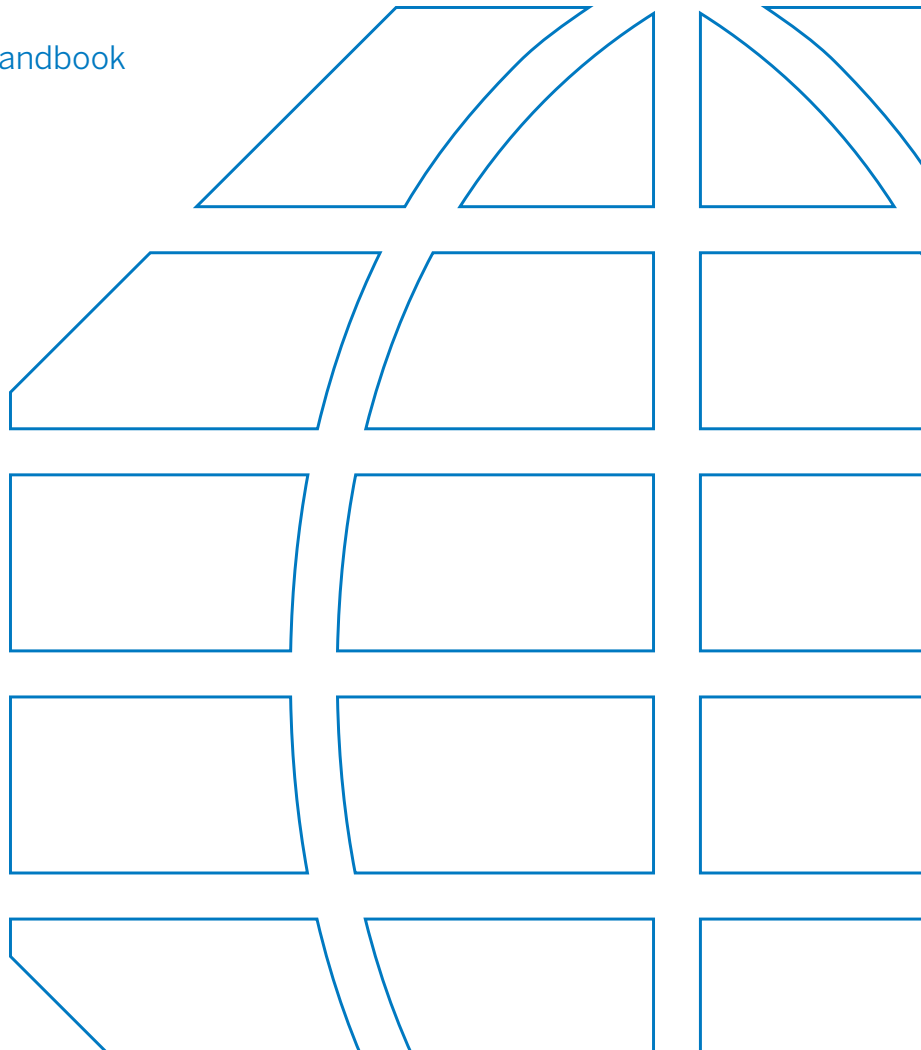


The IB Handbook

Written by Melinda H. Schramm

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In a world of increasing volatility, CME Group is where the world comes to manage risk across all major asset classes – interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals, and alternative investments like weather and real estate. Built on the heritage of CME, CBOT and NYMEX, CME Group is the world's largest and most diverse derivatives exchange encompassing the widest range of benchmark products available. CME Group brings buyers and sellers together on the CME Globex electronic trading platform and on trading floors in Chicago and New York. We provide you with the tools you need to meet your business objectives and achieve your financial goals. And CME Clearing matches and settles all trades and guarantees the creditworthiness of every transaction that takes place in our markets.

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INTRODUCTION

On September 22, 1981, the National Futures Association (NFA) was granted registration by the Commodity Futures Trading Commission (CFTC) as a self-regulatory organization for the futures and options industry. Within a few months, the United States Congress ratified the CFTC's actions and the Introducing Broker (IB) status came into being.

By June 2008, the NFA listed 1,609 registered Introducing Brokers and members of the NFA. While the number fluctuates slightly as some offices merge, or their owners retire, the number of registered IBs has remained generally consistent for the past 27 years.

IBs have changed along with the industry since 1981. In the early years, IBs most often dealt with agricultural customers and products. IBs were generally located in the Midwest, often in rural areas as a part of a grain elevator or feedlot. The IB office serviced local customers, frequently people living and farming in the immediate community, and many of the offices had a very seasonal business.

Today, only about 45 percent of all IBs describe themselves as primarily agriculturally oriented. Financial products such as S&P 500 futures contracts, and futures on interest rates and foreign currencies are most often a significant part of the IB's business, while special focus offices trade energies, metals, cotton and handle FX transactions.

Illinois still has the largest number of registered IBs, with Florida, Texas, New York, California, Nebraska and Iowa following closely.

Today, because of inexpensive, fast information about the markets available through Web sites on the Internet, and equipment such as handheld quotation devices, IBs can offer customers products from around the globe 24 hours a day.

