited to, admission to trading, trading (as agent or principal), operating a market, custody, and other activities such as services related to lending/staking of crypto assets and the promotion, marketing, and distribution of crypto assets on behalf of others. This includes persons and entities that conduct activities commonly conducted by registered exchanges, brokers, dealers, investment advisers, and clearing agencies, among others, in the securities markets.

Cryptocurrency

A term used by some to describe a digital asset that relies on cryptography and that purports to act as a substitute for real currency in certain distributed ledger technology ecosystems. However, a so-called cryptocurrency does not necessarily have any or all of the three economic functions associated with money, namely a medium of exchange, a store of value, and a unit of account, and does not have all the attributes of “real” currency, as defined in 31 C.F.R. Section 1010.100(m), including legal tender status.

Custodial Activity

Revenue that is collected, and its disposition, by a federal agency on behalf of other entities is accounted for as a custodial activity of the collecting entity. SEC custodial collections include amounts collected from violators of securities laws as a result of enforcement proceedings.

Cybersecurity

The steps taken to prevent illegal or unauthorized access to a computer system or network.

Cybersecurity and Information Security Agency (CISA)

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

Data Privacy Week

A campaign sponsored by the Office of Information Technology to bring awareness to online privacy, which includes reviewing online safety and requirements for safeguarding information.

Data Quality Plan (DQP)

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

Decentralized Finance (DeFi)

Financial products, services, arrangements and activities for crypto assets that are colloquially referred to as "decentralized" depend on distributed ledger technology (such as "smart contract" provisioned blockchains—self-executing code run on distributed ledgers that carry out "if/then" type computations) and typically also include aspects of more traditional technology (such as web-based systems that accept and display trading interest and servers that store trading interest).

Deposit Fund

Consists of funds that do not belong to the federal government such as disgorgement, penalties, and interest collected and held on behalf of harmed investors, registrant monies held temporarily until earned by the SEC, and collections awaiting disposition or reclassification.

Digital Accountability and Transparency Act of 2014 (DATA Act)

Aims to make information on federal expenditures more easily accessible and transparent.

Disclosure

Information about a company's financial condition, results of operations, and business that it makes public. Investors can use this information to make informed investment decisions about the company's securities.

Disgorgement

The act of returning or repaying ill-gotten gains obtained from fraudulent activities. When disgorgement is ordered, the judge or the Commission may also order that any money collected, including penalties paid, be placed in a Fair Fund for distribution to investors who were the victims of the violation.

Distributed Ledger Technology

Refers to the technological infrastructure and protocols that allow simultaneous access, validation, and record updating in an immutable manner across a network that is spread across multiple entities or locations.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act)

Legislation that enforces transparency and accountability while implementing rules for consumer protection.

E-Discovery Systems

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

E-Government Act of 2002

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

Electronic Data Gathering, Analysis, and Retrieval (EDGAR) System

The system that public companies and others use to electronically submit required filings to the SEC.

Entity Accounts Receivable
Monies owed to the SEC generated from securities transaction fees and filing fees paid by registrants.

Entity Assets
Assets that an agency is authorized to use in its operations.

Exchange Revenue
Inflows of earned resources to an entity. Exchange revenues arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. Examples include the sale of goods and services, entrance fees, and most interest revenue.

Exchange-Traded Fund (ETF)
SEC-registered investment companies that offer investors a way to pool their money in a fund that invests in stocks, bonds, or other assets. ETFs combine features of a mutual fund, which can only be purchased or redeemed at the end of each trading day at its net asset value per share, with the ability to trade throughout the day on a national securities exchange at market prices.

Exchanges
A place (physical or virtual) where securities traders come together to decide on the price of securities.

Fair Fund
A fund created by the SEC to return money to harmed investors.

Federal Civil Penalties Inflation Adjustment Act of 1990 (FCPIA)
Requires agencies to adjust its civil monetary penalties for inflation and make adjustments at least once every four years thereafter.

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

Federal Financial Management Improvement Act of 1996 (FFMIA)
Provides for the establishment of uniform financial systems, standards, and reporting.

