



# The Complete **IB Handbook**

---

Written by Melinda H. Schramm, MHS Capital Resource, Inc

Sponsored by CME Group



# TABLE OF CONTENTS

EACH CHAPTER INCLUDES A CHECKLIST

---

CHAPTER 1	<b>INTRODUCING BROKERS . . . . .</b>	<b>3</b>
	A look into the 2016 IB community, including forex, swaps and broker-dealer firms	
CHAPTER 2	<b>REGISTRATION . . . . .</b>	<b>11</b>
	Who has to register and how. The differences between IIBs and GIBs. Requirements for forex, swap and broker-dealer registration. Proposed AT registration requirements	
CHAPTER 3	<b>FCMs, RFEDs AND SWAPS PARTICIPANTS . . . . .</b>	<b>23</b>
	The “clearing” relationship explained	
CHAPTER 4	<b>BUSINESS PLAN . . . . .</b>	<b>33</b>
	A common-sense approach to the business aspects of operating an IB	
CHAPTER 5	<b>THE REGULATORS . . . . .</b>	<b>41</b>
	An in-depth look at the two regulatory agencies IBs work with every day – the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA)	
CHAPTER 6	<b>FIRST AUDIT . . . . .</b>	<b>53</b>
	What to expect, how to prepare and respond to your first compliance audit	
CHAPTER 7	<b>RESOURCES . . . . .</b>	<b>63</b>
	Resources to support your IB operation, including web designers; ethics, AML and cybersecurity training providers; trade associations; research reports; and lawyers and accountants	
CHAPTER 8	<b>TRADE ASSOCIATIONS . . . . .</b>	<b>71</b>
	Membership organizations open to IBs which offer education, networking and other member benefits to support your business	



# INTRODUCTION

---

In the almost 34 years since the Introducing Broker (IB) came into existence, the futures industry has changed dramatically. Many changes came about simply because advances in technology now allow IBs to place trades in global markets, and service customers worldwide for a full 24 hours a day.

Several changes were brought about as a response to the September 11, 2001 attacks on the U.S., and to the unprecedented failures of two brokerage firms in 2011 and 2012. Legislation, including the Dodd-Frank Act, enacted as a reply to these events, has had a substantial impact on the IB community.

And, of course, changes have happened because the way the industry is conducted has changed over the years. In July 2007, the Chicago Board of Trade and the Chicago Mercantile Exchange merged to form CME Group, creating the world's leading and most diverse derivatives marketplace.

Some brokerage houses have merged or simply terminated business, so that there are fewer firms with which to clear retail customer business than there were at the first printing of this Handbook in 1999.

Electronic order placement has replaced much of the in-person conversation once necessary to place a trade. And during the summer of 2015, the CME Group closed most of its futures trading pits on its several exchange floors -- truly the end of an era.

Introducing Brokers have changed with the times, too. Although agricultural products are still the most actively traded markets by customers of IBs, all offices report they place transactions in significant numbers for financial products such as the S&P 500 futures contracts, interest rate futures and foreign currencies futures and options. Markets which were once considered primarily for professional traders -- such as metals, energies, dairy and options transactions -- are widely traded in IB offices today.

Introducing Brokers are a valuable and effective part of the overall system. They provide research and advice, along with risk management control and expert market knowledge to a wide range of customers.

Running an IB office is a business like any other. To be successful requires careful planning, knowledge and strict compliance with industry regulation, along with plain old-fashioned hard work. The Complete IB Handbook, 7th Edition, 2016, will help you make good decisions, and support your efforts as an Introducing Broker.

CME Group assists the IB community in many ways. Whether it is education, market information or market insight and reports you need, you'll find it by contacting a CME Group Product Manager, or at their website, [cmegroup.com](http://cmegroup.com).

The National Introducing Brokers Association (NIBA) can also help your IB grow. NIBA can also help your IB grow. NIBA is a trade association which I founded in 1991 for derivatives professionals. NIBA's purpose is to provide education for industry registrants which will aid their efforts to establish and operate a successful business. NIBA posts an electronic newsletter twice-monthly, and holds three or four member meetings annually. Each newsletter includes articles from industry experts on issues such as regulation, compliance, marketing and products. NIBA meets regularly with the CFTC and NFA to voice the views of the membership. You can join the NIBA at its website, [theniba.com](http://theniba.com).

---

The information contained in The Complete IB Handbook, 6th Edition, has been updated in part during the spring of 2016 to reflect changes in the industry. No individuals or their responses have been identified. Graphs, numbers and charts are meant to summarize or reflect the answers of those firms which responded to our survey of 2015 and subsequent questions. Registration, regulatory and association information was obtained from the agencies or organizations themselves. Additional materials and assistance can be found on their individual websites.

Best wishes for your successful business, Melinda

Melinda Schramm,

President, MHS Capital Resource, Inc.

Founder & Chairman, National Introducing Brokers Association (NIBA)

[melinda@futuresrep.com](mailto:melinda@futuresrep.com)

## CHAPTER 1

# INTRODUCING BROKERS

---

**Introducing Broker (IB): An individual or organization that solicits or accepts orders to buy or sell futures contracts, options on futures, retail off-exchange forex contracts or swaps, but does not accept money or other assets from customers to support such orders**

---

*National Futures Association, 2016*

Introducing Brokers handle transactions for customers in the futures and options markets, for managed accounts, and in the forex and swap markets. IBs are sometimes referred to as the “field sales force” of the futures industry because they are often the only representative of the industry with whom the customer ever personally interacts.

Introducing Brokers offer valuable services for customers who open their accounts directly with the IB office. They provide:

- Help for new investors who may not fully understand the risks of the markets
- Training that can prevent a customer from making a costly mistake during the order entry process
- The experience that is necessary to evaluate market moves, and spot opportunities for trading
- Access to research the public generally does not have
- Understanding of regulatory changes that may impact a customer's trading plan
- The expertise to help develop a strategy which meets a customer's needs, including using options, forex, swaps and managed accounts

Many IB offices service a local population and customers primarily, while others open accounts through their websites with no geographical limitations. Some IB offices provide additional services such as insurance, securities brokerage, auditing and accounting, or operating a grain elevator or feedlot.

The majority of registered IBs are located in Illinois. This is in part due to the historical fact that most futures commission

merchants (FCMs) are based in Chicago. Additionally, a Chicago location has traditionally given IBs and their FCMs access to the trading floors of the two major exchanges located in Chicago, Chicago Mercantile Exchange and Chicago Board of Trade. These two exchanges, along with the Kansas City Board of Trade and New York Mercantile Exchange, are now known as the CME Group, headquartered in downtown Chicago. Large numbers of IBs are also located in New York, Florida, California, and Texas with several in Iowa and Kansas.

IB offices can be located outside the United States. Those firms may be exempted from registration if they transact business directly with U.S. customers solely in futures contracts and commodity options traded on foreign exchanges, and, (i) if that IB does not have a U.S. office, and (ii) it has filed with the National Futures Association (NFA) for exempted relief.

SEC-registered broker-dealers that limit their futures-related activities to the sale of security futures products on contract markets, or derivative transaction execution facilities can “notice register” to become an Introducing Broker.

IB offices solicit customers, take orders and place those orders on the customers' behalf with a clearing firm, generally a Futures Commission Merchant (FCM) or Retail Forex Exchange Dealer (RFED). Many FCMs are registered to accept swaps transactions.

IBs do not hold money or other customer assets in support of their customers' orders. They forward checks, bank transfers and other forms of payment directly to the FCM, and carry all accounts on the books of their clearing firm on a fully disclosed basis.

Introducing Brokers must be registered and members of the NFA in order to do business with the public.

IBs can register as Independent (IIB) or as Guaranteed (GIB). The IB designation refers to the entity (the firm or the company), not to an individual. The entity can be organized as a sole proprietorship, partnership or corporation, and register as such.

Customer accounts of GIBs must be carried on the books by the guarantor clearing firm. Customer accounts of IIBs may be carried by one or more clearing firms. Each IB, including those primarily handling forex and swaps transactions, must have at least one employee registered as an Associated Person (AP), and approved as a forex AP or swap AP, respectively.

<b>TOTAL IBS REGISTERED:</b>	<b>1,233</b>
<b>IIBS REGISTERED:</b>	<b>560</b>
<b>GIBS REGISTERED:</b>	<b>673</b>

*\*NFA Records, April 2016.*

The total number of Introducing Brokers has decreased by 35 firms since our last Handbook in 2015. IIB registration increased by 3 firms; GIB registration decreased by 32 firms. During 2014, FCMs tightened their individual firm criteria for qualification for a guarantee. Additionally, at least one FCM handling GIB transactions deregistered as an FCM. This resulted in those GIB relationships being transferred to other firms or terminating their registration.

Becoming an IB with a temporary license (TL) to do business in the industry can take as little as three to four days after the required documentation is received by the NFA if:

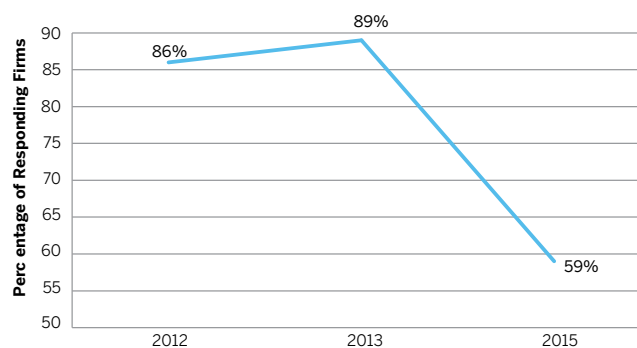
- (i) the application is for a GIB,
- (ii) all the principals/APs have no disciplinary history that disqualifies the application and,
- (iii) all other paperwork is in good order. The documentation for GIBs must include a Guarantee Agreement from the sponsoring clearing firm.

**Associated Persons (APs)** are the individuals who work in IB offices. Every registered IB office, including those who handle forex, swaps and are notice-registered broker-dealers, must have at least one AP registered with that office. APs are referred to as “Associates” by the NFA, and must fulfill certain standardized mandatory tests in order to become an AP. APs whose activities are solely limited to swaps are automatically exempt from examination requirements.

As of May, 2016, the NFA reported 54,299 Associates, down 2,446 individuals from its high of 56,745 in February, 2014. The 2014 number most likely was the result of the new swaps registration requirement implemented by the NFA in late 2012. The 2016 numbers reflect the lower number of IBs and other registrants currently doing business.

Over 41 percent of all registered IBs in 2012 cleared at least some business with either MF Global, Inc. (MFG) or Peregrine Financial Group, Inc. (PFG), and lost customers when those FCMs closed. Although many IBs now feel customers are returning, nearly 60 percent of all respondents feel they are still losing income as a result of the MF Global bankruptcy and the PFG fraud. Those IBs report that they are slowly rebuilding customers’ confidence in the industry as a whole, but that in some cases, account funding and trading volume are not at pre-2012 levels.

#### IBs Who Still Feel the Effect of MF Global and PFG Failures



In late spring of 2015, CME Group and MHS Capital Resource, Inc., asked all registered Introducing Brokers to participate in an online survey. The survey was meant to examine the state of the IB community at that point in time, and to serve as research for this Handbook.

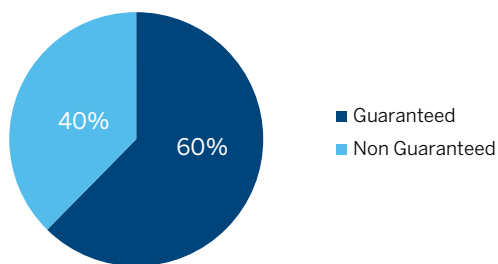


Among the 55 questions on the survey were those relating directly to the IB office, such as the number of years the IB had been registered, what markets were primarily traded and what trade associations the IB belonged to. The replies to those questions are what many of the graphics and the text in this Handbook are based upon.

### IIB or GIB

Nearly 60% of all registered IBs are registered as GIBs, slightly lower than in 2015. NFA records currently indicate more GIBs registered than IIBs, but the spread between those numbers continues to lessen.

Percentage of Guaranteed IBs



In previous years, many saw GIB registration as more desirable because it does not have a minimum capital requirement, and does not require the several financial reports called for throughout the fiscal year by the NFA. Registrants new to the industry felt they did not have the experience necessary to operate as an IIB.

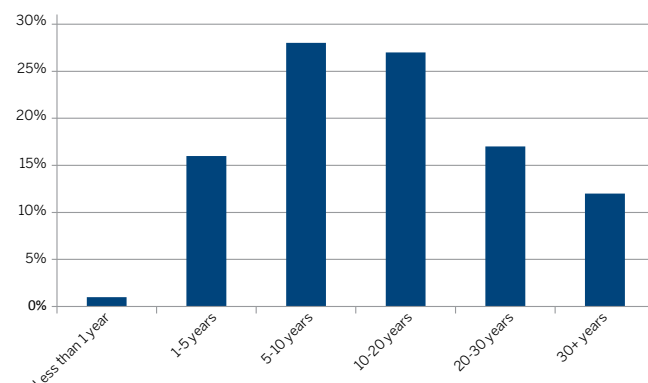
Our survey indicated a few respondents changed their registration status from GIB to IIB during the past two years in order to be able to use the clearing services of multiple firms. IBs who were left without a clearing arrangement after the failures of MF Global and PFG in particular, felt that being an IIB would protect their business and their clients in the event of another FCM collapse.

Additionally, seven IBs added a forex firm registration & 14 IBs added a swaps firm registration during 2014.

### Industry and Related Experience

The average IB responding has been registered at least 15 years, and 11 percent stated the firm had been registered for over 30 years. Nearly 70 percent of IB owners have been in the futures industry 20 years or more. In fact, a full 23 percent of those individuals responding to the survey indicated they had been in the futures business for 30 years or more, while only about 1 percent of the individuals had less than one year experience.

### Length of IB Registration



In response to “What was your job or profession before futures?” 32 respondents said they had been involved in agriculture operations of some type. Twenty-two percent of the IB respondents were involved in banking or other financial industries prior to the IB. Teaching, the military, the legal profession, construction and real estate were among the other jobs IB owners held before opening their firm.

Those who hold an additional NFA registration are most likely to be Commodity Trading Advisors (CTAs) - about 60 percent. Twenty percent responded that they were also Commodity Pool Operators (CPOs). Nearly 30 percent of the total respondents are registered in the securities industry as well as the futures business.

While 89 percent of the respondents answered that the IB business was the primary business in which they were engaged, the other 11 percent listed proprietary trading, feedlot operations, farm advisory, securities brokerage, or farming as

their primary source of income. The IB business essentially provides support services for that primary income source.

### Specialization and Markets Traded

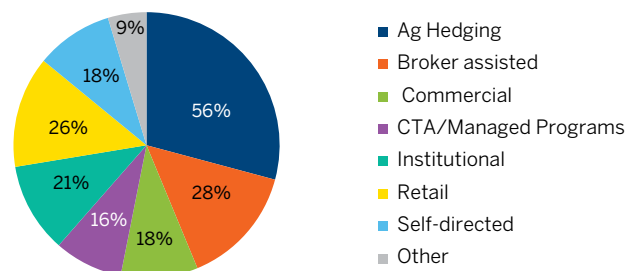
In the early 1980's when IB offices first came into being, agricultural products were overwhelmingly the markets most often traded by their customers. In 2015, agricultural markets remained the most often traded, with ag-hedging clients the type of client most often serviced by the IB office.

Commercial client accounts serviced by IBs continue to increase, as have institutional accounts, so that some offices report as much as 18 percent and 21 percent of the total client accounts are in those two categories respectively. About 16 percent of the respondents reported they offer CTA/Managed accounts to clients which mirrors our 2014 survey results.

The great majority of transactions placed for customers by IBs are for futures contracts. About 25 percent of the orders are for options on futures. Foreign exchange and swaps transactions account for less than 5 percent of the total. While most of the orders are customer-directed or broker-assisted, about 10 percent of the IBs surveyed stated that most of the transactions for their customers were for CTA or managed account programs.

About 70 percent of the responding IBs stated their focus is on the agriculture markets. Fifteen percent focused on energy futures with 13 percent in equity futures, and another 13 percent in interest rate futures.

### IB Client Type Specialization

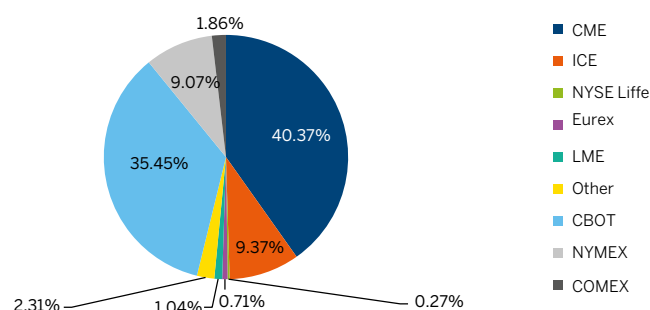


While so-called “soft” markets, such as cotton, cocoa and sugar remain the least traded, the total numbers of orders placed in those markets for IB customers rose just slightly. In the past, these markets were generally thought to be professional and commercially dominated. The ability to electronically trade these commodities together with increased transparency and greater access to cash market data, have created more public interest.

Electronic order placement on platforms such as Globex, Clearport and those used on various other exchanges are overwhelmingly the choice of IB customers with about 90 percent of the total transactions placed electronically. The remaining 10 percent is transacted as open outcry, over-the-counter, or ex-pit. While 57 percent of the IBs stated they had no non-domestic customers, six respondents said that 100 percent of their customers were not U.S. domiciled.

Survey respondents said they transact about 85 percent of their total business with the CME Group, including the CME, CBOT and NYMEX, COMEX and KCBT. Another nine and one-half percent is done with InterContinental Exchange (ICE). Eurex and LME/Hong Kong make up most of the 100 percent total.

### Percentage of Business by Exchange



## Trade Associations

About 36 percent of survey respondents reported they belong to a professional trade association. Of those, 81 percent belong to the National Introducing Brokers Association (NIBA). The NIBA is a trade association for registered professionals who transact customer business primarily in the retail sector of the futures industry. It was founded in 1991, holds four member conferences each year and distributes a twice-monthly electronic newsletter featuring articles on regulation, compliance, marketing and operations. About 13 percent of IBs belong to the Futures Industry Association (FIA) and 3 percent to Managed Funds Association (MFA), the two other major industry trade groups.

FINRA (securities) had 16 percent of the respondents as members. Other trade associations mentioned were National Grain & Feed Association (9%), National Cattlemen's Beef Association (6%), Market Technicians Association (3%), Commodity Markets Council (3%), and American Petroleum Institute (2%).

## Accounts and Commissions

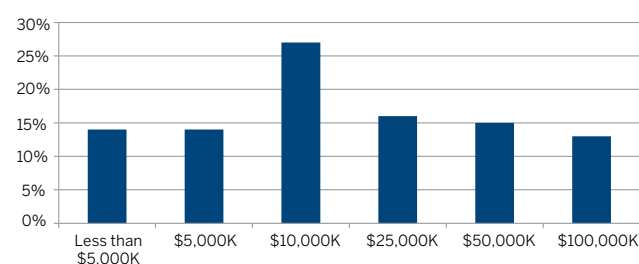
Sixty-six percent of the IBs surveyed indicated the office serviced up to 500 accounts. Another 18 percent listed between 501 and 1000 accounts in their office. Compared to the responses in 2014, IBs are handling more accounts per office. Three percent of the total stated they have 5,000 or more accounts open at their firm.

Some offices which service specific types of clients, such as hedgers, service as few as 40 or 50 customers per year. Although it is less frequent in 2015, a portion of the IB's customers may be inactive, but funded. These customers tend to be occasional or seasonal traders who keep the account open so it is available and funded whenever they wish to trade.

Many IBs do not establish a minimum account amount size. However, some clearing firms impose minimum account size requirements for certain customers or specific markets. Managed accounts require a standardized minimum deposit to begin trading. For about 14 percent of the IBs, the initial account funding size is less than \$5,000, with about 27 percent stating the their initial funding size is between \$10,000 and \$25,000.

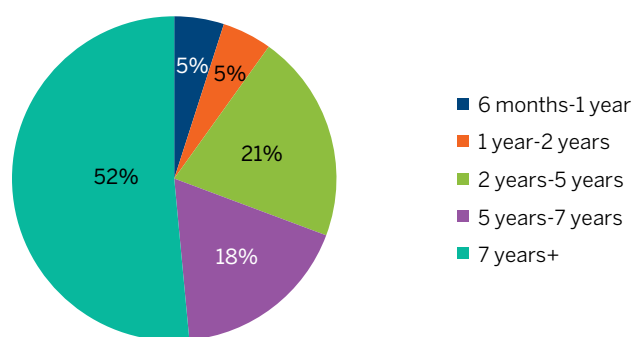
Thirteen percent responded their customers funded with at least \$100,000 to begin trading.

### Average Account Opening Size



Fifty-two percent of IBs say that accounts opened at their office remain open for seven years or longer. Eighteen percent said the accounts stay open for five to seven years; and, another 21 percent replied 2-5 years. Only 5 percent said their customers' accounts remain open for less than one year. Customers of IBs are keeping their accounts open longer than in previous years.

### Duration Accounts Remain Open



Client commission rates at IB offices are most often between \$10-\$30 per side of a futures contract. Eleven percent of IBs charge customers \$1-5 per side. About 16 percent of the IBs responding charge more than \$30 per side, while an additional 11 percent charge \$5-10 per side. Seventy-two percent of IBs charge options commissions upfront. These numbers are consistent with those in the 2014 survey.

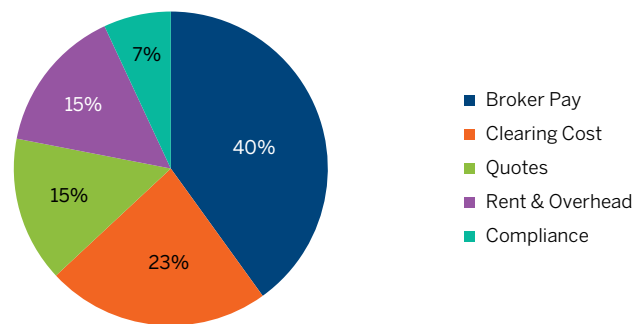
## Income and Expenses

IB offices were asked to report the average amount generated in gross commissions by their office monthly. About 18 percent said the monthly amount was in excess of \$200,000, seven percent more than in the 2014 survey. Forty percent of the total indicated they took in less than \$25,000 in gross commissions in an average month, down from 52 percent. As a whole, IB offices are generating slightly more income than they were in 2014.

The five largest monthly expenses encountered by the IB office are (in order of largest to smallest): broker payouts, clearing costs, market quotes, rent and other normal office overhead, and costs associated with compliance requirements.

Other expenses mentioned were clerical, marketing and telephone.

### Most Costly Monthly Expenses



## APs

While there are still a few sole proprietor IBs operated without additional AP assistance, about 56 percent reported there are up to three APs in the office. Nearly 14 percent of the respondents said they have 16 or more APs associated with their IB. Some of those APs may be located in the IB's Branch Offices. The 2015 survey showed that most IB offices now have more brokers associated with the firm than in previous years.

While most offices reported they do not recruit for APs, those who do find that word-of-mouth, colleges, friends and former clients are the best places to look.

The majority of IB offices do not have employment agreements with the APs, or brokers working at the firm. In recent years, more IBs offices are owned by the APs and other employees of the firm. This type of organization offers many advantages including sharing of income and losses, and improved work environment and attitude.

About 36 percent of the IBs responding to our survey answered they have at least one branch office. Several offices support five to seven or more branches. Becoming a branch office of an established firm is one way to start off in the IB business. Each IB has its own criteria for working with a branch office, so individuals who want to associate as a branch office will need to contact the IB directly.

## Websites and Social Media

Many of the IB offices responding indicated they do not have a firm website. In some cases, an FCM links to the IB office, or has contact information for the IB office posted on its site. Although all IB customers can open accounts online, several IBs do not maintain a firm website for any other purpose.

Some IBs use Facebook, LinkedIn and Twitter to communicate with their clients. It is important to remember that client solicitation of any kind - websites, written promotional material, tweeting - is regulated. Information meant to entice a prospective customer into opening an account is regarded as solicitation material and may be subject to NFA Compliance Rules 2-9 and 2-29. Some of the highlights of those rules are outlined below, but it is best to check with your clearing firm and the NFA prior to using any solicitation materials with the public.

- Does the firm have written procedures to supervise the preparation and use of websites?
- Does the firm ensure paid hyperlinks to the firm's website do not contain deceptive information regarding futures or options trading?

- Does the firm properly review personal websites or on-line social networking groups used by employees or agents to attract business for the firm?
- Does the firm monitor blogs, chat rooms or futures or fore-related forums hosted by the firm or its APs and take down any misleading or fraudulent posts and an users for egregious or repeat violations?

### FCMs and Clearing Relationships

One result of the MF Global collapse was the bulk transfer of all its cleared IBs to selected FCMs. Within 15 months after the transfer, nearly 70 percent of those IBs no longer cleared with the FCM to whom they were transferred. IBs most often transferred out of the receiving FCMs because they did not like the services of that FCM.

IBs were not bulk transferred immediately after the Peregrine Financial Group demise. Any individual customers who had still had open accounts after a few months were assigned to an FCM who paid a court-approved amount into the bankruptcy fund for the benefit and possible recovery by PFG's clients.

These two situations were highly unusual. Many IBs stay with an FCM for their entire professional career.

The top five most important characteristics IBs look for in an FCM are:

1. The reputation of the firm
2. Rates charged for clearing
3. Perceived counterparty risk/financial stability
4. IB Support
5. Research

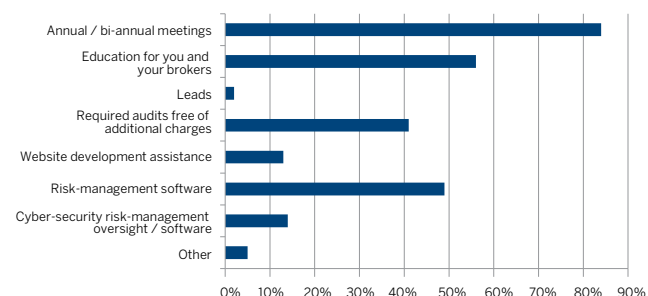
IBs in the 2015 survey reported that it was more important to them than ever before that the FCM had a good reputation in the industry. They felt the reputation of the FCM was meaningful to potential clients, and would help when opening accounts.

