

U.S. SECURITIES AND EXCHANGE COMMISSION



2013 ANNUAL REPORT TO CONGRESS ON THE

Dodd-Frank Whistleblower Program



D I S C L A I M E R

This is a report of the Staff of the U.S. Securities and Exchange Commission. The Commission has expressed no view regarding the analysis, findings, or conclusions contained herein.

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Report available on the Web at:
<http://www.sec.gov/about/offices/owb/annual-report-2013.pdf>

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MESSAGE FROM THE CHIEF OF THE OFFICE OF THE WHISTLEBLOWER

Fiscal Year 2013 was a historic one for the Securities and Exchange Commission's Office of the Whistleblower ("OWB" or the "Office"). During the year, the Office paid whistleblowers a total of over \$14 million in recognition of their contributions to the success of enforcement actions pursuant to which ongoing frauds were stopped in their tracks. While the amounts paid are significant, the bigger story is the untold numbers of current and future investors who were shielded from harm thanks to the information and cooperation provided by whistleblowers. At the end of the day, protecting investors is what the whistleblower program is all about.

The program, which is administered through OWB, is now in its third year of operation. The program was designed to incentivize individuals to provide the U.S. Securities and Exchange Commission ("Commission" or "SEC") with specific, credible, and timely information about possible securities law violations, and thereby enhance the Commission's ability to act swiftly to protect investors from harm and bring violators to justice. Under the program, individuals who voluntarily provide the Commission with original information that leads to a successful enforcement action resulting in monetary sanctions of over \$1,000,000, may be eligible to receive an award equal to 10-30% of the monies collected by the Commission or in a related action.

The Commission's goal continues to be the receipt of high-quality information concerning potential securities law violations. The number of whistleblower tips and complaints the Commission receives annually increased from 3,001 in the 2012 fiscal year to 3,238 in the 2013 fiscal year. From the establishment of the whistleblower program in August 2011 until the end of Fiscal Year 2013, the Commission has received 6,573 tips and complaints from whistleblowers.

Fiscal Year 2013 saw the Commission make its largest whistleblower award to date. On September 30, 2013, the Commission awarded over \$14 million to a whistleblower whose information led to an SEC enforcement action that recovered substantial investor funds. In less than six months after receiving the whistleblower's tip, the Commission was able to bring an enforcement action against the perpetrators and secure investor monies. OWB hopes that award payments like this one will encourage individuals to come forward and assist the Commission in stopping securities fraud.

As mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Dodd-Frank Act"), the Commission's Office of the Inspector General ("OIG") conducted an audit of the Commission's whistleblower program and released its report on January 18, 2013. OIG concluded that overall the Commission's whistleblower program was effective and operated appropriately. Specifically, OIG found that the Commission's final rules implementing the whistleblower provisions of the Dodd-Frank Act to be clearly defined and user-friendly for those with a basic knowledge



“At the end of the day, protecting investors is what the whistleblower program is all about.”

“The protection of whistleblowers from retaliation by their employers is important to the success of the whistleblower program.”

of securities laws, rules and regulations. OIG also concluded that OWB’s outreach efforts had been strong and that in general OWB was prompt in responding to information received from whistleblowers and in communicating with interested parties. To further strengthen its internal controls, OIG recommended that OWB adopt key performance measures and metrics where appropriate. In response, the Office developed key performance measures and metrics in 28 different areas.

One of the most crucial tenets by which OWB operates is the protection of a whistleblower’s identifying information. OWB works with SEC Enforcement Division staff to protect whistleblower identities against disclosure. The Commission also allows individuals who prefer to remain anonymous to the Commission to be eligible under the whistleblower program if they submit their whistleblower tip through an attorney. Although they must disclose their identity to the Commission before they can be paid an award, the Commission does not publicly disclose whistleblower identities when it announces awards.

The Dodd-Frank Act extended anti-retaliation protections to Commission whistleblowers, which the Commission can enforce through civil enforcement actions in federal court or administrative proceedings. The protection of whistleblowers from retaliation by their employers is important to the success of the whistleblower program. Furthermore, the Commission’s rules prohibit any person from taking action to impede an individual from reporting a securities law violation to the Commission, including through the use of a confidentiality agreement. OWB is coordinating actively with Enforcement Division staff to identify matters where employers may have taken retaliatory measures against individuals who reported potential securities law violations or have utilized confidentiality, severance, or other agreements in an effort to prohibit their employees from voicing concerns about potential wrongdoing.

Finally, OWB encourages anyone who believes they have information concerning a potential securities law violation to submit the tip via the online portal on OWB’s webpage (<http://www.sec.gov/whistleblower>) or by submitting a Form TCR by mail or fax, also located on OWB’s webpage. If a whistleblower or his or her counsel has any question about how or whether to submit a tip to the Commission, or any other questions about the program, the individual should call the whistleblower hotline at (202) 551-4790.

OWB looks forward to the continued growth of the Commission’s whistleblower program. OWB is poised to carry out the Commission’s mission of motivating whistleblowers to submit high-quality information that will lead to successful securities enforcement actions and better protect investors from financial fraud.



Sean X. McKessy
Chief, Office of the Whistleblower

HISTORY AND PURPOSE

The Dodd-Frank Act¹ amended the Securities Exchange Act of 1934 (the “Exchange Act”)² by, among other things, adding Section 21F³, entitled “Securities Whistleblower Incentives and Protection.” Section 21F directs the Commission to make monetary awards to eligible individuals who voluntarily provide original information that leads to successful Commission enforcement actions resulting in monetary sanctions over \$1,000,000, and successful related actions.

Awards are required to be made in the amount equal to 10 to 30% of the monetary sanctions collected. To ensure that whistleblower payments would not diminish the amount of recovery for victims of securities law violations, Congress established a separate fund, called the Investor Protection Fund (“Fund”), out of which eligible whistleblowers would be paid.

The Commission established OWB, a separate office within the Commission’s Division of Enforcement (“Enforcement”), to administer and effectuate the whistleblower program. It is OWB’s mission to administer a vigorous whistleblower program that will help the Commission identify and halt frauds early and quickly to minimize investor losses.

In addition to establishing an awards program to encourage the submission of high quality information, the Dodd-Frank Act and the Commission’s implementing regulations (“the Final Rules”)⁴ prohibit retaliation against whistleblowers who report possible wrongdoing based on a reasonable belief that a possible securities violation has occurred, is in progress or is about to occur.⁵

The whistleblower program was designed to complement, rather than replace, existing corporate compliance programs. While it provides incentives for insiders and others with information about unlawful conduct to come forward, it also encourages them to work within their company’s own compliance structure.

Section 924(d) of the Dodd-Frank Act requires OWB to report annually to Congress on OWB’s activities, whistleblower complaints, and the response of the Commission to such complaints. In addition, Section 21F(g)(5) of the Exchange Act requires the Commission to submit an annual report to Congress that addresses the following subjects:

¹Pub. L. No. 111-203, § 922(a), 124 Stat 1841(2010).