Federal Information Security Modernization Act of 2014 (FISMA)
Requires federal agencies to conduct annual assessments of their information security and privacy programs; develop and implement remediation efforts for identified weaknesses and vulnerabilities; and report on compliance to the Office of Management and Budget.

Federal Managers' Financial Integrity Act of 1982 (FMFIA)
Establishes management's responsibility to assess and report on internal accounting and administrative controls.

Federal Records Act
Requires all federal agencies to maintain records that document their activities, file records for safe storage and efficient retrieval, and dispose of records according to agency schedules.

Federal Register
The official journal of the federal government of the United States that contains government agency rules, proposed rules, and public notices.

Financial Data Transparency Act
Aims to improve the value, quality, and availability of federal financial information to the public.

Financial Industry Regulatory Authority (FINRA)

A registered securities association and self-regulatory organization. Generally, all registered broker-dealers that deal with the public must become members of FINRA.

Form PF

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

Fraud Reduction and Data Analytics Act of 2015

Requires agencies to implement the Government Accountability Office's *A Framework to Managing Fraud Risks in Federal Programs*, which is: (1) commit to creating an organization that is conductive to manage fraud risk; (2) assess the fraud risks within the organization; (3) design and implement controls that reduce risk of fraud; and (4) evaluate and adapt assessment outcomes.

Freedom of Information Act (FOIA)

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

Fund Balance with Treasury

The amount of funds in the entity's accounts with the U.S. Treasury for which the entity is authorized to make expenditures and pay liabilities, and that have not been invested in federal securities.

Funds from Dedicated Collections

Accounts containing specifically identified revenues—often supplemented by other financing sources—that are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues.

G-Invoicing Platform

Part of the Bureau of Fiscal Service's solution to manage intragovernmental buy/sell transactions between trading partners (i.e., federal program agencies). Agencies will use this to method to negotiate and accept agreements in an effort to help with data transparency.

Gatekeepers

Professionals—such as attorneys, accountants, and other consultants—who are enlisted to help protect investors through the detection and prevention of compliance breakdowns and fraudulent schemes that cause investor harm.

General Services Administration (GSA)

Acts as a central point for agencies to procure and/or build office space, products, and other workspace items.

Generally Accepted Accounting Principles (GAAP)

A framework of accounting standards, rules, and procedures defined by the professional accounting industry.

Governance, Risk, and Compliance (GRC) Management System

Helps organizations to structure and manage, track, and monitor GRC, including policies, controls, and other activities.

Government Accountability Office (GAO)

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

Government Performance and Results Act

Requires federal agencies and departments to develop annual performance plans describing the year's goals and performance reports indicating if those goals were met.

Government-Wide Acquisition Contract

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

Gross Domestic Product

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

Holding Foreign Companies Accountable Act (HFCAA)

Requires the Commission to identify registrants that have retained a registered public accounting firm to issue an audit report where that registered public accounting firm has a branch or office that: (1) is located in a foreign jurisdiction; and (2) the Public Company Accounting Oversight Board has determined that it is unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction.

Once identified, the HFCAA requires such a registrant to submit documentation to the Commission establishing that it is not owned or controlled by a governmental entity in that foreign jurisdiction. Moreover, if the registrant is a foreign issuer, it is subject to specified disclosure requirements. Finally, if a registrant is identified for three consecutive years (or one year if there has been a previous trading prohibition), the registrant would subject to a trading prohibition until such time that it can certify that it has retained an inspectable auditor (and for a minimum of five years if there has been a previous trading prohibition).

Imputed Financing

Financing provided to the reporting entity by another federal entity covering certain costs incurred by the reporting entity.

Inclusion

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

Initial Public Offering

The first time a company offers its shares of capital stock to the general public. Under the federal securities laws, a company may not lawfully offer or sell shares unless the transaction has been registered with the SEC or an exemption applies.

Insider Trading

The purchase or sale of a security by someone who has access to material, nonpublic information about the security.

International Organization of Securities Commissions

An international body consisting of the world's securities regulators. Members are typically primary securities and/or derivatives regulators in a national jurisdiction or the main financial regulator from each country.