Rates and financial stability were nearly as important to an IB

looking for a clearing arrangement with an FCM. There is no standard rate which FCMs charge for clearing an IB's customer transactions. As a response to the MFG and PFG closures, reports indicating the financial health of an FCM must be made to the NFA and CFTC periodically, and can be viewed on the NFA website.

Many FCMs offer annual meetings, risk management software and broker education as support for the IBs who clear with them. Research is offered on an FCM-by-FCM, and on a market-by-market basis. If certain market data is important to you and your customers, be sure the FCM you associate with is able to provide it to you – at little or no additional cost.

### Clearing Firm Benefits Offered to IBs



### Business Plans, Challenges and the Future

Seventy-three percent of the IB offices surveyed replied they had a business plan. While 22 percent of those had a plan for 5 years or longer, 32 percent said their plan was only for the next two or three years. But even with a business plan in place, IBs still faced many challenges.

Nearly 60 percent of all the IB survey respondents feel their office is still losing income nearly four years after the failure of MFG and PFG. Although customers who were lost as a result of those events appear to be slowly re-entering the marketplace, IBs report that customers are reluctant to deposit funds into their

accounts at the levels deposited in prior years. Initial account opening amounts are down at most offices. Furthermore, potential customers require a great deal more information and education than they did in the past regarding the sanctity of segregated funds and how FCMs operate.

Regulation and the cost of compliance was the number one biggest concern voiced by IBs, closely followed by restoration of industry confidence. Several survey respondents replied that whether FCMs will continue to clear IB business was also a big concern.

Cybersecurity -- anticipated regulation and its cost, was on the minds of all survey respondents in 2015. In early 2016, the NFA issued Interpretive Notice 9070 and developed a questionnaire to help firms meet their regulatory obligations. The Notice adopted a principles-based risk approach which allows Member firms a degree of flexibility to determine what constitutes diligent supervision taking into account the differences in firms' size and complexity of operations, including the make-up of customers. The NFA has attempted to recognize that a one-size-fits-all approach to cybersecurity issues will not work for the application of its requirements by the IB community and other registrants. However, the Notice does require each Member firm to adopt and enforce an information systems security program (ISSP) appropriate to its operations.

The Cybersecurity Interpretive Notice applies to all membership categories. More information about this, including information about new sections to the NFA's Self-Examination Questionnaire, is provided in later chapters of this Handbook.

All-in-all, the past four years have been difficult for the IB community. But 2016 sees a community that is slowly recovering from the disasters of 2011 and 2012. For the most part, IBs are optimistic that business will continue to return, however slowly, and that Introducing Brokers are a valuable part of the industry as a whole.

### Checklist for Chapter 1: Introducing Brokers

1. Does the type of business I want to do require an IB license?
2. Do I have the industry experience necessary to own and operate an IB?
3. Have I included my lawyer and accountant in my decisions about whether to become an IIB or register as a GIB?
4. Do I understand the financial and time commitment that is necessary to operate an IB, and is my family fully informed about that commitment?
5. Have I fully investigated the FCM prior to entering into a Clearing Agreement?
6. How will I build my customer base?
7. How will I recruit APs and clerical staff?
8. Will I specialize in one customer type or in one market?
9. Will I offer managed futures, forex or swaps transactions?
10. Do I have a business plan which accurately reflects the expenses of doing IB business and realistically reflects my possibilities for income?
11. Do I need a website?
12. Have I reviewed NFA Interpretative Notice 9070 and do I understand my obligations regarding cybersecurity issues?

## CHAPTER 2

# REGISTRATION

### Registration: A formal or official recording of names or actions

*The Free Dictionary.com, 2015*

Registration with the Commodity Futures Trading Commission (CFTC) and membership in the National Futures Association (NFA) is required for any entity acting as an Introducing Broker. This category includes:

- The **traditional** entity: A person or organization that solicits or accepts order to buy or sell futures contracts or commodity options, including in managed accounts;
- The **forex** entity: With certain narrow exceptions, entities or individuals that introduce forex customers to registered Futures Commission Merchants (FCMs) or Retail Forex Exchange Dealers (RFEDs);
- The **swaps** entity: As of October, 2012, firms that were not currently registered but act as an IB with respect to swaps subject to the jurisdiction of the CFTC, must be registered.
- The **securities registered** entity: A registered broker-dealer which limits its futures-related activities to the sale of security futures products on contract markets or derivative transaction execution facilities can be “notice-registered” as an IB;

<b>Total IBs Registered:</b>	<b>1,233</b>
<b>Total IIBs Registered:</b>	<b>560</b>
<b>Total GIBs Registered:</b>	<b>675</b>
<b>Total IBs Also Forex Registered:</b>	<b>63*</b>
<b>Total IBs Also Swaps Registered:</b>	<b>287</b>
<b>Total Swaps Only IBs Registered:</b>	<b>59</b>

NFA, 2016: \*Forex Only IB registration numbers are not recorded.

Registration as an IB is not required if:

- (1) You are registered and acting in the capacity of an Associated Person (AP), or
- (2) You are registered as an Futures Commission Merchant (FCM), or

- (3) You are registered as a Commodity Pool Operator (CPO) and only operate pools, or
- (4) You are registered as a Commodity Trading Advisor (CTA) and only manage accounts under powers of attorney, or don't receive per-trade compensations, or
- (5) You are a non-U.S. resident or firm with only non-U.S. customers and you submit all trades for clearing to an FCM.

All registered IBs must be members of the NFA in order to conduct futures business with the public. An IB is required to file the following documents with the NFA. (An application for membership in the NFA is included in the registration packet. All forms referred to in this Chapter are found on the NFA's website at [nfa.futures.org](http://nfa.futures.org).)

- A completed Form 7-R (this form includes the NFA membership application)
- Proof that each branch office manager has passed the required exam and satisfied all filing requirements
- A completed Form 1-FR-IB (Part A) or FOCUS Report (certified audit) if applying as an Independent Introducing Broker (IIB), or a completed 1-FR-B (Part B) completed by an FCM if applying as a Guaranteed Introducing Broker (GIB)
- For IIBs, a statement describing the source(s) of the current assets of the IB, a representation that the IB's capital has been contributed for that use and will continue to be used for that purpose
- An Annual Questionnaire
- A non-refundable application fee of \$200 for all IB categories
- IB NFA-membership dues of \$750

Additionally, an IB is required to file the following for its Principals and Associated Persons:

- A completed 8-R form
- Fingerprint Cards
- Proficiency Requirement



- Proof that each Branch office Manager has passed the required exam and satisfied all filing requirements
- A non-refundable Principal Application Fee of \$85.00
- A non-refundable Associated Person Application Fee of \$85.00

Additionally, all broker-dealers who wish to become notice-registered IBs are required to:

- Submit a completed Notice Form 7-R.

Additionally, registered IBs engaged in retail off-exchange forex activities are required to:

- Apply to become a forex firm by completing Form 7-R
- Have at least one principal that is also an approved Forex Associated Person
- Submit payment of IB Forex Firm membership dues of \$2,500 (or \$1,750 if the applicant is already an NFA member)

---

#### **Total Number of Approved Forex IBs in April, 2016: 63**

*This registration category shrank by 3 firms during a 12-month period.*

Additionally, all registered IBs engaged in swap transactions are required to:

- Apply to become a swap firm by completing Form 7-R
- Have at least one principal that is also an approved Swap Associated Person

---

#### **Total Number of Approved Swaps IBs in April, 2016: 287**

*The number of firms registered in this category grew by 26 during a 12-month period.*

Additionally, all broker-dealers who wish to become notice-registered IBs are required to:

- Submit a completed Notice Form 7-R

Initial NFA membership application dues for all IBs except forex firms are \$750. Forex IBs pay \$2,500 unless they are already an NFA member in another category. Annual NFA membership dues are \$750 for all IBs except forex IBs who pay \$2,500.

### **The Applications**

**The NFA advises all applicants to only rely on advice from NFA staff. This is particularly important in regard to questions in the Disciplinary Information Section even if advice is received from your lawyer, employer or a judge.**

Initial applications for registration can be filed as soon as entry of the required data is complete. Guaranteed IBs that are eligible can receive a temporary license (TL) when all required filings have been made for it and its principals. The FCM that guarantees the IB must also file its certification prior to the issuance of the TL. It may take six to 10 weeks to complete all background checks before the NFA can grant a full registration to initial applicants.

If an individual is already registered or listed as a principal, it is possible to obtain registration in a new category as soon as the application is filed. For example, if a registered IB with no disciplinary information to be reviewed files a CTA registration application, the CTA approval can take place overnight if all fees are paid.

Registration forms for all categories of IB registration are found on the NFA website, and are essentially the same for all categories of IB.

Independent Introducing Brokers (IIBs) must meet and maintain a financial requirement set by the CFTC and NFA requirements. To determine your requirement, review NFA's Financial Requirements Section 5. IIBs are required to have an accounting system that records all of the firm's financial activity. Additionally, they are required to maintain at all times Adjusted Net Capital greater than the minimum net capital requirement for that IIB. Generally, the NFA expects an IIB to maintain at least \$50,000 to ensure that the firm does not fall below the capital requirement if it incurs unexpected liabilities.

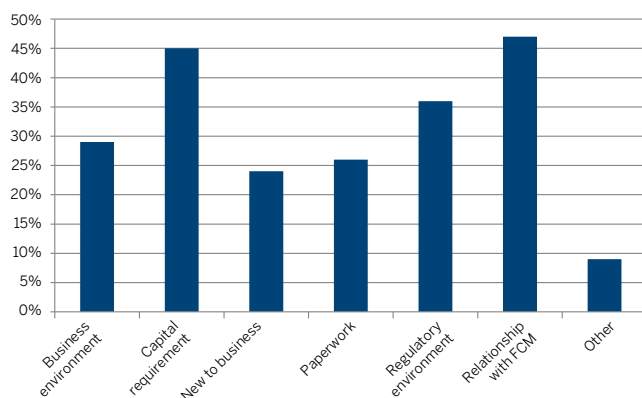


Adjusted Net Capital is calculated by subtracting both liabilities and charges against capital from current assets. IIBs must file financial reports with the NFA semi-annually, including its fiscal year report which must be certified by an independent public accountant. Reports are generally filed electronically with the NFA's Chicago office.

Guaranteed Introducing Brokers do not have minimum net capital or financial reporting requirements. However, they must have an executed **Guarantee Agreement** with the FCM to which they are introducing business. Form 1 FR-IB, Part B is the only form the NFA accepts for a guarantee agreement.

GIBs should be aware of their guaranteeing FCM's financial situation at all times. If the FCM's minimum required adjusted net capital falls below the regulatory-determined early warning level for a specified period of time, the FCM may be forced to terminate the Guarantee Agreement. Conversely, any FCM which enters into a Guarantee Agreement is jointly and severally subject to discipline for acts and omissions by its guaranteed IB if that guaranteed IB violates NFA rules.

### Reasons for GIB Registration



All IIBs and GIBs need to have compliance procedures (ie. a Policy & Procedures Manual) and additional documents ready for review by the NFA as part of the initial application. These include an **Anti-money laundering (AML) Compliance Program, Business Continuity and Disaster Recovery Procedures, Promotional Material Procedures, Supervision of AP Procedures including an ongoing Ethics Training and Review Program, Customer Complaint Procedures, and Source of Assets Letter, among other documents.** If a Chief Compliance Officer (CCO) is named, that person must be listed as a principal of the firm.

Notice registered (securities brokers/dealers) will need a copy of the most recent report from the securities designated self-regulatory organization and the IB's response. Forex IBs will need a copy of any signed agreements the firm has entered into with counterparties.

IBs, including Sole Proprietors, are required to establish a security account with the NFA and designate a **Security Manager** in order to use most of NFA's electronic filing systems. The security manager has complete authority and responsibility to establish and maintain security accounts for other users at the firm. This information is used to file registration updates including withdrawal requests for individuals and the firm. Security Managers can also enter financial information, and submit that information for the firm if that manager is the sole proprietor, the general partner, or the chief executive or financial officer. For forex firms, the individual submitting the weekly reports required must be a supervisory employee who is, or is under, the supervision of a listed Principal.

### Notice Form 7-R

The Commodity Futures Modernization Act of 2000 provided for certain broker-dealers registered with the Financial Industry Regulatory Authority (FINRA) to "passport" into CFTC registration as an IB. If FINRA-registered broker-dealers limit their futures-related activities to the sale of security futures

products on contract markets or derivative transaction execution facilities, they can file a one-page Notice Form 7-R with the NFA for CFTC registration, and do not need to become a member of the NFA. There is no cost for filing.

The broker-dealer must represent that it is required to register only because it effects transactions in securities futures products on a contract market, and further that it will notify NFA immediately if any information on the Notice Form 7-R changes. The broker-dealer must also certify that it is registered with the Securities and Exchange Commission as a broker-dealer, that the registration is not suspended, and that it is a member of a national securities association. The representation must be signed by an officer, general partner or sole proprietor with authority to sign for the firm, and include the firm's CRD number, which is the number it has been assigned by FINRA.

Conversely, IBs who are registered with the CFTC and members of the NFA, and wish to offer and trade security futures, must notice register by filing a Form BD-N. This is a four-page form. There is no filing fee, and it becomes effective upon filing as long as the form is complete and the eligibility requirements are met. IBs who notice-register as a broker-dealer, are exempt from some requirements of the securities laws that duplicate futures requirement including financial requirements, and risk assessment rules. The IB will not be required to become a member of FINRA as long as its securities business is limited to offering and trading security futures products.

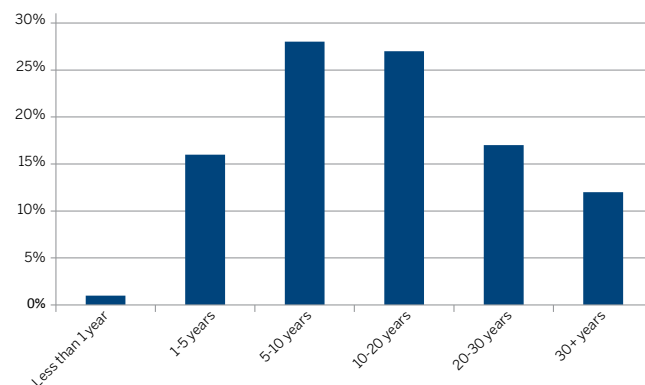
### Annual Requirements

The NFA requires that certain updates be made annually so that your filings are complete and reflect the true nature of your business. Some of those updates are:

- Completion of an Annual Questionnaire
- Completion of the Annual Registration Update electronically
- Payment of annual dues, including a \$100 registration records maintenance fee on the anniversary of your firm's registration

- Completion of the Self-Examination Questionnaire
- Submission of financial statements if applicable
- Conducting Anti-Money laundering training for APs, including an audit of your AML procedures and training
- Supervising the operations of your Branch Offices, including an annual onsite inspection of each one
- Sending your Privacy Policy to every current participant
- Verifying customer information
- Testing your Disaster Recovery Plan
- Providing Ethics Training as outlined in your firm's Ethics Training Procedures
- Monitor, review and update the effectiveness of your ISSP

### Length of IB Registration with NFA



### Common Mistakes Made on the Applications

Easily avoidable mistakes or omissions can slow up your registration process or can make your IB ineligible for a Temporary License. Some common mistakes are:

- Dues/fees are not received with the application
- No financial information or Guarantee Agreement is received with Form 7-R so the NFA cannot determine if the IB is applying to be a GIB or an IIB

- Form 1-FR-7 (Part B) is not included for a firm applying to become a GIB
- Form 8-R is not included for Principal
- Principals who are in the “supervisory chain of command” have not filed to become APs when that registration is necessary

### Who must be listed as Principals?

A firm must have at least one individual principal affiliated with it in order to obtain registration. All IBs must have at least one individual principal who is also registered as an AP of the firm or a floor broker. Principals are defined as:

- The sole proprietor of a sole proprietorship
- The designated chief compliance officer, if named
- A general partner of a partnership
- A director, president chief executive officer, chief operating officer or chief financial officer of a corporation, limited liability company or limited partnership
- Any other person in charge of a business unit, division or function of a corporation, limited liability company or limited partnership if the unit, division or function is subject to regulation by the CFTC
- Any holder or beneficial owner of 10 percent or more of any class of stock
- Any person or entity that has contributed 10 percent or more of the capital of the IB, unless such capital contribution consists of subordinated debt contributed by an affiliated entity subject to regulation by the United States or any state government, or the insurance or banking industry.

### How long after filing for CFTC registration and NFA membership does it take before IB registration is granted and membership approved?

The process will take eight to ten weeks in situations where fingerprint checks must clear the FBI. In cases where all principals are already either registered with the CFTC or are approved as principals of another CFTC registrant, the process can be completed in as few as two weeks. If the firm is applying as a GIB and is eligible for a temporary license, the TL can be granted within a few days.

### Can a GIB clear its customers' futures and options trades through an FCM other than its Guarantor FCM?

No.

### Can an IB enter into Guarantee Agreements with more than one FCM?

No, an GIB can only be guaranteed by one FCM at a time.

### If a Guarantee Agreement terminates, how long does an IB have to file either a new Guarantee Agreement or the appropriate financial filings to become an IIB?

Thirty days, otherwise the IB's registration with CFTC and its membership in the NFA will both be terminated.

### Can an IB whose Guarantee Agreement terminated less than 30 days prior receive an extension of time in order to file a new Guarantee Agreement or the appropriate financial filing to become an IIB?

No, the NFA will not grant an extension of time.

### Does the NFA accept credit cards?

No.

## Definition of Selected Terms found on the Registration Forms

**10% or More Interest:** Direct or indirect ownership of 10% or more of an applicant's or registrant's stock; entitlement to vote or empowered to sell 10% or more of an applicant's or registrant's voting securities; contribution of 10% or more of an applicant's or registrant's capital; or entitlement to 10% or more of an applicant's or registrant's net profits.

**Adjudication:** In a criminal case, a determination by the court that the defendant is guilty or not guilty.

**Adversary Action:** A lawsuit arising in, or related to, a bankruptcy case commenced by a creditor or bankruptcy trustee by filing a complaint with the bankruptcy court.

**Alias:** Another name used by an individual or previously used by an entity.

**Charge:** A formal complaint, information, indictment or the equivalent containing an accusation of a crime.

**DBA:** The abbreviation for Doing Business As. This is used when the firm is doing its futures, retail off-exchange forex or swaps business under an assumed name.

**Entity:** Any person other than an individual.

**Financial Services Industry:** The commodities, securities, accounting, banking, finance, insurance, law or real estate industries.

**Found:** Dispositions of any type, including but not limited to consent decrees or settlements in which the findings are neither admitted nor denied, or in which the findings are for settlement or record purposes only.

**Person:** An individual, association, partnership, corporation, limited liability company, limited liability partnership, trust or other form of business organization.

**Self-Regulatory Organization (SRO):** A private, non-governmental organization authorized to set and enforce standards or conduct for an industry. NFA, FINRA and the securities and futures exchanges in the U.S. are all SROs.

## Disciplinary, Regulatory and Financial Disclosures

A sole proprietor IB must disclose personal disciplinary actions on both the Form 7-R and 8-R.

When answering the criminal disclosure questions involving "expungements" some IBs answer incorrectly. "Expungement" means to strike out or erase. A "Yes" answer is required even if there was no adjudication or finding of guilt, the guilty plea was vacated or set aside, or the matter was dismissed upon completion of the diversion program.

Another common error regarding criminal matters concerns situations that do not involve the futures industry. All criminal matters must be disclosed, even if a matter is unrelated to the futures industry, unless the case was decided in a juvenile court or under a Youth Offender law.

Regulatory actions taken by the CFTC, NFA or domestic futures exchanges do not need to be disclosed since NFA is already aware of them once they are entered into NFA's BASIC system. You do not have to disclose arbitration or CFTC reparations matters unless you have failed to pay an award issued in a futures-related arbitration, or an order entered in a reparations matter.

Only adversary actions that a bankruptcy trustee initiates must be disclosed. Adversary actions that creditors file are non-disclosable. A person named as a party to an adversary action in a bankruptcy proceeding must disclose the action, even if the person is not the bankrupt person.

For any question which you answer "Yes", a written explanation detailing the events and conduct must be provided. That explanation can be entered by naming it, giving it a docket number and describing it in the text box on the online application. Alternatively, the explanation can be sent in hard copy format to NFA. Additional documents regarding the disclosed matter generally must be sent to the NFA. If the court documents are not available, a verifications letter from the court is required.

The failure to disclose a disciplinary matter either in an application or an update will result in a late disclosure fee of \$1,000.

If you need help understanding the forms or interpreting the questions, the NFA suggests calling their Registration Investigations or Legal staff (RIL). If you seek advice from RIL, make a written record of the conversation, including the date of the conversation, the name of the RIL staff person you spoke and a description of the matter and the advice received.

## Fingerprints

Any individual applying to register as an Associated Person or to be listed as a Principal must send a completed fingerprint card to the NFA. No additional fingerprint cards are required if you are currently registered; if you received fingerprint card results from the FBI within 90 days of the date of filing the Form 8-R; if you are a director, but not a supervisory officer of the firm; or if you are currently registered as a broker-dealer.

Digital images of fingerprints are sent by the NFA to the Federal Bureau of Investigation (FBI) to determine if the applicant has a criminal record. Results are generally received in three days or less. The FBI must be able to analyze the print pattern of all 10 fingers, and will reject cards that do not have legible patterns for all 10 fingers. It is a good idea to submit more than one set of fingerprints with your application to avoid delays in obtaining additional sets if necessary.

NFA's Chicago office, located at 300 South Riverside Plaza, Suite 1800, Chicago, offers fingerprinting service between 8:30am and 4:00PM CST weekdays for \$15. You will need to present two forms of identification, one of which is a valid picture ID issued by a government agency, in order to verify your identity. To use this service, you need to pre-register by calling the NFA's information center at 312.781.1410 or sending an email to [information@nfa.futures.org](mailto:information@nfa.futures.org). You should pre-register at least a day in advance of your visit.

You can also have your fingerprint cards prepared by:

- A bonding company
- City Hall or county courthouse

- Futures or securities exchange
- Police or sheriff's office
- U.S. Embassy

Certain persons who have not resided in the U.S. since reaching 18 years of age (non-U.S. Associated Person) may be eligible for relief from the requirement to submit fingerprint cards in connection with their registration applications. That no-action relief can be found on the CFTC's website at CFTC Letter No. 13-29.

## The Series 3 Exam

Individuals who are applying for NFA membership as a sole proprietor IB or for registration as an AP of an IB must satisfy proficiency requirements. Most candidates will be required to pass the National Commodity Futures Examination (NCFE or Series 3) within the two years preceding the application, but some **alternatives** to the exam are available.

You will not be required to take the Series 3 exam if you have passed the alternative exam within two years of the date the application is filed, or there has been no period of two consecutive years since that date during which you have not worked in the industry, or if you are registered as a floor broker.

The application, Form U10, can be completed online at FINRA's website. NFA will receive evidence directly from FINRA that you have passed the Series 3. There are some alternatives to the Series 3 exam based on your registration status and the type of business you conduct.

The Series 3 exam consists of 120 questions, completion time is 150 minutes and it costs \$125. The test is given locally and the questions are organized into two parts - market knowledge and regulations. The computer will score your exam before you leave the testing area. You must receive a score of at least 70 percent on each part of the exam to pass.

The Series 3 examination consists of two parts -- market knowledge and regulations.

The market knowledge section of the exam includes questions about the following areas:

- Futures trading general theory, including hedging and speculative theory
- Basic functions terminology
- Futures and options terminology
- Futures and options margining, premiums, price limits, settlements, delivery, exercise, settlements and assignments
- Types of orders, customer accounts, price analysis
- Basic hedging, basis calculations, hedging futures
- Spreading
- Speculating in futures
- Option hedging, speculating, spreading

The regulations section of the exam includes questions about:

- All registration categories
- CFTC registrations
- NFA membership
- Futures account opening requirements
- Position reporting requirements
- Speculative position limits
- FCM/IB regulations for both IIBs and GIBs including financial reports, collection of margins, promotional materials
- CPO/CTA disclosure documents, fees, and records required to be maintained
- Arbitration procedures
- NFA disciplinary procedures
- CFTC Commodity Exchange Act enforcement

There is no additional examination required as a condition to registration as an IB.

#### Alternatives to the Series 3 Exam:

- **Futures Managed Funds Examination (Series 31):** For individuals registered with FINRA as a General Securities Representative, and whose sponsoring member firm is an NFA-registered FCM or IB. This is available to individuals who limit their futures activities to soliciting funds, securities or property for participation in a commodity pool, soliciting discretionary accounts which are managed by CTAs, or supervising persons who perform these activities. This is a 60-minute exam of 45 questions and costs \$80.
- **Limited Futures Examination - Regulations (Series 32):** This alternative is available to individuals who have been registered or licensed to solicit customer business in futures in either Canada or the UK for the two years prior to filing the application. The applicants must submit proof of such registration or license to NFA. This is a 45-minute exam of 35 questions and costs \$80.
- **Referral of Securities' Clients:** For individuals who are registered with FINRA as a General Securities Representative, and whose FINRA member firm is an NFA FCM or IB. This is available to the individual who will limit futures activities to referring clients to APs of the sponsoring firm.
- **APs Whose Activities are Limited to Swaps:** Individuals are not required to take an examination if their sole activities are subject to CFTC regulation are, and will continue to be limited to soliciting or accepting orders for swaps subject to the jurisdiction of the CFTC. APs whose activities are solely limited to swaps are automatically exempt from the examination requirements.
- **Waivers for CPOs and CTAs Trading Primarily in Securities:** Certain individuals who are associated with Commodity Pool Operators solely registered to operate commodity pools principally engaged in securities transactions and/or who are associated with Commodity Trading Advisors that are required to register only because

their securities advisory services include advice on the use of futures and options for risk management purpose, may apply for a waiver from the examination.