The order entry process has developed to the point that customers can enter their own orders from their personal computers. Many customers now rely on the IB for risk management control and for advice, rather than the physical order process.

Running an IB is a business. It requires careful planning, good risk management and strict compliance. The IB Handbook, 4th Edition 2008 is the guide that will help you make decisions, provide support and get you off to a good start as an Introducing Broker.

The information about IBs detailed here is from a small sample update poll of currently registered IBs conducted in early 2008 as a follow-up to the CME Group/MHS Capital Resource survey of 2004. Those two studies returned virtually the same answers. Registration, regulatory and association information comes from the agencies or groups themselves. Additional materials and assistance can be found at their individual Web sites.

Good luck and stay in touch – Melinda Schramm,
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CHAPTER 1 – INTRODUCING BROKERS

Introducing Broker (IB): A person or organization that solicits or accepts orders to buy or sell futures contracts or commodity options, but does not accept money or other assets from customers to support such.

IBs are often referred to as the “field salespeople” of the futures industry. Whether an IB office is located in Ames, Iowa, San Diego, California, Hope, Arkansas, or New York, New York, – the IB office and its employees are often the only representatives of the futures business with whom a customer ever interacts.

Many IB offices service both a local population and customers, which are opened through a Web site. Many of the offices provide additional services, such as stock brokerage, agricultural risk management consulting, or crop or personal insurance.

IB offices solicit customers, take orders, and place those orders on the customers’ behalf with futures commission merchants (FCMs). IBs do not hold money or other customer assets in support of the customer orders; they forward checks, bank transfers and other forms of payment directly to the FCM.

Introducing Brokers must be registered and members of the NFA. IBs can register as Independent (IIB) or as Guaranteed (GIB). The IB designation refers to the entity, not an individual. The entity can be a sole proprietorship, partnership or corporation. Each IB must have at least one employee registered as an Associated Person (AP). That AP is generally the owner of the IB.

Becoming an IB with a temporary license (TL) to do business in the futures and options 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) other paperwork is in good order. The documentation for GIBs includes a Guarantee Agreement from the sponsoring FCM.

Entities qualified to do business in the securities industry can Notice Register to become IBs. This registration is limited to registered broker-dealers who only handle the sale of security futures products on contract markets or derivative transaction execution facilities.

APs are the individuals who work in IB offices. Every registered IB office must have at least one AP registered with that office. APs are referred to as “Associates” by the NFA and must fulfill qualifications such as a standardized, mandatory test in order to become an AP. In June 2008, according to NFA records, 54,426 individuals were registered as APs.

In March 2008, MHS Capital Resource, Inc. contacted a representative sample of all registered IBs and asked them to participate in a survey. There were 33 questions on the survey, ranging from how many years the IB had been registered to do business, to what percentage of the IB’s annual gross income was spent on technology for the office. Questions were also asked about the volume of business conducted in each office and in what markets the IBs most often traded, as well as the FCM/IB relationship and the IB’s interaction with regulatory agencies.

Individual results are confidential and the data accumulated is being used in the aggregate for statistical purposes only.

IIB or GIB

About 65 percent of the respondents to the survey were registered as GIBs versus 35 percent IIBs. This statistic has remained virtually unchanged since the publication of the first edition of this guide in 1999, and generally reflects the proportion of GIBs to IIBs in the industry.

NFA Membership as of June 2008	
Total IBs	1,609
GIBs	1,103
IIBs	506

The reason most given for registering as a GIB was the desire to avoid the paperwork required as an IIB, especially the several financial reports that the NFA requires throughout the fiscal year.

That reason was followed by the desire to avoid tying up the financial resources necessary for IIB status and overall inexperience in the industry. A few IBs indicated that they had changed their registration status from IIB to GIB because they did not think there was any advantage to the IIB status.

Gender

IB ownership is overwhelmingly male, as is the AP population. Several offices have no women working as APs.

Less than 12 percent of all IBs are owned by women. While this number continues to rise, and there are large numbers of women employed in the industry in general, they are still a minority at IB offices.

Education

About 85 percent of the IB respondents have college degrees and about 15 percent have advanced or professional degrees, such as masters degrees, or Accountancy Certification. IB work experience covers a wide range of careers from farming to owning a business to military service. The prior careers of IB owners most often mentioned were either financial professional (e.g., banking related, stock broker, accountant) or agriculture related, such as farming, livestock sales or grain elevator operator.

Industry and Related Experience

The average time an IB owner has been in the industry is over 15 years and the average IB has been registered for 10 years.

About 30 percent of the individual respondents have been in the futures and options business for more than 20 years. A few reported they have been registered in some capacity for more than 35 years.

About 108 of the 1,609 registered IBs are also registered as Commodity Trading Advisors (CTAs), and several are broker-dealers. Nineteen of the total 1,609 registered IBs are also Commodity Pool Operators (CPOs).

Many IB offices offer related products, such as crop insurance, or are Registered Investment Advisors, or licensed grain elevator operators. A few are floor brokers currently, or have been on the floor prior to opening the IB office.