Intragovernmental Costs

Costs that arise from the purchase of goods and services from other components of the federal government.

Investment Adviser
A firm or person that, for compensation, engages in the business of providing investment advice to others about the value of, or investing in, securities—stocks, bonds, mutual funds, exchanged-traded funds, and certain other investment products—and/or in issuing reports or analyses regarding securities as part of a regular business.

Investment Advisers Act of 1940
Created to regulate the actions of investment advisers, this federal law requires that firms or sole practitioners compensated for advising others about securities investments must register with the SEC and conform to regulations designed to protect investors (with certain exceptions).

Investment Company Act of 1940
Regulates the organization of companies, including mutual funds, that engage primarily in investing, reinvesting, and trading in securities, and whose own securities are offered to the investing public. It requires these companies to disclose their financial condition and investment policies to investors when stock is initially sold and, subsequently, on a regular basis.

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

Investor Alert
Educational content published by the Office of Investor Education and Advocacy to warn retail investors of possible fraudulent schemes.

Investor Bulletin
Educational content published by the Office of Investor Education and Advocacy to educate retail investors about timely investing topics.

Investor Protection Fund (IPF)
A fund established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 to pay awards to eligible whistleblowers who voluntarily provide the Commission with original information about a violation of federal securities laws.

Liquidity
The ease with which an asset, or security, can be converted into ready cash without affecting its market price.

Liquidity Rule
Requires funds, including exchange-traded funds, to establish liquidity risk management programs. As part of the rule, funds are required to assess, manage, and periodically review their liquidity risk. Liquidity risk is the risk that a fund could not meet requests to redeem shares issued by the fund without significant dilution of remaining investors' interests in the fund.

Lit and Dark Markets
Lit markets, such as registered stock exchanges, publicly disseminate their best bids and offers on the consolidated tapes, while **dark markets**, such as single dealer platforms and dark pools, do not.

Market-Based Treasury Securities
Debt securities that the U.S. Treasury issues to federal entities without statutorily determined interest rates.

Marketing Rule
Prohibits advisers from engaging in certain advertising practices including, for example, making untrue statements of material fact or omitting a material fact necessary to make a statement not misleading. The rule captures communications that meet the definition of "advertisements" and other general solicitations. Moreover, the rule also requires advisers to standardize certain parts of a performance presentation in order to help investors evaluate and compare investment opportunities, and will include tailored requirements for certain types of performance presentations.

Miscellaneous Receipt Account
A fund used to collect non-entity receipts from custodial activities that the SEC cannot deposit into funds under its control or use in its operations. These amounts are forwarded to the U.S. Treasury General Fund and are considered to be non-entity assets of the SEC.

Money Market Fund (MMF)
A type of mutual fund registered under the Investment Company Act of 1940 and regulated pursuant to Rule 2a-7 under the Act. MMFs generally limit their investments to short-term, high-quality debt securities that fluctuate very little in value under normal market circumstances.

Municipal Advisor
A person (not a municipal entity or an employee of a municipal entity) who: (1) provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues; or (2) undertakes a solicitation of a municipal entity. This definition includes financial advisors, guaranteed investment contract brokers, third-party marketers, placement agents, solicitors, finders, and swap advisors who provide municipal advisory services, unless they are statutorily excluded.

Municipal Securities Rulemaking Board
The self-regulatory organization for the U.S. municipal securities market that writes rules regulating broker-dealers and banks that transact in municipal securities and municipal advisors.

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

National Market System (NMS)
The system for trading equities in the United States, which includes all facilities and entities that are used by broker-dealers to fulfill trade orders for securities.

National Securities Exchange
An exchange registered as such under Section 6 of the Exchange Act of 1934, national securities exchanges are self-regulatory organizations (SROs) and must comply with regulatory requirements applicable to both national securities exchanges and SROs.

National Treasury Employees Union
Created in 1938 to ensure all federal employees are treated with dignity and respect, it is the nation's largest independent union of federal employees, representing 150,000 workers in 34 departments and agencies.