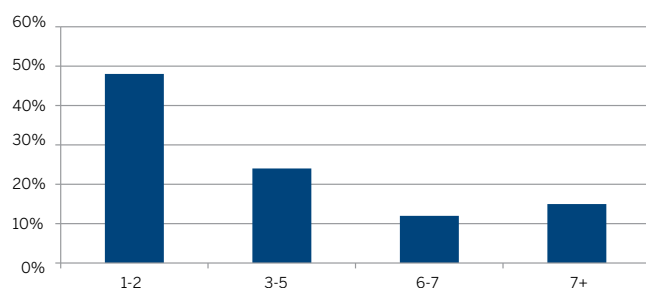
### Branch Manager Examination – Futures (Series 30)

An individual who is a Branch Office Manager and an AP of an NFA-member firm must have passed the Series 30 exam within the two years prior to the application. You may not be required to take this exam if:

- You have passed it within two years of the date of your application
- You are currently approved as a Branch Office Manager
- You are qualified as a branch office manager or supervisor under FINRA rules

The Series 30 exam consists of 50 questions, completion time is 60 minutes and the cost is \$80.

### Number of Branch Offices by IB



### Retail Off-Exchange Forex Examination (Series 34)

NFA Bylaw 301 requires any individual seeking approval as a forex firm or forex individual to pass the Series 34 exam before engaging in off-exchange forex business with retail customers. The amendments to this bylaw grandfather certain individuals who were approved sole proprietors or registered as APs or floor

brokers on May 22, 2008 when the amendment was passed. The 34 Exam consists of 40 questions, completion time is 60 minutes and the cost is \$80.

The examinations discussed above are administered by FINRA. The application forms can be accessed on their website, [finra.org](http://finra.org). Once an application form and fee have been submitted to FINRA and confirmation has been received from FINRA, you may schedule an appointment to take the exam one time only within the next 120 days.

Individuals do not need a sponsoring firm to take the examination, but a sponsor is needed to apply for registration with the CFTC. The sponsor must be a firm such as an IB, RFED or FCM. However, simply passing one of the industry exams does not allow an individual to act as a registrant for the business. A candidate will also need to file an online registration application with the NFA, submit the appropriate fee(s), fingerprint cards and any other necessary filings.

### Ethics Training

Ethics training is one of an IB's supervisory obligations under NFA Compliance Rule 2-9. There is no prescribed program; instead, each firm is allowed to tailor its training program to suit its individual operations.

All APs registered with your IB office must complete an ethics training program and must periodically update that training. GIBs generally use the program provided by their FCM.

Both IIBs and GIBs must have written procedures that outline the ethics training program, and that policy should be kept in your office in the Policy and Procedures manual for review during your NFA audit. The procedures should explain the topics included in the program, by whom the training is provided, the format the training will take, the frequency of training and the documentation your office will keep to prove the training has occurred.

The NFA suggests that topics which should be addressed in an

ethics training program should include:

- An explanation of applicable laws and regulations, and rules of self-regulatory organization or contract markets and registered derivatives transaction execution facilities
- An individual's obligation to the public to observe just and equitable principles of trade
- How to act honestly and fairly and with due skill, care and diligence in the best interest of customers and the integrity of the markets
- How to establish effective supervisory systems and internal controls
- Obtaining and assessing the financial situation and investment experience of customers
- Disclosure of material information to customers
- Avoidance, proper disclosure and handling of conflicts of interest

The written policy should answer all the following questions:

- Who conducts the training?
- What qualifications do the training providers have?
- What medium does the firm use for the training course (internet, videotapes, in-person presentations)?
- How frequently are APs required to complete the training?
- How long is the program for new registrants? Is it different for existing APs?
- What written materials are distributed?
- What documentation does the IB maintain as proof that its APs have completed the ethics training program?
- How often do you review the IB's ethic training policy?

Ethics training can be provided by independent persons, firms or industry associations. In-house training is also acceptable. Training can be provided in a variety of formats including

audiotapes, internet sessions and in-person training. Frequency of training is determined by an IB's business model, composition of the sales force and format of the training. Each IB must maintain documentation to prove that the program has been provided. That documentation should include records which show who received the training, the date and what materials were used in the presentation.

### Contact Information

Each IB applicant is required to provide contact information to the NFA for the following areas of responsibility:

- Registration
- Membership
- Accounting
- Fee assessment
- Arbitration
- Compliance

The contact information must include name, street address, phone and fax number, and email address of the individual to whom specific inquiries should be directed.

### If Your Application is Denied

Approval for IB registration is not automatic. Persons whose CFTC registration has been revoked or suspended may be disqualified. Persons who have been refused CFTC registration, persons who have been enjoined by court order from doing business as financial professionals and persons who have been convicted of a felony, or of certain misdemeanors, especially those involving cash or other funds, may be denied. These and other grounds for denial are listed in the NFA Manual, Bylaw 301(c): "Restrictions on Becoming or Remaining a Member."



If your application is denied, you can apply to the NFA for a hearing. A committee made up of industry participants will hear your case, and will make a determination as to whether to grant the registration based on your specific circumstances.

### Making Changes on your Paperwork

Changes and additions to your application Form 7-R, are made by submitting Form 3-R, Part 1. The form is available online and changes are entered electronically.

### Terminating your Registration

If the IB's registration is terminated by you, the owner, the NFA must be notified. If a GIB's Guarantee Agreement is terminated by the FCM or the IB is unable to fulfill mandatory minimum requirement, the NFA may automatically terminate the IB registration.

### Should you Register as a CTA?

**A Commodity Trading Advisor (CTA) is an individual or organization which, for compensation or profit, advises others as to the value of or the advisability of buying or selling futures contracts, options on futures, retail off-exchange forex contracts or swaps**

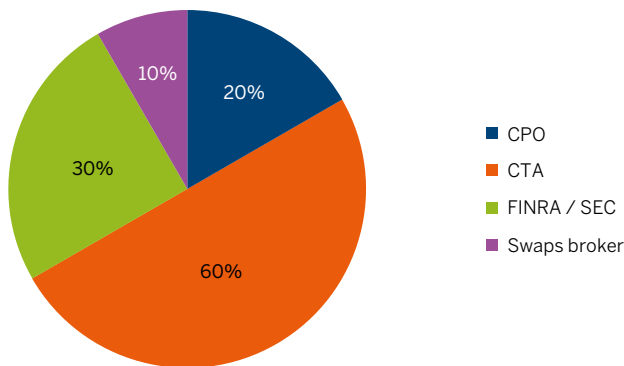
*National Futures Association, 2015*

If your IB advises others for compensation or profit, as to the value of or the advisability of buying or selling futures contract, options on futures, retail off-exchange forex contracts or swaps, you may need to register as a Commodity Trading Advisor (CTA). Providing advice includes exercising trading authority over a customer's account, as well as giving advice based upon knowledge of, or tailored to, a customer's particular commodity interest account, particular commodity interest trading activity or other similar types of information.

In late November, 2015, the CFTC proposed Regulation Automated Trading (Reg. AT) to implement risk controls, among other requirements for automated trading, which would require entities and individuals engaged in proprietary algorithmic trading through direct electronic access to register, and be members of the NFA. The proposal defines an AT person as an individual or entity registered or required to be registered with the CFTC (ie, FCM, floor trader, CTA or IB) that engages in algorithmic trading on or subject to the rules of a designated contract market. Additionally, in the proposal are items the industry has found to be controversial which include disclosure, testing and storage of trading and records describing a firm's source code. The Federal Register comment period on this proposal closed in March, 2016. The CFTC plans to hold public roundtables to discuss various points of the proposed regulation with the industry throughout the summer of 2016. At the time of this writing, it is expected some provisions such as a registration requirement, may be finalized by the end of the year.

However, the proposal has met with a great deal of push-back from the industry as a whole, citing the vagueness of the definition and the possible duplicate and/or conflicting reporting and monitoring issues, in addition to the very real cybersecurity risk issues related to creation of a repository of source codes. You should check with your lawyer and the NFA on the status of this CFTC proposed regulation, and how it might affect your business plans.

### If an Additional Registration is Held



You do not need to register as a CTA if:

- You have provided advice to 15 people or less during the past 12 months and do not generally hold yourself out to the public as a CTA, OR
- You are exempted by the Commodity Exchange Act or are registered in some other capacity and your advice is solely incidental to your principal business, OR
- You are providing advice that is not based on knowledge of, or tailored to, a customer's particular commodity interest account, particular commodity interest trading activity or other similar types of information such as:
  - (1) specific advice through emails, a website, telephone calls or face-to-face meeting based on a computerized trading system which is also available for purchase and distributes the same advice to all customers.
  - (2) recommendations such as advice to buy or sell specific futures contract is a particular price level is reached, through newsletters or books.
  - (3) seminars at which you are teaching attendees how to trade commodity futures aided by a software program that you sell.

All registered CTAs who manage or exercise discretion over customer accounts must be members of the NFA in order to conduct futures business with the public. A CTA is required to file:

- A complete Form 7-R (which includes NFA membership information)
- A non-refundable application fee of \$200
- Annual Questionnaire
- CTA membership dues of \$750 (already-registered IBs pay only one membership fee of \$750 for both registrations)

CTAs are required to file applications for its Principals and APs which include a Form 8-R, fingerprint forms, proficiency requirements and a non-refundable fee of \$85.

If the CTA will engage in retail off-exchange forex activities, you must:

- Apply to become a forex firm with a Form 7R
- Have at least one principal that is an approved Forex Associated Person
- Submit the payment of CTA forex firm membership dues of \$2,500 ( OR \$1,750 if already an NFA member in another category)

If the CTA will engage in swap transactions, you must:

- Apply to become a swap firm on Form 7R
- Have at least one principal that is also an approved swap associated person

---

### Checklist for Chapter 2: Registration

1. Do I meet any of the qualification for exemption to register as an IB?
2. Do I meet the qualifications for registration as an IIB?
3. Do I have the appropriate Guarantee Agreement document to register as a GIB?
4. Have I included the appropriate dues or fees with my application?
5. Have I properly disclosed any prior or current disciplinary, regulatory or adverse financial disclosures?
6. Are my Series 3 examination results current or do I qualify for an exemption from the exam?
7. Have I established a security account and designated a Security Manager in order to use the NFA electronic filing system (this includes sole proprietor filers)?
8. Do I have Anti-Money Laundering and Ethics Training Programs in Place?
9. Have I developed a Privacy Policy and a Disaster Recovery Plan?
10. Do I need to register as a CTA
11. Does the 2015 CFTC-proposed AT registration requirement affect my registration status?

## CHAPTER 3

## FCMS, RFEDS AND SWAPS PARTICIPANTS

**Futures Commission Merchant (FCM): An individual or organization which solicits or accepts orders to buy or sell futures contracts, options, retail off-exchange forex contracts or swaps, AND accepts money or other assets from customers to support such orders.**

**Retail Foreign Exchange Dealer (RFED): An individual or organization which acts or offers to act, as a counterparty to an off-exchange foreign currency transaction with a person who is not eligible contract participant and the transaction is EITHER: a futures contract, an option on a futures contract or an option contract (unless traded on a securities exchange); OR offered or entered into, on a leveraged or margined basis, or financed by the offeror, counterparty or person acting in concert with the offeror or counterparty on a similar basis**

*National Futures Association, 2016*

Each Introducing Broker (IB) will have a contractual arrangement with a Futures Commission Merchant (FCM), Retail Foreign Exchange Dealer (RFED) and/ or a swaps entity. That entity is referred to as the “clearing firm,” and the relationship will depend on the products you offer and the support you need to solicit and service your customers.

**Total FCMs Registered    60**  
**Total RFEDs Registered    3**

*NFA Records April, 2016*

Registrations for FCMs, and RFEDs decreased from 82 and 6 respectively in 2014.

Registrations for FCMs and RFEDs decreased from 62 and five respectively just one year ago.

Decreasing RFEDs registrations are due in part to a change in SEC regulations during the spring of 2016. Broker-dealers were able to offer retail forex transactions and were permitted to notice-register with the NFA. The SEC closed that option so that full registration at the NFA as a RFED is now required.

Decreasing FCM registrations follow the downward trend noted as far back as 2008 in The Complete IB Handbook, 3rd Edition. At that time, the NFA reported only 130 FCM registrations as opposed to 189 registered in 2004.

Until 2012, the decrease in FCM registrations was due primarily to:

- A buy-out of one FCM by another registrant
- The merger of two or more FCMs into one business entity
- The downsizing of an FCM to become an IB

In 2011 and 2012, unprecedented failures of two FCMs, along with normal mergers and acquisitions and other business decisions, contributed to the decrease in the number of FCM firms. One of those failures has resulted in criminal action with the person most responsible now serving a prison term. The other resulted in a bankruptcy. Although customers have had, or are in the process of having, all their funds returned, the brokers who handled customer transactions cleared through that FCM are still recovering lost customers and revenue. These FCM failures have caused both the CFTC and NFA to re-assess and re-draft customer segregation rules, including methods which make FCM capital states more visible to the public

In the past few years, interest rates on deposited funds have been very low, while costs for technology and personnel have risen. These facts have contributed to mergers and buy-outs of FCMs.

Approximately 35 percent of all registered FCMs clear trades for IBs. Not all of those FCMs enter into clearing relationships with GIBs. In general, the FCMs who are members of the National Introducing Brokers Association (NIBA) accept IB business. They are listed on the NIBA website at [theniba.com](http://theniba.com).

Swaps Dealers and Major Swap Participants registration was required for the first time as of October 2012. Firms that are were not registered in any capacity with the CFTC as of that date, but acting as an FCM with respect to swaps came under the jurisdiction of the CFTC, and are now required to register. The NFA has an archived webinar posted on its website which explains the registration process for RFEDs is also outlined on the NFA website, [nfa.futures.org](http://nfa.futures.org), and mirrors those for FCMs in substantial part.

If you transact business primarily in the futures industry, including options and managed accounts, your clearing arrangement will be with an FCM. Most FCMs can also handle foreign exchange and swaps transactions. If you only transact forex business, your clearing arrangement will be with a RFED.

Since most IBs will be clearing with an FCM only, this chapter will focus on futures commission merchants primarily.

An FCM may be a company whose purpose is to transact business in the futures and options industry only, or it may be a division of a national or regional brokerage company that also offers securities. Several FCMs have a commercial bank, agribusiness firm or other commercial enterprise as a parent.

Foreign entities that transact business directly with U.S. customers solely in futures contracts and commodity options traded on foreign exchanges, are exempt from registration. The foreign entity must be a FCM subject to a comparable regulatory structure by a foreign regulator which, in turn, has been granted an exemption by the CFTC, and it must file a request for exceptive relief, which includes an agreement with the NFA appointing an authorized U.S. agent for service of process.

SEC-registered broker-dealers that limit their futures-related activities to the sale of security products on contract markets or derivative transaction execution facilities can file a NFA Notice Form7-R to register, and are primarily subject to SEC regulation.

All NFA FCMs must name a Chief Compliance Officer (CCO) and that CCO must be listed as a principal of the firm.

All registered FCMs must be members of the NFA in order to conduct futures business with the public. A FCM is required to file the following:

- An online form 7R which includes NFA membership application sections
- Compliance requirements for applicant
- A non-refundable application fee of \$500.00
- Submit membership dues of \$1,500 if an exchange is the designated self-Regulatory organization (DSRO), or \$5,625 if the NFA is the designated DSRO

FCMs must also file the following for its Principals and APs:

- An online Form 8R
- Fingerprint card
- Proficiency Requirement
- A non-refundable Principal or Associated Person Application fee of \$85.00

All registered FCMs engaged in retail off-exchange forex activities are required to:

- Apply to become a forex firm by completing online Form7-R
- Have at least one principal that is also an approved Forex Associated Person
- Apply to become a Forex Dealer Member if it's counterparty to retail off- exchange forex transactions
- Satisfy compliance requirements for applicants
- Submit membership Dues of \$25,000 if an exchange is the designated DSRO or \$125,000 if the NFA is the designated DSRO

All registered FCMs who engage in swap transactions are required to:

- Apply to become a swap firm by completing online Form7-R
- Have at least one principal that is also an approved Swap Associated Person

- Submit payment of Swaps Dealer Member dues (a tiered-fee table is posted on the NFA's website)

All FCMs and RFEDs are required to maintain accounting systems that are similar to those of other businesses. Records must be prepared following generally accepted accounting principles. FCMs must maintain a minimum net capital requirement, and adhere to daily and monthly financial reporting requirements.

All FCMs and RFEDs are required to have an anti-money laundering (AML) compliance program in place. The NFA has developed numerous resources which are available to FCMs and RFEDs on the NFA website.

All FCMs must also have in place:

- Business Continuity and Disaster Recovery Procedure
- Promotional Material Procedures
- Supervision of Associated Persons Procedures
- Risk Management Policies & Procedures
- Customer Complaint Procedures
- Margins/Segregation Procedures
- Copies of Subordinated Loan Agreements
- Electronic Trading Platform Procedures
- Most recent report from the securities DSRO (if broker/dealer registered)
- Information Systems Security Programs (ISSP) appropriate to its circumstances.

Minimum financial requirements for clearing firms have been established by the Commodity Exchange Act (CEA). Legislation also requires FCMs and RFEDs to segregate customers' margin deposits from company funds, and prohibits using one customer's funds to meet the margin requirements of another customer's account. If a firm's adjusted net capital falls below the minimum requirement, FCMs and RFEDs must immediately notify the NFA and the Washington, DC office of the CFTC. The

undercapitalized firm must take immediate action to bring its adjusted net capital above the firm's minimum requirement, and documentation which indicates the requirement has been met must be sent to the agencies that initially received notification.

The CFTC has enforcement power over FCMs, RFEDs and swaps registrants. Membership at the NFA is mandatory for all firms that transact business with the public.

Associated Persons (APs) of a swaps dealer are not required to be registered as such, and are not required to be members of the NFA. However, in order to be approved as a swaps firm, the firm must have at least one principal that is registered as an AP and designated as a swaps AP.

Information regarding the principals of FCMs, RFEDs and swaps companies, along with the firm and individual disciplinary history, can be found online at the NFA's background information search site, BASIC, at [nfa.futures.org/BASIC](http://nfa.futures.org/BASIC). Information on an FCM's capitalization and other financial information can be found on both the NFA website and the CFTC website, [cftc.gov](http://cftc.gov).

FCMs and RFEDs are required to:

- File monthly unaudited financial reports with the CFTC and their designated self-regulatory organizations, such as the NFA.
- File certified annual financial reports, including an independent auditor's opinion that covers statements and schedules.

With regard to the segregation of customer's funds:

- All customer funds for trading on exchanges must be kept apart from the FCM's own funds. This includes cash deposits and any securities or other property deposited by such customers to margin or guarantee futures trading.
- Segregated accounts must be titled for the benefit of the FCM's customers.
- Acknowledgements must be provided that would preclude a bank or clearinghouse from recognizing a right of offset against the account for the FCM's debts.

- Customer funds in segregation have a bankruptcy preference in the event of FCM insolvency.
- To the extent that customer funds are not sufficient to pay customer claims, the remainder of what customers are owed will participate pro rata in the distributions to unsecured creditors of the bankrupt FCM.
- A “secured amount” must be held apart from the FCM’s own funds for U.S. customers trading on foreign boards of trade through that FCM.

A FCM that holds customer segregated funds, funds received from foreign futures and options customers, and funds received from cleared swaps customers must file daily reports with NFA by noon of the following business day. The FCM must inform NFA prior to accepting those customers’ funds. NFA will help set up a web-based reporting system for the firm.

In addition to filing daily reports, an FCM who holds customer segregated funds, secured amount funds and/or cleared swaps customer collateral must file a Segregated Investment Detail Report on a semi-monthly basis. Information regarding the financial health of all FCMs can be found on the websites of both NFA and the CFTC.

Choosing a FCM or RFED for your customer business is not simply a matter of finding the one which offers the lowest rates to clear your customer’s transactions. Services provided, including the order entry platform, the total amount of segregated funds on deposit, and the reputation of the firm are all important features that may affect the business you can solicit, and the direction in which that business will grow.

## Choosing Your Clearing Relationship

Respondents to our 2015 survey rated the following factors as the top five most important when they chose a clearing relationship:

- Reputation
- Clearing Rates
- Financial Stability/Perceived Counterparty Risk
- IB Support/Back Office Support and Expertise
- Research

Factors For Choosing FCM	Ranking
Reputation	1
Rates	2
Perceived Counterparty Risk/Financial Stability	3
IB Support	4
Research	5
Back Office	6
Technology	7
24-Hour Order Desk	8
Front-End Trading Platform	9
Floor Service	10
Global Clearing (Offers Access to Multiple Exchanges)	11
Product Offering (multi-asset class, managed futures, etc.)	12
Other	13

While a few survey respondents indicated they chose their FCM because of the trading platform used or because of a personal relationship, for most respondents, reputation of the firm was the first or second most important factor they considered. In order to appeal customers, IBs “borrow the credibility and good name” of the clearing firm to whom they introduce business. IBs cannot hold customers funds, so the customer issues the check to the FCM in order to open the trading account. It is much easier

to solicit business if the FCM to which the customer writes that check, has a recognizable, solid reputation for fair dealing.

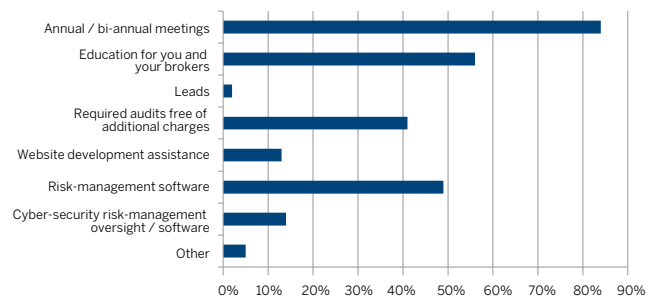
When considering the reputation of the firm, you are also considering financial stability of the firm and perceived counterparty risk. This response option was offered in the survey for the first time in 2012. IBs were particularly aware of a FCM's financial stability that year, due in part to the failure of two FCMs in late 2011 and mid-2012. In the two surveys we have conducted since 2012, reputation, financial stability and counterparty risk have been in the top five factors to consider when choosing an FCM.

Many clearing firms require IBs - particularly GIBs - to use the platform(s) they have developed or supply in order to enter orders. Be sure to familiarize yourself with that technology, and understand its costs and limitations, prior to signing a clearing agreement.

Services such as opening accounts, bank wire transfer procedures, check requests and other services performed by the back-office of your clearing firm can help you keep a customer satisfied, or it can lose the account for you. Be sure you know what the policies of the firm are prior to entering the relationship.

In 2015, 84 percent of IBs responding had a relation with an FCM which held an annual brokers meeting. Additionally, 56 percent said the FCM they cleared with supplied educational programs for IBs, and 49 percent reported their FCM had a risk management program and software available to the IB.

### Clearing Firm Benefits Offered to IBs



A great deal of research is now available online, but research was still in the top five criteria an IB weighs when looking for an FCM relationship. Many IBs are servicing customers with particular needs, such as farmers who need cash commodity prices, or metals traders who need access to corporate internally-produced data. They needed FCMs who provide that special information. Be sure to discuss what research will be available to you regularly, and whether you will be charged an additional fee by the FCM for accessing that information.

In this year's survey, nearly 20 percent of the respondents said the number one concern they have for the future was whether FCMs would continue to clear IB business. Although some FCMs have begun to accept IIB relationships only, there is no current significant evidence to show that FCMs are getting out of the IB-clearing business.

The NFA can provide a complete list of all FCMs, RFEDs and swaps participants registered with the association. You can fill out a request form online, or call the NFA at their Chicago office, (312) 621.3570. You can also request a list of only those FCMs that guarantee IB business.

### Negotiating the Terms of your Clearing Agreement

The term "Clearing Agreement" refers to the contract between your IB or office, and the FCM or clearing firm. It is negotiable.

The "Guarantee Agreement" is the form required by the CFTC in order to be registered as a Guaranteed Introducing Broker. The language of that form has been mandated by the CFTC. It is not negotiable.

The Clearing Agreement is a legally binding contract and includes sections regarding your clearing rates, interest payments on cash balances in customers' accounts, restrictive agreements, account transfer alternatives and security deposit requirements, if any. It is individually prepared by the FCM for each IB relationship.

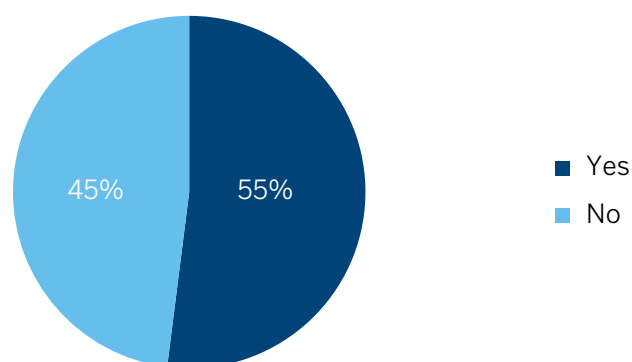


The clearing rate for your customer business will depend on various factors, including:

- (1) Volume of business transacted by your office: Many clearing firms will write a “sliding scale” rate which decreases the cost per transaction as your volume increases.
- (2) Markets your customer’s trade: There is no standard clearing rate which all FCMs charge IBs to handle their customer business. Some FCMs charge different rates for different exchanges or trading platforms. These rates may depend on whether the FCM is a member of the particular exchange or facility. About 90 percent of the survey respondents replied their customers traded primarily U.S. markets. However, if your clients need non-domestic market access, make sure your FCM can provide it, and at what cost. The FCM will also likely charge different clearing rates for foreign exchange and swaps transactions.
- (3) Products your customers trade: The rates you are charged for doing business with the clearing firm will also depend on whether your customers place trades for futures and options markets, or foreign exchange, swaps or other products. Some FCMs will also determine different rates for IBs using managed futures and CTA-directed accounts. Sixty percent of the 2015 survey respondents, who have a registration in addition to the IB, are CTAs. It is important to determine in advance what it will cost to place orders for those accounts.
- (4) Customers’ balances and how they are kept: Although interest rates have remained at low levels for the past several years, the interest on funds deposited by your FCM generally belongs to the FCM. If your IB is receiving a portion of the interest accruing on Treasury Bills or other of your customers deposits, it could affect your clearing rate.
- (5) Any compliance or disciplinary issues your business poses: IIBs are generally thought to require less compliance oversight than GIBs. But customer complaints or regulatory actions will cause an FCM to terminate the relationship with GIBs and IIBs alike.
- (6) The order entry platform(s) your office uses: Many FCMs require IBs to use the one or several they provide or approve. If you are an IIB, you will likely use multiple platforms to place orders to your various FCMs.
- (7) Availability of direct access to filling brokers on the trading floors: In July 2015, trading was closed in most futures pits on the CME Group exchange floors. Open outcry trading continues in the options pits and a few commodities in Chicago and New York City.

