U.S. Securities and Exchange Commission GPRA

1999 Annual Performance Report
2001 Annual Performance Plan

February 2000

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SEC Mission

The Securities and Exchange Commission is a law enforcement agency. Its mission is to administer and enforce the federal securities laws in order to protect investors, and to maintain fair, honest, and efficient markets.

Goals

1. Protect Investors

2. Maintain Fair, Honest, and Efficient Markets

3. Facilitate Capital Formation

Introduction

This document combines the U.S. Securities and Exchange Commission's (Commission or SEC) annual performance plan (plan) for fiscal 2001 with the performance report for fiscal 1999. The annual performance plan describes the steps which the SEC proposes to take in fiscal 2001 to achieve the goals contained in the agency's Government Performance and Results Act (GPRA) five-year strategic plan. The annual plan should be used in conjunction with the SEC's annual budget estimate for fiscal 2001 to link the GPRA performance goals with program-specific performance activity. Much of the detail of the resources or "means and strategies" to achieve the plan's performance goals is contained in the SEC's annual budget estimate. The plan also includes a "crosswalk" to show the relationship between the budget estimate and resource levels devoted to each of the strategic plan goals.

This is the first SEC performance report as required under GPRA. It reports on fiscal 1999 results compared to previously planned performance levels. As required by law, it explains variances from performance targets, as well as any proposed corrective actions for future years. The discussion of fiscal 1999 results begins on page 8 under each of the 20 respective performance measures covered in the annual performance plan. The six "outcome" measures are intended to be a proxy for the health of the regulatory environment promoted by the Commission, and no planned performance targets have been established as yet for these measures.

SEC Environment

The SEC administers and enforces the U.S. federal securities laws in order to protect investors and to maintain fair, honest, and efficient markets. Congress created the Commission in 1934 to restore and maintain investor confidence after the 1929 stock market crash. Before the securities laws were passed and the Commission was created, investors often were sold securities without the benefit of seeing a prospectus or a balance sheet. The securities laws now require companies seeking to raise capital through the public securities markets to disclose material information so investors can make informed investment decisions.

Under the Commission's regulatory scheme set out by Congress, securities firms, self-regulatory organizations (SROs), and an informed public serve as the first line of defense against violations of the securities laws. The Commission's enforcement, examination, and investor education activities provide the ultimate defense. The role of this scheme, and other factors related to the Commission's ability to carry out its mission, goals, and objectives are described below.

The SEC is primarily a law enforcement agency. The initial phase of enforcement work requires the evaluation of information from diverse sources that may indicate violations of the federal securities laws. Special surveillance units at the exchanges and at the SEC monitor market trading and make inquiries into unusual trading patterns. On-site examinations of regulated entities and review of issuer filings also are important sources of information concerning possible violations. Furthermore, investigations often result from the approximately 72,000 yearly investor complaints and inquiries communicated to the SEC.

The Commission faces new enforcement challenges brought on by innovative types of securities products and the expanded use of the Internet and other on-line information services. The recent trend toward on-line trading has led to more than one in three trades being effected on-line by retail investors. It has also, however, breathed new life into old schemes to defraud investors, including offering frauds, market manipulations, and touting. The SEC's on-line enforcement complaint mailbox receives between 150 and 300 investor complaints per day, relating to virtually every type of potential securities violation occurring on-line. The Commission has brought over 110 Internet-related enforcement actions to date. Microcap companies, which are thinly capitalized and generally provide limited public information, are particularly susceptible to stock manipulation through the Internet and recently have received increasing focus by the Commission. In the enforcement area for fiscal 1999, 520 investigations were opened and 393 were closed, and 298 administrative proceedings and 227 civil proceedings were instituted.

The Commission relies heavily on self-regulation of the securities industry. Through inspections and examinations, the Commission ensures that (1) SROs maintain fair and efficient markets that operate in accordance with SRO rules and procedures and federal securities laws, (2) SROs maintain effective programs for regulation and oversight of their broker-dealer members, (3) alternative trading systems contribute to a fair and efficient national market system, (4) transfer agents comply with their regulatory requirements for recordkeeping and protection of shareholder interests, and (5) clearing agencies' programs are designed to promote efficiency and reduce risk in securities settlement and clearance. The Commission also reviews and monitors the conduct and financial condition of securities firms and their affiliates to protect investors and the markets.

Investment companies have become America's favorite savings and investment vehicles. At the end of 1999, 30,455 investment company portfolios were managed or sponsored by 1,080 investment company complexes or families. The $6.3 trillion in assets under management by investment companies exceeds by more than $3 trillion the amount on deposit at commercial banks.

Investment companies currently have approximately 211 million shareholder accounts. Over 48 million U.S. households, representing about 47% of total households, own mutual funds worth $6 trillion. Commission staff review investment company disclosure statements, respond to requests for interpretation of rules, conduct risk analyses of mutual funds, respond to public inquiries, conduct examinations of mutual fund activities, and investigate for possible violations of securities laws by or in connection with investment company operational and marketing activities.

At the end of 1999, there were 6,650 investment advisers registered with the Commission. Assets under management by all registered advisers totaled $18 trillion. The Commission completed 1,508 inspections of investment advisers during 1999.

The Commission annually receives and processes more than 12 million pages of information from over 28,000 corporate, investment company, and individual filers. The Commission's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system automates the receipt and processing of the majority of this information. In fiscal 1999, $2.1 trillion in securities were filed for registration, including over $118 billion for initial public offerings. At the end of 1999, over 1,200 foreign companies from 57 countries were filing periodic reports with the SEC.

The SEC's fee collections in fiscal 1999 were $1,757 million. Fee revenue was collected from three basic sources: securities registered under Section 6(b) of the Securities Act of 1933 (53%); transactions of covered exchange-listed securities (38%); and tender offer, merger, and other filings (9%). As the result of legislation passed in 1996, certain fee rates are scheduled to decrease through fiscal 2006.