Nationally Recognized Statistical Rating Organization (NRSRO)
Credit rating agencies that have registered with the Commission and meet certain disclosure, governance, internal controls, conflict of interest, and recordkeeping requirements.

Non-Entity Assets

Assets that are held by an entity but are not available to the entity. Examples of non-entity assets are disgorgement, penalties, and interest collected and held on behalf of harmed investors.

Office of Inspector General Employee Suggestion Program

As required by Section 966 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this program allows employees to submit suggestions concerning improvements in the SEC's work efficiency, effectiveness, productivity, and use of its resources. The Office of Inspector General also receives allegations by employees of waste, abuse, misconduct, or mismanagement within the SEC through the program.

Office of Management and Budget (OMB)

Helps the President oversee the federal budget and supervise federal agencies.

Office of Personnel Management (OPM)

Manages the civil service of the federal government, coordinates recruiting of new government employees, and manages their health insurance and retirement benefits programs.

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*

Provides an overview of the budget process, the basic laws that regulate the budget process, and the development of the President's budget, including how to prepare and submit materials required for agency budget requests and instructions on budget execution.

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

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

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

Guidance to assist federal agencies with compliance in payment integrity.

OMB Circular A-123 Appendix D, *Management of Financial Management Systems–Risk and Compliance*

Provides requirements for agencies to comply with the Federal Financial Management Improvement Act to "implement and maintain financial management systems" that comply with system and accounting requirements.

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Defines management's responsibilities for enterprise risk management and internal financial controls, including administrative and program activities as well as financial activities.

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

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

OMB Circular A-136, *Financial Reporting Requirements*

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

OMB M-21-31, *Improving the Federal Government's Investigative and Remediation Capabilities Related to Cybersecurity Incidents*

Establishes the requirements to increase visibility "before, during, and after a cybersecurity incident" by creating logging standards involving a tier system, a maturity level model, and retention periods.

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

Sets forth a federal zero trust architecture strategy and identifies agency-specific tasks against the Cybersecurity and Information Security Agency's five pillars: Identify, Devices, Networks, Applications and Workloads, and Data.

OPEN Government Data Act

Requires data made available to the public to be machine-readable and each agency to establish a Chief Data Officer.

Open-End Fund Liquidity

A fundamental feature of open-end funds is that they allow investors to redeem their shares daily. Funds need to maintain sufficiently liquid assets in order to meet shareholder redemptions while also minimizing the impact of those redemptions on the fund's remaining shareholders.

Paperwork Reduction Act of 1980

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

Payment Integrity Information Act of 2019 (PIIA)

Requires agencies to review all programs and activities they administer to identify those that may be susceptible to significant erroneous payments. For all programs and activities in which the risk of erroneous payments is significant, agencies are to estimate the annual amount of erroneous payments made in those programs. PIIA updated government-wide improper payment reporting requirements by repealing and replacing the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015.

Payment Methods Modernization Rule

Modernized the payment methods for filing fees and revised fee-bearing forms to be structured. Features to pay by Automated Clearing House, debit, and credit card payment were added.

Performance and Accountability Report

An annual report that provides program performance and financial information that enables Congress, the President, and the public to assess an agency's performance and accountability over entrusted resources.

Plan of Action and Milestones (POA&M)

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

President's Working Group on Financial Markets

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

Privacy Act of 1974

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

Public Company Accounting Oversight Board (PCAOB)

A nonprofit corporation established by Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

Registered Index-Linked Annuities (RILA)

A kind of annuity contract insurance companies offer to retail investors in which an investor's return is based at least in part on the performance of an index or other benchmark over a set period of time. RILAs typically include complex features relating to their risks and economic trade-offs, including limits on both potential gains and losses.

Regulation Best Interest

Requires broker-dealers to act in the best interest of their retail customers when making a recommendation without placing their financial or other interests ahead of the interests of the retail customer.

Regulation M

Designed to prevent manipulation by individuals with an interest in the outcome of an offering and prohibit activities and conduct that could artificially influence the market for an offered security.