Most FCMs require IBs to fund a “security deposit” or “escrow account” when they enter a clearing agreement. This fund can be an initial amount set by the clearing firm, or it could be built through percentages or other set amounts of your monthly gross. Each FCM handles the security deposit requirement - or lack of it, in a different way. Fifty-two percent of the IBs surveyed in 2015 reported they set aside funding in addition to the FCM requirement, which would be available in the case of errors or customer complaints.

IBs with Errors and Complaints Funds



## What the FCM Looks for in an IB

Creating a clearing relationship is not a one-sided affair. Each firm has specific criteria, and looks for particular characteristics when deciding to do business with you. All FCMs agree they value long-term relationships, and will work hard to keep them.

Deciding which firm you will use to execute your customers' orders is a big deal. Some specific qualities that will make your business attractive to a clearing firm are:

### 1. Your Risk Management Technique

Managing risk is what sets the winners apart from the losers in the futures business. Developing techniques or habits which ensure that your customers are not over-extended or on margin call, will keep you and your business in good standing with the regulators and your clearing firm.

Each customer's capacity for risk and capital investment should be evaluated by your office before the customer's account is opened. It should be re-evaluated throughout the customer's trading history. Evaluation can be done on a trade-by-trade basis or by viewing the customer's overall account balance in relationship to trading practices, or a combination of the two. Several software packages are available to help make risk management decisions. You will use those along with the filters your FCM has in place.

You are responsible for discussing a risk management plan with your customer. You will be responsible for carefully monitoring the trading in the account and adjusting the plan as needed. Your Clearing Agreement will lay out the circumstances in which you are responsible for debts or errors incurring in your customers' accounts, and when your security or escrow account could be used to cover those debts.

### 2. Compliance with Regulations and Financial Requirements

For most FCMs, compliance and risk management issues are the two most important factors when they are considering doing business with an IB.

Any action that causes the NFA to impose an enhanced surveillance of your office activities will be reason for most clearing firms to hesitate to do business with your IB. Enhanced supervision can include additional audits, recording of all your dealings with customers, or even monetary requirements or fines. A GIB relationship will be very hard to find if your office is subject to any of these and even IIB relationships will suffer.

Compliance problems or customer complaints during the term of your contract with your FCM can be cause for immediate termination.

### 3. Your Growth Plan

In Chapter 4 of this Handbook, we discuss your Business Plan. A methodical scheme for professional growth is a big part of your Business Plan. Consult with your lawyer, your accountant, associates in the futures industry and your family when you are developing your plan so that you have a realistic approach to business. Include the following considerations:

- The initial number of APs in your office
- How you will find qualified candidates when you want to add personnel
- How your business will be funded initially, and where the funding will come from
- How large your "nest egg" is, and how long your office could operate without turning a profit
- Whether your office will specialize in one or a few designated markets rather than become a generalist
- If you will offer full-service or discount service
- If you will offer forex service
- Whether you will add a swaps designation

- If you will offer managed accounts
- If you will register as a CTA
- What order entry processes you are familiar with, and which you plan to use
- Costs associated with market data costs
- Costs associated with order entry processes
- How you will solicit new customers
- If you will develop your own website
- Whether you will conduct seminars, webinars or publish a newsletter in order to generate and retain business
- The procedures, supervision and cost of your firm's ISSP

#### 4. A Deal Where Everybody Makes Money

If the monetary portion of your Clearing Agreement is not profitable for both parties, a renegotiation could take place sooner than you anticipated.

Most firms will negotiate a sliding scale arrangement that lowers the clearing costs for transactions as your volume and account balances grow. Conversely an FCM may reserve the right to raise your clearing rate if your IB does not generate anticipated profits within a specified time after the relationship begins.

There are many reasons to review your clearing agreement from time-to-time. Compliance problems or additions of branch offices which trigger the IB's need for additional supervision and audits will definitely trigger the need for review of your agreement.

Managed accounts or funds are usually compensated at a different rate than full-service speculative accounts, require different services, and may also be a reason you will renegotiate if you decide to add these products to your offerings. Likewise, adding foreign exchange and swaps transactions to your product offerings will likely call for a renegotiation.

You should discuss your clearing relationship with your clearing firm annually, including the amount of your security deposit. You can originate the discussion of terms. If it reveals a relationship that is not profitable for both parties, you can get a head-start on working on a more mutually pleasing agreement.

#### 5. Mutual Trust

Even taking into account the FCM disasters of 2011 and 2012, changing clearing firms is a rare event. This record of stability is a result of many factors affecting the clearing relationship, such as satisfaction with clearing rates, back office services and other support. Both clearing firms and IBs cite mutual trust as the most important factor in a stable relationship.

When parties initiate a business relationship, they must trust that the other will handle their share of the partnership professionally, and fulfill the terms upon which they have agreed. Over time, the trust initially invested can develop into respect, and often into friendship. Even an office whose volume has fallen off or who experiences personal problems, will find it easier to maintain business dealings with their clearing firms, if the relationship is founded on trust and respect.

Meet with your attorney, and accountant before investigating clearing firms to be sure your financial plan is viable, and you can fulfill the legal and accounting requirements of the industry.

I suggest you visit the home office of the firm you select prior to negotiating your Clearing Agreement. Meet the risk management supervisors, compliance managers, IB service director, new accounts supervisor, research department manager and IT department manager. Understand the trading platforms you will use. Discuss fully all costs associated with your Clearing Arrangement. You will be glad you took the time to make personal contact with the people to whom you trust your business, and with whom you will have daily contact.

---

### **Checklist for Chapter 3: FCMs, RFEDs and Swaps Participants**

1. Does the firm I've chosen offer the ability to do my swaps transactions?
2. Does the FCM handle forex transactions?
3. Have I checked the FCM's financial health information displayed on CFTC and NFA websites?
4. What is the general reputation in the industry of the FCM I've chosen?
5. What do my customers know about the FCM I've chosen?
6. What provisions of my Clearing Agreement can be negotiated?
7. Are the trading platforms used at the FCM the ones I need to service my customers?
8. Do I understand any additional costs or fees associated with the trading platform?
9. Is the research available sufficient for my client's needs?
10. Will I have to pay additional charges for my required audits?
11. Do I like what I see?

## CHAPTER 4

# BUSINESS PLAN

**Business Plan: A formal statement of business goals, reasons they are attainable and plans for reaching them.**

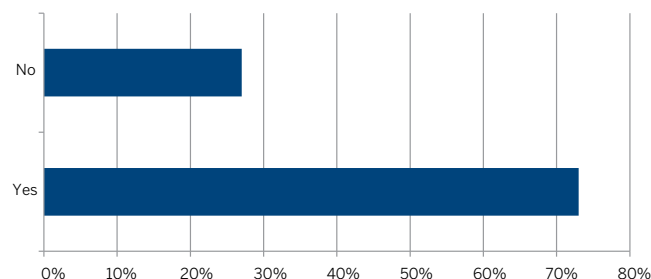
*Wikipedia, 2015*

Why do you need a business plan? Whether you are a start-up IB or have an existing office, you will use a business plan to:

- Define your business
- Define your objectives and describe the ways you intend to achieve them
- Evaluate the time and method for expansion
- Create a regular review of the state of the business, and recognize when and where corrections should be made
- Describe relationships between partners
- Support a loan application
- Set a value on your business in case you decide to sell or merge, or for other legal purposes
- Define your business cyber-risk and set a cost on implementing your information systems security program (ISSP)

Over 73 percent of all the IBs who responded to our 2015 survey replied they had a business plan. The plans ranged in time from two years to more than five years into the future. IBs who have a business plan indicated they review and reevaluate that plan periodically, generally every six months.

### IBs with a Business Plan



A successful business plan is like a calling card – it will get you in the door with a clearing firm and your banker, and can help to convince a high-worth investor that you are the right broker to trust with funds and trading decisions.

**Your trading plan is not your business plan.** To increase your chance for success, take the time upfront to explore and evaluate your business and your personal goals. Using your ideas to develop a comprehensive and well thought-out business plan, will help you reach your goals. If your plan is clear, focused and realistic, you will be able to demonstrate that you have the tools, talent and support team necessary to make it in the futures industry.

### What Type of Business Plan is Best for Me?

Business plans can also be called strategic plans, expansion plans, operational plans, investment plans, and annual plans. The trading plans you have developed are not your business plans.

The best plan for you is the one that matches your unique situation. If you are presenting your business to an FCM for the first time or applying for a loan, financial and compliance history is very important. Descriptions of your management team are important when talking to potential customers. If you are reviewing the plan for internal purposes such as expansion or a merger, background information details will not be as important as ideas for the future.

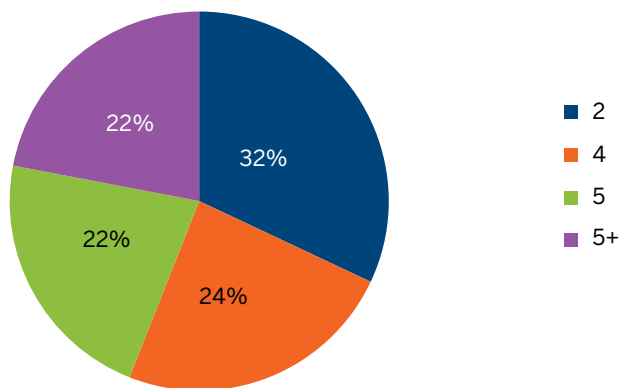
The differences presented by specific situations will help you determine the type of plan that will work for you.

**Start-up Plan:** This defines the steps for a new business. It covers topics such as who the principals are, what types of customers and services you intend to offer, what strategies your IB will employ to attract customers, what your costs of business are (clearing fees, broker payouts, etc.), how the relationship with your clearing firm and your APs will be handled, and who your management team is.

**Growth or Expansion Plan:** This type of plan generally focuses on a specific area of your business. It could include explanation and cost analysis of adding APs to the office, a branch office or of upgrading your technology. This type of plan should include detailed forecasts of expenses for the new venture.

**Feasibility Plan:** This plan includes a preliminary analysis of costs, pricing and probable expenses. This type of plan can help you decide whether to change FCMs, add a CTA registration or offer managed accounts, forex or swaps transactions through your IB. The analysis can help you decide whether the plan is worth pursuing.

#### Business Plan Scope in Number of Years



#### Standard Business Plan Components

Below are some of the components of a standard business plan. You will need to tailor them to your unique situation by deciding which are the most affordable and realistic, as well as what “just feels right” to you.

- **An Executive Summary:** This is a page or two of the highlights of the IB’s business. It is a sort of introduction to you and your business. You may find that it is better to write these pages after you have completed the other parts of the plan.

- **A Company Description:** Describe the legal form of the IB (sole proprietor, corporation, partnership, etc.), its history and your start-up plan.
- **Your Market Focus:** Will you focus on forex products or managed accounts only? Will you handle swaps transactions? Do you have a clear understanding of the markets in which you will participate, and do you understand the benefits to your customers of participating in the marketplace in general?
- **Customer Analysis:** Who are your customers, and what are their needs? How will you reach new customers?
- **Strategy and Implementation:** Be specific in this step. Include management responsibilities with dates and budgets. Make sure you have procedures in place to track the results.
- **Web Plan Strategy:** Your website can be a valuable education and marketing tool. Include development costs and maintenance costs in your plan. Remember, your website is promotional material and therefore, falls under NFA regulation. So develop and use it with compliance in mind.
- **Management Team:** Will you have a partner? Who is your compliance officer, your sales manager, and your research and analysis department? Each of these has specific responsibility under NFA regulations, so be sure to review the information found on the NFA website before assigning duties.
- **Financial Analysis:** How much capital do you need to start up? Where will it come from? Include your projected profit and loss, and a cash flow chart or table.

#### Legal Organization

Your business plan may also depend on the type of legal organization you have decided to form. Whether you register as a GIB or an IIB, the NFA allows you to choose between several types of legal organizations when you register.

**Sole Proprietorship.** In a sole proprietorship, the business entity has no separate existence from its owner. This is the easiest and often the least costly way of structuring your IB. A sole proprietorship can be formed by obtaining a business name registration, a fictitious name certificate, if applicable, and any other necessary business licenses. Attorney's fees for starting up a sole proprietorship are typically less than other forms of set-up because less document preparation is required, and the owner has absolute authority over all business decisions.

**Partnership.** A partnership is a business in which partners share with one another the profits and/or losses of the business undertaking in which all have invested. There are several ways partnerships can be formed.

The most basic form is a general partnership in which all partners manage the business, and are personally liable for its debts. A general partnership can be formed by an oral agreement between two or more persons, but a legal partnership agreement drawn up by an attorney is highly recommended. Legal fees for drawing up a partnership agreement are higher than those for a sole proprietorship, but will often be less than incorporation.

A partnership agreement could be help in solving any disputes and will be required in order to open a trading account for the benefit of the partnership. Evidence of a written agreement should be maintained, as it will most likely be reviewed by your FCM and by the NFA during your audit.

**Limited Liability Partnership.** Limited Liability Partnerships (LLPs) are allowed by the NFA. They are essentially a general partnership in form, but the LLP provides each of its individual partner's protection against personal liability for certain partnership liabilities. The limit of an individual partner's liability depends on the scope of your residence-state's LLP legislation. Many states provide protection only against tort claims, and do not extend to a partner's own negligence, incompetence or the partner's involvement in supervising wrongful activity.

All states require a filing and registration. They also require that an LLP include the words "Registered Limited Liability Partnership" or "LLP" in its name. Some states require proof that the partnership has obtained adequate insurance or has adequate assets to satisfy potential claims. In New York, only professional service providers such as attorneys, physicians, dentists and accountants can register as LLPs.

It is highly recommended that you use the services of an attorney to form an LLP. The LLP documents should be kept on file for review by your FCM and by the NFA during an audit.

**Limited Liability Company.** A Limited Liability Company (LLC) is just another form of partnership. LLC's are organized with a document called the "articles of organization" or "the rules of organization" which is specified by individual state requirement. Owners of the LLC are called members, and since most states do not restrict ownership to natural people, the owners may be corporations, foreign entities and other LLC's. Most states also allow single-member LLCs - those having only one member.

If you intend to register as an LLC, you should consult with your lawyer because states have widely varying requirements for LLC designation. LLC documentation should be kept on file for review by your FCM and by the NFA during an audit.

**Corporation.** A corporation is a legal entity which can exist completely separately from its owners, whether they are natural persons or other legal entities. This separation gives the corporation unique standing that other legal entities lack. The extent and scope of the corporation's status and capacity are determined by the law of the place of incorporation.

A business may incorporate without an attorney, but it is not recommended. Corporations can be more costly to organize than the other legal structures discussed above because corporate structure is generally more complex. Control

depends on stock or other interest ownership. Records must be kept to document decisions made by the controllers of the corporation, most often a board of directors. With control of stock shares or 51 percent of stock, a person or group is generally able to make policy decisions. Small, closely held corporations can operate more informally, but recordkeeping cannot be eliminated entirely. Officers of a corporation can be held liable to stockholders for improper actions or conduct. Incorporation documents will be reviewed by the NFA, and are necessary for review by an FCM prior to entering a relationship. If your IB intends to maintain a trading account, incorporation documents will be required to open it.

Your lawyer and accountant should be consulted when you are deciding which legal business entity will be best for you. The FCM(s) and clearing platforms with which you choose to do business will require information about your legal organization. The NFA will require disclosure of the form of organization along with other pertinent information, and will require certain of the principals and others in control to be disclosed or individually registered. More information about these requirements is found in Chapter 2, Registration and on the NFA website.

### Business Plans Basics

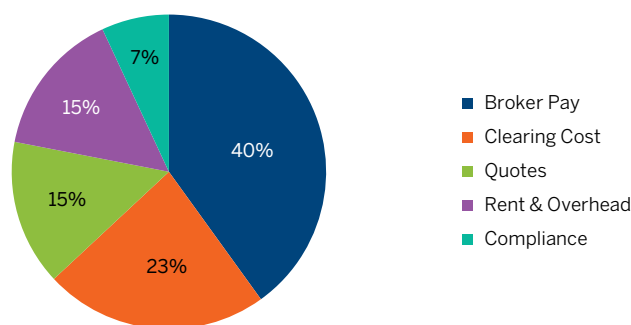
IBs that have business plans for their office most often responded that the plans are for five years into the future or more. General ideas which are standard for firms in all industries were laid out in the first few pages of this Chapter. In the following pages, we will examine some specific suggestions for IBs and others in the futures industry.

The futures business itself has both bullish and bearish years, just like the markets do. So, you want to begin by taking a hard, realistic look at your projected cash flow work sheet. Pay particular attention to the first year's projected income and expenses. Calculate revenue for each month by multiplying the number of transactions by the commission rate minus clearing and other costs. Take into account the way your firm charges commissions or other fees charged to the customer.

Prepare a **balance sheet** which details your present financial position. Include:

- Income from all sources - savings, salary, investments and other family income
- Debts from loans and credit card balances
- Amounts needed for start-up capital
- Tax identification information
- Partnership or incorporation documents
- NFA and other professional registration applications and approvals
- Leases for data information devices, telephones, and other computers
- Rental agreements for space
- Loan documents
- Your personal credit report
- The timetable for your business plan

### Most Costly Monthly Expenses



### Typical IB Business Plan

In this step, the standard components of a business plan become specific to your business.

#### Introduction:

- A detailed description of the business and its goals
- The ownership and legal structure of the IB
- Listing of skills and experience you bring to the office
- The advantages you have over any competitors



### Marketing:

- Identify your customer audience - type of trader, markets traded
- Identify your total market size and geographic restrictions, if any
- Explain your advertising and marketing plan
- Explain your commission structure and the strategy you used to develop it

### Financial Management:

- Identify the source and amount of your initial equity capital
- Develop a monthly operating budget for the first year of operations
- Develop an expected return on the initial investment and monthly cash flow for at least the first year
- Understand your break-even point
- Create your personal balance sheet, including how you will compensate yourself
- Identify the person(s) who will maintain your accounting records and how the records will be kept
- Account for alternative approaches to handle any problems that may arise
- Identify and account for the costs associated with your ISSP

### Operations:

- Identify who will manage the office on a day-to-day basis, and how it will be managed
- Identify your Compliance Officer
- Identify your Risk Management Officer
- Identify your Sales Supervisor
- Identify your Information Systems Supervisor
- Identify your New Accounts Supervisor

- Identify your AML and Cybersecurity Contacts
- Discuss hiring and personnel procedures
- Understand your insurance, lease or rent agreements for space and equipment

### Concluding Statements:

- Summarize your business goals and objectives.
- Consider whether you have the mental and emotional attitude to implement your business plans and reach your goals. Are you physically healthy?
- Does your spouse fully support your business ideas and your plan?

Upon completing your business plan, review it with your attorney, your accountant, a business associate and most importantly, your family.

## Using Your Business Plan

A business plan is a tool. It has three basic purposes: communication, management and planning.

As a communication tool, it is most often used to attract investment capital, secure loans, convince employees to hire on, and assist in attracting strategic business partners, including your FCM. The development of a comprehensive business plan can identify whether or not a business has the potential to make a profit. It requires a realistic look at every phase of a business, and allows you to demonstrate that you have anticipated any problems which may arise, and have alternatives in place to deal with those problems before you start business as an IB.

As a management tool, the business plan helps you track, monitor and evaluate your progress. The business plan is a living document that you modify as you gain knowledge and experience. By using your business plan to establish milestones and timelines, you can gauge your progress and compare your projections to actual accomplishments.

As a planning tool, the business plan guides you through the various phases of your business. A thoughtful plan will help identify roadblocks and obstacles so you can avoid them, and establish alternative directions and avenues for growth.

Below is a shorthand outline to help you develop a business plan for your IB.

### 1. Summarize your business activity concisely:

Describe the nature of the office (traditional IB, forex only, options and futures, swaps, managed accounts, etc.) and its goals in a single sentence. This is harder than you think!

### 2. State your objectives:

What do you want your business to become? Where do you want the business to be in a year? In five years? What do you expect to get out of your career -- in both financial and personal terms?

### 3. Anticipate trends that may affect your IB's growth:

Talk to your clearing firm and APs about changes that may have an impact on your IB. Attend conferences and subscribe to industry media to learn how other industry participants are handling compliance issues, and how they are generating revenue. Stay informed and up-to-date with all regulation. Stay current with exchange information - attend seminars and webinars, subscribe to exchange newsletters. Meet product managers, and other exchange staff who can help your business grow.

Be prepared for errors or customer debits by funding an account to use specifically in these situations.

### DOES THE IB HAVE AN "ERRORS & COMPLIANT" FUND?

Yes	52%
No	48%

If we engage with algorithmic trading systems, will I need an Automated Trading Registration? Although registration is not required at the time of writing of this Handbook, the CFTC is holding a hearing to determine if, and when, this possible new class of registrant should become effective. If registration is

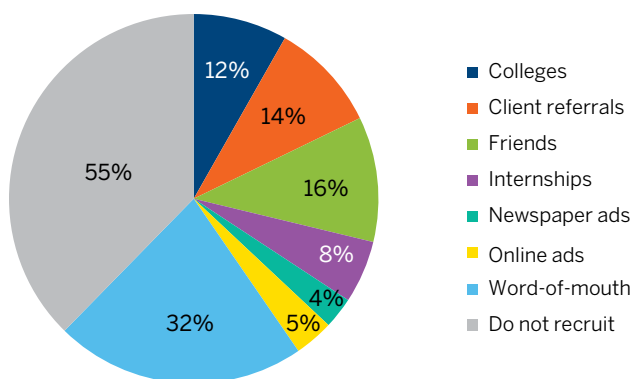
required, you will want to discuss your trading strategies (source codes) with your attorney as well as with the NFA to determine how this form of your intellectual property is being protected and retained.

### 4. Inventory your Resources:

List your assets. Do you have enough money to realize your objectives? What equipment will you need? Is your physical space adequate? Do you have a plan to attract more APs and the clerical staff to support them? Ask yourself:

- How much money and other assets do I have available?
- How long could my office operate unprofitably without changing my family's lifestyle?
- Do I have the skills and knowledge necessary to become the success I want to become?
- Do I need more experience before I open my own IB?
- How many APs will I need in order to meet my objectives?
- How will I recruit, train and supervise APs?
- Do I need a clerical staff?
- Where will I find backup personnel and service vendors who are trained and experienced enough in the futures industry to support the needs of my office?

### Broker Recruitment Sources



### 5. Set some realistic immediate objectives – the ‘baby-step’ theory.

Set one or two goals which are achievable within a few weeks or a few months. Achieving these objectives will help you get into the routine of setting objectives, meeting them and setting new ones. It is easier to tackle the larger or longer term projects when you break them up. You accomplish one task at a time and mark it off your list. Move on to the next item feeling good about what you have been able to do. This is the “baby-steps” theory -- and it really works!

### 6. Write down the steps necessary to meet your objectives.

In this step, you are planning marketing objectives for your office such as how you will reach new clients, or how you will introduce existing ones to new products. The physical act of writing is important. It will make your plan tangible, and it will feel “real” to you. Be sure to include the cost of any equipment or training you may need to meet these goals.

You must be registered with the NFA before you can solicit for clients Advertisements, dissemination of printed or electronic information, seminars or other in-person representations, newsletters, promotional materials and other forms of communications with the public are specifically discussed in the NFA Compliance Rules. Furthermore, you must be an NFA member. NFA Bylaw 1101 states that registrants must be very diligent when conducting business with other registrants, third-party account controllers, and branch office managers, because these parties must also be members of the NFA.

NFA Rule 2-29 deals with the content of promotional materials, certain written supervisory procedures, recordkeeping requirements and necessary reports. Rule 2-30 inventories the items of information that must be obtained from a customer when opening an account, and when and what risk disclosures are minimally required.

### 7. Evaluate your Managerial Skills.

What do you best? What do you like to do? What are your professional credentials, and do they apply to building your successful business?

Consider your philosophy or basic beliefs. Answers to questions such as how you do business currently, how you approach planning projects, how management of your office will be organized and how you handle ethical dilemmas are important factors in the success of your office. What commitments have you made, or are you prepared to make, toward the achievement of your objectives? What commitments do you expect from your APs? And, very importantly, ask yourself, how the commitments you are making will affect your family.

### 8. Work your Plan.

Once your objectives are set and your resources are evaluated, you must take action to move yourself along. Break down tasks into steps that progressively move you in a positive direction. Physically listing those things which you want to accomplish each week will help you. Breaking down larger projects into steps which can easily be completed and checked off, encourages you and can give you the support you need to keep moving.

Update or revise your objectives periodically. When you reach a goal, you’ll need to plan for the next one. Evaluate your business plan from time-to-time.

One of the lessons of the MF Global and Peregrine Financial Group tragedies of 2011 and 2012 is that things don’t always go the way they’ve been planned. Successful IBs are flexible, able to evaluate the situation and plan for the future.

### IBs Plan for the Future

Although nearly 60 percent of IBs responding in 2015 felt their office was still losing income as a result of the events surrounding MFG and PFG. That number fell from the high of about 89 percent in 2014. Customers who were affected by the failure of MFG have either gotten their money back completely or are in the process of having their money returned. PFG’s customers have regained some funds, and the legal process for recovery through bankruptcy and asset discovery continues. PFG involved a criminal act for which the primary officer of the company was prosecuted. He is now serving a 50 year jail term.

In both cases, the sanctity of customers' segregated funds was breached or misused. Both the CFTC and NFA have responded with regulation to provide transparency and clarity to the accounting and reporting functions associated with segregated funds. Because it is now much easier to check on the financial health of a futures commission merchant, IBs are able to explain and demonstrate how and where customers' money is held. Along with other changes, this is helping IBs restore trust in the marketplace, which is helping to bring back customers.

Looking to the future, the biggest concerns of Introducing Brokers include the cost of complying with increasing regulation, and the dwindling numbers of futures commission merchants with which to do business. A few IB owners also cite high-frequency trading issues and the continued low-interest rate revenues as worries which they feel affect the growth and stability of the industry. Cybersecurity -- the implementation of appropriate ISSPs, monitoring the program and its ongoing cost, is on everyone's mind.