Some of the offices responding to the 2008 survey handle FX business in addition to traditional futures and options on futures transactions, and three offices handled FX trades only.

For about 82 percent of the survey respondents, the IB business was their principal source of income.

Specialization and Markets Traded

Of the IBs responding, about 45 percent said they traded agriculture markets most often, and about 75 percent of those considered themselves specialized in hedging. This statistic reflects the trend away from primarily Agriculture related offices during the early years of IB registration since 1981, and mirrors the growth of financial and other market development.

Fifteen of the IBs specialized in options trading, five in energy trading, and three in FX transactions. Other specialties mentioned were systems trading and electronically traded products. While managed account transactions are handled at IB offices, they continue to be minimal.

The grain market is the most heavily traded agricultural market, with livestock close behind. Equity indexes, such as the S&P 500 contract and the E-mini S&P contract, make up nearly 20 percent of the total volume of business generated by IBs, measured both in number of trades and commissions charged. Interest rates and currencies rank next.

IB offices trading metals and energy primarily have also shown an increase in overall volume. Six offices reported 50 percent or more of their customers' business in these markets.

Three offices reported doing a significant amount of trading in the milk market, an area that has been heavily supported by the U.S. Department of Agriculture (USDA).

The markets least traded by IBs are cotton and other "soft" commodities, such as cocoa and sugar. Even with the ability to electronically trade these markets, which have long been regarded as professional, commercially dominated markets, IB offices report that there is not much customer interest, except during periods of market volatility.

FX transactions are still relatively new products for long-established IBs. Recently, several FX-only FCMs have set up branch or IB offices to offer the product exclusively in offices where no traditional futures or options transactions are handled.

Over 35 percent of the respondents reported trading E-mini S&Ps often; another 45 percent said they trade it occasionally. While only five IBs traded Eurex frequently, 10 traded non-U.S. products often. Single-stock futures were often mentioned as an IB-traded market.

Trade Organizations

About 50 percent of the IBs responding reported they belong to the National Introducing Brokers Association (NIBA); a few belong to either the Futures Industry Association (FIA), or the Managed Futures Association (MFA).

Other trade organizations mentioned were the National Cattlemen's Association, bankers associations, and various realtor groups. Many IBs also belong to a Chamber of Commerce, or other local business support club.

Volume and Commissions

A typical IB office handles about 250 accounts. Some offices, which specialize in certain markets or service specific types of clients, service as few as 40 or 50 customers per year. In general, about two-thirds to three-quarters of the total number of customers listed on the IB's books are active. The others are occasional or seasonal traders who want to keep the account open so it is available and funded whenever they wish to trade.

Most IB offices do not establish a minimum account amount size, particularly those IBs who work with hedge accounts. However, some FCMs impose minimum account size requirements for certain customers or specific markets with which the IB office must comply.

About 15 percent of the IBs responding said there were less than 500 trades transacted per month by their office. On the other end of the spectrum, about 25 percent reported their IB did over 3,000 round-turn trades each month. Twenty-five percent transact 501 to 1,500 trades with the remainder transacting between 1,500 to 3,000 trades monthly.

The average commission charged by full-service IBs to customers for futures transactions is about \$55 per round-turn. Twenty-six IBs reported the commission charge to their customer was less than \$25 per round-turn, exclusive of fees. In November 2007, the NFA imposed enhanced supervisory requirements on firms that charge 50 percent or more of their customers' round-turn commissions, fees, and other charges that total \$100 or more per futures, FX or option contract.

FX offices charge commissions in a variety of ways, most often depending on volume of trading or amount of customer funds on deposit in an account.

Income

IBs were asked to report the amount generated in gross commissions annually by their IB. About 25 percent said it was in excess of \$1 million; this percentage is trending up since the last IB survey.

Nearly 15 percent of the IBs responding said their IB generated less than \$100,000 in gross commissions; 15 percent reported from \$250,000 to \$300,000; 20 percent reported from \$300,000 to slightly below \$500,000; 50 percent reported generating at least \$500,000 annually.

Branch Offices and Clerical Support

About one-quarter of the IBs surveyed reported they sponsored a branch office. One IB had a 12-office system and another had a 20-office system.

About 55 percent of all IBs employ some type of clerical support. Typically, this support was not an NFA-registered individual.

APs

While there are still a few sole proprietor IBs operated without additional AP assistance, 20 percent of those responding to our survey reported 20 or more APs in the office. About 70 percent of all IB offices employ at least five APs.

Friends of the IB owner, current employees, referrals and newspaper or Internet advertisements are ways IBs recruit.

About 10 percent of IBs, both those doing traditional, face-to-face business, and those doing business primarily over the Internet, said that clients often become APs.

Approximately 60 percent of IB owners have employment contracts with their APs. About the same percentage offer a basic health insurance program, and 15 percent offer pension and/or profit-sharing plans as benefits of working at the IB.

Technology and Marketing

Regardless of the size of the IB, slightly more than 50 percent of IBs spend less than 25 percent of the IB's annual gross income on technology, such as telephones, telecommunications, computer hardware and software, and Web site development and maintenance.