Regulation NMS

A series of rules governing the National Market System (NMS) for equities and options that are listed on a national securities exchange. The rules encompass a broad range of issues including the filing and amendment of NMS plans, the collection and distribution of market data, disclosure of order execution and order routing information, access to markets, order protection, and the consolidated audit trail.

Regulation S-P

Requires brokers, dealers, investment companies, and registered investment advisers to "adopt written policies and procedures that address administrative, technical, and physical safeguards for the protection of customer records and information" and to inform their customers about those privacy policies and practices. It also limits the circumstances in which these institutions may disclose nonpublic personal information about a customer to a nonaffiliated third party without first giving the customer an opportunity to opt out of the disclosure. In addition, it requires these institutions, as well as transfer agents registered with the Commission, to properly dispose of consumer report information.

Regulation Systems Compliance and Integrity (Regulation SCI)

Adopted in November 2014 to strengthen the technology infrastructure of the U.S. securities markets, reduce the occurrence of systems issues in those markets, improve their resiliency when technological issues arise, Regulation SCI is a set of rules establishing expectations for and the oversight of the technological systems of SCI entities. SCI entities are those determined by the Commission to play a significant role in the U.S. securities markets and/or have the potential to impact investors, the overall market, or the trading of individual securities in the event of certain types of systems problems. Today, SCI entities comprise the self-regulatory organizations (excluding securities futures exchanges); alternative trading systems meeting certain volume thresholds with respect to National Market System (NMS) stocks and non-NMS stocks; exclusive disseminators of consolidated market data; certain competing disseminators of consolidated market; and certain exempt clearing agencies. Updates to Regulation SCI, including expansion to other types of market participants, were proposed in March 2023 and remain under consideration.

Reports Consolidation Act of 2000

Streamlines reporting requirements by allowing each agency to combine its audited financial statements, as required by the Chief Financial Officers Act, and its performance reports, as required by the Government Performance and Results Act. Each consolidated report must include an assessment from the agency head verifying the reliability of the agency's performance data and a summary from the inspector general addressing the agency's management challenges.

Reserve Fund

A fund established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that may be used by the SEC to obligate amounts up to $100 million in one fiscal year as the SEC determines is necessary to carry out its functions.

Retail Investor

An individual who buys securities for personal benefit (e.g., to purchase a home, save for retirement, or send a child to college) rather than for the benefit of an organization.

Risk Management Oversight Committee (RMOC)

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

Risk Profile

An inventory of the most significant risks identified and assessed through the risk assessment process versus a complete inventory of risks, identifies an agency or corporation's acceptable level of risk, which ultimately impacts decision making.

Rule 605

As part of Regulation National Market System (NMS), Rule 605 generally requires a market center that trades NMS stocks to make available to the public monthly electronic execution reports that include uniform statistical measures of execution quality.

Rules 101 and 102 of Reg M

Govern the activities of issuers, selling security holders, underwriters, and other persons participating in a "distribution" of securities. **Rule 101** governs the activities of underwriters, and other distribution participants, as well as their respective affiliated purchasers. **Rule 102** governs the activities of issuers, selling security holders, and their respective affiliated purchasers. Both rules generally prohibit the relevant parties from bidding for, purchasing, or attempting to induce others to bid for or purchase the security being distributed or any "reference security" during a specified restricted period. Various exceptions to the rules' general prohibitions are intended to permit an orderly distribution of securities and limit disruption to the market.

Sarbanes-Oxley Act of 2002

Legislation aimed at enhancing corporate responsibility and financial disclosures, and fighting corporate and accounting fraud that created the Public Company Accounting Oversight Board.

SEC University

Provides and assists SEC staff in obtaining learning, development, and training opportunities via classroom and/or virtual options.

Section 31 Fees

Transaction fees paid to the SEC based on the volume of securities that are sold on various markets. These fees recover the costs incurred while supervising and regulating the securities markets and securities professionals.

Secure Access Service Edge Technology

Combines software-defined wide area networking (SD-WAN) and Zero Trust security solutions into a converged cloud-delivered platform that securely connects users, systems, endpoints, and remote networks to apps and resources.