Despite all those concerns being voiced, the Introducing Broker community is still strong. Customers see the value in having a broker who understands and plans for each individual's situation and needs. Customers are still attending seminars and reading newsletters produced by IBs. And they still want to talk, email and text with a registered professional IB who follows and understands market moves.

A business plan and a positive attitude is necessary for the successful IB

#### Checklist for Chapter 4: Business Plan

1. Do I have a written business plan to cover at least 12 months into the future?
2. Have I fully discussed my business plan with my lawyer and my accountant?
3. Have I fully discussed my business plan with my spouse?
4. Do I have a list of all my bank accounts and business investments, including the access information for each account?
5. Do I have a complete set of all my promotional information, including client letters, website contents, electronic and print communications which I use with both existing clients and prospects?
6. Have I addressed my weaknesses and taken into account methods for overcoming them?
7. Do I have a scheme for reviewing and revising my business plan as my office changes and my client needs dictate?
8. Do I need to register, or do I simply want to trade?

## CHAPTER 5

# THE REGULATORS

**Regulate: an official who works for the part of the government that controls a public activity by making and enforcing rules**

*Merriam-Webster Dictionary, 2015*

The futures industry is highly regulated. In order to join the industry, you must take the Series 3 Commodity Exam, and then submit your application to the National Futures Association (NFA) to become an Associated Person and member of that association, and register with the Commodity Futures Trading Commission (CFTC).

All FCMs, Retail Foreign Exchange Dealers (RFEDs), IBs, CPOs and CTAs who manage or exercise discretion over customer accounts must be members of NFA in order to conduct futures or retail off exchange forex business with the public. Swaps Dealers and Major Swaps Participants must also be members of NFA.

Once you are approved and doing business, you'll need to update your registration information from time-to-time. Your business activities will be subject to supervision and scrutiny by both your FCM and the NFA.

<b>Total # of IBs Registered</b>	<b>1,233</b>
<b>Total # of CTAs Registered</b>	<b>947</b>
<b>Total # of CPOs Registered</b>	<b>1,610</b>
<b>Total # of FCMs Registered</b>	<b>60</b>
<b>Total # of RFEDs Registered</b>	<b>3</b>
<b>Total # of Swaps Dealers Registered</b>	<b>103</b>
<b>Total # of Exchanges Registered</b>	<b>6</b>
<b>Total # of Associated Persons</b>	<b>54,299</b>

*NFA RECORDS: April, 2016*

IBs are subject to regulation by both the NFA and the Commodity Futures Trading Commission (CFTC). Although the majority of your regulatory and compliance contacts will be with the NFA, the CFTC is the top regulator in the futures industry.

From its creation in 1974, until it approved the creation of the NFA in 1981, the CFTC was the main agency for regulation of both individuals and firms transacting futures business.

Your clearing firm and the exchanges at which you trade also have authority over certain of your activities. Although it is rare, an exchange can audit your firm's activities. Your clearing firm will perform an audit of your business activities regularly.

It will help you to comply with regulatory requirements, if you get to know the regulators. In this chapter, you will learn what each agency is responsible for, and how it is organized. The website of each agency is particularly helpful when you have questions about specific areas of regulation. Do not hesitate to contact individuals at the CFTC and the NFA. Both organizations are staffed with professionals who are open to helping registrants understand the rules, and how they are implemented.

If you are not in compliance with CFTC rules and NFA regulations, it will not matter how much money your customers have on account or how many trades your office can generate in a month. FCMs will not work with IBs who have a history of disciplinary problems, or customer complaints. To succeed in the industry in 2016, you need a good business plan, willingness to work hard and strict compliance to regulations and policies.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into federal law. Passed as a response to the recession of the late 2000s, Dodd-Frank is bringing significant changes to financial regulation in the United States. The Act is meant to promote the financial stability of the country by improving transparency and accountability in the financial system, to protect consumers from abusive financial services practices, and to end "to big to fail." It has already made changes in the financial regulatory environment that affect all federal financial regulatory agencies, including the CFTC.

Included in the bill is comprehensive regulation of financial markets, including bringing derivatives onto exchanges. Dodd-Frank includes Introducing Brokers in the definition of financial institutions which makes many of the resulting rules applicable directly to an IB.

The NFA identified 38 areas in which they would eventually make new regulation. Those areas include: regulation of swap clearing and trading, data, particular products, enforcement of regulation and position limits. To date, NFA has issued 69 new rules, exemptive orders and guidelines as a result of Dodd-Frank. The agency continues to update rules and write new regulation, and will notify you as they are written with information on how to implement and comply.

### A Short History of Futures Regulation

From the early 1880's to about 1920, over 200 bills were introduced in Congress to regulate, ban or tax futures trading in the United States. The Futures Trading Act, a response to intense speculation in grain futures during the farm depression following World War I, was enacted in August 1921 to regulate futures trading in the grain market. That act was declared unconstitutional because it included a prohibitive tax whose primary purpose was to force boards of trade to submit to federal regulation, which was deemed an unconstitutional use of Congress' taxing power.

In 1922, the Grain Futures Act was passed. Because it was based on the interstate commerce clause and banned off-contract market futures trading rather than taxing it, the act was found to be constitutional. The Grain Futures Administration was soon formed as an agency of the U.S. Department of Agriculture (USDA).

The 1922 Act was replaced in 1936 by the Commodity Exchange Act (CEA) which extended federal regulation to many more commodities such as cotton, rice, butter and eggs. The CEA also required futures commission merchants (FCMs) to segregate customer funds that are deposited for margin, and prohibited

fictitious and fraudulent transactions such as wash sales and accommodation trades, as well as banning all commodity option trading. The option ban remained in effect until 1981.

Over the years, the CEA was amended to include several more commodities such as fats and oils, wool, livestock and livestock products, and orange juice.

In 1968, the CEA was amended again in the first major commodities legislation since 1936. The amendments instituted minimum net financial requirements for FCMs, enhanced reporting requirements, and increased criminal penalties for manipulation and other violations of the CEA.

In 1973, grain and soybean futures prices reached highs never before seen. Allegations of market manipulation and excessive speculation prompted Congress to consider revising the federal regulatory scheme, which ultimately resulted in the Commodity Futures Trading Commission Act of 1974. That act created the Commodity Futures Trading Commission (CFTC), and expanded its exclusive jurisdiction over futures trading in all commodities.

By 1975, the CFTC had approved the first two futures contracts on financial instruments for trading -- Ginnie Maes and 90-day U.S. Treasury bill futures.

In 1979, the activities of commodity pool operators (CPOs) and commodity trading advisors (CTAs) were added to those overseen by the CFTC. In 1981, the National Futures Association (NFA) was granted registration as a self-regulatory futures association.

By 1983, final rules governing introducing brokers (IBs) and associated persons (APs) were adopted. Shortly thereafter, the CFTC approved options on domestic agricultural futures contracts on six exchanges; authorized the NFA to perform registration processing functions for FCMs, CPOs, CTAs, IBs and their APs; developed and adopted improved surveillance, such as early warning procedures for adverse financial situations and better margining policies; and, allowed options trading in non-agricultural and physical commodities.

On October 19, 1987, the stock market took the biggest one-day price plunge recorded. No firms defaulted on customer obligations, and all CFTC-regulated systems functioned.

During the years 1992 and 1993, market reports from exchanges began to be sent electronically to the Commission for the first time, and a total of forty-six new futures and options contracts were approved for trading. In 1995, the CFTC launched its website, [www.cftc.gov](http://www.cftc.gov).

The Commodity Futures Modernization Act of 2000 (CFMA) was signed into law. The CFMA overhauled the CEA to create a more flexible structure for regulation of futures and options trading, clarified CFTC jurisdiction over certain retail foreign currency transactions and repealed the 18-year old ban on trading of single stock futures.

Following the September 11, 2001, attacks on the United States, the CFTC restructured its staff to more effectively deal with anti-money laundering legislation and increased globalization of the markets. Domestic trading of single stock futures was permitted in 2002, and the first designated contract market owned by a foreign futures exchange was approved.

In July, 2007, the Chicago Mercantile Exchange and the Chicago Board of Trade announced the completion of a merger, forming the world's largest futures exchange, the CME Group.

In 2010, the CFTC and the Securities Exchange Commission (SEC) formed an advisory committee to address emerging common regulatory issues. On July 31, 2010, the Dodd-Frank Act was signed. Title VII of Dodd-Frank allows the Commission to establish a new framework for swaps trading. From mid-2010 much of the regulation proposed by the CFTC has been in response to the requirements on financial institutions imposed by Dodd-Frank.

In October of 2011, and again in July of 2012, the sanctity of customers' segregated funds was breached by two separate futures commissions merchants. Much of the focus of the CFTC in the past three years, has been on updating existing regulations and instituting new rules with the purpose of restoring integrity in the markets and protecting the customers using those markets.

## The Commodity Futures Trading Commission

[www.cftc.gov](http://www.cftc.gov)

The Commodity Futures Trading Commission (CFTC or Commission) was created by Congress in 1974. It is an independent agency whose original purpose was to regulate futures, options and forex markets in the United States. The enactment of the Dodd-Frank Act brought the regulation of swaps under the purview of the Commission.

The mission of the CFTC is to foster open, transparent, competitive, and financially sound markets, to avoid systemic risk, and to protect market users and their funds, consumers, and the public from fraud, manipulation, and abusive practices related to derivatives and other products that are subject to the Commodity Exchange Act. (CFTC, 2015)

The CFTC reviews the terms and conditions of all proposed futures and options contracts, and requires daily reporting to assure normal market flow and to prevent manipulation, abusive trade practices and fraud. The CFTC must be reauthorized by Congress every five years.

The CFTC requires that:

- FCMs keep customer funds in segregated accounts away from company funds;
- Customer accounts be adjusted to reflect their current market value at the end of each trading day; and that,
- All registrants disclose market risks and past performance information to prospective customers.



The CFTC also mandates ethical standards of behavior for registrants, and monitors sales practices and internal controls. The registration process is handled by the National Futures Association (NFA) through their Chicago office.

The main office of the Commission is located in Washington, DC. There are also CFTC offices in Chicago, New York City and Kansas City.

The CFTC's website, [cftc.gov](http://cftc.gov), includes information about:

- New products and trading facilities
- Forex and foreign contracts approved for trading
- Swaps regulation
- Disciplinary and enforcement action taken by the Commission
- Certain financial reports required to be filed by the Commission
- Market reports such as Commitments of Traders

## Organization of the CFTC

The CFTC is made up of Commissioners, four separate divisions and various offices which support and advise the Commission. The divisions are:

**1. Clearing and Risk (DCR):** The Division of Clearing and Risk oversees derivatives clearing organizations (DCOs) and other market participants including FCMs, swap dealers, major swap participants and large traders. It monitors the clearing of futures, options on futures and swaps, and assesses compliance with regulations, including conducting risk assessment and surveillance. This division also makes recommendations on DCO applications and eligibility, rule submissions and which types of swaps should be cleared.

**2. Enforcement (DOE):** The Division of Enforcement investigates and prosecutes alleged violations of the CEA and Commission regulations. Potential violations include fraud, manipulation and other abuses concerning commodity derivatives and swaps that threaten market integrity, market participants and the general public. According to its records, the CFTC opened 240 new investigations during the past fiscal year, down from about 350 in 2013. Many of the cases involved various violations of customer funds protection. (CFTC, 2015)

**3. Market Oversight (DMO):** The DMO fosters derivatives markets that accurately reflect the forces of supply and demand, and are free of disruptive activity. It oversees trade execution facilities and data repositories, conducts surveillance, reviews new exchange applications and examines existing exchanges to ensure compliance with applicable core principles. DMO also evaluates new products to ensure they are not susceptible to manipulation.

## 4. Swap Dealers and Intermediary Oversight (DSIO):

This division oversees the registration and compliance of intermediaries, including IBs and futures industry self-regulatory organizations (SROs), including U.S. derivatives exchanges and the NFA. Under Dodd-Frank, DSIO is also responsible for developing and monitoring compliance with regulations addressing registration, business conduct standards, capital adequacy and margin requirements for swap dealers and major swap participants.

The various offices in the CFTC organization include:

**Chief Economist (OCE):** OCE provides economic support and advice to the Commission, conducts research on policy issues, and educates and trains Commission staff. The OCE plays an integral role in the implementation of new financial market regulations by providing economic expertise and cost-benefit considerations underlying those regulations.



**Data and Technology (ODT):** ODT provides technology and data management support for the Commission, market and financial oversight, surveillance, enforcement, legal support, and public transparency activities. ODT also provides general network, communications, storage, computing and information management infrastructure and services.

**Executive Director (OED):** The Executive Director ensures that the Commission adapts to changes in the marketplace with regard to its regulation, directs the allocation of CFTC resources, develops and implements management and administrative policy, and ensures that program performance is measured and tracked through the agency. The OED also oversees the Whistleblower and Consumer Affairs programs, as well as the Office of Diversity and Inclusion.

**General Counsel (OGC):** The OGC provides legal services and support to the Commission and all of its programs. OGC represents the CFTC in appellate, bankruptcy and other litigation, provides legal advice for CFTC programs, drafts CFTC regulations and advises the CFTC on legislative, regulatory and operational issues.

**Inspector General (OIG):** This office is an independent unit at the CFTC. Its purpose is to detect waste, fraud and abuse, and to promote integrity, economy, efficiency, and effectiveness of CFTC programs. It reviews all of the Commission's programs, activities and records and issues semiannual reports detailing its activities, findings and recommendations.

**International Affairs (OIA):** The OIA advises the Commission on international matters, and coordinates policy as it relates to the initiatives of the G20 and U.S. Treasury Department, and the Financial Stability Board.

**Legislative Affairs (OLA):** This office liaison with Congress. OLA coordinates reports, briefings and informational materials provided to Congressional offices and testimony of the CFTC before Congressional committees. It also manages CFTC's response to inquiries on behalf of constituents and other communications from the legislative branch.

**Public Affairs (OPA):** The OPA liaisons with the general public and news media. OPA issues press releases and media alerts, and maintains the Commission's website and social media presence.

**Five Commissioners** are appointed by the President to lead the CFTC. They must be approved by the Senate. The Commissioners serve staggered five-year terms, and the President designates one to act as the Chairman at the time that Commissioner is appointed. No more than three Commissioners concurrently serving may be from the same political party.

As of the writing of this Handbook, there are only three sitting Commissioners. The President has nominated candidates - one from each political party to fill the vacancies, but Congress has not moved on the nominations.

In recent times, it is not unusual to have less than the full number of five commissioners to do the work of the CFTC. It is not illegal. Commissioners are supported by several hundred staff that work for the federal government, and do not change employment often. Many of those staffers have been at the CFTC 20 years or longer. Commissioners serving as of April, 2016 are:

**Chairman Timothy Massad (April, 2014 – April, 2019):** Mr. Massad was the former Assistant Secretary for Financial Stability at the U.S. Treasury and oversaw the Troubled Asset Relief Program (TARP) in 2008. He previously served as a legal advisor to the TARP panel, headed by Senator Elizabeth Warren (D-MA). Mr. Massad comes from a law firm which has a broad corporate practice with a focus on corporate finance and the financial markets. Born in New Orleans, LA, Chairman Massad and his family live in Washington, DC.

**Commissioner Sharon Bowen (June, 2014 – June, 2019):**

Ms. Bowen was acting chairperson of the Securities Investor Protection Corporation (SIPC) prior to joining the Commission. As an attorney, she has a diverse business background going back to 1982. Her practice areas concentrated on corporate, finance and securities transactions, leveraged finance, securitization and venture capital financing. In 2011, she was named one of America's "Top Black Lawyers" by Black Enterprise Magazine. Ms. Bowen lives with her husband in New York City.

**Commissioner J. Christopher Giancarlo  
(April, 2014 – April, 2019):**

Prior to his appointment, Mr. Giancarlo was the Executive Vice President of GFI Group, Inc., a financial services firm. He has a deep background in the financial industry, having founded eSecurities, Trading and Regulation on the Internet, and his own law firm. Mr. Giancarlo is a member of the Bar of the State of New York.

**The Commission maintains four regional offices:**

1. **Headquarters:**  
Three Lafayette Centre, 1155 21st St., NW  
Washington, DC 20581  
(202) 418 5000
2. **Central Region:**  
525 West Monroe, Ste. 1100  
Chicago, IL 60661  
(312) 596 0700
3. **Southwest Region:**  
4900 Main Street, Ste. 500  
Kansas City, MO 64112  
(816) 960 7700
4. **Eastern Region:**  
140 Broadway  
New York, NY 10005  
(646) 746 9700

Website: [www.cftc.gov](http://www.cftc.gov)

**The CFTC's Reparations Program**

The CFTC's Reparations Program provides a forum for customer complaints involving registered futures professionals. Most disputed issues between customers and IBs are handled through the arbitration or mediation process administered by the NFA. However, customers who allege that an IB has engaged in activities which violate the CEA or CFTC rules can file their complaint directly with the CFTC. Those violations include transactions that involve futures contracts, options, physical commodities and leverage contracts. Types of violations include: fraud, breach of fiduciary duty, unauthorized trading, misappropriation, churning, wrongful liquidation, failure to supervise and nondisclosure.

The claimant must (i) file the complaint within a two-year period after the dates when she/he knew, or should have known, of the wrongdoing; (ii) not file against a respondent who is in bankruptcy. The bankruptcy trustee appointed by a court administers those claims. And, (iii) not be pursuing a claim based on the same set of facts in arbitration or a civil court.

There are three ways to proceed in a reparations case - voluntary, summary and formal. The determination is made by the filing party, and includes consideration of the amount claimed. The cause may be decided by submission of exhibits and other documentation only, or a hearing may be required. The parties may be represented by attorneys. The decision is final if both parties consented to the voluntary procedure method.

**CFTC's Whistleblower Program**

In January, 2012, the CFTC began a Whistleblower Program created by the Dodd-Frank Act, which allows for the payment of monetary awards to eligible whistleblowers, and provides anti-retaliation protections for whistleblowers who share information with, or assist the CFTC. The total amount of a whistleblower award will be between 10 and 30 per cent of the monetary sanctions collected in either the Commission action or the related action.

A whistleblower can be any person who voluntarily provides the CFTC with original information about a violation of the Commodity Exchange Act that leads to a CFTC enforcement action that results in more than \$1 million in monetary sanctions. The information can be based on either the person's independent knowledge or independent analysis. A whistleblower may file anonymously on the CFTC Form TCR available on their website.

### CFTC's Market Reports

The CFTC produces several market reports which are available to the public. These reports can be found on the CFTC's website, [cftc.gov](http://cftc.gov). They are an inexpensive and valuable way to keep up with financial and trading information collected by the Commission. A small sample of the types of reports found at [cftc.gov/marketreports](http://cftc.gov/marketreports) includes:

- **Commitments of Traders (COT):** a breakdown of each Tuesday's open interest for markets in which 20 or more traders hold positions equal to, or above the reporting levels established by the CFTC.
- **Index Investment Data (IID):** monthly reports by swap dealers and index traders responding to a "special call" as described in CFTC Rule 18.05, showing the notional values and the equivalent number of futures contracts for all U.S. markets with more than \$0.5 billion of reported net notional value of index investment at the end of any one month.
- **Weekly Swaps Report:** an aggregate of gross notional amounts outstanding, transaction dollar volume and transaction ticket volume published every Wednesday afternoon.
- **Bank Participation Reports:** includes futures and options positions held.
- **Financial Data For FCMs:** monthly financial reports indicating the financial health of FCMs and RFEDs.

- **Large Trader Net Position Changes:** the daily-average net position for large traders in 27 physical and eight financial futures markets for any given week from January 2009 through May 2011. Trading Account Net Position Changes tracks the same information at the trading account level for 20 physical and eight financial futures markets from April 2010 through May 2011. This report will soon be updated through May 2014.

### National Futures Association (NFA)

[www.nfa.futures.org](http://www.nfa.futures.org)

The National Futures Association (NFA) is the self-regulatory organization for the U.S. futures, options, foreign exchange and swaps industry. It is a not-for-profit membership corporation which began operation in October, 1982, after being granted formal designation as a registered futures association by the CFTC. While the CFTC provides governmental oversight for the entire industry, and each futures exchange governs its traders and members firms, NFA regulates every firm and individual who conducts futures, options, forex and swaps trading business with the public. It is completely self-funded.

The NFA's primary focus is investor protection and market integrity. NFA develops rules, programs and services that ensure industry integrity, protect market participants, and help its members meet their regulatory requirements.

Since 2011, NFA has worked closely with the CFTC and other self-regulatory organizations (SROs), such as the CME Group, to develop and implement a system which requires all depositories holding customer segregated funds on behalf of an FCM to directly report balances daily to SROs. All FCMs must also regularly file certain basic financial information about the firm with the NFA. The information is accessible to the public on its website.

IBs, as well as all other futures professionals who do business with the public, must join the NFA. As a registrant, you may not accept orders from another person (except a direct customer) unless that person belongs to the NFA or another registered futures association, such as an exchange.

---

**Total # of IBs Registered July 2015      1,233**


---

Individuals apply for membership in the NFA at the same time as they apply for registration by the CFTC. As of April, 2016, there were a total of 3,962 members of the NFA (legal entities or firms such as IBs), and about 54,299 associates (individuals employed by member firms as APs.) NFA records show a total of 1,233 registered IBs. All registration categories except swaps and CPOs are down from September, 2015, the most recent publication of The Complete IB Handbook.

NFA is an independent organization with no ties to any specific marketplace. It is financed entirely by membership dues and fees paid by its members, along with assessments paid by members and users of derivative markets.

There are approximately 500 individuals working for the NFA in its two offices -- about 70 people in the OTC Derivative department alone. Policy implementation is handled by NFA officers and staff. All NFA personnel can be reached by email through the NFA website.

**Headquarters:**

300 So. Riverside Plaza, Ste. 1800,  
Chicago, IL 60606  
(312) 781 1300

**New York City:**

120 Broadway, Ste. 1125  
New York, NY 10271  
(212) 608 8660

**Information Center:**

(1) 800. 621-3570

**Website:** [www.nfa.futures.org](http://www.nfa.futures.org)

NFA officers and key personnel can all be reached through the general Chicago phone number.

Dan Roth:                      President & Chief Executive Officer

Dan Driscoll:	Exec. Vice-President, Chief Operating Officer
Tom Sexton:	Sr. Vice-President, General Counsel and Secretary
Regina Thoele:	Sr. Vice-President, Compliance
Jamila Piracci:	Vice-President, OTC Derivatives
Yvette Christman:	Vice-President, Membership & Registration
Karen Wuerz:	Sr. Vice-President, Strategic Planning
Shuna Awong:	Director, OTC Derivatives

Mr. Roth announced his retirement by year-end 2016. No replacement has been named as yet.

NFA policy is defined by its 34-member Board of Directors (BoD). Representatives from all registration categories are elected from the general membership to serve on the BoD, with a few appointed individuals. Policy Supervision is handled by a 15-member Executive Committee elected by the BoD. Most of the members are registered Associated Persons. Introducing Brokers have two representatives on the BoD, one each from Guaranteed IBs (GIBs) and Independent IBs (IIBs). As of April, 2016, IBs are represented by:

**GIBs:** Paul Georgy, President, Allendale, Inc., McHenry, IL,  
[pgeorgy@allendale-inc.com](mailto:pgeorgy@allendale-inc.com)

**IIBs:** Mike Burke, CEO, Highground Trading, Chicago, IL  
[mikeb@highgroundtrading.com](mailto:mikeb@highgroundtrading.com)

The NFA issues a financial report to members annually and holds an annual membership meeting at its Chicago office. All members of the NFA are qualified to attend.

IBs and their APs may be appointed to the various committees of the NFA. These committees meet in-person periodically to advise the staff on proposed regulation, and respond to CFTC requests and other membership issues. NFA Committees include:

- Advisory (FCM, FDM, CPO/CTA, IB, SD)
- Audit
- Compensation
- Compliance/Risk
- Finance
- Hearing
- Nominating
- Appeals
- Business Conduct
- Discretionary Accounts
- Executive
- Floor Broker/Trader
- Membership
- Telemarketing Procedures Waiver

### NFA Areas of Responsibility

NFA's duties are to develop rules, programs and services that safeguard market integrity, protect investors, and help NFA members meet their regulatory responsibilities. In order to do this, the organization focuses on five areas of responsibility.

**1. Registration:** All firms and individuals who conduct futures business with the public must be registered with the CFTC and members of the NFA. Beginning in 2012, swaps were included in the definition of futures trading. Most registration forms and explanatory materials are found online at the NFA's website. Annual registration updates are required for IBs and are completed electronically.

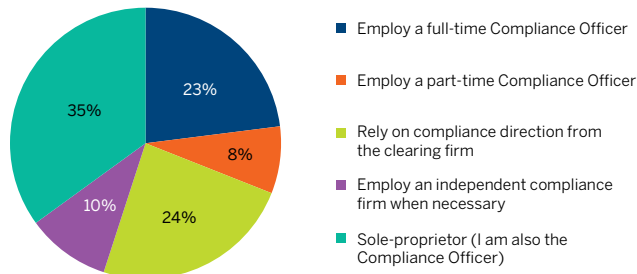
In 2015, the NFA reports it processed 650 firm registrations and 11,500 individual registration. These numbers are significantly lower than NFA reported in 2013 of 1,600 firm and 21,000 individual registrations. The 2013 high was due, at least in part, to the first-time-ever registration of swap dealers.

**2. Compliance:** NFA monitors all member firms and individuals to assure they are in compliance with NFA and CFTC rules. The NFA Compliance Department oversees your daily activities as an IB, including the manner in which you interact with your customers. Each IB is subject to a face-to-face audit performed by the NFA staff approximately every three years.

In 2015, the NFA reported it issued 37 complaints against members. This is approximately the same number as reported in 2014. Several were brought against firms for failing to establish and appropriately apply methodologies for allocating

bunched order and for not maintaining adequate and verifiable audit trails for allocations of such orders. Complaints were also issued against firms that employed trading strategies designed to generate large commissions for the firms but made little or no sense for the customers.