²15 U.S.C. § 78a *et seq.*

³15 U.S.C. § 78u-6.

⁴240 C.F.R. §§ 21F-1 through 21F-17.

⁵15 U.S.C. § 78u-6(h)(1); 240 C.F.R. § 21F-2(b).

- The whistleblower award program, including a description of the number of awards granted and the type of cases in which awards were granted during the preceding fiscal year;
- The balance of the Fund at the beginning of the preceding fiscal year;
- The amounts deposited into or credited to the Fund during the preceding fiscal year;
- The amount of earnings on investments made under Section 21F(g)(4) during the preceding fiscal year;
- The amount paid from the Fund during the preceding fiscal year to whistleblowers pursuant to Section 21F(b);
- The balance of the Fund at the end of the preceding fiscal year; and
- A complete set of audited financial statements, including a balance sheet, income statement and cash flow analysis.⁶

This report has been prepared by OWB to satisfy the reporting obligations of Section 924(d) of the Dodd-Frank Act and Section 21F(g)(5) of the Exchange Act. The sections in this report addressing the activities of OWB, the whistleblower tips received during Fiscal Year 2013, and the processing of those whistleblower tips primarily address the requirements of Section 924(d) of the Dodd-Frank Act. The sections in this report addressing the whistleblower incentive awards made during Fiscal Year 2013 and the Fund primarily address the requirements of Section 21F(g)(5) of the Exchange Act.

⁶In Fiscal Years 2011 and 2012, OWB submitted its report on the Dodd-Frank whistleblower program to Congress on November 15th to coincide with the submission of the Commission's annual Agency Financial Report to Congress, which included audited financial information on the Fund. However, because of the recent partial government shutdown, the annual Agency Financial Report will be submitted to Congress at a later date. Therefore, the financial information contained in this report concerning the Fund (see page 16) is unaudited, and Congress will receive the audited financial information on the Fund when the Commission submits its 2013 Agency Financial Report.

OVERVIEW OF THE OFFICE OF THE WHISTLEBLOWER

Organization

Section 924(d) of the Dodd-Frank Act directed the Commission to establish a separate office within the Commission to administer and to enforce the provisions of Section 21F of the Exchange Act. On February 18, 2011, the Commission announced the appointment of Sean X. McKessy to head the Office. On January 17, 2012, the Commission named Jane A. Norberg as the Office's Deputy Chief.

In addition to Mr. McKessy and Ms. Norberg, OWB currently is staffed by nine attorneys and three paralegals.

Activities

Since its establishment, OWB has focused primarily on establishing the office and implementing the whistleblower program pursuant to the Dodd-Frank Act and the Commission's Final Rules, which became effective on August 12, 2011.

During Fiscal Year 2013, the Office's activities included the following:

- Communicating with whistleblowers who have submitted tips, additional information, claims for awards, and other correspondence to OWB. The Office also met with whistleblowers, potential whistleblowers and their counsel, and consulted Enforcement staff to provide guidance to whistleblowers and their counsel.
- Staffing a publicly-available whistleblower hotline for members of the public to call with questions about the program. The hotline was established in May 2011. OWB attorneys return all calls within 24 business hours. During the 2013 fiscal year, the Office returned over 2,810 phone calls from members of the public.
- Reviewing and entering whistleblower tips received by mail and fax into the Commission's Tips, Complaints, and Referrals System (the "TCR System").
- Working with Enforcement staff to identify and track all enforcement cases potentially involving a whistleblower to assist in the documentation of the whistleblower's information and cooperation in anticipation of a potential claim for award.
- Posting on the OWB website a notice of every Commission action that resulted in monetary sanctions over \$1,000,000, called a Notice of Covered Action ("NoCA"), for which a whistleblower who provided original information that led to the success of that enforcement action may seek an award.

“During the 2013 fiscal year, the Office returned over 2,810 phone calls from members of the public.”

- Reviewing and analyzing applications for whistleblower awards submitted in response to each posted NoCA. OWB attorneys confer with Enforcement staff on the relevant covered action to determine the applicant’s assistance or contribution on the matter. OWB attorneys then prepare a written recommendation concerning whether the Commission should issue an award to the applicant in that matter.
- Responding to requests by claimants to reconsider a preliminary determination of the Claims Review Staff to deny their application for an award. This includes compiling and providing copies of the record which formed the basis of the preliminary determination to grant or deny an award, upon timely request by the claimant.
- Working with the Commission’s Office of Financial Management (“OFM”) to execute on the Commission’s approved awards and get payments to qualified whistleblowers promptly following the Commission’s Final Order.
- Maintaining and updating the OWB website to better inform the public about the whistleblower program (www.sec.gov/whistleblower). The website includes two videos by Mr. McKessy providing an overview of the program and information about how tips, complaints and referrals are handled. The website also contains detailed information about the program, copies of the forms required to submit a tip or claim an award, a listing of current and past NoCAs, links to helpful resources, and answers to frequently asked questions.
- Identifying and monitoring whistleblower complaints alleging retaliation by employers or former employers for reporting possible securities law violations internally or to the Commission. The Commission has the authority to enforce the provisions of the Exchange Act, including the anti-retaliation provisions of Section 21F(h)(1). OWB works with Enforcement staff on potential anti-retaliation enforcement actions where appropriate. OWB also monitors federal court cases addressing the anti-retaliation provisions of the Dodd-Frank Act and the Sarbanes-Oxley Act of 2002.⁷ In addition, OWB reviews employee confidentiality and other agreements provided by whistleblowers for potential concerns arising under Rule 21F-17 of the Exchange Act.⁸

⁷18 U.S.C. § 1514A. On July 17, 2013, the United States Court of Appeals for the Fifth Circuit in *Asadi v. G.E. Energy (USA), L.L.C.*, 720 F.3d 620 (5th Cir. 2013) held that the anti-retaliation provisions of the Dodd-Frank Act provide a private cause of action only for those employees who provide allegations of possible securities law violations directly to the Commission. The Fifth Circuit’s decision in *Asadi* is contrary to several district court decisions and may contradict a Commission regulation that provides protection for employees from retaliation where they report possible securities violations to persons or authorities other than the Commission, including reporting internally. District courts in both Colorado and California, however, have agreed with the *Asadi* holding.

⁸Rule 21F-17(a) provides that “No person may take any action to impede an individual from communicating directly with the Commission staff about a possible securities law violation, including enforcing or threatening to enforce, a confidentiality agreement . . . with respect to such communications.” 240 C.F.R. § 21F-17(a).