Growth of the Securities Markets

The work and performance of the Commission must be viewed in the context of the exponential growth of the nation's securities markets. The total market value of U.S. stocks has risen from $3.3 trillion in 1990 to $14 trillion by September 1999. Trading volume on the exchanges and Nasdaq increased over five-fold from 1990 to the end of 1999. Other market data show that:

- Assets in mutual fund portfolios between 1990 and 1999 increased from $1.1 trillion to $6.0 trillion.
- The assets that investment advisers manage increased fifteen-fold between 1985 and 1999 from $1.2 trillion to $18 trillion.
- The dollar amount of securities filed for registration with the Commission increased more than five-fold between 1990 and 1999 rising from $379 billion to $2.1 trillion.
- The number of foreign companies registered with the Commission more than doubled between 1990 and 1999 from 434 to over 1,200.

The Industry Statistics chart that reflects data through 1998, provides additional insight on the growth of the U.S. securities markets. Notwithstanding the challenges that result from this rapid growth in the securities markets, the Commission continues to strive to ensure that the U.S. markets remain attractive for investors and are the deepest, most liquid, and fairest markets in the world.

Public-Private Partnership

As a small agency with nearly 3,000 employees and fiscal 2000 spending authority of $377 million, the Commission relies heavily upon a public-private partnership to oversee our nation's securities markets. The

Commission sets standards for market participants and market structure. Much of the direct, day-to-day regulation of securities market participants is done by the market participants themselves and by industry SROs under SEC oversight. The SROs include the exchanges, the National Association of Securities Dealers (NASD), the Municipal Securities Rulemaking Board (MSRB), and the clearing agencies. This system of shared responsibility and regulation between the SEC and the industry allows the SEC to oversee securities markets that by 1999 grew to be worth over $14 trillion.

The Commission also takes advantage of the expertise of the securities industry to obtain input and recommendations for securities regulation and capital formation through informal and more formal methods. For example, many of the recommendations from the industry-represented Advisory Committee on Capital Formation have been adopted by the Commission to eliminate or modify rules and to implement other reforms. Input from the public and the securities industry also is received through investor and small business town meetings. Since coming to the Commission, Chairman Levitt has participated in 34 Investor Town Meetings throughout the country. Approximately 1,000 persons attend each meeting, often including other Commissioners and SEC employees. In addition, the Chairman and others have chaired a total of 15 Small Business Town Meetings at various locations throughout the U.S.

The Commission also has developed and implemented a series of national and community initiatives through a national public awareness campaign, "The Facts on Saving and Investing Campaign." The campaign's partners include nearly 50 federal and state agencies, industry associations, and consumer groups.

State Partnerships

The Commission conducts joint examinations and other enforcement activities with state securities regulators. Coordination with states has become even more important as a result of the passage of the National Securities Markets Improvement Act of 1996 (NSMIA). The law eliminated redundant regulation of mutual funds by the states, preempted state blue-sky registration of "covered securities," retained state securities registration of certain securities such as small-cap Nasdaq and regional exchange offerings, and generally redirected regulation of investment advisers that manage less than $25 million to the states. The SEC retains regulation of advisers above this threshold, and federal and state regulators retain authority to investigate allegations of fraud involving any investment adviser.

Partnerships with Federal Agencies

Due to resource limitations and the considerable scope of the type of law enforcement actions that may be undertaken by the Commission, substantial coordination takes place with other federal agencies. The SEC, for example, has coordinated its Internet-related enforcement efforts with other law enforcement authorities, including the Department of Justice, the Federal Bureau of Investigation, the Federal Trade Commission, the Secret Service, and a range of other civil and criminal law enforcement authorities.

SEC staff members are regularly detailed to the Justice Department to assist in criminal investigations and prosecutions of securities violations.

In response to the rapid pace of innovation in securities products, the Commission is working cooperatively with other agencies such as the Federal Reserve System, the Treasury Department, and the Commodity Futures Trading Commission. Partnerships with other federal agencies also will be essential for the implementation of financial modernization legislation (S. 900, the Gramm-Leach-Bliley Act of 1999), which lifts many of the restrictions on the banking industry's involvement with securities that have been in place since the 1930s.

Technological Changes

Advances in technology have fundamentally changed the way markets and market participants operate, impacting regulatory and enforcement areas, as well as administrative operations of the Commission. Recent advances in technology now permit a variety and combination of services that blur the distinction between markets, intermediaries, and service providers.

Technology has allowed new segments of the securities industry, such as alternative trading systems (ATSs), to grow significantly and spurred the development of new financial products, especially derivatives. While the Internet presents new opportunities for the securities markets, securities firms, and investors, it also presents challenges for the Commission to monitor the increasing trading volume and the complex computer systems that support it. In 1999, the New York Stock Exchange (NYSE) daily trading volume averaged 799 million shares, a 17 percent increase over 1998 levels. At the SEC, over 281 million files were downloaded from the SEC's website in 1999, a 91 percent increase over 1998.

The Internet offers opportunities for rapid, wide-spread dissemination of information to investors, but also presents significant regulatory challenges. The Commission strives to create regulatory approaches to facilitate electronic dissemination of information in a manner consistent with investor protection. At the same time, enforcement actions have been brought against persons using the Internet to solicit the purchase of unregistered securities or to further securities frauds.

The Commission's Enforcement Complaint Center on the Internet enables the public to communicate with the agency regarding possible instances of securities fraud. A new Internet enforcement unit was established in July 1998 and several Commission regional offices established Internet enforcement branches in fiscal 2000. In addition, the Cyberforce--a group of 240 SEC attorneys, accountants, and investigators nationwide--conduct regular Internet surveillance, developing leads for potential enforcement cases. Certain SEC forms are available on the SEC's website, and public inquiries also can be made on the website.

The SEC and the securities industry faced a particularly serious test in preparing for the information processing modifications required by the year 2000. As part of its internal year 2000 program, the SEC evaluated, replaced, repaired, or retired over 4,500 computer components or software programs, including 109 mission critical systems and 78 non-mission critical systems. The existing EDGAR system was repaired and tested, and certified as year 2000 compliant. The revised EDGAR, currently under development, also was determined to be year 2000 compliant.

To assure year 2000 compliance within the securities industry, the Commission published rules requiring certain broker-dealers, investment advisers, and transfer agents to provide specific year 2000 information to assess the quality of remediation programs of the reporting firms. In addition, the Commission's Office of Compliance Inspections and Examinations conducted extensive year 2000 examinations of transfer agents, investment companies, investment advisers, and broker-dealers. The Division of Market Regulation conducted monthly year 2000 surveys of SROs. In addition, the broker-dealer community, led by its trade association, the Securities Industry Association (SIA), conducted an industry-wide testing program to ensure that the nation's trading, clearing, and settlement systems were thoroughly tested and ready for the year 2000 environment.