### Sources of Managing Compliance

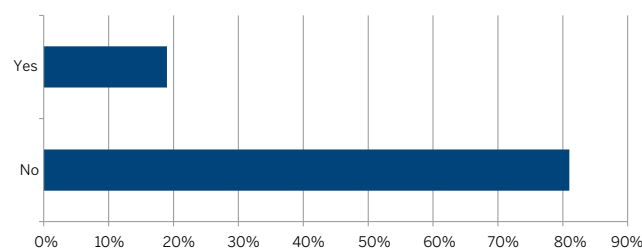


**3. Dispute Resolution:** In 1983, the NFA began an arbitration program which became the primary venue for dispute resolution in the industry. Since 1991, they have also offered a mediation program. Arbitration proceedings are generally conducted by other members of the NFA, often sitting as a panel. Lawyers, accountants and others with special knowledge of the industry may be included in an arbitration hearing. The hearing can be conducted in-person or by each party submitting documents for review to the hearing officer or panel, with no individual appearances.

NFA dispute resolution is open for member-to-member disputes, such as IB versus FCM, and for customer-to-member disputes, such as customer versus IB. Costs of dispute resolution is determined by the amount in dispute. Forms for filing an arbitration or mediation request are found on the NFA website.

NFA reports that in 2015, it collected \$2.5million in fines. It distributed \$1.7million in restitution to approximately 250 customers who claimed harm as a result of a broker's action.

### IBs with Disciplinary Issues



**4. Education:** The NFA provides education resources to both members and investors. It conducts several member meetings each year throughout the U.S. to discuss issues of current importance. Topics have included using the electronic registration process; changes in registration requirements, including forex and swaps registrations; and updates on regulations brought about through the implementation of the Dodd-Frank Act.

Investor services include newsletters, investor alerts and periodic meetings to help investors and prospective investors obtain a better understanding of the futures, options, forex and swaps industry.

In 2015, the NFA Information Center handled approximately 35,000 calls - down from about 40,000 calls in 2014. NFA staff also led eight Member education programs with topics which included the current regulatory state of the industry, NFA's examination process, performance reporting and financial reporting requirements.

In 2015, the NFA began producing videos after each quarterly Board meeting to report to Members on the topics discussed by the Board. NFA also conducted its first town hall webinar which was attended by about 300 individuals.

**5. Trade Practice/Market Surveillance:** NFA provides several programs to electronic exchanges and non-domestic facilities to ensure, among other things the fair treatment of their customers.

NFA has provided regulatory services to contract markets (DCMs) on a contractual basis for over ten years. Swap Execution Facilities (SEFs), created in response to the Dodd-Frank Act also contract with the NFA to provide services related to trade practice surveillance, market surveillance, disciplinary actions, audit trail review and other issues.

### Things You Need to Know about the NFA

The NFA is the regulatory agency your IB will have contact with most often. From your initial registration to submission of your advertising materials and your audit, the NFA has quite literally become your partner in the industry. In addition to these contacts, there are several other ways the NFA is involved in your business.

**BASIC:** In 1998, the NFA introduced the Background Affiliation Status Information Center (BASIC), an online clearing house of disciplinary information about firms and salespeople. BASIC is accessed through the NFA website, and contains current and historical registration information about all current and former CFTC registrants. Information can be searched by registrants name and by firm name. Information concerning disciplinary actions taken by the NFA, the CFTC and all U.S. futures exchanges for both individuals and firms can be found in BASIC.

According to the NFA, investors and industry participants conduct more than 800,000 BASIC searches each year. Prior to associating with an FCM, CTA or CPO, or prior to hiring any AP, check BASIC to review the registration history and disciplinary history of the firm or individual. You can be sure your potential customers will search BASIC to learn your history. Check the website yourself from time-to-time to ensure information about you and your business has been reported and updated correctly.

**Cybersecurity:** In February, 2016 the NFA issued an Interpretive Notice adopting a principles-based risk approach to Information Systems Security Programs (ISSP). The approach the NFA has taken allows firms some flexibility to determine what their ISSPs will be

comprised of, and how they are supervised and applied. Because of the differences in firms' size and complexity of operations, including the make-up of customers services by the firm, a one-size-fits-all approach does not work for the registered community.

Each firm must develop and maintain a written ISSP for securing customer data and access to their electronic systems, to be maintained with the firm's written procedures (Policies and Procedures Manual). A firm must also implement and follow that policy and review it at least annually to keep it current and complete.

The NFA has added a new Cybersecurity section to their Self-Examination Questionnaire which should help firms develop their ISSPs. More about the development, review and training requirements in Chapter 6 of this Handbook.

**Rogue Broker Initiative:** NFA Compliance Rule 2-9 was designed to prevent deceptive sales practices by placing continuing responsibilities on each member to supervise its APs in all aspects of their industry activities, including sales practices. This supervision requirement extends to off-exchange retail forex, as well as traditional futures and options activities. In 2007, the NFA added specific criteria to be measured against every firm in order to determine if that firm and its APs should be subject to "enhanced supervision." Enhanced supervision includes the recording all conversations with existing and potential customers, additional capital requirement, filing of all promotional materials with the NFA and written supervisory procedures to ensure that all NFA compliance rules are being followed.

The NFA uses various criteria to determine whether a firm must adopt the enhanced supervisory requirements. The criteria include the total number of APs employed versus the number which have been employed by disciplined firms, the affiliations of the principals of the FCM or IB and whether the commissions, fees and other charges to the customer are above the industry norm.

This enhanced supervision requirement could affect your choice of FCM, and should be considered when you are hiring APs. A list of Disciplined Firms is found on the NFA's website, and includes firms that have disciplined by either the CFTC or the NFA, and firms that have been disciplined in connection with sales practices involving security futures products. The NFA totals the number of "rogue" APs doing business with an FCM, including those working through a GIB, to determine if the FCM will be treated as disciplined firm. All GIBs associated with an disciplined FCM are required to adopt supervisory procedures if it is determined to apply to the FCM. That could be financially burdensome on your business, and may cause a reported disciplinary action.

**Electronic Filing:** An IIB can meet its regulatory filing requirements electronically. Audited and unaudited financial statements can be sent to the NFA by 1-FR-IB filers through the Easy File program. IBs can also find information on the required written anti-money laundering (AML) compliance program online. The AML Procedures System link helps IBs identify the minimum requirements of the program, and includes suggestions for the language of the written program.

**Education:** The NFA offers educational opportunities for IBs at in-person seminars and workshops conducted in various locations around the U.S. Several webinars are also offered through the year. Recent workshop topics include discussion on swaps registration and AML compliance, changes to CPO registration requirements, and promotional material and compliance issues for small firms. Also at the NFA's website, you will find guide books focused on specific topics such as promotional material review, forex trading, and disclosure document requirements. The NFA reports approximately 2,000 views per month in 2014 for these various guides.



Additionally, the NFA also has print and electronic educational materials available for investors. Some online guides include the basics of trading futures and forex, and a glossary of basic terminology. Booklets which include definitions of terms, the opportunities and risks of trading futures, and explain the use of securities futures products are also available in hardcopy. The NFA issues newsletters and industry alerts directed at the public periodically.

Most NFA publications can be downloaded from their website, [nfa.futures.org](http://nfa.futures.org). For hardcopy publications, you can contact the Information Center at the NFA's Chicago office.

#### Checklist for Chapter 5: Regulators

1. Do I understand who the CFTC is and my obligations?
2. Do I understand who the NFA is and my obligations?
3. Have I registered for electronic filing with the NFA and named an account manager?
4. Have I requested an appointment with the NFA to review my promotional materials?
5. Have I checked BASIC on the NFA website for any disciplinary history prior to hiring any APs, selling any CTA-traded programs or associating with any clearing FCM?
6. Have I checked my listing on BASIC to ensure the information posted there is reported correctly?
7. Will any of the CFTC's Market Reports be useful to my customers?



## CHAPTER 6

# FIRST AUDIT

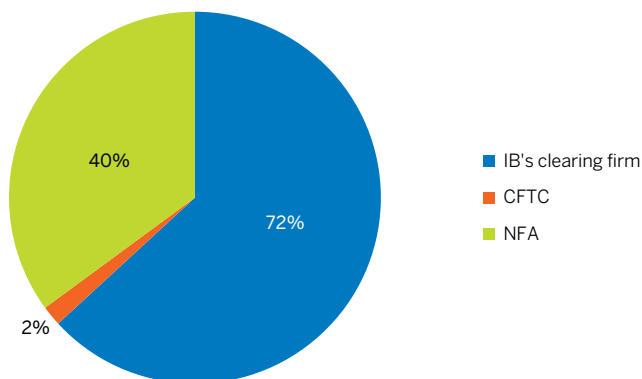
### Audit: Audit: A thorough examination of records or financial statements to check their accuracy

*TheFreeDictionary.com, 2015*

As a member of the National Futures Association, you will be monitored to assure compliance with the rules and regulations of the NFA and the CFTC. As one means of monitoring, NFA conducts periodic on-site exams, commonly referred to in the industry as “audits.” All IBs can expect to be audited at their office by the NFA at least once every three years.

The FCM also has the responsibility to supervise all aspects of your futures, options, forex and swaps activities for Guaranteed Introducing Brokers (GIBs). NFA has issued various Interpretive Notices to suggest that it is appropriate for FCMs to periodically inspect IBs on-site, and that procedures detailed for the visit would help ensure that the review process is performed in a consistent manner

#### Audits within the Past Year



The NFA suggests that the following areas of your firm's business activities be reviewed periodically and prior to the audit, including:

- General Firm Information, including names of all FCMs, CTAs, CPOs and other IBs with which the IB does business
- Customer Information Recorded
- Customer Order Procedures

- Sales Practices
- Customer Complaints and Follow-up Procedures
- Handling of Customer Funds and Customer Privacy Policies
- Proprietary Trading
- Promotional Material
- Financial Reporting
- Anti-Money Laundering Procedures
- Continuity and Disaster Recover Plans
- Ethics Training Policies
- Cybersecurity - Information Systems Security Program (ISSP)

FCMs generally schedule GIB audits annually. Some FCMs use electronic or fax audit updates for IBs who have not changed their method of doing business, added clients, or encountered any compliance problems within the last 12 months.

Each FCM develops its own specific procedures for your audit. Since a few FCMs also require an IB to pay a portion of the costs associated with an on-site audit, it is wise to discuss the audit procedures, and any costs to you, before you select your clearing FCM.

In addition to your clearing firm, and the NFA, both the CFTC and exchanges have the right to examine the activity at your IB. Of course, if you are registered to trade securities or cash commodities, the regulators of those industries may also perform audits.

Exchanges generally limit their review to member firms such as FCMs, because they can discover detailed information about the firm's IB system and individual IBs through an examination of the FCM's books and records. Although it is rare, an exchange can still perform an audit on an IB.

The CFTC will audit or review an IB from time-to-time, particularly if that office has a number of customer complaints, or if the IB is thought to be using questionable sales practice techniques. The CFTC and the NFA are widely considered by industry participants to be effective in identifying the “bad apples,” and running them out of the IB business.

The NFA shares primary responsibility for GIB audits, along with the clearing FCM. The NFA generally notifies the IB office by telephone of an upcoming audit to set up the time, and to inform the IB of the approximate length of the audit. At the NFA's discretion, IBs may be subject to unannounced audits.

The NFA will also conduct a pre-audit interview and provide you with a list of records needed during the review.

IB audits generally last one to five days depending on the nature of the operation. But, timing and frequency of your audit depends on a number of factors, including the amount of money the firm has under management, a sudden change in the amount or style of business, concerns noted during the NFA's review of the IB's financial statements or other documents, or the receipt of customer complaints.

NFA audits have two major objectives:

1. To determine whether the firm is maintaining records in accordance with NFA rules and applicable CFTC regulations.
2. To ensure that the IB is being operated in a professional manner and customers are protected against unscrupulous activities and fraudulent or high pressure sales practices.

Independent IBs are also subject to audits of their financial records. The financial audit focuses on the preparation and presentation of the financial statements and internal accounting controls. The primary objective of the financial audit is to determine that the financial statements are complete, accurate and prepared in accordance with NFA rules, CFTC regulations and generally accepted accounting rules.

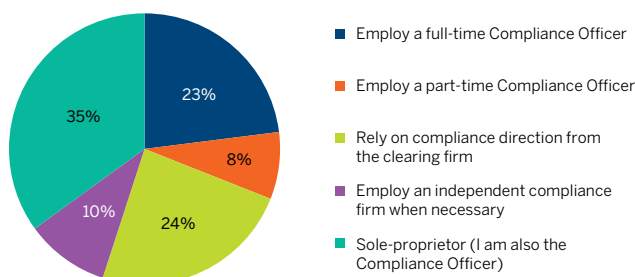
If your IB supports Branch Offices, you have the responsibility of auditing those enterprises. You must develop an audit procedure, conduct a review and record the outcome. Branch offices audits generally occur annually.

Newly registered IBs can request an "educational visit" with the NFA. At the visit, IB principals have an opportunity to meet with NFA staff to discuss reporting and recordkeeping requirements, the audit process and other NFA services. Every new registrant should take advantage of the educational visit.

The NFA also offers pre-review of your promotional material not yet used. An IB must submit the promotional material to the NFA along with a cover letter that indicates the materials have been submitted for pre-review. The materials can be filed electronically or mailed to the NFA's Chicago office. NFA completes its review of the materials within 14 days of receipt, and verbally or electronically communicates comments back to the IB.

The NFA has a separate guide with regard to rules and recordkeeping which applies specifically to security futures products. "*Security Futures Products: A Regulatory Guide*" is found on the NFA's website. Review the guide prior to your audit if your IB offers security futures.

### Sources of Managing Compliance



### Preparing for the NFA Audit

NFA staff will tell you there is only one way to prepare for their audit -- properly prepare and maintain your books and records so they could be examined at any time.

You will be notified of your audit date by an NFA staff member shortly before the selected date. At the NFA's discretion, some IBs are subject to unannounced audits. A preliminary list of records reviewed will be provided when the appointment date is confirmed. A pre-audit interview takes place to determine your type of business, the type of customer you service, the solicitation methods used and the type of promotional materials you use.

Make sure your Policies and Procedures Manual is accessible and updated. The Manual is the written record of all required documentation and policies developed and implemented for compliance with the NFA's regulation. Most IBs involved their lawyers and accountants in the development of that Manual, and to ensure the policies and procedures are current. GIBs are generally furnished with a Manual by their clearing FCM.

The NFA suggests that its Self-Examination Checklist is a good place to begin your preparations for your audit. It includes supplemental checklists for IBs and CTAs as well as the general operations checklist. Be sure you have the required signed attestation on file.

Other resources available to help you prepare for your audit include a 10-minute NFA Podcast and an 1-hour Web Seminar, both entitled "Preparing for an NFA Audit" and appendices to the Self-Examination Checklist for AML, ethics training, privacy policy and disaster recovery, as well as NFA publications on regulatory requirements. These resources are found on the NFA website, [nfa.futures.org](http://nfa.futures.org).

The NFA audit program is designed so that auditors must perform a certain amount of work in your office. Audits generally last one to five days depending on the nature of your business operations, any additional registration categories of the firm, and its principals or APs. While in your office, the audit team will conduct testing in order to understand your business operations. They may need to obtain documents and oral representations, so be sure your personnel have advance notice of the audit visit.

## What to Expect

The NFA conducts about 400 audits per year. They try to schedule several audits in one geographical area at one time. The audit team generally consists of two or three members who communicate with other staff members in the NFA's Chicago Office. Since the auditors will be in your office during your working day, you'll need to provide a separate work space for them.

The auditors will communicate with you throughout the audit process. They may ask you to copy certain documents for them, or they may ask to take documents with them when they return to their office. You should ask for a receipt if any documents are removed from your office. Every IB must maintain and have available for inspection, the records that support and explain its activities. Those records must be maintained in an orderly fashion at the main place of your business.

All required books and records must be kept for five years and must be readily accessible for the most recent two years of that period. You can store most records with electronic storage media. Any digital storage medium or system that preserves information in a permanent format, indexes the data and records the date, and can be converted to hard copy immediately, can be used. Any physically created customer order tickets or trading cards must be retained in their original hard copy form.

All the documents you file with the NFA must be in English, and if you prepare any promotional materials in any other language, you must keep English translations of that material. IIB-required financial reports must be prepared in English, using U.S. dollars and U.S. accounting standards. You will need to assure the NFA that an English-speaking individual, who is knowledgeable about the IB's business, is available to the NFA during its audit if you handle any business in another language.

There are several areas of recordkeeping and compliance procedures the NFA will review during your audit. Here are some that are particularly important. Prior to your audit review the checklist found on the NFA website.

Written procedures which should be reviewed prior to the on-site audit include:

- Customer Account Files
- Customer Complaints
- Customer Order Procedures
- Discretionary Accounts
- Handling of Customer Funds
- Proprietary Trading
- Sales Practices

**Operations and Activities of IBs:** IBs must carry all accounts, including customer, proprietary and foreign futures, with an FCM on a fully disclosed basis. Accounts of customers of GIBs must be carried by the guarantor FCM.

IBs cannot accept customer funds in the name of the IB. As an IB, you may accept checks from customers made out in the name of your FCM if you have written authorization to do so, and the checks are forwarded to the FCM or deposited in a qualifying bank account on the day the checks are received. You must keep this written authorization on file for the auditors to see. A qualifying bank account must be in the name of your FCM, must be titled “customer segregated funds” and must allow only the FCM to withdraw from the account. GIBs will receive written instructions from their FCMs as to how to open and use a local bank account, and how to handle wired payments.

**Position Limits:** Some futures and options contracts are limited as to the number of contracts that may be held or controlled by any one person. Limits are set either by the exchange where the contract is traded or enumerated in Part 150 of CFTC Regulations. IBs need to be aware of the limits in order to monitor the positions of their customers, as well as any held proprietarily. In mid-2015, the CFTC is examining current position limits for several commodities and considering changes. Check with your FCM to be sure you have the most current information.

**General Registration:** The NFA will review documentation regarding the following general registration issues:

- That all individuals who are required to be listed as principals on your Form 7-R are listed (more about this in Chapter 2, Registration).
- That anyone responsible for supervising APs is registered as an AP.
- That a list of all branch office locations and their managers are included on your Form 7R. Branch managers must take the Branch Manager exam.
- That all personnel transacting security futures business have completed the requirements and filed the Information with the NFA.
- That you have reviewed all the firms with which you do business in order to ensure that they are registered with, and are members of the NFA if they are required to be.
- That commissions for customer business is being paid only to NFA members.
- That no unregistered office personnel is handling customer accounts.
- That guarantee agreements and terminations have been filed with the NFA.
- That GIBs have a copy of their Guarantee Agreement on file.

**Supervision:** The NFA will review documentation regarding the following supervision issues:

- That a Compliance Officer has been designated.
- That policies and procedures to handle customer complaints and inquiries have been established, and there is a system for recording, investigating and responding to complaints or inquiries.

- That a Compliance Procedures Manual is being maintained. This is the Policies and Procedures Manual previously referred to. GIBs most often are provided with the manual by their FCM when they enter a Guarantee Agreement. IIBs generally look to their lawyers to develop the manual.
- That sales solicitation training is provided to all your APs.
- That changes in rules and regulations are distributed to the proper office personnel.
- That incoming and outgoing mail is monitored so that customer complaints, bank checks and other communications can be received by the proper personnel.
- That your IB has identified accounts which are discretionary.
- That APs who are handling discretionary accounts have been continuously registered for a minimum of two years prior to handling those accounts.
- That any power of authority terminated is terminated in writing.
- That, if fees and charges are not determined on a per trade or round-turn basis, customers are provided with written explanation and reasonable examples of the charges.
- That adequate risk disclosure is provided to customers purchasing deep out-of-the-money options.
- That, if APs are allowed to maintain accounts at other IB offices, the AP is provided with written authorization from a person at your IB who has responsibility for surveillance of that AP, and receives copies of statements and order tickets relating to the account of the AP on a regular basis.
- That for a one-person IB office, customers are informed if you are unable to service the account due to illness, vacation or other matters, and who will be handling the account during this time.

**Customer Statements:** Daily and monthly trade confirmation statements sent to customers must identify the clearing firm. The IB through which the account was introduced must also be identified. The FCM is required to keep these statements, but the NFA recommends that the IB also keep a copy.

**Customer Orders:** Any IB involved in placing a customer order must make, and keep a written record of that order which shows the time, the account number and order number. Option orders are time-stamped upon transmittal for execution.

If the account is introduced by an IB, but that entity is not involved in placing the order (the customer calls the FCM directly or a CTA has discretionary authority over the account), the IB does not have to make or keep a written record of the order.

A journal or record must be kept which shows all commodity transactions executed for that day including the name of your carrying broker. The listing of daily trades which you receive from your FCM is acceptable to the NFA if it includes date, price, quantity, commodity, contract month and the person for whom the transaction was made. Options records must include the put, call, strike price, premium, mark-up, commission and fees.

**Anti-Money Laundering:** The *International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001* was signed into law in October of that year. Introducing Brokers were included in the definition of a financial institution, and significant responsibilities were placed on the IB. The NFA requires all IBs to adopt a written anti-money laundering (AML) program which should be appropriate to its operations. GIBs will most likely be provided with a program by their FCMs. This AML program should be maintained with other firm procedures in your manual. You must also be able to show auditors that you have communicated the program to your APs.

Before you develop your own AML program, carefully review the NFA's Anti-Money Laundering Questionnaire found on their website.

NFA Compliance Rule 2-9, specifically highlights certain minimum standards which must be part of any adequate program. IBs may tailor the AML program based on the type of business, size and complexity of operations, customer base, number of APs and other employees, and the firms resources. Among other things, an IB's policy must clearly state:

- That the IB's policy is firmly against money-laundering and terrorist financing.
- That the firm is committed to following all applicable laws and regulations to ensure its business is not used to facilitate money laundering.
- That a member of the firm's senior management approved the AML program in writing
- That the firm provided training at least every 12 months to all of its employees that work in areas susceptible to money laundering.
- That the program has been subject to an independent review at least every 12 months which tests the adequacy of the program.

**Customer Identification Program (CIP):** The Customer Identification Program (CIP) is an important part of your AML procedures. CFTC Regulation 162 states in part, an IB must have in place a "written program to detect, prevent and mitigate identity theft in connection with the opening of accounts and maintaining an existing account." The CIP must include procedures that enable the IB to form a reasonable belief that it knows the true identity of each customer. The CIP must describe the information it uses to identify each new customer - drivers' license, birth certificate, etc., and how that identification is verified. IBs should compare the information obtained to the list maintained by the Office of Foreign Assets Control from time-to-time for names of blocked persons, restricted countries and specially designated nationals. At a minimum, your CIP program must require you to obtain:

- The customer's name.
- Customer's date of birth.
- Customer's residence or business address (for individuals).
- Customer's principal place of business, local office or other physical location (for non-natural persons).
- Customer's social security number or taxpayer identification number.
- For non-U.S. persons, government issued document such as a passport or alien identification card.

Your AML program must also include procedures which will detect and require reporting of, suspicious activity. Your procedures should specify how it monitors for this activity. Suspicious activity should be evaluated, and, if it meets certain criteria, it must be reported. It is best to consult with your clearing firm and/or your lawyer if you suspect suspicious activity, but a general triggering activity could involve:

- (i) Funds that come from illegal activity; or
- (ii) Is a part of a transaction designed to conceal that the funds are from illegal activity; or
- (iii) Does not appear to serve any business or apparent lawful purpose; or
- (iv) Attempts to involve your IB to facilitate a criminal activity.

**Business Continuity and Disaster Recovery Plan:** NFA Compliance Rule 2-38 requires IBs to adopt a business continuity and disaster recovery plan designed to enable it to continue operating, to reestablish operation or to transfer its business to another member(s). This plan must be written and is part of your manual. You must communicate the plan to your employees. While each IB's plan should be tailored to the individual office, the plan must, at a minimum, specifically address the following:

- Back-up facilities, systems and personnel must be established in a separate geographical area from your primary offices (this means in a different power grid and different telecommunication vendors should be used).
- Backing up or copying essential documents and data, such as a general ledger and storing that information off-site.
- How your IB will minimize the impact of business interruptions encountered by your bank, carrying broker, order router and data provider.
- How you will communicate with your employees, customers, etc. in the event of a disaster.
- How you tested the plan for effectiveness, and how often you review the plan and update it.

**Ethics Training Policy:** Each IB is required to adopt a written ethics training policy. NFA Supervision Rule 2-9 and the Interpretive Notice “NFA Compliance Rule 2-9: Ethics Training Requirements” will help you design your policy if you are not provided one by your FCM. The purpose of ethics training is to ensure that registered individuals understand their responsibilities to the public, including responsibility to observe just and equitable principles of trade, rules or regulations of the CFTC, rules of the appropriate contract markets and the NFA, and any other applicable federal or state law, rule or regulation. Your Ethics Training Policy must be maintained as part of your Policy and Procedures Manual.

You can determine the frequency and form of the ethics training for your office based on the size of your operation and type of business. Most IBs find that requiring completion of the training every two to three years works well for their office. The following are some of the questions you should answer when developing your program.

- Who conducts the training?
- What are the provider’s qualifications?
- Do you use the internet, audiotapes or in-person courses to provide the training?
- How frequently are your APs required to complete the training?
- How long is the program for new and for existing APs?
- What topics does the ethics training program cover?
- What type of written materials will be distributed during the training?
- What type of documentation or record will you keep as proof you and your APs have completed the program?

**Privacy Policy Rules:** Your IB is required to comply with federal privacy laws and the CFTC’s regulations which apply those laws to futures registrants. The CFTC’s regulations require that customer information be protected in a general sense. IBs must have a written policy which describes the administrative technical and physical safeguards you use to protect customer records and information. The procedures your IB uses must be designed to keep customer records and information secure and confidential, protect against any anticipated hazards to the security or integrity of those records, and protect against unauthorized access to or use of that information. You will also need to determine when it is appropriate to disclose nonpublic personal information to unaffiliated third parties, and how you will notify your customers about your disclosure policies.

IBs must provide customers with a privacy notice when the customer first establishes a relationship with you, and update it annually. Your policy may include a statement that your IB only shares nonpublic personal information with third parties as permitted by law.



The NFA has posted a questionnaire online to help you develop your privacy policy. You should also consult *CFTC Regulation 160 - Privacy of Consumer Financial Information*. Following are some of the areas you should consider. This policy must be kept in your Policy and Procedures Manual.