- Working together with the Commission's Office of the Inspector General ("OIG") in connection with the audit required of the Commission's whistleblower program by Section 922 of the Dodd-Frank Act. OIG issued a final report on January 18, 2013. (See pages 17-18 for a detailed discussion of the OIG's findings.)
- Developing and implementing key performance measures related to OWB's internal controls to strengthen the whistleblower process in response to OIG's evaluation of the whistleblower program.
- Providing training on the Dodd-Frank Act and the Commission's implementing rules to Commission staff. This included the posting of guidance on Commission intranet sites regarding whistleblower issues and rules. OWB anticipates it will provide additional training to groups likely to be involved in whistleblower matters in the SEC's Home Office, specialty units, and all eleven Regional Offices in the upcoming fiscal year.
- Providing guidance to Commission staff regarding the handling of confidential whistleblower-identifying information and the handling of potentially privileged information provided by whistleblowers.
- Coordinating with Commission staff in making external referrals to other government agencies consistent with the Dodd-Frank Act's and the Final Rules' confidentiality provisions.
- Conferring with regulators from other agencies' whistleblower offices, including the Internal Revenue Service and the Commodity Futures Trading Commission, to discuss best practices and experiences.
- Actively publicizing the program through participation in webinars, media interviews, presentations, press releases, and other public communications. For Fiscal Year 2013, OWB participated in seventeen public engagements and conducted several media interviews aimed at promoting and educating the public concerning the Commission's whistleblower program.
- Working with the Commission's Office of Information and Technology to develop a software solution that will assist and streamline OWB's daily work flow and track the progress of whistleblower complaints synchronized with various Enforcement data systems.

WHISTLEBLOWER TIPS RECEIVED DURING FISCAL YEAR 2013

The Final Rules specify that individuals who would like to be considered for a whistleblower award must submit their tip via the Commission's online TCR questionnaire portal or by mailing or faxing their tip on Form TCR to OWB.⁹ OWB sends an acknowledgement or deficiency letter to whistleblowers for all complaints that are received by mail or fax, which includes a TCR submission number. Whistleblowers who use the online portal to submit a complaint receive a computer-generated confirmation receipt and a TCR submission number. All whistleblower tips received by the Commission are entered into the TCR System, the Commission's centralized database for prioritization, assignment, and tracking.

Subject of Whistleblower Complaints

In Fiscal Year 2013, 3,238 whistleblower TCRs were received.¹⁰ By comparison, for Fiscal Year 2012, the Commission received 3,001 whistleblower TCRs. The table below shows the number of whistleblower tips received by the Commission on a yearly basis since the inception of the whistleblower program:

FY2011 ¹¹	FY2012	FY2013
334	3,001	3,238

The most common complaint categories reported by whistleblowers in the 2013 fiscal year were Corporate Disclosures and Financials (17.2%), Offering Fraud (17.1%), and Manipulation (16.2%). By comparison, in Fiscal Year 2012, the most common complaint categories reported by whistleblowers also were Corporate Disclosures and Financials (18.2%), Offering Fraud (15.5%), and Manipulation (15.2%).

This is the first year for which the Commission has year-over-year data concerning the nature of the tips and complaints the Commission receives through its whistleblower program. Appendix A shows the number of whistleblower tips, by allegation type and quarter, received during the 2013 fiscal year. Appendix B provides a comparison between the number of whistleblower tips by allegation type that the Commission received during the 2012 and 2013 fiscal years. As demonstrated by Appendix B, the most common complaint categories reported by whistleblowers have remained consistent between the prior and current fiscal years.

⁹240 C.F.R. § 21F-9(a).

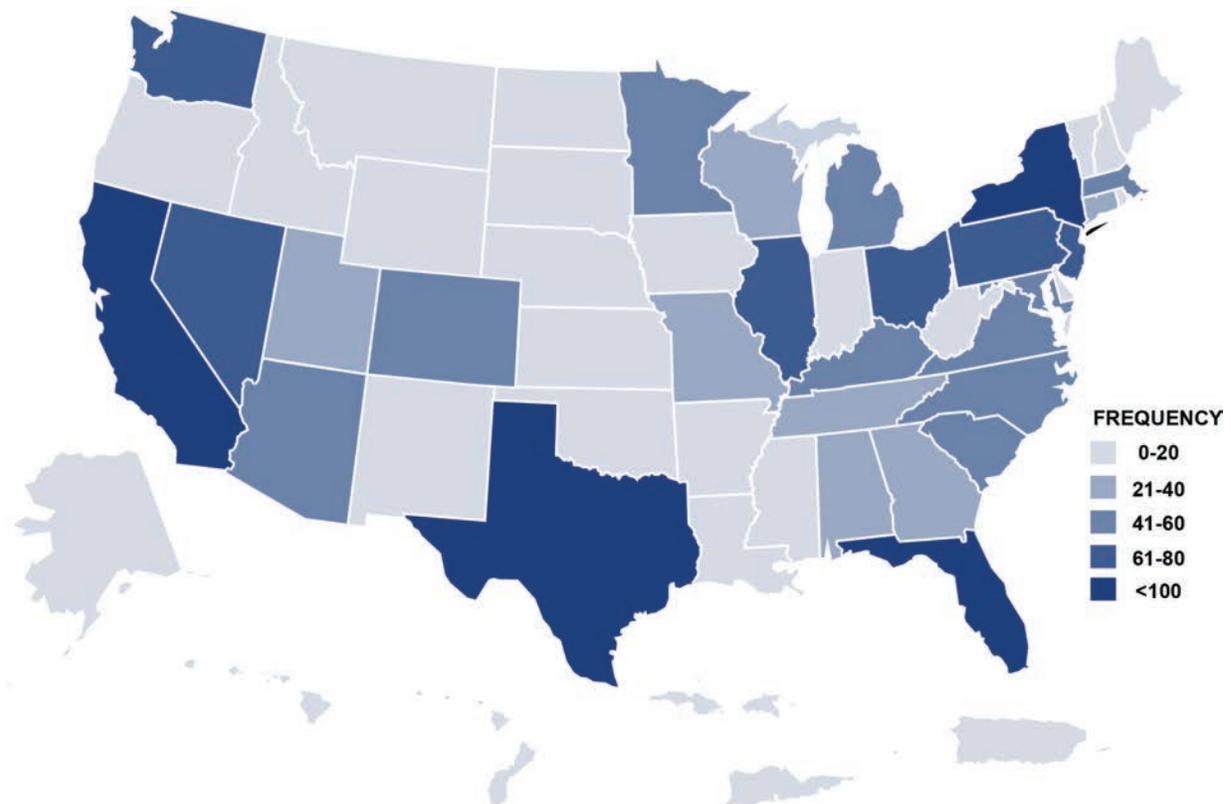
¹⁰The Commission also receives TCRs from individuals who do not wish or are not eligible to be considered for an award under the whistleblower program. The data in this report is limited to those TCRs that include the required whistleblower declaration and does not reflect all TCRs received by the Commission during the fiscal year.

¹¹Because the Final Rules became effective August 12, 2011, only 7 weeks of whistleblower data is available for Fiscal Year 2011.