While 75 percent of the offices use electronic trading systems, such as CME Globex®, about 95 percent offer some type of electronic entry capability to their customers.

Of the IBs responding, about 80 percent maintained Web sites that they most often used for educating new customers, to open accounts on-line and monitor positions in those accounts. Many FCMs list their IB office locations on the FCM's main Web site or link to the IB's Web site.

The numbers were nearly evenly divided among IBs responding in answer to the questions regarding seminars and other presentations. About half said they do not conduct any type of seminars or workshops for existing customers or to prospect for customers. The other half said they conduct in-person seminars for education and prospecting; several said they conduct both in-person and Web seminars for customers.

The FCM

Guaranteed IBs outnumber Independent IBs almost two-to-one. Taking into account current mergers/buyouts of FCMs, 85 percent of all IBs have been affiliated with their current FCM for more than one year; nearly 50 percent said they cleared with the same FCM for more than four years.

The most frequent response to the question, "What is the most important feature to you when considering an FCM/IB relationship?" was reputation of the FCM. This generally meant that the FCM has a recognizable name with the public and a reputation for ethical dealings.

The next most important features are a reliable order-entry platform, referrals, or lead program and clearing rates.

While IBs rely on their own Web sites and educational programs, along with support they receive from exchanges such as CME Group for help with marketing, IBs are still looking for advertising/marketing support from their FCM.

The research department of most FCMs has decreased in overall importance because so much research data and detailed reports can now be found on-line. But IBs who are market-specific, such as dairy-only or energy-only, still look for good research from their FCMs. Several IBs said they would like more trading recommendations from the FCM's home office research department.

Both IIBs and GIBs enter into Clearing Agreements with FCMs to transact customer business. About 55 percent of the IBs responding said they had negotiated some portion of their contract, other than clearing rates, to specifically reflect their needs. Issues most often mentioned were security deposit requirements, interest on customers' funds held by the FCMs and "bulk" transfer of customer accounts in the event of termination of the FCM/IB relationship.

Only GIBs enter into a Guarantee Agreement with an FCM. The language and contents of the Guarantee Agreement cannot be negotiated because it is standardized by the CFTC.

The Regulators

Virtually all of the respondents to the survey have been audited by their sponsoring FCM and the NFA. Very few had an audit performed by the CFTC. Those registered as broker-dealers have also been audited by FINRA.

A very small percentage of IBs reported any legal actions. Most often, the action was arbitration or a complaint instituted by a customer.

Business Plan, Challenges and the Future

About 50 percent of those responding to the survey reported they had a business plan extending for five or more years.

Approximately that same number set aside a fund for errors or complaints. Additions to the funds are most often calculated by a percentage of the total volume of business transacted per month or a set amount such as \$1.00 per transaction each month.

IBs looked ahead to the future, and shared the following thoughts about the growth of their business.

About one-half of the IBs responding thought that technology in one form or another was their biggest challenge to growth. Several mentioned their lack of knowledge regarding building and maintaining Web sites that were effective in bringing in new clients. Not being able to place certain types of orders on electronic platforms was thought by many IBs to increase both risk and errors because these and other items, such as trading hours, are not standardized between FCMs and exchanges.

IBs also feel that current market volatility, which has led to extreme increases in limits and margin requirements, has made agricultural markets difficult to use for many producers.

IBs were evenly divided between thinking they would hire more APs, lose APs, or stay about the same in the next few years. Several are considering adding a branch office. Hiring and keeping qualified salespeople is a continuing concern for IB owners.

Approximately 75 percent of the responding IBs were planning on upgrading or adding additional technology in their offices; and 55 percent intended to offer more products to customers, such as new exchange-developed contracts or FX.

When asked "What single piece of advice would you give a new IB?" nearly every survey respondent answered "Follow the rules, work hard and stay focused on your long-term goals." IBs unanimously suggested developing strong alliances with the FCMs and getting involved with every networking opportunity available, such as the NIBA, FIA and MFA.

CHAPTER 2 – REGISTRATION

Register: A roster of qualified individuals.

Registration with the CFTC and membership in the NFA is required for anyone acting as an Introducing Broker. Registration also is required of any not otherwise regulated firm or individual soliciting retail FX customers.

Registration as an IB is required unless:

- (i) you are registered as acting in the capacity of an AP, or
- (ii) you are registered as a FCM, or
- (iii) you are registered as a CPO and only operate pools, or
- (iv) you are registered as a CTA and either only manage accounts under powers of attorney, or don't receive per-trade compensations.

An IB is required to file the following with the NFA (all forms can be found online at www.nfa.futures.org). An application for membership in the NFA is included in the forms.

- A completed Form 7-%;
- A completed Form 8-%, fingerprint card and fee of \$85 for each individual principal;
- Each branch office manager must show proof of passing of the required exam and satisfying all filing requirements;
- A completed Form 1-FR-1B (Part A) or FOCUS Report (certified audit) if applying as an IIB, or a completed 1-FR-1B (Part B) from an FCM if applying as a Guaranteed Introducing Broker (GIB); and
- If applying as an IIB, a statement describing the source 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;
- A non-refundable registration fee of \$200.