- Your firm's written privacy policy pertaining to consumer financial information as required by CFTC Reg. 160 which requires your firm to provide the privacy notice to customers at the time the account is opened and annually thereafter.
- The customer "opt out" required notice

Cybersecurity is currently the most often discussed topic at industry conferences. By early fall of 2015, it is anticipated the NFA will submit proposed cybersecurity policy to the CFTC for approval as regulation for IBs. The NFA has stated it will develop the policy recognizing that all offices are different in their scope of operations, and therefore, different in their needs, and abilities to implement the required security actions. NFA will likely issue "guidelines" rather than hard rules similar to those issued for anti-money laundering and ethics training.

**Cybersecurity:** NFA released an Interpretive Notice in February, 2016 entitled Information Systems Security Programs (ISSP) which requires Member firms, including IBs to adopt and enforce written policies and procedures to secure customer data and access to electronic systems. Members may develop and implement ISSPs which take into account the size and complexity of operations of the IB, and the make-up of its customers. The Interpretive Notice requires each firm to adopt and enforce a ISSP appropriate to its circumstances.

Some items an appropriate ISSP should contain include:

- A security and risk analysis;
- A description of the safeguards against identified system threats and vulnerabilities;
- The process used to evaluate the nature of a detected security breach, to understand its potential impact and to take appropriate measures to contain and mitigate the breach; and

- A description of the firm's ongoing education and training related to information systems security for all appropriate personnel.

Your ISSP must be approved by an executive-level official of the firm. It requires firms to monitor and regularly review (ie. at least every 12 months). IBs must provide employees upon hiring and periodically during their employment with training that is appropriate to the security risks faced by the IB and its workforce. Additionally, your ISSP must address risks posed by third-party service providers.

To help you understand the NFA ISSP requirement, check the NFA's Self-Examination Checklist and talk to your FCM's compliance officer. Additionally, NIBA and other trade associations will be presenting seminars throughout 2016 which include lawyers and security experts, as well as NFA staff.

**Promotional Materials:** All GIBs must submit their promotional material to the guarantor FCM for review and approval prior to its first use. Review and approval of the materials must be documented by supervisory personnel. All registrants can also submit promotional matter directly to the NFA's Chicago office. Promotional Material is regulated under NFA Compliance Rules 2-29 and 2-36, available in full on the NFA's website. It is highly advisable to review these rules along with the NFA Self-Examination Checklist prior to your audit as the auditor will ask to view your promotional materials file.

**Customer Complaints:** A written record of all customer complaints must be kept by your IB and, if required by your guarantor, forwarded to that office who will review the complaints for rule violations and for similarity to other complaints which may indicate a pattern of abuse. You should review any unresolved complaints periodically. The NFA auditor will ask to view the customer complaint file.



## Following the Audit

Before the audit team leaves your office, they will generally meet with you to conduct an exit interview. The purpose of this interview is to discuss what has been found during the audit, in particular any deficiencies which were noted and how they can be corrected. The audit team will ask you to represent that the deficiencies will be corrected.

Upon returning to their office, the auditors will prepare a report. If no material deficiencies are found in your books, records and other documentation, the report will state that an audit has been conducted and no material deficiencies were noted. If there are deficiencies, the report will note them, and a written response will generally be required. Even if the audit discloses few or minor deficiencies, you are not allowed to represent to the public that it has been approved or recommended by the NFA. You are prohibited from doing that by NFA Compliance Rule 2-22.

If the audit indicates a serious or repeated violation of NFA rules, it will be forwarded to the Business Conduct Committee (BCC), a committee made-up of your fellow NFA members. The BCC may issue a warning letter or a formal complaint. If the audit findings proceed to a formal complaint, you will have the right to be heard. Serious violations can result in expulsion from the NFA, suspension for a specified period of time, censure, reprimand or a fine of up to \$250,000 per violation.

The NFA reports they see some deficiencies more than others while performing an IB audit. The most commonly noted are:

- Unlisted principals
- Unregistered Associate Persons
- Failing to update registration records

Audits are serious business. NFA staff is Knowledgeable and will respond to your inquiries. You must notify your FCM if you are notified about an audit. Most IBs also find it is appropriate to notify their lawyer and accountant. You should have no trouble if you keep your books and records in compliance with all NFA regulations and other applicable rules, you communicate your policies to your APs and you update your Policies and Procedures Manual regularly.

### Checklist for Chapter 6: First Audit

1. Is my Policy and Procedure Manual being kept where I can review and update it periodically?
2. Have I reviewed the NFA Checklist prior to my audit date?
3. Have I discussed with the NFA or my FCM which documents I need to have ready for the review?
4. Have I anticipated and prepared for the physical aspects of the audit -- do I have a desk or space ready for the auditors, have I told my employees and APs that auditors will be in the office?
5. If my IB uses any non-English language promotional materials, do I have English translations readily available to the auditors?
6. Do I have a copy of the written authorization from my FCM to open a customer segregated funds account?
7. Do I have a copy of the Guarantee Agreement with my FCM (GIBs)?
8. Who is the IB's Compliance Officer?
9. If I moved my office location, have I updated my Business Continuity and Disaster Recovery Plan?
10. Do I have an ISSP in place appropriate to my business?
11. Following the audit, have I followed up with the NFA or my FCM to ensure that any deficiencies found during the audit have been addressed?



## CHAPTER 7 RESOURCES

### **Resource: A source or supply from which benefit is produced.**

*Wikipedia.org, 2015*

You should not use any materials found on any website or other sources of information in your solicitation or promotional information without first checking with your compliance officer and your FCM if you are a GIB. Electronic solicitation is regulated by the NFA in the same manner as print or telephone solicitation, and is subject to the same rules. Solicitation is regulated for all Introducing Brokers.

Do not link to any site without prior permission.

Any materials approved and used for communication with prospective customers or existing clients, must be sourced and properly retained for your records, and subject to NFA regulation.

Website and social networking group communication is regulated by NFA Compliance Rules 2-9 and 2-29. Some of the issues you should be aware of include:

- The firm must have written procedures which supervise the preparation and use of websites.
- The firm must meet the standards of content established by NFA 2-29.
- The firm must ensure that any paid hyperlinks to the IB's website do not contain deceptive information regarding futures or options trading.
- The firm must monitor the general content of any website to which it links
- If the employees or agents use personal websites or online social networking groups to attract business for the firm, the firm must perform adequate reviews.

Email Communication is also regulated. Some issues to review are:

- Your written procedures to review the use of futures-related email by employees and agents which identify by title or position the person responsible for conducting the review and address what frequency emails are reviewed, how the review is documented and what type of emails will be pre-reviewed and post reviewed.
- That your firm ensures emails are in compliance with NFA's promotional material content and review procedures.

In the 2015 survey, IBs listed some of the websites and publications they found the useful -- they are included in this chapter. Most sources listed offer materials online and are free of charge. The professional services listed, such as accountants, lawyers and ethics/AML trainers, are individuals with familiarity with the unique requirements of the futures industry.

Resources listed in this Chapter are categorized as:

- Educational Institutions
- Futures, stocks, options, forex and swaps facilities
- Regulatory, government and association sites
- News and market commentary
- Data vendors and Equipment
- Web design and Marketing
- Ethics and Anti-money Laundering Training Providers
- Accountants/Compliance firms and Lawyers
- Print and Electronic Publications on Web design, Internet Marketing and Sales

## Educational Institutions

Universities and college site information includes research papers prepared by their departments of agriculture, finance and economics. Most data is available to download free of charge, **BUT** check the date the data was prepared, and be sure to source the material.

Alaska, University of – Anchorage	<a href="http://uaa.alaska.edu">uaa.alaska.edu</a>	Massachusetts at Amherst, Univ. of	<a href="http://umass.edu">umass.edu</a>
Arizona, University of – College of Agriculture and Life Sciences	<a href="http://cals.arizona.edu">cals.arizona.edu</a>	Michigan State University	<a href="http://msu.edu">msu.edu</a>
Auburn University	<a href="http://auburn.edu">auburn.edu</a>	Minnesota, University of	<a href="http://umn.edu">umn.edu</a>
Arkansas, University of	<a href="http://uark.edu">uark.edu</a>	Mississippi State University	<a href="http://msstate.edu">msstate.edu</a>
California, Berkeley, University of	<a href="http://berkeley.edu">berkeley.edu</a>	Missouri, University of	<a href="http://missouri.edu">missouri.edu</a>
Clemson University	<a href="http://clemson.edu">clemson.edu</a>	Montana State, University – Bozeman	<a href="http://montana.edu">montana.edu</a>
Connecticut, University of	<a href="http://uconn.edu">uconn.edu</a>	Nebraska, University of	<a href="http://nebraska.edu">nebraska.edu</a>
Cornell	<a href="http://cornell.edu">cornell.edu</a>	New Hampshire, University of	<a href="http://unh.edu">unh.edu</a>
Colorado State University	<a href="http://colostate.edu">colostate.edu</a>	New Mexico State University	<a href="http://nmsu.edu">nmsu.edu</a>
Delaware, University of	<a href="http://udel.edu">udel.edu</a>	North Carolina State University	<a href="http://ncsu.edu">ncsu.edu</a>
DePaul University	<a href="http://depaul.edu">depaul.edu</a>	North Dakota State University	<a href="http://ndsu.edu">ndsu.edu</a>
Florida, University of	<a href="http://ufl.edu">ufl.edu</a>	Ohio State University Extension	<a href="http://extension.osu.edu">extension.osu.edu</a>
Georgia Institute of Technology	<a href="http://gatech.edu">gatech.edu</a>	Oklahoma State University	<a href="http://osuokc.edu">osuokc.edu</a>
Georgia, University of	<a href="http://uga.edu">uga.edu</a>	Oregon State University	<a href="http://oregonstate.edu">oregonstate.edu</a>
Hawaii, University of	<a href="http://hawaii.edu">hawaii.edu</a>	Penn State University	<a href="http://psu.edu">psu.edu</a>
Idaho, University of	<a href="http://uidaho.edu">uidaho.edu</a>	Purdue University, Department of Agriculture	<a href="http://ag.purdue.edu">ag.purdue.edu</a>
Illinois State University	<a href="http://illinoisstate.edu">illinoisstate.edu</a>	Rice University, Dept. of Economics	<a href="http://economics.rice.edu">economics.rice.edu</a>
Illinois, University of – Ag College	<a href="http://aces.illinois.edu">aces.illinois.edu</a>	South Dakota State University	<a href="http://sdstate.edu">sdstate.edu</a>
Iowa State University	<a href="http://iastate.edu">iastate.edu</a>	Southern Illinois University	<a href="http://siu.edu">siu.edu</a>
Kansas State University	<a href="http://k-state.edu">k-state.edu</a>	Tennessee, University of	<a href="http://tennessee.edu">tennessee.edu</a>
Kentucky, University of	<a href="http://uky.edu">uky.edu</a>	Texas A&M University	<a href="http://tamu.edu">tamu.edu</a>
Louisiana State University	<a href="http://lsu.edu">lsu.edu</a>	Texas, University of	<a href="http://utexas.edu">utexas.edu</a>
		Utah State University	<a href="http://usu.edu">usu.edu</a>
		Vermont, University of	<a href="http://uvm.edu">uvm.edu</a>
		Virginia Tech	<a href="http://vt.edu">vt.edu</a>
		Washington State University	<a href="http://wsu.edu">wsu.edu</a>
		Wisconsin, University of	<a href="http://wisc.edu">wisc.edu</a>
		Wyoming, University of	<a href="http://uwyo.com">uwyo.com</a>

## Futures, Stocks Options, Forex and Swap Facilities

Exchange and trading platform sites are great resources. In addition to product information, most offer free education pages explaining basic trading techniques, webinars, end-of-day quotes, charts and other sales support materials. Exchange-produced materials, including white papers, are generally free for industry users.

Australian Securities Exchange [asx.com.au](http://asx.com.au)  
Bourse de Montreal [m-x.ca](http://m-x.ca)

Brazilian Securities,  
Commodities & Futures Exchange [bmfbovespa.com.br](http://bmfbovespa.com.br)

Chicago Board Options Exchange [cboe.com](http://cboe.com)

**CME Group** [cmegroup.com](http://cmegroup.com)

Dubai Gold & Commodities Exchange [dgcx.ae](http://dgcx.ae)

Eurex Group [eurexexchange.com](http://eurexexchange.com)

Hong Kong Exchange and Clearing, Ltd. [hkex.com.hk](http://hkex.com.hk)

InterContinental Exchange [theice.com](http://theice.com)

International Securities Exchange, Inc. [ise.com](http://ise.com)

Johannesburg Stock Exchange [jse.co.za](http://jse.co.za)

Korea Exchange [eng.krx.co.kr](http://eng.krx.co.kr)

London Metals Exchange [lme.com](http://lme.com)

Mexican Derivatives Exchange [mexder.com.mx](http://mexder.com.mx)

Minneapolis Grain Exchange [mgex.com](http://mgex.com)

Moscow Exchange [moex.com](http://moex.com)

NADEX [nadex.com](http://nadex.com)

NASDAQ [nasdaq.com](http://nasdaq.com)

New York Stock Exchange [nyse.com](http://nyse.com)

NYSE Euronext [nyse.nyx.com](http://nyse.nyx.com)

OneChicago [onechicago.com](http://onechicago.com)

Osaka Exchange [jpx.co.jp](http://jpx.co.jp)

Singapore Exchange Ltd [sgx.com](http://sgx.com)

Taiwan Futures Exchange [taifex.com.tw](http://taifex.com.tw)

The Tokyo Commodity Exchange [tocom.or.jp](http://tocom.or.jp)

Tokyo Stock Exchange, Inc. [tse.or.jp](http://tse.or.jp)

## Regulatory, Government and Association Sites

At regulatory sites such as the CFTC and the NFA, you will find registration forms, rule change information and member meeting details, as well as a number of industry reports. Check the CFTC site regularly for reports posted about the financial health of your FCM. Check the BASIC section of the NFA site before you hire any AP or associate with a CTA to see any disciplinary actions. And be sure to check the information the NFA has listed about you, and your company from time-to-time to be sure it is correct.

Other government sites include many well-researched reports and white-papers.

Association sites generally post their newsletters, as well as meeting announcements, regulatory submission letters and member contributions.

Bank for International Settlements [bis.org](http://bis.org)

Briefing.com [briefing.com](http://briefing.com)

Commodity Futures Trading Commission (CFTC) [cftc.gov](http://cftc.gov)

Commodity Markets Council (CMC) [commoditymktcs.org](http://commoditymktcs.org)

Futures Industry Association (FIA) [fia.org](http://fia.org)

Gallup Organization, The [gallup.com](http://gallup.com)

Global Association of Risk Professionals (GARP) [garp.org](http://garp.org)

Managed Funds Association (MFA) [managedfunds.org](http://managedfunds.org)

Market Technicians Association (MTA) [mta.org](http://mta.org)

National Futures Association (NFA) [nfa.futures.org](http://nfa.futures.org)

**National Introducing Brokers Association (NIBA)** [theniba.com](http://theniba.com)

Securities Exchange Commission (SEC) [sec.gov](http://sec.gov)

Securities Industry Association (SIA) [siaonline.org](http://siaonline.org)

Securities Industry and Financial Markets Association [sifma.org](http://sifma.org)

U.S. Department of Agriculture (USDA) [usda.gov](http://usda.gov)

U.S. Department of Commerce [commerce.gov](http://commerce.gov)

U.S. Treasury [treas.gov](http://treas.gov)

## News and Market Commentary

You can find news and market commentary on all exchange websites, as well as on many FCM sites. Your local area newspaper is also available online at [naa.org](http://naa.org), the Newspaper Association of America. The following list is by no means comprehensive, but it includes most of the publications which IBs found useful in 2015.

A Commodity Trading World	<a href="http://acommodity.com">acommodity.com</a>	Elliot Wave International	<a href="http://elliottwave.com">elliottwave.com</a>
Active Trader	<a href="http://activetradermag.com">activetradermag.com</a>	Energy Management Institute	<a href="http://energyinstitution.org">energyinstitution.org</a>
Advantages in Options	<a href="http://tradecaddie.com">tradecaddie.com</a>	EQ Derivatives	<a href="http://eqderivatives.com">eqderivatives.com</a>
Ag Resource	<a href="http://agresource.com">agresource.com</a>	Farm Week	<a href="http://farmweeknow.com">farmweeknow.com</a>
Agricultural Marketing Services	<a href="http://ams.usda.gov">ams.usda.gov</a>	Fast Company	<a href="http://fastcompany.com">fastcompany.com</a>
Allendale, Inc.	<a href="http://allendale-inc.com">allendale-inc.com</a>	Feedstuffs	<a href="http://feedstuffs.com">feedstuffs.com</a>
Bank Credit Analyst	<a href="http://bcaresearch.com">bcaresearch.com</a>	Financial Management Association, Intl.	<a href="http://fma.org">fma.org</a>
Barclay Hedge	<a href="http://barclayhedge.com">barclayhedge.com</a>	Financial Times	<a href="http://ft.com">ft.com</a>
Barrons	<a href="http://online.barrons.com">online.barrons.com</a>	Forex News	<a href="http://forexnews.com">forexnews.com</a>
Bloomberg	<a href="http://bloomberg.com">bloomberg.com</a>	Fox Business News	<a href="http://foxbusiness.com">foxbusiness.com</a>
Business Monitor International	<a href="http://businessmonitor.com">businessmonitor.com</a>	Futures and Options World	<a href="http://fow.com">fow.com</a>
CattleFax	<a href="http://cattlefax.com">cattlefax.com</a>	Futures Industry Association	<a href="http://fia.org">fia.org</a>
Chartist, The	<a href="http://thechartist.com">thechartist.com</a>	Futures Truth	<a href="http://thefinancials.com">thefinancials.com</a>
Cheese Market News	<a href="http://cheesemarketnews.com">cheesemarketnews.com</a>	FX Week	<a href="http://fxweek.com">fxweek.com</a>
Chicago Business	<a href="http://chicagobusiness.com">chicagobusiness.com</a>	Grant's Interest Rate Observer	<a href="http://grantspub.com">grantspub.com</a>
Chicago Sun-Times	<a href="http://suntimes.com">suntimes.com</a>	Hightower Report, The	<a href="http://futures-research.com">futures-research.com</a>
Chicago Tribune	<a href="http://chicagotribune.com">chicagotribune.com</a>	Interconti Limited	<a href="http://intercontilimited.com">intercontilimited.com</a>
CIS, Inc.	<a href="http://cis-okc.com">cis-okc.com</a>	International Investor	<a href="http://institutionalinvestor.com">institutionalinvestor.com</a>
CNBC.com	<a href="http://cnbc.com">cnbc.com</a>	Investor's Business Daily	<a href="http://investors.com">investors.com</a>
CNN	<a href="http://cnn.com">cnn.com</a>	John Lothian News	<a href="http://johnlothiannews.com">johnlothiannews.com</a>
Commstock Investments, Inc.	<a href="http://commstock.com">commstock.com</a>	Lowry's Market Trend Analysis	<a href="http://lowryresearch.com">lowryresearch.com</a>
Consensus	<a href="http://consensus-inc.com">consensus-inc.com</a>	Marketwatch	<a href="http://marketwatch.com">marketwatch.com</a>
CTA Intelligence	<a href="http://ctaintelligence.com/newsletter">ctaintelligence.com/newsletter</a>	Mergers & Acquisitions	<a href="http://themiddlemarket.com">themiddlemarket.com</a>
Derivatives Intelligence	<a href="http://globalcapital.com/derivatives">globalcapital.com/derivatives</a>	Moore Research Center	<a href="http://mrci.com">mrci.com</a>
Dow Theory Letters	<a href="http://dowtheoryletters.com">dowtheoryletters.com</a>	Managed Account Research, Inc.	<a href="http://ma-research.com">ma-research.com</a>
EContent	<a href="http://econtentmag.com">econtentmag.com</a>	Mergers & Acquisitions	<a href="http://themiddlemarket.com">themiddlemarket.com</a>
Economist, The	<a href="http://economist.com">economist.com</a>	Modern Trader (formerly Futures Magazine)	<a href="http://modernt trader.com">modernt trader.com</a>
		Moore Research Center	<a href="http://mrci.com">mrci.com</a>
		Morningstar Mutual Funds	<a href="http://morningstar.com">morningstar.com</a>
		MSNBC	<a href="http://msnbc.com">msnbc.com</a>
		National Hog Farmer	<a href="http://nationalhogfarmer.com">nationalhogfarmer.com</a>
		New York Times	<a href="http://nytimes.com">nytimes.com</a>
		NIBA Journal, The	<a href="http://theniba.com">theniba.com</a>

Opalesque.com	<a href="http://opalesque.com">opalesque.com</a>
Optima Investment Research	<a href="http://oir.com">oir.com</a>
Options University	<a href="http://optionsuniversity.com">optionsuniversity.com</a>
ProFarmer Ag Trader	<a href="http://agweb.com">agweb.com</a>
Reuters	<a href="http://reuters.com">reuters.com</a>
Technical Analysis, Stocks & Commodities	<a href="http://traders.com">traders.com</a>
Trader's Edge	<a href="http://atradersedge.com">atradersedge.com</a>
U.S. News & World Report	<a href="http://usnews.com">usnews.com</a>
USA Today	<a href="http://usatoday.com">usatoday.com</a>
Wall Street Journal, The	<a href="http://wsj.com">wsj.com</a>
Wall Street Letter	<a href="http://wallstreetletter.com">wallstreetletter.com</a>
Wall Street & Technology	<a href="http://wallstreetandtech.com">wallstreetandtech.com</a>
Waters Technology	<a href="http://waterstechnology.com">waterstechnology.com</a>

## Data Vendors and Equipment

In addition to those listed below, check with your FCM to see if any vendors are required or preferred. Also check with your trade association to see if your membership in the association entitles you to discounts or special member packages.

Barchart.com	<a href="http://barchart.com">barchart.com</a>
Bloomberg LP	<a href="http://bloomberg.com">bloomberg.com</a>
Commodity Systems, Inc.	<a href="http://cisdata.com">cisdata.com</a>
CQG	<a href="http://cqg.com">cqg.com</a>
ClimatEdge	<a href="http://csc.com/climatedge">csc.com/climatedge</a>
DTN/The Progressive Farmer	<a href="http://dtnprogressivefarmer.com">dtnprogressivefarmer.com</a>
eSignal	<a href="http://esignal.com">esignal.com</a>
Interactive Data	<a href="http://interactivedata.com">interactivedata.com</a>
Marketsource Online	<a href="http://msodata.com">msodata.com</a>
Metal Prices.com	<a href="http://metalprices.com">metalprices.com</a>
OptionCity	<a href="http://optioncity.com">optioncity.com</a>
QT Info Systems	<a href="http://qtmarketcenter.com">qtmarketcenter.com</a>
Reuters Data Link	<a href="http://metastock.com">metastock.com</a>
Schneider Electric	<a href="http://schneider-electric.com">schneider-electric.com</a>
Tick Data, Inc.	<a href="http://tickdata.com">tickdata.com</a>

## Website Design and Marketing

Your web design is your online calling card. Some FCMs offer assistance to their IBs, but most often you will need to contact a professional designer to develop your website. Your developer will need to understand the regulations regarding solicitation to ensure you stay in compliance.

You will need to make sure any marketing professionals you deal with are very familiar with the unique regulations of the futures industry before allowing them to develop marketing or sales materials.

Gate 39 Media	<a href="http://gate39media.com">gate39media.com</a>
Ginger Szala Ink	<a href="http://gingerszala.com">gingerszala.com</a>
Lida Citron	<a href="http://lida360.com">lida360.com</a>
Propel Growth	<a href="http://propelgrowth.com">propelgrowth.com</a>
Trungale, Egan & Associates	<a href="http://trungalegan.com">trungalegan.com</a>
Windy City Web Designs	<a href="http://windycitywebdesigns.com">windycitywebdesigns.com</a>

## Anti-money Laundering and Ethics Training Providers

The NFA requires periodic training regarding its anti-money laundering provisions and ethical behavior regulations. The following companies provide programs suitable for your initial training session and updates. Most can offer in-person or computer-based training.

Exchange Analytics, Inc.	<a href="http://xanalytics.com">xanalytics.com</a>
FINRA	<a href="http://finra.org">finra.org</a>
Futures Industry Association	<a href="http://fiafii.org">fiafii.org</a>
The Center for Futures Education	<a href="http://thectr.com">thectr.com</a>
Walsh Agency	<a href="http://futuresethicstraining.com">futuresethicstraining.com</a>

## Accountants/Compliance Firms/Other Professional Services

IIBs and CTAs must file certain financial reports directly with the NFA. It is important that those meet NFA requirements so that the filer is not subject to fines for non-compliance. All IBs and APs would benefit from consulting with accountants and compliance specialists who are familiar with the futures and options industry.

Advanced Regulatory Compliance, Inc.	<a href="http://advreg.com">advreg.com</a>
Compliance Supervisors Int'l, Inc.	<a href="http://compliancesupervisors.com">compliancesupervisors.com</a>
Michael Coglianese, CPA, PC	<a href="http://coglianese CPA.com">coglianese CPA.com</a>
DeMarco, Sciacotta, Wilkens & Dunleavy, LLP	<a href="http://dscpagroup.com">dscpagroup.com</a>
Futures Accounting & Compliance	<a href="http://futuresaccounting.com">futuresaccounting.com</a>
Great Lakes Credit Union	<a href="http://glcu.org">glcu.org</a> / <a href="http://theniba.com">theniba.com</a>
Michael Liccar, CPA	<a href="http://liccar.com">liccar.com</a>
Midland IRA	<a href="http://midlandira.com">midlandira.com</a>
Millennium Trust Company	<a href="http://mtrustcompany.com">mtrustcompany.com</a>
Shore Capital Management, LLC	<a href="http://shorecapmgmt.com">shorecapmgmt.com</a>
Strategic Compliance Solutions	<a href="http://strategiccompliancesolutions.com">strategiccompliancesolutions.com</a>
Turnkey Trading Partners	<a href="http://turnkeytradingpartners.com">turnkeytradingpartners.com</a>
United Lex	<a href="http://unitedlex.com">unitedlex.com</a>
VLR Communications	<a href="http://vlrcommunications.com">vlrcommunications.com</a>

## Lawyers

Whether it's your initial registration filing or you are preparing a disclosure document, you will need the assistance of an attorney who is skilled in the particular requirements of the financial industry. It is a good idea to consult with an attorney very early on in the process of making decision about your business.