Origin of Whistleblower Complaints

OWB publicizes and promotes the Commission's whistleblower program through external speaking engagements, participation in panels, and discussions with the media. OWB educates the public about the whistleblower program by having an accessible website and manning a whistleblower hotline. As a result, the Commission receives whistleblower submissions from individuals throughout the United States as well as from individuals residing in foreign countries.

During Fiscal Year 2013, the Commission received whistleblower submissions from individuals in all fifty (50) states, as well as from the District of Columbia, and the U.S. territories of Puerto Rico, Guam, and the U.S. Virgin Islands, as reflected in the map below. California, New York and Florida were the three states from which the highest number of whistleblower tips originated in the 2013 fiscal year.



PROCESSING OF WHISTLEBLOWER TIPS DURING FISCAL YEAR 2013

The Commission's Office of Market Intelligence ("OMI") within Enforcement evaluates incoming whistleblower TCRs and assigns specific, credible, and timely TCRs to members of Commission staff for further investigation or analysis.

TCR Evaluation

OMI reviews every TCR submitted by a whistleblower to the Commission. During the evaluation process, OMI staff examines each tip to identify those that are sufficiently specific, credible, and timely to warrant the additional allocation of Commission resources. When OMI determines a complaint warrants deeper investigation, OMI staff assigns the complaint to one of the Commission's 11 regional offices, a specialty unit, or to an Enforcement Associate Director in the Home Office. Complaints that relate to an existing investigation are forwarded to the staff working on the existing matter. Tips that could benefit from the specific expertise of another Division or Office within the Commission generally are forwarded to staff in that Division or Office for further analysis.

The Commission may use information from whistleblower tips and complaints in several different ways. For example, the Commission may initiate an enforcement investigation based on the whistleblower's tip or complaint. Even if a whistleblower's tip does not cause an investigation to be opened, it may still help lead to a successful enforcement action if the whistleblower provides additional information that substantially contributes to an ongoing or active investigation. Tips may also provide information that prompts the Commission to commence an examination of a regulated entity or a review of securities filings, which may lead to an enforcement action.

In certain instances, OMI may determine it is more appropriate that a whistleblower's tip be investigated by another regulatory or law enforcement agency. When this occurs, the Commission will forward the tip to the Commission point of contact for that agency, consistent with the confidentiality requirements of Section 21F(h)(2) of the Exchange Act. Additionally, tips that relate to the financial affairs of an individual investor or a discrete investor group, usually are forwarded to the Commission's Office of Investor Education and Advocacy ("OIEA") for resolution. Comments or questions about agency practice or the federal securities laws also are forwarded to OIEA.

Assistance by OWB

OWB supports the tip allocation and investigative processes in several ways. When whistleblowers submit tips on a Form TCR in hard copy via mail or fax, OWB enters this information into the TCR System so it can be evaluated by OMI.¹² During the evaluation process, OWB may assist by contacting the whistleblower to obtain additional information to assist in the triage process.

During an investigation, OWB serves as a liaison as necessary between the whistleblower (and his or her counsel) and SEC investigative staff. On occasion, OWB arranges meetings between whistleblowers and the subject matter experts on the Enforcement staff to assist in better understanding the whistleblower's submissions and developing the facts of specific cases.

OWB staff also communicates frequently with Enforcement staff with respect to the timely documentation of information regarding the staff's interactions with whistleblowers, the value of the information provided by whistleblowers, and the assistance provided by whistleblowers as the potential securities law violation is being investigated.

¹²Tips submitted by whistleblowers through the Commission's online Tips, Complaints and Referrals questionnaire are automatically forwarded to OMI for evaluation.

WHISTLEBLOWER AWARDS MADE DURING FISCAL YEAR 2013

Process for Reviewing Applications for Awards

The Office posts on its website a Notice of Covered Action (“NoCA”) for each Commission enforcement action where a final judgment or order, by itself or together with other prior judgments or orders in the same action issued after July 21, 2010, results in monetary sanctions exceeding \$1,000,000. OWB also announces on Twitter each time a new group of NoCAs is posted to its website, and sends email alerts to GovDelivery when its website is updated.¹³ In addition, whistleblowers may sign up to receive an update via email every time the list of NoCAs on OWB’s website is updated. Once a NoCA is posted, individuals have 90 calendar days to apply for an award by submitting a completed Form WB-APP to OWB by the claim due date listed for that action.¹⁴

During Fiscal Year 2013, OWB posted 118 Notices of Covered Action for enforcement judgments and orders issued during the applicable period that included the imposition of sanctions exceeding the statutory threshold of \$1,000,000.¹⁵ Since the program’s inception, OWB has posted 431 NoCAs to its website.

OWB analyzes each application for a whistleblower award, working with Enforcement staff responsible for the relevant action to understand the contribution or involvement the applicant had in the matter. OWB then prepares a written recommendation as to whether the applicant should receive an award, and if so, the percentage of the award.

The Claims Review Staff, designated by the Co-Directors of Enforcement, reviews OWB’s recommendation in accordance with the criteria set forth in the Dodd-Frank Act and the Final Rules. The Claims Review Staff currently is comprised of three senior officers in Enforcement, including one of the Co-Directors. The Claims Review Staff then issues a Preliminary Determination setting forth its assessment as to whether the claim should be allowed or denied and, if allowed, setting forth the proposed award percentage amount.¹⁶

If a claim is denied and the applicant does not object within the statutory time period, then the Preliminary Determination of the Claims Review Staff becomes the Final Order of the Commission. However, an applicant can request reconsideration and has 30 calendar days to request a copy of the record that

“Since the program’s inception, OWB has posted 431 NoCAs to its website.”

¹³GovDelivery is a vendor that provides communications for public sector clients.

¹⁴240 C.F.R. §§ 21F-10(a), (b).

¹⁵By posting a Notice of Covered Action for a particular case, the Commission is not making a determination either that (i) a whistleblower tip, complaint or referral led to the Commission opening an investigation or filing an action with respect to the case or (ii) an award to a whistleblower will be paid in connection with the case.

¹⁶240 C.F.R. § 21F-10(d).

“Since the inception of the Commission’s whistleblower program in August 2011, the Commission has granted awards to six whistleblowers...”

formed the basis of the Claims Review Staff’s decision or to request a meeting with OWB. Whistleblowers can seek reconsideration with OWB by submitting a written response within 60 calendar days of the later of (i) the date of the Preliminary Determination, or (ii) the date when OWB made materials available for the whistleblower’s review.¹⁷ OWB considers the issues and grounds advanced in the applicant’s response, along with any supporting documentation provided, and makes its recommendation to the Claims Review Staff. After this additional review, the Claims Review Staff issues a Proposed Final Determination, and the matter is forwarded to the Commission for its decision.¹⁸

All Preliminary Determinations of the Claims Review Staff that involve an award of money also are forwarded to the Commission for consideration as Proposed Final Determinations irrespective of whether the applicant objected to the Preliminary Determination.¹⁹ These procedures ensure that the Commission makes the final decision for all claims in which (1) a monetary award is recommended or (2) there is a preliminary denial of claims to which the applicant objects.