If SEC registered broker-dealers limit their futures-related activities to the sale of security futures products, they can become an IB by filing a Notice Form 7-R.

IBs that engage in retail FX business are required to have at least one principal who is registered as an AP and has taken and passed the traditional Series 3 commodity futures and options exam, and a FX proficiency exam tentatively referred to as the Series 34.

As of June 2008, NFA records indicated	
Total IBs	1,609
GIBs	1,103
IIBs	506
Annual Dues for all IBs	\$750

The Forms

Initial applications for registration as an IB can be filed as soon as entry of the required data is complete. GIBs 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 before the TL can be issued. However, 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, CTA approval can take place overnight if all fees are paid.

An IIB must meet the minimum financial requirements set by the CFTC in Regulation 1.1z7 and the NFA Requirements Section 9. The IIB can have an arrangement with and clear its customer business through several FCMS.

Each IIB must maintain Adjusted Net Capital equal to, or in excess of the greatest of:

- \$30,000, or
- \$6,000 per office operated by the IB including the home office, or
- \$3,000 for each AP sponsored by the IB, or
- for securities brokers and dealers, the amount of net capital required by SEC Rule 15c3-1(a)

A GIB does not have to meet these minimum financial requirements. Instead, the GIB enters into a Guarantee Agreement with an FCM (CFTC Form 1-FR-1B (Part B)) whereby the FCM accepts both financial and regulatory responsibility for the IB's futures and options customers. The Guarantee Agreement language is standard and set by the CFTC. Unlike your Clearing Agreement with an FCM, the Guarantee Agreement cannot be negotiated. GIBs have only one clearing firm for customer business.

FX IBs have the same net capital requirement as non-FX IBs.

NFA membership dues for all IBs are \$750 annually. As of June 2008, there were 19 IBs dually registered with the NFA as CPOs and 108 IBs dually registered as CTAs.

Notice Form 7-R

The Commodity Futures Modernization Act of 2000 provides for certain broker-dealers registered with the Financial Industry Regulatory Authority (FINRA) to “passport” into registration with the CFTC 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 are eligible to file a one-page Notice Form 7-R with the NFA for CFTC registration, and they do not need to become a member of the NFA. There is no cost for the filing.

The broker-dealer must certify that it is registered with the Securities Exchange Commission as a broker-dealer, that its broker-dealer registration is not suspended, and that it is a member of a national securities association such as FINRA.

The form should be completed by an officer of the broker-dealer and must include the firm's CRD number, which is the number by which it is known at the SEC and FINRA.

Common Mistakes Made on IB Applications

Following are the most common mistakes made on IB applications. Mistakes or omissions will slow up the registration process or may make your IB ineligible for a TL.

- Dues/fees are not received with applications.
- No financial or Guarantee Agreement is received with Form 7-R, so the NFA cannot determine if the IB is applying to be a GIB or IIB.
- Form 1-FR-7 (Part B) is not included for GIBs.
- Form 8-R is not included for Principals.
- Principals in the “supervisory chain of command” do not file to become APs when needed.

Eight Commonly Asked Questions About IB Applications

Following are the answers to eight questions commonly asked of the NFA about IB registration. If you need assistance, don't be shy about calling the NFA. One call can help avoid a mistake which would otherwise slow down your registration process.

1. Who must be listed as Principals?

- The sole proprietor of a sole proprietorship
- All general partners of a partnership
- All officers and directors of a corporation
- Any other person occupying a similar status or performing similar functions who have the power, directly or indirectly, to exercise a controlling influence over the activities of the IB that are 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.

2. Which Principals also need to register as APs?

- All general partners
- The president
- The chief executive officer
- Any person in the supervisory chain of command in connection with the solicitation of futures and options customers, such as the sales manager

3. After filing for CFTC registration and NFA membership as an IB, how long does it take before registration is granted and membership is approved?

Generally eight to 10 weeks if the filing is complete in situations where fingerprint checks must clear the FBI before registration and membership can be granted. However, 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 applicant is applying as a GIB and is eligible for a temporary license, the TL can be granted within a few days.

4. How often must an IIB make financial filings?

A certified 1-FR-IB (Part A) or FOCUS Report must be filed with the IB's initial application and annually after registration is granted. An interim 1-FR-IB (Part A) or FOCUS Report must be filed semi-annually. Certified annual reports are due within 90 days after the IB's fiscal year end. Interim reports are due within 17 business days after the end of the IB's second quarter.

Subordinated loan agreements, if applicable, must also be filed with the NFA and CFTC. Standard forms are available from the NFA.

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

No.

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

No, an IB may not be simultaneously guaranteed by more than one FCM.

7. 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 the CFTC and its membership in the NFA will both be terminated.

8. 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 extensions of time are granted under any circumstances.