Securities

Fungible and tradable financial instruments used to raise capital in public and private markets. There are primarily three types of securities: equity—which provides ownership rights to holders; debt—essentially loans repaid with periodic payments; and hybrids—which combine aspects of debt and equity.

Securities Act of 1933 (Securities Act)

One of the primary federal securities laws, its basic objectives are to ensure investors receive financial and other significant information about securities being offered for public sale, and to prohibit deceit, misrepresentation, and other fraud in the sale of securities.

Securities Exchange Act of 1934 (Exchange Act)

A law governing the secondary trading of securities (stocks, bonds, and debentures) in the United States. It was this piece of legislation that established the SEC.

Security-Based Swap (SBS)

A **swap** is any agreement, contract, or transaction that provides for one or more payments based on the performance of underlying reference instrument, subject to certain exclusions, including exclusions for futures contracts, options on futures, forward contracts on non-financial commodities, and certain retail investments. An **SBS** is based on: (1) a narrow-based index; (2) a single (non-exempt) security or loan; or (3) a financial event relating to an issuer or issuers in points 1 or 2.

Security-Based Swap Dealer

Any person who holds itself out as a dealer in security-based swaps (SBS); makes a market in SBS; regularly enters into SBS with counterparties as an ordinary course of business for its own account; or engages in any activity causing it to be commonly known in the trade as a dealer or market maker in SBS.

Self-Regulatory Organization (SRO)

An organization that exercises some degree of regulatory authority over an industry or profession. The regulatory authority could be applied in addition to some form of government regulation, or it could fill the vacuum of an absence of government oversight and regulation. The ability of an SRO to exercise regulatory authority does not necessarily derive from a grant of authority from the government.

Sequestration

Automatic spending cuts that occur through the withdrawal of funding for certain (but not all) government programs.

Shell Company

A corporation without active business operations or significant assets.

Short Sale

Any sale of a security that the seller does not own, or any sale that is consummated by the delivery of a security borrowed by, or for the account of, the seller.

Special Purpose Acquisition Company (SPAC)

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

The merger or acquisition often occurs within two years after the SPAC has completed its IPO. Unlike an operating company that becomes public through a traditional IPO, however, a SPAC is a shell company when it becomes public. This means that it does not have an underlying operating business and does not have assets other than cash and limited investments, including the proceeds from the IPO.

Stable Value Coins

Also called "stablecoins," a type of digital asset that purport to maintain a stable value relative to a national currency or other reference asset.

Standards for Internal Control in the Federal Government

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

Strategic Plan

Defines an agency's mission, long-term goals, strategies planned, and the approaches it will use to monitor its progress in addressing specific national problems, needs, challenges, and opportunities related to its mission.

Transfer Agent
A trust company, bank, or similar financial institution assigned by a corporation to maintain records of investors and account balances; as such, the transfer agent issues and cancels certificates to reflect changes in ownership and handles lost, destroyed, or stolen certificates.

U.S. Treasury General Fund
Consists of assets and liabilities used to finance the daily and long-term operations of the U.S. Government as a whole. It also includes accounts used in management of the budget of the U.S. Government.

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

Variable Interest Entity
An organization in which consolidation is not based on a majority of voting rights.

Whistleblower
A person who, alone or jointly with others, provides the Commission with information related to a possible violation of the federal securities laws (including any rules or regulations thereunder) that has occurred, is ongoing, or is about to occur.

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

Zero Trust Architecture
A security approach based on system design principles that avoids implicit trust of elements, components, nodes, or services based on an acknowledgment that threats exist both inside and outside traditional network boundaries.