Globalization

The growing globalization of the securities markets provides new opportunities for investment and capital formation, but it also creates new challenges for securities regulators. In 1990, 434 foreign companies were registered in the United States. At the end of 1999, over 1,200 foreign companies from 57 countries were registered and filing reports with the Commission.

To maintain the integrity of our domestic securities markets, the SEC cooperates with foreign authorities in enforcement and regulatory matters, facilitates cross-border offerings while maintaining our ability to detect and prohibit securities fraud, and assists regulators of emerging markets in developing systems that enable them to protect investors. Unilaterally, and through international organizations, the SEC participates in initiatives that address issues relating to global financial stability.

The Commission has established over 30 formal arrangements with foreign counterparts for information sharing and cooperation in investigating and prosecuting securities law violations. The Commission also receives funding from the U.S. Agency for International Development to provide technical assistance for Russia, the Newly Independent States, Central and Eastern Europe, Egypt, and emerging markets throughout the world.

External Factors Affecting the Performance Plan

Various external factors can affect each goal, objective, and performance measure contained in the Commission's strategic and annual performance plans. These factors include:

- The advancement in technology that has brought about on-line trading and other innovations, which themselves present new challenges in applying the securities laws.
- The number and market sophistication of investors, including the increasing number of small investors who are investing in the

securities markets. This includes small investors who invest in mutual funds through retirement plans.

- The trading and dollar volume of stocks on exchanges and Nasdaq, as well as the volume of purchase and redemption activity in mutual funds.
- The increasing use of derivatives and other complex financial products.
- The increasing number of regulated entities, as well as the complexity and volatility of the financial markets.
- The resources and priorities of other organizations, such as the SROs, the Department of Justice, the Federal Bureau of Investigation, and state securities agencies.
- The increasing globalization of the securities markets that promotes investment opportunities here and abroad, but also presents new challenges for enforcement and cooperation efforts.
- The growth of the securities industry, which has increased private sector salaries and benefits and resulted in staff retention problems for the SEC.

The direct impact of these external factors is difficult to measure since they are influenced by conditions outside the SEC's control. These external factors may lead the Commission to adjust specific objectives and performance measures in the GPRA plan during the required revision this year.

Performance Plan Measures

The SEC developed two sets of performance measures. The first set are primarily output measures that are related to the goals described in the strategic plan. They are designed to supplement and not duplicate the extensive output data included in the Commission's annual budget. The second set are six outcome measures that attempt to look at the effects of the SEC's performance in a much broader and indirect context as an indicator of the effectiveness of the regulatory environment promoted by the Commission.

The mission, goals, and objectives from the SEC's September 1997 strategic plan are listed before the discussion of each performance measure.

Performance Results for Fiscal Year 1999

Performance results for fiscal 1999 are reported separately for each of the 20 performance measures in the next section, "Performance Measures." The following summary highlights key results and those measures that varied most significantly from planned levels.

Generally, fiscal 1999 results as measured by the SEC's GPRA performance measures were very favorable. The number of enforcement actions rose 10% over fiscal 1998. Increases were seen in cases involving insider trading, broker-dealer, financial statement and reporting, market manipulation, and contempt proceedings cases. The number of foreign requests for SEC enforcement assistance increased by 30% over the previous fiscal year. The percent of examinations of investment company complexes and investment advisers, although slightly lower due to the need to conduct special year 2000 inspections, are on target to reach 5-year cycle goals.

Although the total number of issuers' financial statements reviewed was lower than anticipated, new requirements led to longer review times for many statements in fiscal 1999. The number of files downloaded per day from the SEC's website nearly doubled between fiscal 1998 and 1999, but the level was reduced somewhat by less than expected company submissions of filings in new HTML and PDF formats, which tempered anticipated growth in demand for information on the website.

The SEC reviewed a lower than anticipated number of SEC and SRO market operation and structure rules in fiscal 1999 due to the focus on year 2000 efforts and the increasing complexity of the proposals, such as basic structural changes to the markets. We expect this trend of fewer, but more complex, rule changes to continue in future years. The number of requests for interpretive advice and exemptive relief in the mutual fund area declined somewhat from the previous year. Exemptive relief requests likely declined due to industry mergers and deregistration of companies going out of business, while the need for interpretive advice may have been reduced due to increasing informal contacts with the SEC through outreach mechanisms such as town meetings and use of the Internet.

The dollar amount of securities registered in the U.S. by foreign private issuers was 67 percent higher than anticipated, attributable in part to the strength of U.S. securities markets during the year, which encouraged capital investment. For more details on this and the other measures, review the discussion of "1999 analysis of results" accompanying each of the performance measures.

SEC Mission Statement

The Securities and Exchange Commission is a law enforcement agency. Its mission is to administer and enforce the federal securities laws in order to protect investors, and to maintain fair, honest, and efficient markets.

Goal #1 — Protect Investors

Objectives:

1. Deter fraud and require compliance with the federal securities laws.

2. Promote informed investment decisions by requiring full and fair disclosure of material information to investors.

3. Promote the prevention and detection of securities fraud through

the education of investors.

4. Promote high professional standards in the securities industry.

Performance Measures

1. Number/percent of enforcement actions in each of various program areas (for example, offering cases, broker-dealer cases, financial cases, insider trading cases, and market manipulation cases.)

This measure is an indicator of the types of cases the Commission brings in order to achieve the goal of protecting investors. The remarkable expansion and momentum of the markets, combined with the on-going technological revolution present extraordinary challenges to the SEC's law enforcement program. Priorities in the outyears may change as new securities products, new technologies, and new opportunities for fraud and abuse enter the market.