Terms for Filling Out Your IB Application

- “10 percent or more interest” means a direct or indirect ownership of 10 percent or more of an applicant’s or registrant’s stock; entitlement to vote or empowered to sell 10 percent or more of an applicant’s or registrant’s voting securities; contribution of 10 percent or more of an applicant’s or registrant’s capital; or entitlement to 10 percent or more of an applicant’s or registrant’s net profits.
- “Adjudication” in a criminal case means a determination by a court that the defendant is guilty or not guilty.
- “Alias” is another name used by an individual or previously used by an entity.
- “Charge” means a formal complaint, information, indictment, or the equipment containing an accusation of a crime. Arrests that do not result in criminal charges do not have to be disclosed; you may be required to provide documentation indicating that no criminal charges were filed. If so, a letter from the applicable district attorney, arresting agency, or a court search is sufficient.
- “Enjoined” means subject to injunction.
- “Felony” is defined as any crime classified as a felony, or in states and countries that do not differentiate between a felony or misdemeanor, an offense punishable by a sentence of at least one year imprisonment and/or a fine of at least \$1,000. It includes a general court martial.
- Felonies may include gambling charges, failure to file tax returns, or military court issues. Felonies must be disclosed even if they occurred more than 10 years prior to applying for registration.
- “Financial Services Industry” includes commodities, securities, accounting, banking, finance, insurance, law or real estate. IRA Tax Code Sections 7203, 7204, 7205 and 7207 must be disclosed.
- “Misdemeanor” is defined as any crime classified as a misdemeanor, or in states and countries that do not differentiate between a felony or misdemeanor, an offense punishable by a sentence of less than one year imprisonment and/or a fine of less than \$1,000. It includes a special court martial.
- Pending Chapter 7 or 11 petitions for bankruptcy must be disclosed, even if it has been discharged or closed within the past 10 years.

Disciplinary Information

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

Common mistakes in answering the criminal disclosure questions involve “expungements”. The CFTC requires a “Yes” answer, even if the matter has been expunged. “Expungement” means to strike out or erase, and most commonly arises in cases where the defendant is a minor. Likewise, if you pled guilty to a felony, or one of the specified misdemeanors and the court later vacated the guilty plea, you must still answer “Yes” unless you then pled not guilty and were found not guilty after a trial. A “Yes” answer is required if a criminal conviction is subsequently pardoned.

Another common error regarding criminal matters concerns matters that do not involve the futures industry. The fact that a matter is unrelated to the futures industry does not mean that the individual does not need to disclose it.

Only Question J, Disciplinary Information-Financial Disclosures on the Form 8-R is limited to the futures industry.

Regulatory actions taken by the CFTC, NFA, or domestic futures exchanges do not need to be disclosed since NFA is already aware of them because they are entered into NFA’s BASIC (broker/firm information) system. It is not necessary to disclose arbitration or CFTC reparations matters.

Additional Documentation

If you answered “Yes” to any question, a written explanation detailing the events and conduct must be provided. That explanation can be entered on the “Matter” pages online by giving its name, the docket number of the case, and describing it in the text box. Alternatively, the explanation can be sent in hard copy to the NFA.

In addition to the required explanation, other documents about the matter must be sent to the NFA. If the court documents are unavailable, a letter from the court verifying such unavailability must be sent to the NFA. If documents, other than court documents, are unavailable, you will be required to provide a written explanation for their unavailability.

If you fail to provide the NFA with the required documents, the registration process will be slowed or your application may be denied.

Firm applicants must file electronic applications for each individual who is a principal of the applicant, including the sole proprietor of a sole proprietorship.

An IB must have at least one individual principal affiliated with it in order to obtain registration. NFA members must have at least one individual principal who is also registered as an AP of the IB or who is a registered floor broker.

Fingerprints

Fingerprint cards are sent by the NFA to the Federal Bureau of Investigation (FBI) to determine if the applicant registration has a criminal record. To conduct a check of its records, the FBI must be able to analyze the print pattern of all 10 fingers. The FBI will reject fingerprint cards that do not have legible patterns for all 10 fingers.

You can have your prints prepared by:

- A bonding company
- City Hall
- County courthouse
- Futures or securities exchange
- NFA’s Chicago office
- Police department
- Sheriff’s office
- U.S. Embassy

The NFA will only accept and process a complete FBI applicant card. Submitting more than one set of prints with your application may avoid any delays caused by obtaining additional sets, if necessary.

The NFA will return any fingerprint cards that are received incomplete or not on an applicant card and request new cards be sent. Applicant cards can be found online at www.nfa.futures.org.

The NFA Chicago office, located at 300 S. Riverside Plaza, Ste. 1800, offers fingerprinting service between 8:00 a.m. and 4:00 p.m. for \$15. The NFA submits digital images of fingerprints to the FBI for criminal background checks. Results can be received in three days or less, and in some cases, within several hours. To use this service, an individual must make an appointment at least one day in advance by calling the NFA at 312 781 1410 or 800 621 3570.