Within 30 days of receiving notice of the Proposed Final Determination, any Commissioner may request that the Proposed Final Determination be reviewed by the Commission. If no Commissioner requests such a review within the 30-day period, then the Proposed Final Determination becomes the Final Order of the Commission. In the event a Commissioner requests a review, the Commission reviews the record that the Claims Review Staff relied upon in making its determination and issues its Final Order.²⁰

Whistleblower Awards

Since the inception of the Commission’s whistleblower program in August 2011, the Commission has granted awards to six whistleblowers, with four whistleblowers receiving awards in Fiscal Year 2013. In each instance, the whistleblower provided high-quality original information that allowed the Commission to more quickly unearth and investigate the securities law violation, thereby better protecting investors from further financial injury and helping to conserve limited agency resources.

¹⁷240 C.F.R. § 21F-10(e).

¹⁸240 C.F.R. §§ 21F-10(g), (h).

¹⁹240 C.F.R. §§ 21F-10(f), (h).

²⁰240 C.F.R. § 21F-10(h). A whistleblower’s rights of appeal from a Commission Final Order are set forth in Section 21F(f) of the Exchange Act, 15 U.S.C. § 78u-6(f), and Rule 21F-13(a) of the Final Rules, 240 C.F.R. § 21F-13(a).

On August 21, 2012, the Commission announced its first whistleblower²¹ award. In that instance, the whistleblower helped the Commission stop a multi-million dollar fraud. The whistleblower provided documents and other significant information that allowed the investigation to move at an accelerated pace and prevent the fraud from ensnaring additional victims. During Fiscal Year 2013, the Commission made three more payments to this whistleblower in connection with additional amounts that had been collected by the Commission in the underlying enforcement action.

On June 12, 2013, the Commission announced it had issued an award to three whistleblowers who helped the Commission shut down a sham hedge fund. Two of the whistleblowers provided information that prompted the Commission to open the investigation and stop the scheme before more investors were harmed. The third whistleblower provided independent corroborating information and identified key witnesses. On August 30, 2013, the Commission announced it had approved payouts to each of the three whistleblowers in connection with money that had been collected in a related criminal proceeding.²²

On October 1, 2013, the Commission announced it had made the largest whistleblower award to date, awarding over \$14 million to a whistleblower whose information led to a Commission enforcement action that recovered substantial investor funds. Less than six months after receiving the whistleblower's tip, the Commission was able to bring an enforcement action against the perpetrators and secure investor funds.

On October 30, 2013, the Commission announced it made another award payment to a whistleblower whose information and continued cooperation enabled the Commission to detect and halt an ongoing fraudulent scheme. Because the payment was made after the end of Fiscal Year 2013, this award payment is not reflected in the Fund or in the Commission's financial statements for the 2013 fiscal year.

In sum, during Fiscal Year 2013, the Commission made \$14,831,965.64 in award payments to whistleblowers under the Commission's whistleblower program.

²¹By law, the Commission must protect the confidentiality of whistleblowers and cannot disclose any information that might directly or indirectly reveal a whistleblower's identity. Therefore, the information herein concerning the awards the Commission has issued does not include information regarding the whistleblower's identity or other information that could indirectly reveal the whistleblower's identity.

²²In cases where there are related criminal proceedings in which money is collected by another regulator, a provision in the whistleblower rules allows whistleblowers to then additionally apply for an award based off the other regulator's collections in what qualifies as a "related action." 240 C.F.R. § 21F-3(b).

SECURITIES AND EXCHANGE COMMISSION INVESTOR PROTECTION FUND

Section 922 of the Dodd-Frank Act established the Fund to provide funding for the Commission’s whistleblower award program, including the payment of awards in related actions.²³ In addition, the Fund is used to finance the operations of the SEC’s OIG’s suggestion program.²⁴ The suggestion program is intended for the receipt of suggestions from Commission employees for improvements in work efficiency, effectiveness, productivity, and the use of resources at the Commission, as well as allegations by Commission employees of waste, abuse, misconduct, or mismanagement within the Commission.²⁵

Section 21F(g)(5) of the Exchange Act requires certain Fund information to be reported to Congress on an annual basis. Below is a chart containing Fund-related information for Fiscal Year 2013²⁶:

Balance of Fund at beginning of fiscal year	\$453,429,825.58
Amounts deposited into or credited to Fund during fiscal year	\$0.00 ²⁷
Amount of earnings on investments during fiscal year	\$650,206.56
Amount paid from Fund during fiscal year to whistleblowers	(\$14,831,965.64)
Amount disbursed to Office of the Inspector General during fiscal year	(\$51,457.14)
Balance of Fund at end of the fiscal year	\$439,196,609.36

In addition, Section 21F(g)(5) of the Exchange Act requires a complete set of audited financial statements for the Fund, including a balance sheet, income sheet, income statement, and cash flow analysis. That information is included in the Commission’s Agency Financial Report, which is being submitted separately to Congress.

²³Section 21F(g)(2)(A) of the Exchange Act, 15 U.S.C. § 78u-6(g)(2)(A).

²⁴Section 21F(g)(2)(B) of the Exchange Act provides that the Fund shall be available to the Commission for “funding the activities of the Inspector General of the Commission under section 4(i).” 15 U.S.C. § 78u-6(g)(2)(B). The Office of the General Counsel has interpreted Section 21F(g)(2)(B) to refer to Section 4D of the Exchange Act, which establishes the Inspector General’s suggestion program. Subsection (e) of that section provides that the “activities of the Inspector General under this subsection shall be funded by the Securities and Exchange Commission Investor Protection Fund established under Section 21F.” 15 U.S.C. § 78d-4(e).

²⁵Section 4D(a) of the Exchange Act, 15 U.S.C. § 78d-4(a).

²⁶As referenced above, the financial information on the Fund contained in this report is unaudited, and Congress will receive the audited financial information on the Fund when the Commission submits its 2013 Agency Financial Report.

²⁷Pursuant to Section 21F(g)(3) of the Exchange Act, no monetary sanctions are deposited into or credited to the Fund if the balance of the Fund exceeds certain thresholds at the time the monetary sanctions are collected.