	1998	**1999** (Planned)	**1999** (Actual)	2000	2001	2002
Securities Offering	143	141	124	xxx	xxx	xxx
	29%	29%	23%	xx%	xx%	xx%
Broker-dealer	87	87	103	xxx	xxx	xxx
	18%	18%	19%	xx%	xx%	xx%
Issuer Financial Statement & Rpting	75	78	94	xx	xx	xx
	16%	16%	18%	xx%	xx%	xx%
Other Regulated Entity	56	58	50	xx	xx	xx
	12%	12%	10%	xx%	xx%	xx%
Contempt Proceedings	14	14	29	xx	xx	xx
	3%	3%	5%	x%	x%	x%
Insider Trading	43	44	57	xx	xx	xx
	9%	9%	11%	xx%	xx%	xx%
Delinquent Filing	18	19	10	xx	xx	xx
	4%	4%	2%	x%	x%	x%
Market Manipulation	33	34	47	xx	xx	xx
	7%	7%	9%	x%	x%	x%
Corporate Control	2	2	1	x	x	x
	1%	1%	1%	x%	x%	x%
Miscellaneous	7	8	10	x	x	x
	1%	1%	2%	x%	x%	x%
Total	478	485	525	525	525	525

Total	470	485	525	525	525	525
	100%	100%	100%	100%	100%	100%

1999 Analysis of Results: The actual number of enforcement actions in fiscal 1999 rose 10% over 1998 to 525. This was 40 cases or 8% over the GPRA-projected amount of 485. As seen from the above data, increases in insider trading, broker-dealer, financial statement and reporting, market manipulation, and contempt proceedings cases led to the overall increase.

In order to avoid any perception that the SEC's enforcement actions are quota driven, measurement projections are not made in the various subcategories, e.g. insider trading, for future years. Reporting on past performance provides a level of accountability, while not promoting a numbers driven approach to enforcement.

2. Number of requests by the SEC to foreign regulators for assistance in SEC investigations and enforcement-related actions and the number of requests to the SEC by foreign regulators for assistance in foreign investigation and enforcement-related actions.

The growing internationalization of the securities markets increasingly affects U.S. markets. Cooperation with foreign regulators aims to minimize the extent to which international borders can be used to escape detection and prosecution of fraudulent securities activities.

	1998	1999	2000	2001	2002	2003
SEC Requests	275	260	320	320	320	320
Actual	275	311				

1999 Analysis of Results: The staff made 311 requests for foreign enforcement assistance in fiscal year 1999, 19% more than planned. The dramatic internationalization of the global marketplace has resulted in an increase in enforcement matters with international aspects. The increase also can be attributed partially to a change in office policy to better document all requests made to the foreign regulatory bodies that maintain incorporation information. The annual plan reflects the increased numbers in fiscal 2000 and beyond.

	1998	1999	2000	2001	2002	2003
Responses to Foreign Requests	412	395	545	545	545	545
Actual	412	536				

1999 Analysis of Results: The staff made 536 formal responses to foreign requests for SEC enforcement assistance in fiscal year 1999, 35% more than planned. The Commission received an unexpectedly large increase in the number of requests from the

SEC's foreign counterparts, especially the offshore financial centers. As globalization of the marketplace continues, we will continue to receive a high volume of foreign requests for enforcement information. The annual plan reflects the increased numbers in fiscal 2000 and beyond.

3. Percent of investment company complexes examined since the beginning of the current five-year cycle.

The objective of the investment company/investment adviser inspection program is to conduct at least one inspection of every investment company complex every five years (20% of funds inspected annually). Two major trends in the investment company industry affect the total number of investment company complexes that need to be inspected. The first is the continued entry into the industry of new fund complexes sponsored by a variety of entities. The second trend is the increasing number of mergers and acquisitions of fund complexes by existing entities in the fund industry. As a result of both trends, the number of fund complexes is expected to grow by a small number each year through year 2002.

	1998	1999	2000	2001	2002	2003
1998 OCIE Plan	21%	43%	66%	81%	100%	N/A
Actual	20%	40%				
1999 OCIE Plan	N/A	23%	42%	63%	81%	100%
Actual	N/A	20%				

1999 Analysis of Results: The SEC has completed 40% of inspections of investment company complexes during the two years since the beginning of the five-year planning period in 1998. This rate of completion puts the agency on target to achieve our goal of conducting inspections of all investment company complexes over a five-year period. The completion rate is at 40% rather than the planned 43% because of extensive Y2K related inspection work performed during fiscal years 1998 and 1999.

4. Percent of investment advisers examined since the beginning of the current five-year cycle.

As of July 8, 1997, the regulation of investment advisers was divided between the SEC and the states resulting in the Commission being responsible for approximately 6,500 large investment advisers with discretionary management authority over their client accounts. By the end of 1999, all investment advisers that did not qualify for registration with the SEC should have withdrawn from federal registration and been registered with the states. The number of large, discretionary advisers under SEC jurisdiction is expected to grow by approximately 300 to 500 per year. The Commission's performance goal is to conduct at least one inspection of each large, discretionary adviser every five years.

	1998	1999	2000	2001	2002	2003
1998 OCIE Plan	21%	43%	66%	81%	100%	N/A
Actual	18%	38%				
1999 OCIE Plan	N/A	20%	41%	61%	81%	100%
Actual	N/A	20%				

1999 Analysis of Results: As a result of the large number of Y2K-related inspections of investment advisers conducted during 1998 and 1999, only 18% of regular inspections of the adviser population were completed in 1998, rather than the 21% projected. During 1999, 20% of the advisers were examined under the 1998 OCIE plan. This is precisely the percentage of inspections needed to meet the goal of conducting at least one inspection of every adviser during a five-year plan cycle. Due to Y2K-related inspection work, the shortfall experienced in 1998 was not completely closed in 1999, but should be made up by the end of fiscal 2001. Another factor that may affect this measurement is the large number of new investment advisers that registered with the SEC during the past 18 months.

5. Number of new and reporting issuers' financial statements reviewed to maintain a substantial SEC influence on disclosure practices.

The performance goal is to review the year-end financial statements of as many total issuers (new and reporting issuers) as possible to encourage and enhance compliance with disclosure and accounting requirements. New filings by issuers, including initial public offering (IPOs) under the Securities Act of 1933 and registration statements under the Securities Act of 1934 (1934 Act), are reviewed since they represent the issuers first entry into the federal reporting system. The financial statements of reporting issuers' under the 1934 Act are reviewed selectively through the review of issuers' annual reports or transactional filings, such as merger proxy statements.