The Exam

Every AP of the IB is required to satisfy proficiency requirements. The most common way to satisfy those requirements is to take and pass the National Commodity Futures Examination (NCFE) within two years preceding the application. The test is most often referred to in the industry as the “Series 3 exam.” The U10 testing application form can either be downloaded or completed online at www.finra.org. The exam costs \$95. Once the form and fee have been submitted to FINRA and confirmation has been received from FINRA, the applicant may schedule an appointment to take the exam one time only within the next 120 days.

APs do not need a sponsor to take the examination, but will need one to apply for registration. The sponsor can be an FCM, IB, CTA or CPO. However, simply passing one of the futures industry exams does not allow an individual to act as a registered commodity broker. You must first file an online registration application with the NFA, then submit the appropriate fee(s), fingerprint cards, and any other necessary filings.

Some individuals can use alternative means or tests to satisfy the requirements. Some of those alternatives require that an individual limit the activities that he or she intends to engage in, or to pass an alternative exam. These exams include:

- The Series 31 Futures Managed Funds Exam (one hour; 45 true/false and multiple choice questions; \$60)
- The Series 32 Limited Futures Exam-Regulations (45 minutes; 35 true false and multiple choice questions; \$60)

Individuals who work as Branch Office Managers must indicate whether they have taken the Branch Manager exam (Series 30). This exam is one hour long and contains 50 true/false and multiple choice questions. Material covered includes supervisory issues. The exam costs \$60.

The Series 3 exam includes 120 true/false and multiple choice questions. Candidates have 2 and a half hours to complete the exam. The test has two parts – market knowledge and regulations. The test is given on a PC, so you can review and change your answers before you submit the completed test. The computer scores the exam and you will know the results before you leave the testing center. You must receive a score of 70 percent on both parts of the exam in order to pass.

Generally, the NFA will receive evidence directly from FINRA that you have passed the Series 3 or other examination administered by FINRA.

In the market knowledge section of the exam, you will be asked questions about the following areas:

- Futures trading theory and basic functions terminology
- Futures margins, option premiums, price limits, future settlements, delivery, exercise and assignment
- Types of orders, customer accounts, price analysts
- Basic hedging, basis calculations, hedging futures
- Spreading
- Speculating in futures
- Option hedging, speculating, spreading

The regulation section of the exam questions include:

- General registration questions about all registration categories
- Futures account opening requirements
- Position reporting requirements
- Speculative position limits
- FCM/IB regulations
- CPO/CTA disclosure documents, promotional material, and records to be maintained
- Arbitration procedures
- NFA disciplinary procedures

There are no additional exams required in order to register as an IB.

Ethics Training

In October 2001, the CFTC issued a Statement of Acceptable Practices for ethics training in the futures and options industry. Each firm is now permitted to tailor its training program to suit its individual operations.

Ethics training is one of the IB's supervisory obligations under the NFA's Compliance Rule 2-9. All APs registered with the IB office must complete an ethics training program. The FCM you clear with will most often determine the format the training will take, the frequency of training required, and the type of documentation proving the requirement has been fulfilled. Many exchanges have established training programs that are available to all registrants.

All ethics training programs must address several topics that include:

- Explaining applicable laws and regulations and rules of the NFA and exchanges and registered derivatives transaction execution facilities;
- Explaining your obligation to the public to observe just and equitable principles of trade;
- Acting honestly and fairly and with due skill, care and diligence in the best interest of customers and the integrity of the markets;
- Establishing effective supervisory systems and internal controls;
- Obtaining and assessing the financial situation and investment experience of customers;
- Disclosing material information to customers; and
- Explaining avoidance, proper disclosure and handling of conflicts of interest.

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 e-mail address of the individual to whom specific inquiries should be directed.

NFA Membership

In general, all IBs that are required to be registered with the CFTC and that conduct a futures-related business with the public must be members of the NFA. Firms doing retail FX business are also now required to register. NFA members may not conduct customer business with any entity that is not an NFA member unless that non-member entity is specifically exempt from CFTC registration requirements.

Note that registered IBs and principals do not need to be NFA Members.

In general, IBs file an application for NFA members at the same time the firm applies for registration. This is most often done electronically. All IBs pay annual NFA membership fees of \$750.

If Your Application is Denied

Approval for IB registration and NFA membership is not automatic. Persons whose CFTC registration has been revoked or suspended may be deemed disqualified for NFA membership. Persons who have been refused CFTC registration, persons who have been enjoined by court order from doing business as futures professionals, and persons who have been convicted of a felony or certain misdemeanors may also 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 a committee of the NFA, which will make a determination as to whether to grant the license based on individual criteria.

Making Changes on Your Paperwork

If you need to make changes or additions to the answers on the 7-R form after you are registered, you would submit a Form 3-R, Part 1. This form is available online and the changes are entered electronically.

Terminating Your Registration

If the IB’s registration is terminated by you, the owner, the NFA must be notified. Under certain circumstances, such as a terminated Guarantee Agreement or inability to fulfill mandatory minimum requirements, the IB’s registration may be terminated automatically by the NFA.