EVALUATION OF THE WHISTLEBLOWER PROGRAM BY THE INSPECTOR GENERAL

Section 922 of the Dodd-Frank Act mandated that OIG conduct a review of the Commission's whistleblower program and submit a report of findings not later than 30 months after the Dodd-Frank Act's enactment to the (1) Senate Committee on Banking, Housing and Urban Affairs, and (2) House Committee on Financial Services. During Fiscal Year 2013, OWB worked closely with OIG in providing information and materials to enable OIG to perform its evaluation of the Commission's whistleblower program. On January 18, 2013, OIG issued its final report, a copy of which may be found on OWB's webpage.²⁸

OIG concluded that implementation of the final rules made the Commission's whistleblower program clearly defined and user-friendly for those who have basic knowledge of securities laws, rules and regulations.²⁹ OIG also found that the Commission's whistleblower program is promoted on the Commission's website, and that the public can easily access OWB's homepage to learn about the whistleblower program and how to submit a tip.³⁰ OIG determined that OWB's outreach efforts have been strong and that "[b]ecause of the accessibility of OWB's website from the SEC's website, the program's promotion through various social media methods, prominent presence on major internet search engines, and OWB's internal and external outreach efforts . . . the SEC's whistleblower program is effectively promoted on its website and is widely publicized."³¹

In its report, OIG concluded that OWB is generally prompt in responding to information that is provided by whistleblowers, applications for whistleblower awards, and in communicating with interested parties.³² However, OIG recommended that the whistleblower program's internal controls be strengthened by adding performance metrics.³³

Enforcement agreed that performance metrics related to OWB's internal controls may be of value to the whistleblower process.³⁴ As a result, OWB developed performance metrics in 28 key areas and added those metrics to its internal control plan. For instance, on a quarterly basis, OWB will evaluate the percentage of whistleblower tips received by fax or through mail that are entered into the TCR System within three business days of receipt; the percentage of calls returned by OWB to messages left on the hotline within 24 business hours; and the percentage of initial reviews and acknowledgement or deficiency letters that are completed

²⁸*Evaluation of the SEC's Whistleblower Program*, Office of Inspector General, January 18, 2013, Report No. 511, available at <http://www.sec.gov/about/offices/oig/reports/audits/2013/511.pdf>.

²⁹*Id.* at v.

³⁰*Id.*

³¹*Id.* at 14.

³²*Id.* at v, 14.

³³*Id.* at v, 20-22.

³⁴*Id.* at 42, Appendix VI.

within thirty business days of receipt of an application for a whistleblower award. OWB also adopted additional performance measures that it will evaluate on an annual basis.

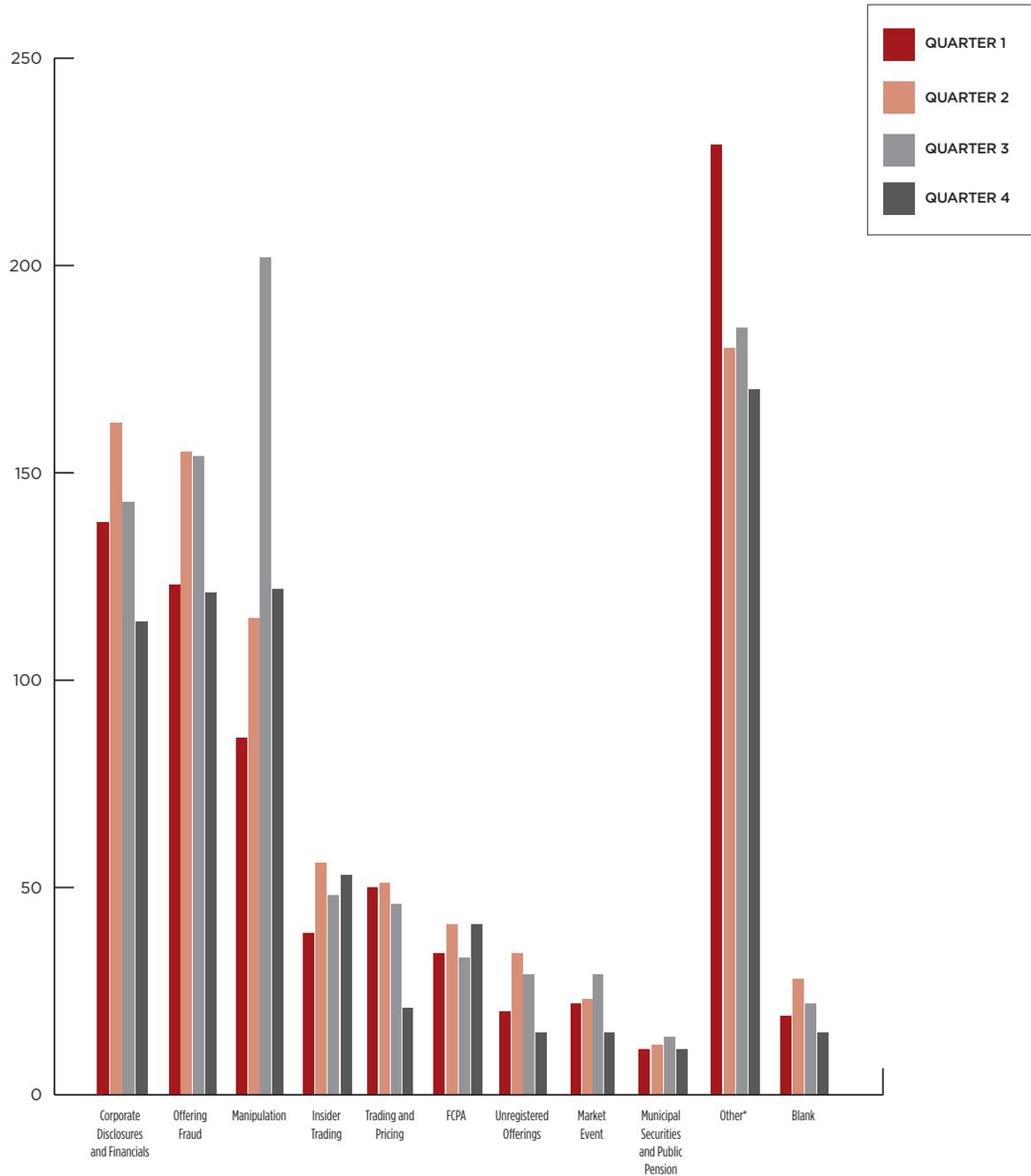
OWB's adoption of these performance metrics related to its internal controls was designed to strengthen and enhance the Commission's whistleblower program. OWB began utilizing the newly-adopted performance metrics in the last quarter of Fiscal Year 2013.

Finally, OIG did not find any programmatic changes to the Commission's whistleblower program to be necessary at this time. For instance, OIG observed that the Commission's whistleblower award levels are comparable to the award levels of other federal government whistleblower programs and that the whistleblower appeals process and funding mechanism via the Fund are appropriate.³⁵ OIG also determined that it was premature to introduce a private right of action into the Commission's whistleblower program and concluded that the Freedom of Information Act exemption added by the Dodd-Frank Act aids whistleblowers in disclosing information to the Commission.³⁶

³⁵*Id.* at vi, 24, 26.