	1998	1999	2000	2001	2002	2003
	4620	4650	4335	4515	4515	4515
Actual	4620	4300				

1999 Analysis of Results: Although the total number of issuer reviews declined in 1999, the subcategory of new issuer 1934 Act registration statements reviewed was twice the number reviewed in 1998. The increase was the result of a newly adopted requirement that all companies listed on the NASD over-the-counter (OTC) bulletin board must be reporting with the SEC. Almost all of these new issuers were small businesses that were unfamiliar with the financial and business disclosure requirements of the federal securities laws. The decline in the total number of issuers reviewed in 1999 is attributed to the need to devote additional resources to the review of these filings and to the review of new plain English disclosure requirements.

6. Average number of files downloaded per day on the SEC website.

The SEC's Internet website is a popular source for all EDGAR filings, SEC announcements, and releases containing proposed and adopted rule changes and other matters of interest to the investing public. The greater availability of market-sensitive information provides investors with the ability to make more informed investment decisions.

	1998	1999	2000	2001	2002	2003
	402,000	1.1 mill	986,300	1.23 mill	1.53 mill	1.89 mill
Actual	402,000	770,000				

1999 Analysis of Results: Since its inception, the SEC's website (www.sec.gov) has been one of the most popular government agency sites, with traffic doubling each year as more and more companies began filing electronically. Website traffic was expected to continue to increase rapidly during fiscal 1999 as companies were provided the option of submitting filings in HTML and PDF formats. A leveling off was anticipated in fiscal 2000.

Companies did not submit as many filings in the new formats as was expected, resulting in a lower than expected growth rate in the number of files downloaded. The results for fiscal 1999 were therefore 30% less than expected. SEC staff currently are reviewing this performance measure to ensure that it accurately reflects the demand for information on the website and to revise fiscal year projections as necessary.

7. Number of Commission and SRO broker-dealer investor protection rules (including rules governing broker-dealer sales practices and net capital requirements) reviewed.

SRO rule changes are reviewed for consistency with investor protection and other goals of the 1934 Act. Section 19 of the 1934 Act specifically addresses the Commission's responsibilities regarding the review of SRO rules. Of the total rules reviewed or promulgated each year (approximately 600 in 2001), the number (approximately 15% of total) that address investor protection rules only are shown below.

	1998	1999	2000	2001	2002	2003
	118	120	90	90	90	90
Actual	118	90				

1999 Analysis of Results: The SEC reviewed 90 broker-dealer investor protection rules in fiscal year 1999, which is 30 fewer or 25% below the planned amount. The decline was due to the growing complexity of rule filings, that require more time and effort to process. In addition, industry focus on Y2K compliance efforts resulted in fewer being filed.

The growing complexity of rule filings will reduce the number of filings reviewed in future years as well. For example, in the last year SROs have filed proposals to remove barriers to competition, restructure the SROs themselves, and revamp order execution systems in the over-the-counter market. Similar rule filings that deal with complex structural issues are expected in the future.

8. Percent of risk assessment reports reviewed for which staff surveillance procedures resulted in follow-ups to determine whether a broker-dealer and its customers were exposed to significant risk.

The Risk Assessment program is designed to assess the risks to registered broker-dealers resulting from the activities of their affiliates. Of the approximately 1,110 risk assessment reports received annually from the 213 largest securities firms (which represents approximately 86% of $1.9 trillion of all broker-dealer assets), the percentage of firms that required additional follow-up is shown below.

	1998	1999	2000	2001	2002	2003
	45%	49%	40%	40%	40%	40%
Actual	45%	49%				

1999 Analysis of Results: Of the 1,110 risk assessment reports received in fiscal 1999, 49% required additional follow-up. This is consistent with the projected amount.

9. Number and percent of new mutual fund and closed-end portfolios, and separately, of new insurance contracts reviewed.

The staff reviews prospectuses of newly formed mutual funds, closed-end funds, and certain insurance products that provide a means of investing in an annuity or life insurance contract with benefits tied to mutual fund performance. The review process seeks to ensure that the entity's policies, procedures, and risks are disclosed fully and fairly and that the proposed activities are consistent with the law.

New portfolio disclosures reviewed--mutual funds and closed-end funds:

	1998	1999	2000	2001	2002	2003
	920 96%	935 95%	950 96%	980 96%	990 96%	1000 96%
Actual	920 96%	927 95%				

1999 Analysis of Results: The 927 portfolios reviewed fell within 1% of the projected number to be reviewed.

New insurance contracts reviewed:

	1998	1999	2000	2001	2002	2003
	200 100%	190 100%	245 100%	260 100%	270 100%	280 100%
Actual	200 100%	235 100%				

1999 Analysis of Results: As a result of rapid growth in the insurance products industry during fiscal year, the staff received and reviewed a larger than anticipated number (235 vs. 190 planned--a 24% increase) of registration statements for new insurance contracts. The aging of the baby boom generation and increased focus on planning for retirement has increased the demand for variable insurance products. The increase also is attributable to the introduction of new variable insurance products and features, such as bonus programs, provisions for liquidity after annuitization, and nursing home care riders.

Goal #2 — Maintain Fair, Honest, and Efficient Markets

Objectives:

1. Promote and enhance self-regulation of the securities markets as a means of assuring compliance with securities laws

2. Promote improvements in market structures and operations.

3. Oversee the financial responsibility and adequate capitalization of broker-dealers and clearing agencies.

4. Enhance relationships with federal, state, and foreign authorities to promote compliance with the securities laws.

Performance Measures

1. Number of proposed Commission and SRO market operation and market structure rules reviewed that govern the operation of registered national securities exchanges, clearing agencies, and the automated quotation systems operated by the National Association of Securities Dealers (NASD) and the Municipal Securities Rulemaking Board (MSRB).

The Commission directly regulates the market where SEC rulemaking is more effective than self-regulation, otherwise the markets function under a public-private self-regulatory partnership. The percentage of proposed SRO rules reviewed and adopted are as follows:

	1998	1999	2000	2001	2002	2003
	532	600	450	450	450	450
	97%	97%	97%	75%	75%	75%
Actual	532	450				

1999 Analysis of Results: The SEC reviewed 450 SRO market operation and structure rules in fiscal 1999, which is 150 less or 25% below the projected amount. The number of rules reviewed was less than the planned amount because there were fewer rules filed overall due to the focus, both within the industry and the SEC, on Y2K compliance efforts. In addition, the types of rules reviewed in fiscal 1999 were more complex and required more time and effort to process. Examples include SRO rule proposals to remove barriers to competition, structural changes such as merging of existing SROs, and changes in the system for the execution of orders in the over-the-counter market. This trend is expected to continue and result in fewer rules being reviewed.