APPENDIX D: ACRONYMS AND ABBREVIATIONS

AFR	Agency Financial Report
AI	Artificial Intelligence
APR	Annual Performance Report
BD	Broker-Dealer
CAT	Consolidated Audit Trail
CF	Division of Corporation Finance
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CIO	Chief Information Officer
CISA	Cybersecurity and Infrastructure Security Agency
COVID-19	Coronavirus Disease 2019
CPA	Certified Public Accountant
CSOC	Climate and Sustainability Oversight Committee
CSRS	Civil Service Retirement System
DeFi	Decentralized Finance
DEIA	Diversity, Equity, Inclusion, and Accessibility
DERA	Division of Economic and Risk Analysis
DLP	Data Loss Prevention
DQP	Data Quality Plan
EAG	Employee Affinity Group
EDGAR	Electronic Data Gathering, Analysis, and Retrieval System
EEO	Equal Employment Opportunity
EEOC	Equal Employment Opportunity Commission
ENF	Division of Enforcement
ERM	Enterprise Risk Management
eSRS	Electronic Subcontract Reporting System
ETF	Exchange-Traded Fund
EXAMS	Division of Examinations
FAF	Financial Accounting Foundation
FASB	Financial Accounting Standards Board
FCPIA	Federal Civil Penalties Inflation Adjustment Act
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FEVS	Federal Employee Viewpoint Survey
FFMIA	Federal Financial Management Improvement Act of 1996
FINRA	Financial Industry Regulatory Authority
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOIA	Freedom of Information Act
FR	Federal Register
FRDAA	Fraud Reduction and Data Analytics Act of 2015
FSOC	Financial Stability Oversight Council
FSSP	Federal Shared Service Provider
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GHG	Greenhouse Gas
GSA	U.S. General Services Administration
GTAS	Government-Wide Treasury Account Symbol Adjusted Trial Balance System
HFCAA	Holding Foreign Companies Accountable Act
IA	Investment Adviser
IAC	Investor Advisory Committee
IGT	Intragovernmental Transactions

IM	Division of Investment Management
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPF	Investor Protection Fund
IPIA	Improper Payments Information Act of 2002
IT	Information Technology
LH	Labor-Hour
NAICS	North American Industry Classification System
NIST	National Institute of Standards and Technology
NMS	National Market System
NRSRO	Nationally Recognized Statistical Rating Organization
NTEU	National Treasury Employees Union
OA	Office of Acquisitions
OASB	Office of the Advocate for Small Business Capital Formation
OCC	Office of the Chief Counsel
OCRO	Office of the Chief Risk Officer
OEEO	Office of Equal Employment Opportunity
OHR	Office of Human Resources
OIAD	Office of the Investor Advocate
OIEA	Office of Investor Education and Advocacy
OIG	Office of Inspector General
OIR	Office of Investor Research
OIT	Office of Information Technology
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPM	U.S. Office of Personnel Management
OWB	Office of the Whistleblower
PCAOB	Public Company Accounting Oversight Board
PG	Performance Goal
PII	Personally Identifiable Information
PIIA	Payment Integrity Information Act of 2019
PISA	Privacy and Information Security Awareness
POA&Ms	Plan of Action and Milestones
RMOC	Risk Management Oversight Committee
S/L	Straight-Line
SAOP	Senior Agency Official for Privacy
SBR	Statement of Budgetary Resources
SCI	Systems Compliance and Integrity
SEC	U.S. Securities and Exchange Commission
SIPA	Securities Investor Protection Act of 1970
SIPC	Securities Investor Protection Corporation
SPAC	Special Purpose Acquisition Company
SRO	Self-Regulatory Organization
T&M	Time and Materials (contract)
TCR	Tips, Complaints, and Referrals
TM	Division of Trading and Markets
TRENDS	Tracking and Reporting Examination National Documentation System
TSP	Thrift Savings Plan
U.S.C.	United States Code
USSGL	U.S. Standard General Ledger
VOD	Vendor Outreach Day

At the SEC, we work together to make a positive impact on the U.S. economy, our capital markets, and people's lives.

We are steadfast in our dedication to our longstanding three-part mission as we keep pace with our ever-evolving markets and inspire the full confidence of the investing public and market participants alike.

SEC.GOV/ABOUT/MISSION

THE SEC'S FY 2023 AGENCY FINANCIAL REPORT was successfully produced through the efforts of our talented staff. To these individuals, we offer our sincerest appreciation. We would also like to acknowledge the Government Accountability Office and the SEC's Office of Inspector General for their professionalism.

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