Baker & McKenzie, Matt Kluchenek	<a href="mailto:matt.kluchenek@bakermckenzie.com">matt.kluchenek@bakermckenzie.com</a>
Gekas & Associates, Chris Gekas	<a href="mailto:CIG@gekaslaw.com">CIG@gekaslaw.com</a>
Funkhouser Vegosen Liebman & Dunn, Ltd, Jeff Kopiwoda	<a href="mailto:jkopiwoda@fvld.com">jkopiwoda@fvld.com</a>
Geenburg Taurig, LLP, Jeff Henderson	<a href="mailto:hendersonj@gtlaw.com">hendersonj@gtlaw.com</a>
Howard & Howard Attorneys, Jeff Barclay	(312) 456-3433
Ruddy Law, Mark Ruddy	<a href="mailto:mruddy@ruddylaw.com">mruddy@ruddylaw.com</a>
Ulmer & Berne, LLP, Kenneth Berg	<a href="http://ulmer.com">ulmer.com</a>
Wolin & Rosen, Charles Mack	<a href="mailto:cmack@wolinlaw.com">cmack@wolinlaw.com</a>

## Print and Electronic Publications on Web Design, Internet Marketing and Sales

Sometimes you just need to read a good book. Whether you want to know more about sales, or how to talk to your web designer, you can find some information here. Most of the publications listed below are available at Amazon, and most can be purchased in hard-copy or for your electronic reader.

Bernoff, Josh and Li, Charlene: *Groundswell, Expanded & Revised Edition: Winning in a World Transformed by Social Technologies* Paperback and Kindle Editions, 2011

Duckett, Jack: *Web Design with HTML, CSS, JavaScript and jQuery Set* Paperback and Hardcover, 2014  
(Free download @ [wakwaw.com](http://wakwaw.com) with registration)

Duhigg, Charles: *The Power of Habit* Hardcover, Paperback, Audiobook CD and Kindle Editions, 2012



Gitoma, Jeffrey: *Little Red Book of Selling: 12.5 Principles of Sales Greatness*

Hardcover, Audiobook CD and Kindle Editions, 2004

Hoffman, Reid and Casnocha, Ben: *The Start-Up of You: Adapt to the Future, Invest in Yourself*

Hardcover, Paperback, Audiobook CD and Kindle Editions, 2012

Mandino, Og: *The Greatest Salesman in the World*

Hardcover, Paperback, Audiobook CD and Kindle Editions, 1968  
(Free Audiobook on YouTube)

Riccobini, Adam and Callahan, Daniel: *You, Inc., The Art of Selling Yourself*

Paperback, Audiobook CD and Kindle Editions, 2012

Richards, Adam: *Internet Marketing: The Definitive Beginner's Guide*  
Kindle, 2015

Robbins, Jennifer: *Learning Web Design*

Paperback and Kindle Editions, 2012

Scott, David: *The New Rules of Sales and Service*

Hardcover and Kindle Editions, 2015

Vee, Jimmy and Miller, Travis; Bauer, Joel: *Gravitational Marketing: The Science of Attracting Customers*

Hardcover and Kindle Editions, 2015

Zimmerman, Jan and Ng, Deborah: *Social Marketing for Dummies*

Paperback and Kindle Editions, 2014

### Checklist for Chapter 7: Resources

1. What type of information do I need to supplement my knowledge of the industry?
2. What type of information do I need to supplement my knowledge of the markets?
3. How much time can I afford to devote to using outside sources to build my business?
4. Do I need outside marketing, accounting or legal assistance to build my business?
5. Will I use an in-house provider for my ethics and AML training, or should I contact an outside, professional source?
6. Does my trade association offer support or assistance to help me locate attorneys, accountant and others who understand the particular requirements of the futures industry?
7. Have I contacted the website before I link to it?  
Does the content meet the standards of content established by the NFA?
8. Have I properly "sourced" any information or material I use from any website or publication?
9. I am sure paid hyperlinks to my website do not contain deceptive information regarding futures or options trading?
10. Do I have a review procedure for employees futures-related email accounts?
11. Have I checked with my FCM before linking to any website?
12. Have I created a "Solicitations" folder in which I maintain any materials from any outside source which my firm uses to communicate with the public?



## CHAPTER 8

# TRADE ASSOCIATIONS

---

**Association:** An association of people or companies in a particular business or trade, organized to promote their common interests.

---

*Random House Dictionary, 2015*

Support groups are one of the not-so-secret secrets of a successful business. Nearly 40 percent of all IBs responding to the 2015 survey upon which this Handbook is based, belong to at least one professional organization. According to industry statistics, about 85 percent of all FCMs belong to a trade association.

IBs in 2015 do not consider trade associations as just another necessary expense. Trade associations are tools to be used to build your business. Before you join, ask yourself if you know what value you receive directly for the amount of dues paid or time expended. Periodically, remind yourself why you joined, and if the association is still meeting your expectations.

---

### 38% of IBs Responding belong to Trade Associations

---

IBs belong to such diverse groups as the National Cattlemen's Association, the American Bar Association, the Mortgage Bankers Association, the Better Business Bureau and the National Feed & Grain Association. They belong for the following reasons:

**Networking:** IBs and other registrants say networking is the #1 reason to join a trade association. Meet IBs and other professionals at conferences and workshops, and share ideas for problem solving. You can expand your circle of business contacts through networking.

**Information and Education:** Trade associations are clearing houses of information. They summarize technological developments, government regulations, business practices and industry statistics for you.

**Professional Development:** Improve your professional skills in areas such as marketing and using new products. You can learn a new trading method or improve your website development skills through your trade association.

**Publications:** Receive publications which keep you abreast of regulatory change, as well as general industry developments. Most associations post monthly newsletters electronically as a benefit of membership.

**Power of Belonging:** Your opinion is much more likely to be heard and taken seriously when it is part of a unified, stronger voice. Being part of a group means making your opinion count. The collective effort helps raise the image and influence of the IB community to a level that allows the entire registration category to gain respect and exercise influence.

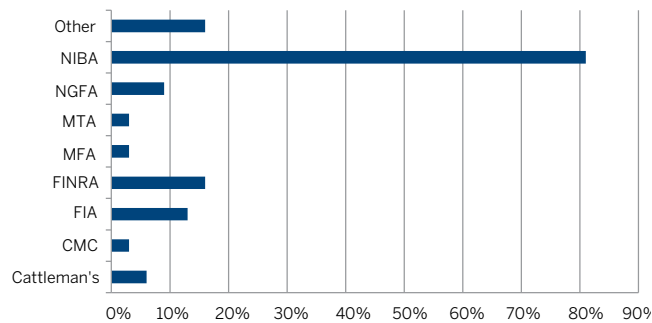
**Regulator Relations:** When key issues affecting your business are discussed, you will be better informed and represented at the CFTC, NFA and in Washington, DC if you belong to a trade association. Associations follow updates to regulation. They comment, and are consulted by various agencies when policy changes are made.

**Member Discounts:** Many organizations offer discounts to their members on everything from software and quotation devices to meetings. Some also offer group health insurance, human resource administration and credit union membership.

**Lifelong Friendships:** Being a member of a trade association offers the opportunity to meet people outside of your immediate geographical area who share your business goals. Friendships inevitably develop, and can last for many years.

The following associations are those most often mentioned by IBs responding to the 2015 survey. Additional information is found at the individual websites.

## Organizations to Which IBs Belong



### National Introducing Brokers Association (NIBA)

#### NIBA:

55 West Monroe, Ste. 3600  
Chicago, IL 60603

Website: [theniba.com](http://theniba.com)

Ph: (312) 977-0598

#### Primary Contacts:

Melinda Schramm: [melinda@futuresrep.com](mailto:melinda@futuresrep.com)

Steve Petillo: [petillo@coquest.com](mailto:petillo@coquest.com)

Mike Burke: [mikeb@highgroundtrading.com](mailto:mikeb@highgroundtrading.com)

The National Introducing Brokers Association (NIBA), based in Chicago, IL, is a non-profit membership organization focused on the needs of retail professionals in the futures, options, swaps and forex business. Founded in 1991, NIBA has over 350 company members including IBs, CTAs, and APs, plus the sponsorship of the domestic exchanges and FCMs who clear retail business.

The purpose of the NIBA is to provide education to IBs and other registrants who are primarily engaged in retail offerings. That purpose is accomplished through face-to-face meetings and a twice-monthly electronic newsletter. Members discuss and evaluate issues directly affecting their livelihood. The association's business is done by its board of directors - a combination of elected IBs and CTAs, and appointed FCM and exchange representatives. Officers and committee members are volunteers who are actively engaged in the industry.

The NIBA holds regularly scheduled meetings with the NFA, and meets at least twice yearly with the CFTC. The annual Member Conference, held each fall in Chicago, emphasizes networking, marketing, continuing education and an update from the NFA to the membership. Other member events are held throughout the year in locations which include southern California, New York City and Miami.

NIBA member benefits include a listing and click-through link for all IB and CTA members on the NIBA website directory; complimentary attendance at membership conferences; a twice-monthly electronic newsletter; a resource directory for professional assistance; regulatory representation; and discounts from various industry service and goods providers. The NIBA also offers members human resource administrative services and credit union membership through third-party providers.

All IBs, CTAs and APs registered and in good standing with the NFA are eligible to join the NIBA. Membership fees are \$150 for IBs and CTAs, \$75 for APs annually. FCMs and other industry professionals may also join in supporting categories.

#### The 2015 Board of Directors of the NIBA includes:

- Founder/Chairman of the Board: Melinda Schramm – [melinda@futuresrep.com](mailto:melinda@futuresrep.com)
- President/NFA Issues: Mike Burke – [mikeb@highgroundtrading.com](mailto:mikeb@highgroundtrading.com)
- Vice Pres/Communications: Shane Stiles – [shane@gate39media.com](mailto:shane@gate39media.com)
- Treasurer: Mike Coglianese, CPA – [mike@cogcpa.com](mailto:mike@cogcpa.com)
- Sec/Newsletter: Ryan Griffeth – [ryan.griffeth@postrockbrokerage.com](mailto:ryan.griffeth@postrockbrokerage.com)
- Past Pres./Memb/SoCal Conf: John Jensen – [jjensen@hwfi.com](mailto:jjensen@hwfi.com)
- Immed. Past Pres: Steve Petillo –

---

[stevepetillo@gmail.com](mailto:stevepetillo@gmail.com)

- Member/AG Issues: Rodney Dow –  
[rodney@thedowcorp.com](mailto:rodney@thedowcorp.com)
- Member/Service Providers: Ralph Preston –  
[rpreston@hwfi.com](mailto:rpreston@hwfi.com)
- Member/Membership: William Gallwas –  
[wgallwas@striker.com](mailto:wgallwas@striker.com)
- Member/DePaul Conf: Jerry Nolan –  
[jnolan@countycorkllc.com](mailto:jnolan@countycorkllc.com)
- Member/NY Conf: Howard Rennell –  
[hrennell@e-windham.com](mailto:hrennell@e-windham.com)
- Member/Resources: Tom Sandy –  
[ts@ricedairy.com](mailto:ts@ricedairy.com)
- Member/FCM Issues: Brian Gaffud –  
[bgaffud@rcgdirect.com](mailto:bgaffud@rcgdirect.com)
- Member/FCM Issues: Mark Washack –  
[mwashack@wedbush.com](mailto:mwashack@wedbush.com)
- Member/FCM Issues: Paul Fry –  
[pfry@straitsofinancial.com](mailto:pfry@straitsofinancial.com)
- Member/Exchange Issues: Barbara Schmidt-Bailey –  
[barbara.schmidt-bailey@cmegroup.com](mailto:barbara.schmidt-bailey@cmegroup.com)
- Legal Advisor: Matt Kluchenek –  
[matt.kluchenek@bakermckenzie.com](mailto:matt.kluchenek@bakermckenzie.com)

### **American Petroleum Institute (API)**

#### **API Office:**

**1220 L Street, N.W.  
Washington, DC 20005**

**Website:** [www.api.org](http://www.api.org)

**Ph:** (201) 682.8000

#### **Primary Contact:**

**Jack Gerard:** [jgerard@api.org](mailto:jgerard@api.org)

The American Petroleum Institute (API) represents all aspects of America's oil and natural gas industry. The 600+ corporate members include producers, refiners, suppliers, pipeline operators and marine transporters, as well as service and supply companies. The mission of API is to influence public policy in support of a strong, viable U.S. oil and natural gas industry.

API conducts and sponsors research on all aspects of U.S. industry operations, including supply and demand of various products, imports and exports. Much of this information is available through their Weekly Statistical Bulletin.

Throughout the year, API organizes seminars, workshops and conferences on current public policy issues. More information about the association is found at their website.

---

## Commodity Markets Council (CMC)

### CMC Office:

1300 L Street, N.W., Ste. 1020

Washington, DC 20005

Website: [www.commoditymkts.org](http://www.commoditymkts.org)

Ph: (202) 842.0400

### Primary Contact:

**Gregg Dodd:** [gregg.dodd@commoditymkts.org](mailto:gregg.dodd@commoditymkts.org)

**Meghan Tran:** [meghan.tran@commoditymkts.org](mailto:meghan.tran@commoditymkts.org)

The Commodity Markets Council (CMC) is a trade association which brings commodity exchanges together with their industry counterparts. Most commercial users of the futures markets are members, including representatives from the agriculture, energy, metals and financial industries.

CMC advocates for an open, competitive marketplace by addressing issues focusing on agriculture, energy, finance, infrastructure and transportation. In 2015, their key areas of focus include ensuring that end-users are able to utilize markets for risk management that are safe, stable and liquid; participating in the implementation of Dodd-Frank Act regulations by the CFTC; and obtaining legislative and regulatory relief from burdensome regulations on commodity end-users.

Members of CMC from the industry are the regular users of the CME Group, ICE Futures, Minneapolis Grain Exchange and New York Mercantile Exchange. This organization began in 2006 as a successor to the National Grain Trade Council, with the purpose of working with the CFTC and lawmakers to improve transparency and accountability.

Membership is open to exchanges, FCMs, IBs, CTAs and others who transact futures related business. Events include annual State of the Industry meetings and market-specific conferences, such as those on energy and agriculture. Contact CMC directly to learn about their dues structure.

## Futures Industry Association (FIA)

### FIA:

2001 Pennsylvania Avenue, N.W.

Washington, C 20006

Website: [www.futuresindustry.org](http://www.futuresindustry.org)

Phone: (202) 466-5460

### Primary Contacts:

**Walter Lukken:** [wlukken@fia.org](mailto:wlukken@fia.org)

**Mary Ann Burns:** [maburns@fia.org](mailto:maburns@fia.org)

**Toni Vitale-Chan:** [tvitalechan@fia.org](mailto:tvitalechan@fia.org)

Founded in New York City, the Futures Industry Association (FIA) moved to Washington, DC in 1978. It's original purposes included providing a forum to discuss issues, work with exchanges, represent public customers, study ways to reduce costs, eliminate abuse of credit and cooperate on educational efforts. In 1973, the association expanded to offer membership to Chicago FCMs.

Today, the FIA has 250 members and associate members in 20 countries, and reports that over 85 percent of registered FCMs belong. That 85 percent is estimated to be responsible for more than 80 percent of the customer business transacted on U.S. futures exchanges, and include the top 20 firms in terms of customer equity.

Associate members include IBs, CTAs, CPOs, information and equipment providers, international exchanges, banks and legal and accounting firms. Employees of corporate members are entitled to join the FIA's various divisions, receive publications, use the legal, statistical and information resources of the FIA, and attend FIA events at reduced member rates.

### FIA Divisions include:

- Chicago Chapter
- Information Technology Division
- Law and Compliance Division
- Futures Services Division
- Japan Chapter

#### **FIA Events include:**

- An annual Expo held in Chicago which focuses on technology and software. This is the largest expo of its kind in the U.S., and usually draws over 4,000 attendees.
- An annual Law and Compliance workshop held in Baltimore, MD.
- An annual membership meeting held in Boca Raton, FL.
- Meetings in various locales including Japan, New York, London and Geneva.

Membership benefits include Washington representation, division membership, conferences, webinars and publications, which include the FIA Smart Brief, a daily electronic industry news update, and various white papers and case studies.

FIA membership fees vary based on the applicants structure and/or registration status. Once the corporate entity becomes a member, its employees may join the various divisions. Regular members (FCMs) pay \$3 - 8,000 annually. IBs and Foreign Brokers may join for \$3,000. Funds and advisors which include CTAs, join for \$5,000.

#### **Global Association of Risk Professionals (GARP)**

##### **U.S. Office:**

**111 Town Square Place, 14th Floor  
Jersey City, NJ 07310**

**Website:** [www.garp.org](http://www.garp.org)

**Phone:** (201) 719-7210

##### **London Office:**

**2nd Floor, Bengal Wing, 9a Devonshire Square,  
London EC2M 4YN**

**Phone:** +44 (0) 20 7397 9630

##### **Primary Contact:**

**Richard Apostolik:** [richard.apostolik@garp.org](mailto:richard.apostolik@garp.org)

**Certifications:** [memberservices@garp.org](mailto:memberservices@garp.org)

Founded in 1996, the Global Association of Risk Professionals (GARP) is a not-for-profit association with a membership of over 150,000 individuals worldwide who are involved in financial risk management. Members come from over 190 countries, and work in regional and global banks, asset management firms, insurance companies, securities regulation, hedge funds, universities, large industrial corporations and multinational corporations.

GARP's mission is to advance the risk profession through education, training and promotion of best practices globally. GARP works on expanding views and increasing recognition of the global risk management community through its events, publications, website and certification programs.

GARP offers three risk management certification programs: Financial Risk Manager (FRM), Energy Risk Professional (ERP) and International Certification of Banking Risk and Regulation. All certifications require an examination, which includes the major disciplines of financial risk and energy-related practices.

Conferences and chapter meetings are available to members. Annual and regulatory conferences are held in New York City, while chapter meetings have been held in Singapore, Dubai, Bahrain and London. The events bring together senior risk managers, leading academicians, regulators and policy makers discussing the latest developments in the practice of risk management.

GARP website registration is free and includes access to articles from its professional magazine and research webcasts. Membership and dues are divided into three categories: Individual U.S. members pay \$195 per year; U.S.-based students, \$95; and, Affiliates (all who access the public areas of the association website) are free.

---

## International Swaps and Derivatives Association (ISDA)

### Washington Office:

1101 Pennsylvania Ave., Ste. 600  
Washington, DC 20004

Website: [www2.isda.org](http://www2.isda.org)

Phone: (202) 756-2980

### New York Office:

360 Madison Ave., 16th Fl.  
New York, NY 10017

Phone: (212) 901-6001

### Primary Contact:

Scott O'Malia: [somalia@isda.org](mailto:somalia@isda.org)

Liz Zazzera: [lzazzera@isda.org](mailto:lzazzera@isda.org)

Founded in 1985, the primary purpose of the ISDA is to make over-the-counter derivatives markets safe and efficient, in order to facilitate effective risk management for all users of derivative products. The 800 member institutions represent 62 countries and include investment managers, government entities, insurance companies, energy and commodity firms, in addition to banks, exchanges, law and accounting firms, and other corporations.

ISDA's goal is to build robust, stable financial markets and a strong financial regulatory framework through research, sound risk management strategy and strong infrastructure management. ISDA holds conferences throughout the year, and presents webcasts and press releases intended for its members.

There are three member types at ISDA: (1) Primary Member, such as an investment or commercial bank, or other business organization that deals in derivatives as part of its business; (2) Associate Members, which include service providers such as brokers, law firms, exchanges and software providers; and, (3) Subscriber Members, such as financial institutions and government entities who use privately negotiated derivatives to manage risk. Contact and dues information are found at their website.

## Managed Funds Association (MFA)

### Washington Office:

600 14th Street, N.W., Suite 900  
Washington, DC 20005

Website: [www.managedfunds.org](http://www.managedfunds.org)

Phone: (202) 730-2600

### New York Office:

546 5th Avenue, 12th Floor  
New York, NY 10036

Phone: (212) 542-8460

### Primary Contact:

Richard Baker: [rbaker@managedfunds.org](mailto:rbaker@managedfunds.org)

Randee Lee Ganter: [rlganter@managedfunds.org](mailto:rlganter@managedfunds.org)

Sarah Morgan: [smorgan@managedfunds.org](mailto:smorgan@managedfunds.org)

The Managed Funds Association (MFA) represents the global alternative investment industry and its investors. It advocates for sound industry practices and public policies that foster efficient, transparent and fair capital markets. It is an advocacy, education and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers. MFA members work with pension, plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns.

MFA has a global membership of more than 650 including FCMs, banks, hedge fund advisors, IBs, CTAs and CPOs. It regularly engages with regulators and policy makers in Asia, Europe, Australia, South America, and the U.S.

MFA's member advantages include an electronic newsletter, Washington representation, conferences held around the world, research and discounts on meetings and various publications. Recently the MFA has held conferences in Chicago, New York and Florida, as well as several webinars. The topics discussed included



position limits, reasons to invest in hedge funds, a short education on state lobbying rules, and European short-selling regulation.

MFA has four categories of membership which are based on the members size, and provide different levels of benefits: (i) Sustaining: typically large fund managers with at least \$1bn AUM; (ii) Capital: typically mid-large fund managers and others with at least \$500 million AUM; (iii) Basic: members with less than \$500 million AUM; and (iv) Subscriber: members who are start-ups and emerging managers with less than 18-months in the business or less than \$20 million under management. Membership fees vary by category.

### Market Technicians Association (MTA)

#### MTA Office:

**61 Broadway, Suite 514  
New York, NY 10006**

**Website:** [www.mta.org](http://www.mta.org)

**Phone:** (646) 652-3300

#### Primary Contacts:

**Tim Licitra:** [tim@mta.org](mailto:tim@mta.org)

**Marie Penza :** [memberservices@garp.org](mailto:memberservices@garp.org)

**Gordon Scott:** [gordon@mta.org](mailto:gordon@mta.org)

The Market Technicians Association (MTA) is a not-for-profit professional regulatory organization with over 4,500 market analysis professionals located in 85 countries. Its main objectives involve the education of the public, the investment community and its membership regarding the theory, practice and application of technical analysis.

MTA accomplishes its mission through various services including, regional seminars, local chapter meetings, a library of technical analysis material and regular publication of newsletter and journals. MTA members and affiliates include technical analysts, portfolio managers, investment advisors, market letter writers and others involved in the technical aspects of equities, futures, options, fixed income securities, currencies,

international markets, and derivatives.

MTA offers certification as a Chartered Market Technician (CMT). To be certified, a candidate must complete a three-level examination and abide by the MTA Code of Ethics. The certification is a significant step toward attaining FINRA's Registered Research Analyst (Series 86) registration. CMTs must have also been employed in a professional analytical or investment management capacity for a minimum of three years, and must be regularly engaged in this capacity at the time of successfully passing all three levels of the CMT exam. The CMT designation can be helpful when you are applying for a research position.

Affiliate member status is open to anyone who is interested in learning technical analysis. Full Members status includes the right to vote on MTA organization matters, and is mandatory as part of eligibility for the CMT designation. Applicants must have a member-sponsor. Student status is for full-time students of accredited two or four-year universities or colleges, who have a genuine interest in the field of technical analysis and in the association. Students pay \$100 annually.

### National Cattlemen's Beef Association (NCBA)

#### NCBA office:

#### Seven Regional Offices

**Website:** [www.beefusa.org](http://www.beefusa.org)

#### Primary Contacts (National):

**Philip Ellis, Pres.:** [pellis@beefusa.org](mailto:pellis@beefusa.org)

**Tracy Brunner:** [tbrunner@beefusa.org](mailto:tbrunner@beefusa.org)

First established as the National Livestock Growers Association, this organization held its first convention in Denver, Colorado in January of 1898. After three mergers, two world wars, numerous organizational splits and economic and natural disasters, the

National Cattlemen’s Beef Association is recognized as the voice of the American cattle industry.

Membership is organized by geographical region and dues are levied according to production. For example, a producer with up to 100 head will pay \$100 per year to belong to the NCBA. Membership for those without live cattle is available for as little as \$100 or \$50 for full-time students. Member Benefits include a weather blog and benefits derived from other NCBA members such as Caterpillar and John Deere companies.

### National Grain and Feed Association (NGFA)

**NGFA office:**

**1250 I Street, N.W., Ste. 1003**

**Washington, DC 2005**

**Website:** [www.ngfa.org](http://www.ngfa.org)

**Ph:** (202) 289.0873

**Primary Contacts:**

**Randy Gordon, Pres:** [rgordon@ngfa.org](mailto:rgordon@ngfa.org)

**Todd Kemp, Vice-Pres.:** [tkemp@ngfa.org](mailto:tkemp@ngfa.org)

The Nation Grain and Feed Association (NGFA) represent and provide services for grain, feed and related commercial businesses. Its activities focus on enhancing the growth and economic performance of U.S. agriculture.

NGFA counts as members more than 1,000 companies made up of about 6,000 facilities including all sectors of the industry. Their members handle more than 70 percent of all U.S. grains and oilseeds used in both domestic and export markets. Members include country elevators and feed mills, export elevators, cash grain and feed merchandisers, futures brokers and end users of grain and grain products.

NGFA is affiliated with approximately 30 state and regional associations -- those members’ number more than 10,000 grain and feed companies nationwide. Contacts for those regional associations are found on their website.

### Checklist for Chapter 8: Trade Associations

1. What type of support am I looking for — help understanding changing regulation, marketing strategies, colleague networking?
2. What value do I get from belonging that I can use to build my business?
3. Does the association have face-to-face events, as well as webinars and newsletters that I can use to increase and update my knowledge of the industry?
4. Are the other members colleagues with whom I can share experiences and learn?
5. Periodically ask yourself — “Why did I join this association, and is it still meeting my expectations?”





---

**CME GROUP HEADQUARTERS**

20 South Wacker Drive  
Chicago, Illinois 60606  
[cmegroup.com](http://cmegroup.com)

**CME GROUP GLOBAL OFFICES**

**Chicago**  
+1 312 930 1000  
**Singapore**  
+65 6593 5555  
**Houston**  
+1 713 658 9292  
**Tokyo**  
+81 3 3242 6228

**New York**  
+1 212 299 2000  
**Calgary**  
+1 403 444 6876  
**São Paulo**  
+55 11 2787 6451  
**Washington D.C.**  
+1 202 638 3838

**London**  
+44 20 3379 3700  
**Hong Kong**  
+852 2582 2200  
**Seoul**  
+82 2 6336 6722