2. Percentage of cause, oversight, and surveillance examinations of broker-dealers and routine and cause examinations of transfer agents that result in significant findings, a deficiency letter, enforcement referral, or referral to other regulatory authorities.

Beginning in fiscal 1997, broker-dealer examination guidelines emphasize risk-based selection and concentration on those firms, and those areas within firms, most likely to have problems. As a result, it is expected that a larger percentage of the cause and surveillance examinations will uncover findings warranting a deficiency letter or an enforcement referral. The transfer agent inspection program historically has identified a lower *percentage of problems.*

	1998	1999	2000	2001	2002	2003
Broker Dealers	85%	85%	85%	85%	85%	85%
Transfer Agents	75%	75%	75%	75%	75%	75%
Actual						
Broker Dealers	85%	87%				
Transfer Agents	77%	81%				

1999 Analysis of Results: The projected levels of examinations that resulted in significant findings, a deficiency letter, enforcement referral, or referral to other regulatory authorities were met.

3. Commence all SRO regulatory program inspections that should be initiated in the fiscal year pursuant to established cycles.

SEC staff inspect certain SRO regulatory programs pursuant to established cycles. These program areas include: arbitration, listings, broker-dealer examinations, sales practice enforcement, specialist/market maker/options trader financial surveillance and examinations, and trading surveillance, investigation, and enforcement. The cycles range from one to four years from the date the Commission approved the previous inspection report, depending on the program area.

	1998	1999	2000	2001	2002	2003
	100%	100%	100%	100%	100%	100%
Actual	100%	100%				

1999 Analysis of Results: Projected levels for fiscal 1999 were met.

4. Percentage of transfer agents and clearing agencies examined within prescribed examination cycles pursuant to the schedule of required cycles of 2, 5, 7 and 10 years.

The performance goal is to have every registrant examined at least once every ten years. Five clearing agencies are inspected every two or three years; two clearing agencies with limited activity are inspected every four years; the four other clearing agencies, which are affiliated with regional stock exchanges, are inspected as part of the routine inspection of the exchange.

	1998	1999	2000	2001	2002	2003
	63%	70%	80%	95%	95%	95%
Actual	63%	99%				

1999 Analysis of Results: During 1998 the SEC staff began to examine small federally regulated bank transfer agents in addition to the existing pool of registrants, which added over 450 registrants to the universe to be examined. This almost doubled the number of registrants examined. These small registrants were placed on a 10 year cycle. In addition, in 1999 the reporting methodology was changed from measuring percentage of completion of the overall program goal (which includes 2, 5, 7, and 10 year cycles) to measuring percentage of completion of the different cycles' goals for each year.

5. Number of exchange-related, trading, and market surveillance matters reviewed at the request of the Division of Enforcement.

The Market Regulation staff of the Commission reviews 100% of approximately 500-600 enforcement matters annually. OCIE staff provide assistance as requested.

	1998	1999	2000	2001	2002	2003
	465	590	550	550	550	550
Actual	465	590				

1999 Analysis of Results: Projected levels for fiscal 1999 were met.

6. Number of requests by foreign regulators to the SEC for non-enforcement related technical assistance.

In addition to the state and federal partnerships described on page 4, Commission staff provide technical assistance to emerging markets, maintain communication with foreign market regulators, address issues concerning international investment and access to capital, and promote harmonization of investor protection regulations and market transparency.

	1998	1999	2000	2001	2002	2003
	216	220	250	250	250	250
Actual	216	243				

1999 Analysis of Results: The SEC staff made 243 formal responses to requests by foreign regulators to the SEC for non-enforcement technical assistance in fiscal 1999, 11% more than planned. The fiscal year witnessed continued growth beyond expectations in the development of the emerging capital markets throughout the world. Such growth corresponded with a larger than expected increase in the number of requests for technical assistance. Additionally, the increase can be attributed to better recording of all technical assistance activity. It is expected that the number of requests by foreign regulators to the SEC for technical assistance will continue to rise and the annual plan will reflect the increased numbers in fiscal 2000 and beyond.

Goal #3 – Facilitate Capital Formation

Objectives:

1. Eliminate or streamline existing rules and regulations where possible to reduce unnecessary costs and assist the capital-raising efforts of small businesses, while maintaining protections for investors.

2. Develop regulatory initiatives to help make U.S. markets more accessible to foreign issuers and market professionals, while maintaining protections for investors.

3. Facilitate the development and use of innovative financial instruments to meet the business needs of securities issuers, while maintaining safeguards for investors.

4. Facilitate the use of technology by market participants.

5. Facilitate the continued development of an effective, flexible regulatory environment for investment companies, advisers, and others involved in capital raising activities, including venture capital, while maintaining protections for investors.

Performance Measures

1. Number of proposed SRO, NASD, and MSRB rules seeking to trade new securities products.

Approximately 600 rules are expected to be reviewed or promulgated each year. While the majority of such rules cover market operations, the number that address this specific measurement are shown below, along with the percentage this is of all rules reviewed.

	1998	1999	2000	2001	2002	2003
	40 8%	50 8%	60 8%	60 10%	60 10%	60 10%
Actual	40 8%	60 10%				

1999 Analysis of Results: The SEC staff reviewed 60 proposed SRO, NASD, and MSRB rules seeking to trade new securities products in fiscal 1999, which was 10 more (20%) than the projected amount. The number of rules reviewed was higher than planned primarily because of the expansion in market activity. Similar increases are expected in fiscal 2000-2003.

2. Dollar value of small business registration statements filed with the Commission.

The dollar amount registered by small businesses is a good indicator of their ability to raise capital, including reduced costs and requirements for registration.