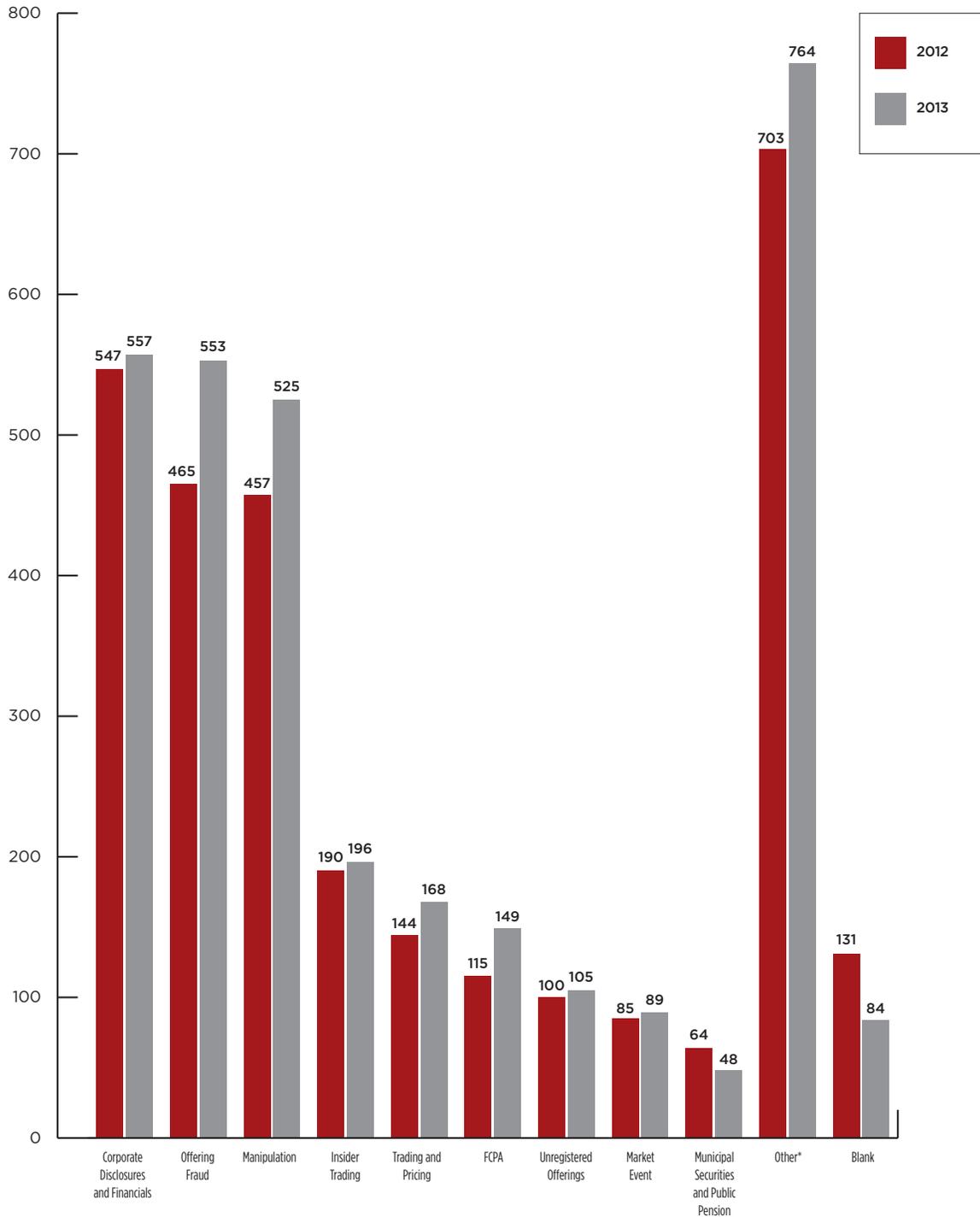
³⁶*Id.* at vi, 30.

APPENDIX A
WHISTLEBLOWER TIPS BY ALLEGATION TYPE
FISCAL YEAR 2013



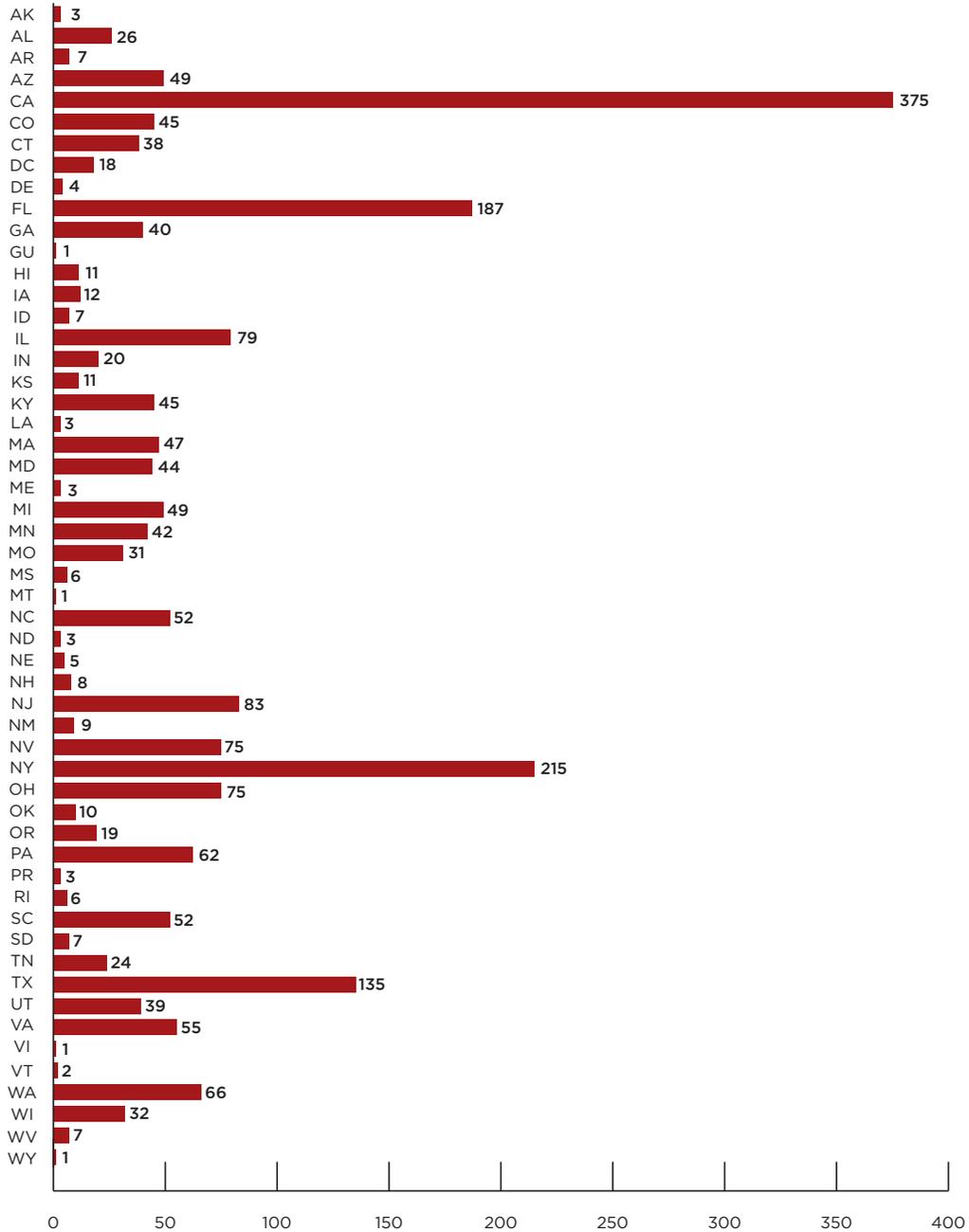
* "Other" indicates that the submitter has identified their WB TCR as not fitting into any allegation category that is listed on the online questionnaire.