	1998	1999	2000	2001	2002	2003
$(bil)	5.1	6	5	5	5	5
Actual	5.1	6				

1999 Analysis of Results: This measure is based on optional forms (SB-1 and SB-2) that small businesses may use to register securities for public sale under the Securities Act of 1933. The financial and business disclosure requirements of these forms are not as stringent as other registration forms, since they are primarily available to small companies with limited operating histories and assets. In fiscal 1999, the expected increase in dollar amounts registered on the optional small business forms did not materialize because the number of small business issuers using the optional forms declined by approximately 33%. In times of strong economic and securities market growth, those small companies that expect their net worth to increase substantially as a result of their public offering may choose to use standard disclosure Form S-1 to register securities, instead of the optional forms.

3. Number of foreign private issuers that register under the 1933 and 1934 Acts for the first time and the dollar amount of securities registered for sale under the 1933 Act by all foreign private issuers.

The number of foreign companies registering stocks in the U.S. and the amount of money they bring to the public markets are a good indicator of the integrity, liquidity, and fairness of the U.S. markets.

	1998	1999	2000	2001	2002	2003
#	160	160	160	110	110	110
$(bil)	115	120	120	120	120	120
Actual	160	160				
	115	200				

1999 Analysis of Results: Although the number of offerings in the U.S. by foreign private issuers in 1999 was approximately the same as 1998 and was consistent with our projection, the dollar value of the offerings was 67% above the projected amount. The increase is attributable in part to the strength of U.S. securities markets and economy during the year, which encouraged capital investment.

4. Number and percent of formal responses to requests for interpretive advice or exemptive relief.

Interpretative advice and exemptive relief regarding the Commission's authority under the 1934 Act are requested in a number of areas. For example, requests are made to determine whether a new product falls within the definition of "security" or which new service providers must be registered and regulated as broker-dealers. In addition, relief is sought in the areas of municipal securities and sales practice rules, broker-dealer soft dollar practices, and margin requirements. Investment companies and investment advisers are given interpretive advice about or exemptive relief from statutory provisions in order to allow for the introduction of innovative products and services, reduce burdens and costs to the financial service industry, and respond to the need to adapt the regulatory structure due to changing circumstances. In addition to the numbers stated below, the Division of Corporation Finance also provides interpretive advice. Division of Market Regulation and Division of Investment Management staff also respond annually to about 21,000 related telephone inquiries.

	1998	1999	2000	2001	2002	2003
Market Reg Div						
Interp & Exempt	735	780	800	805	805	805
Percent	100%	100%	100%	100%	100%	100%
Actual	735	780				
	100%	100%				

1999 Analysis of Results: Projected levels for fiscal 1999 were met for the Market Regulation Division.

	1998	1999	2000	2001	2002	2003
IM-Interp Adv	470	450	410	410	410	420
Percent	100%	100%	100%	100%	100%	100%
Actual	470	400				
	100%	100%				

1999 Analysis of Results: The Investment Management Division staff recently has seen a shift in the nature of written inquiries to which it responds. During fiscal 1998 and 1999, the staff received and responded to a smaller than anticipated number of requests for interpretive advice. At the same time, the staff responded to a larger than anticipated number of written (email and non-email) inquiries--primarily from investment company shareholders, but also from shareholders of other public companies, clients of investment advisers, regulators, and others. For example, the staff responded to 95 shareholder inquiries and complaints in 1997, 357 in 1998, and 450 in 1999, increases of 275% and 25% respectively. The surge in shareholder inquiries may be explained in part by the Commission's "outreach" programs and investors' expanded use of the Internet. These increased direct contact mechanisms may partially explain why the number of requests for interpretive advice have declined.

	1998	1999	2000	2001	2002	2003
IM-Exempt Relief	490	480	425	435	440	445
Percent	100%	100%	100%	100%	100%	100%
Actual	490	400				
	100%	100%				

1999 Analysis of Results: The Investment Management staff closed 400 requests for exemptive relief in fiscal year 1999, which is a 19% decrease from 1998, primarily because of declines in the number of exemptive applications related to investment management industry mergers and investment company deregistrations. The high deregistrations by investment companies (usually caused by mergers or the company going out of business) in 1998, for example, resulted in part from a unique data update effort by the SEC. Therefore, the number of exemptive applications for 1999 was lower than originally planned and the trend is expected to continue.

5. Number of rule proposals and adoptions to allow for introduction of innovative products and services related to mutual funds, as is consistent with our mission of investor protection.

The adoption of rules to allow for introduction of innovative products and services helps promote capital formation. Examples include, but are not limited to, the adoption of rules for new mutual fund products and the valuation of securities held by money market funds.

	1998	1999	2000	2001	2002	2003
Proposals	7	16	16	15	12	12
Adoptions	8	15	15	16	12	12
Actual						
Proposals	7	6				
Adoptions	8	8				

1999 Analysis of Results: The staff proposed 6 new rules during fiscal 1999, less than half the planned estimate, and adopted 8 rules compared to 15 that were planned. The major reason for the variance is that the rulemaking staff focused on the SEC's investment company governance initiative for much of the year, resulting in other projects being set aside. The governance initiative required the staff to develop rules that would revise investment company disclosure requirements to close gaps in the information shareholders currently receive about company directors, including conflict of interest concerns, the role of the board in governing funds, and the number of fund shares owned by directors. The initiative also involved developing proposals designed to enhance the independence of investment company directors. Draft rules were published for public comment in October 1999.

Outcome Measures

Introduction

The Commission has attempted to develop a number of outcome measures that offer a proxy for the health or effectiveness of the regulatory environment promoted by the Commission. However, any measurement of the outcome of Commission efforts must be indirect because the results of major activities such as investor protection, enforcement, market efficiency, and capital formation cannot be directly measured.

In addition, like other regulatory agencies, the Commission has had a difficult time developing result-oriented program performance measures. A study by the General Accounting Office found that the barriers faced by regulatory agencies in developing result-oriented measures generally fell into three broad categories: (1) problems in collecting program performance data, (2) the diverse and complex factors that affect agencies' results and the lack of control agencies have over some of those factors, and (3) the long time frames sometimes needed to see the results of agencies' actions.

We offer the following measures as a preliminary step toward the development of measures that are recognized as good proxies for the health or effectiveness of the regulatory environment promoted by the Commission, as well as an indicator of the agency's performance. We are considering methods for involving representatives of the securities industry, investors, Congress, and other stakeholders in discussions regarding the adequacy and validity of these and alternative measures and methodologies.