APPENDIX B
WHISTLEBLOWER TIPS BY ALLEGATION TYPE
COMPARISON OF FISCAL YEARS 2012 AND 2013



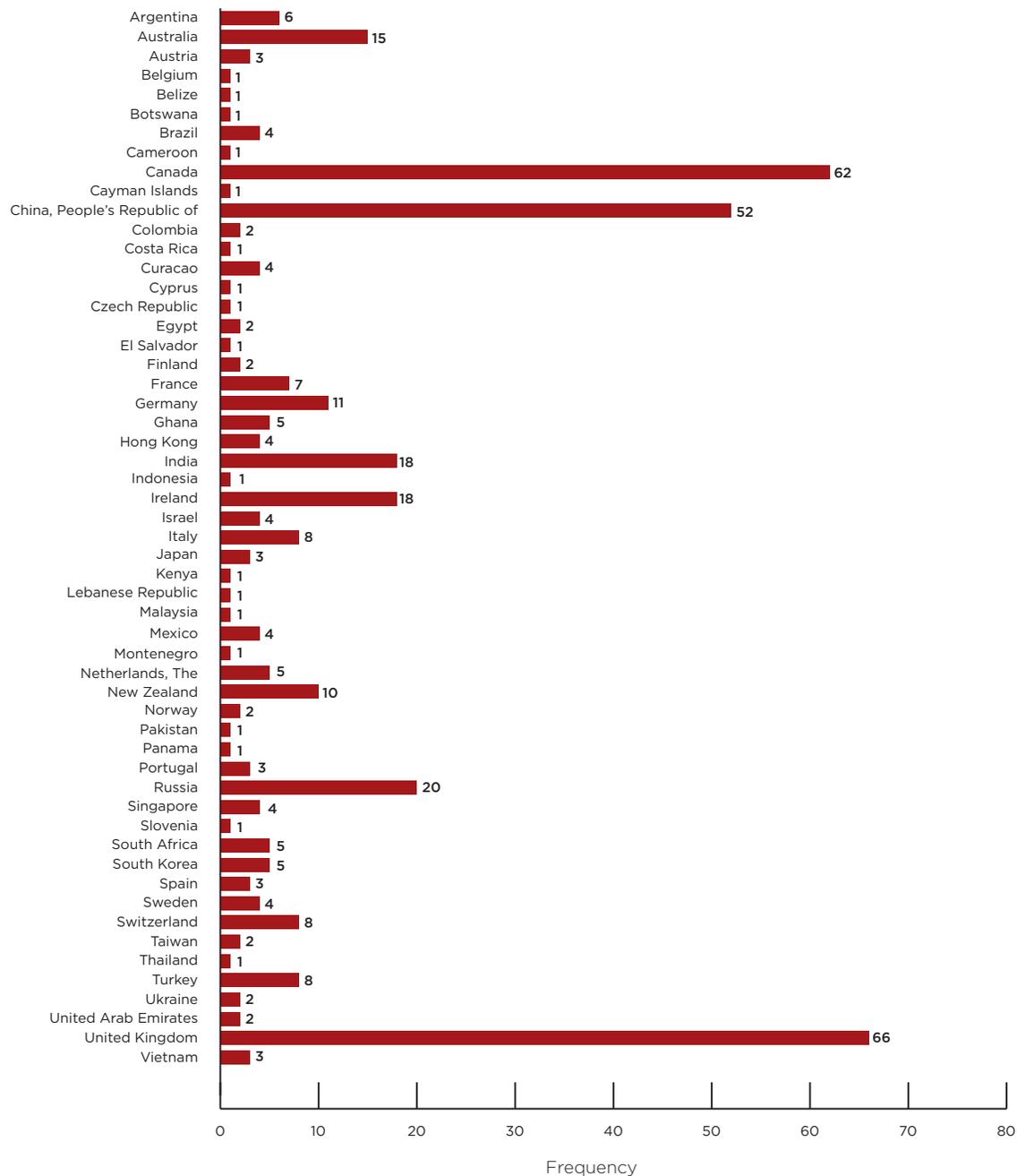
* "Other" indicates that the submitter has identified their WB TCR as not fitting into any allegation category that is listed on the online questionnaire.

APPENDIX C
WHISTLEBLOWER TIPS RECEIVED BY GEOGRAPHIC LOCATION
UNITED STATES AND ITS TERRITORIES
FISCAL YEAR 2013*



*Multiple individuals may jointly submit a TCR under the Commission’s whistleblower program. Appendix C reflects the number of individuals submitting WB TCRs to the Commission within the United States or one of its territories, and not the total number of domestic WB TCRs received by the Commission during Fiscal Year 2013. For example, a WB TCR that is jointly submitted by two individuals in New York and New Jersey would be reflected on Appendix C as a submission from both New York and New Jersey. The total number of persons submitting WB TCRs in the United States or one of its territories during Fiscal Year 2013 was 2250, which constitutes approximately 65.54% of the individuals participating in the Commission’s whistleblower program for this period. Additionally, 779 individuals constituting 22.69% of the total number of persons participating in the Commission’s whistleblower program for Fiscal Year 2013 submitted WB TCRs without any foreign or domestic geographical categorization or submitted them anonymously through counsel.

APPENDIX D
WHISTLEBLOWER TIPS RECEIVED BY
GEOGRAPHIC LOCATION INTERNATIONAL
FISCAL YEAR 2013*



*As with domestic WB TCRs, multiple individuals from abroad may jointly submit a TCR under the Commission's whistleblower program. Appendix D reflects the number of individuals submitting WB TCRs to the Commission from abroad, and not the total number of foreign WB TCRs received by the Commission during Fiscal Year 2013. The total number of persons submitting WB TCRs from abroad during Fiscal Year 2013 was 404, which constitutes approximately 11.77% of the individuals participating in the Commission's whistleblower program for this period.