1. Stock Market Capitalization as a Percentage of Gross Domestic Product (GDP)

One indicator of the size and vigor of a country's securities markets is stock market capitalization as a percent of gross domestic product (GDP). This measure compares the U.S. to other developed countries with respect to this indicator. It can be argued that a "good" regulatory environment leads to growing and prosperous capital markets.

Stock market capitalization is defined as the total value of securities listed on a nation's securities exchanges and over-the-counter markets. Gross domestic product is defined as the total value of goods and services produced in a country. Stock market capitalization is divided by GDP because, when other factors are held constant, the size of a country's securities markets is positively correlated with the size of its economy.

- Click to view graph: Stock Market Capitalization as a Percentage of GDP

2. Mutual Fund Assets as a Percentage of GDP

Total mutual fund assets is used as an indicator of the size and vigor of a country's mutual fund industry. As with measure #1, measure #2 compares the U.S. to other developed countries. Mutual fund assets are defined as the total value of open-end stock, bond, and money market fund assets in the U.S. and the total value of equivalent vehicles in other developed countries. Mutual fund assets are divided by GDP because, when other factors are held constant, larger economies have more money available for saving and investment than do smaller economies.

- Click to view graph: Mutual Fund Assets as a Percentage of GDP

3. Mutual Fund Net Sales as a Percentage of U.S. Personal Savings

Measure #3 compares U.S. mutual fund net sales to U.S. personal savings for the 28-year period 1970-1998 (sales/savings ratio). The sales/savings ratio measures the fund industry's market share of the national savings pool. The rationale for measure #3 is that, over the long term, the sales/savings ratio conveys the changing role of mutual funds as a savings vehicle and the effect of Commission oversight. It is unlikely that the savings dollars would flow rapidly into the mutual fund industry if investors did not have confidence in the regulatory structure that exists.

- Click to view graph: Mutual Fund Net Sales as a Percentage of Personal Savings

4. Investors' Trading Costs as a Percent of their Stock Market

Trading Value

The aggregate amount of brokerage commissions and other transactions costs borne by investors relative to the dollar value of their trading declined from about 1% in 1980 to approximately 0.21% in 1998. The decline in investors' trading costs can be attributed in large measure to the Commission's regulatory environment, its promotion of competition and elimination of anti-competitive practices (such as elimination of fixed minimum brokerage commissions), and its promotion of competition between dealers and markets, e.g. decrease of bid-ask spreads. This data relates only to common stocks.

- Click to view graph: Brokerage Commissions and Other Trading Costs of Stock Transactions as a Percentage of Trade Value of Stock Transactions

5. Stock Market Trading Volume as a Percent of GDP

The trend in the volume of trading in our nation's stock market is a sign of its vigor and investors' confidence in its integrity and fairness. An upward trend should be an indicator of the Commission's regulatory environment, which promotes efficiency, transparency, integrity, and liquidity in the securities markets. The annual dollar value of trading on U.S. stock exchanges and Nasdaq was one-fifth the size of our nation's GDP in 1980. In 1996, the annual dollar value of trading in U.S. stock markets exceeded our nation's GDP for the first time and reached 165% in 1998.

- Click to view graph: Stock Market Trading Volume as a Percent of Gross Domestic Product

6. Securities Offerings as a Percent of Non-Residential Gross Private Domestic Investment (GPDI)

The upward trend in securities offerings relative to non-residential GPDI indicates that our nation's public securities markets are playing an increasingly important role as a source of capital for investment in U.S. businesses. The annual dollar value of securities offered to the public was less than one-fifth the size of non-residential gross private domestic investment in our nation's economy in 1980. In 1991, the annual dollar value of securities offerings exceeded non-residential GPDI for the first time. By 1998, the dollar value of securities offerings was 89% larger than non-residential GPDI.

Year-to-year changes in securities offerings are affected primarily by factors beyond the Commission's control. Over the long term, however, the regulatory environment created by the Commission should facilitate capital formation.

- Click to view graph: Securities Offerings as a Percent of Non-Residential Gross Domestic Product

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Resources Required to Meet the Plan's Performance Goals

The Commission's budget request for fiscal 2001 of $422.8 million supports an estimated 3,037 FTE. The budget requests increases of $5.2 million for 38 FTE to address a variety of program needs, $10 million for information technology requirements, and $15 million for special pay. Based on fiscal 1999 data, the staff composition is: 40% attorneys; 19% accountants/financial analysts; 7% investigators/examiners; 24% other professional, technical, and administrative; and 10% clerical. A detailed FTE and cost data chart for fiscal years 1999-2001 is included in the SEC's fiscal 2001 budget request.

The resources necessary to conduct an investigation or an enforcement action vary based on many factors including the complexity of the facts, the underlying legal issues, the number of investors and defendants involved, the degree of cooperation provided by the subjects of the investigation, and the willingness of defendants and respondents to enter into settlements that avoid protracted litigation. These factors affect the ratio of resources expended to the benefits that may be obtained in a particular case. The SEC has made concerted efforts to develop formal and informal relationships with domestic and foreign regulators in order to best utilize the agency's resources.

Verification and Validation

The Commission has been collecting significant amounts of workload data for its traditional budget process and internal management purposes for many years. The measures in the GPRA Plan have been developed in cooperation with the coordinators for each of the Commission's major budget program areas. The traditional and GPRA measures are reviewed by budget review staff and senior management to ensure their availability and accuracy. No new collection systems will need to be established to capture the data for the measures in place for fiscal 2001. An audit of GPRA performance data by the SEC's Inspector General was completed in calendar year 1999.

Evaluation

During fiscal 2000, the SEC completed its first evaluation of the previous year's GPRA performance, and will evaluate and revise the five-year strategic plan published in 1997. The 1999 program performance report, included in this document, evaluates the SEC's actual performance in meeting the performance goals set out in the 1999 Performance Plan issued in February 1998. These results will be useful in determining why performance goals were met or not met and in evaluating the usefulness of the measures themselves. Additionally, the Commission is in the process of a major review and revision of its GPRA five-year strategic plan, pursuant to the GPRA statute.

GPRA/Budget Crosswalk Summary

➤ Click to view table: GPRA/Budget Crosswalk Summary

Industry Statistics

➤ Click to view table: Industry Statistics

http://www.sec.gov/about/gpra1999-2000.shtml