Why Your IB May Also Need a CTA Registration

If your IB, for profit, directly or indirectly, advises others as to the value or the advisability of buying or selling futures or options contracts, it may need a CTA registration. Advising customers indirectly generally includes exercising trading authority over a customer’s account, as well as providing recommendations through presentations, such as seminars, written or electronic newsletters, or market advice, which is not incidental to the functions you are performing as an IB.

CTA characteristics that may require registration are:

- Using or advising customers to use trading systems software
- Handling managed accounts under a power of attorney
- Charging for your advice if the advice goes to persons other than current customers
- Generating a substantial portion of your IB’s income from delivering seminars or producing newsletters.

Even if you are performing the above tasks for customers, your IB may not be required to register if:

- (a) you have provided advice to 15 or fewer persons during the past 12 months and do not generally hold the IB out to the public as a CTA; or
- (b) you are in one of a number of businesses or professions listed in the Commodity Exchange Act that exempt your IB, or are registered in another capacity and your advice is solely incidental to your IB’s principal business or profession.

The NFA has registration forms for CTAs online and has explanatory information to help you determine if you need to register as a CTA. CME Group has published a guide to becoming a CTA. It is available through the CME Group Market Education Department at 312 930 8210.

When registering in more than one category, an applicant is required to pay the higher fee of the categories.

As of June 2008, NFA Membership records indicated		
Total IBs	1,609	\$750
Total CTAs	846	\$750
IBs/CTAs	108	\$750 for dual registration

CHAPTER 3 – THE RELATIONSHIP BETWEEN FCMs AND IBs

Futures Commission Merchant (FCM): An individual or organization that solicits or accepts orders to buy or sell futures contracts or options on futures and accepts money or other assets from customers to support such orders. Also referred to as “commission house,” “wire house” or “the brokerage house.”

An FCM is the intermediary between public customers, including hedgers and institutional investors, and the exchanges. It is the only entity outside the futures clearing house that can hold customers’ funds. All IBs must have a Clearing Agreement with an FCM.

The FCM’s functions include:

- Providing facilities to execute customers’ orders
- Collecting and segregating margin money
- Providing basic account records
- Disseminating market information

Registration is always required of FCMs. Minimum financial requirements were established by the Commodity Exchange Act. Legislation also requires FCMs 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. The CFTC has enforcement power over FCMs and membership in the NFA is mandatory for all companies handling transactions for customer accounts.

An FCM may be a full-service or discount firm. Some FCMs are a division of a national or regional brokerage company that also offers securities, FX and other financial services. Other FCMs offer only futures and options on futures to their customers. Several FCMs have a commercial bank, agribusiness firm or other commercial enterprise as a parent.

The NFA listed 130 FCM members as of June 2008. This represents a decrease of about 50 FCMs since the same period three years ago. For the most part, the reasons for the decrease in registrants are:

- 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
- Disseminating market information

About 40 percent of FCMs clear trades for IBs and not all of those FCMs clear for GIBs.

Who Must Register

Registration is required of all FCMs; there are no exceptions. In order to register, the FCM must file the following forms with the NFA:

- A completed 7-R
- A completed 8-R, fingerprint card, and fee of \$85 for each individual principal of the FCM
- A certified financial statement
- A statement describing the source of the current assets of the FCM applicant combined with the representation that the applicant’s capital has been contributed for the purpose of operating the business of an FCM and will continue to be used for that purpose
- A non-refundable registration fee of \$500

FINRA-registered broker-dealers that limit their futures-related activities to transactions involving investments, such as selling securities futures products on contract markets, or derivative transaction execution facilities can Notice Register to become an FCM. They do not have to become NFA members.

The Notice Registration application, along with all other forms necessary to register as an FCM, can be found online at the NFA's Web site. There are no registration fees associated with the Notice filing.

FX dealers must also file with the NFA. These member dues are assessed on the membership renewal date and are calculated with regard to both the exchange memberships held by the Forex Dealer Member (FDM) and the annual FX revenues generated by the FCM. The dues range from \$50,000 for non-exchange members with annual FX revenue of \$500,000 or less, to \$125,000 for a non-exchange member with annual FX revenue of more than \$5 million.

An additional category that requires registration are the Agricultural Trade-Option Merchant (ATM). An ATM is an individual or organization that is in the business of soliciting and offering trade options for sale. Trade options are off-exchange options offered to a commercial producer or user of the commodity.

Specific forms, such as the ATM CFTC Form 7-R are required for ATM registration, along with proof of minimum net worth of \$50,000, a filing fee of \$200, and completed ATM CFTC Form 8-R and filing fee of \$65 for each principal and each associated person of the ATM. There are currently no ATM members of the NFA.

Information regarding an FCM's principals and disciplinary history can be found online at the NFA's background information search, BASIC, at www.nfa.futures.org/BASIC. Information regarding an FCM's capitalization can be found online at the CFTC's Web site: www.cftc.gov.

FCMs may not do business with other parties such as branch offices, IBs or APs, unless those parties are properly registered. NFA membership dues are assessed annually.

Choosing the FCM to clear your customer business is not simply a matter of finding the house with the lowest rates. The 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.

How to Choose Your FCM

When asked to list the most important factors to consider when choosing an FCM, IBs listed the following:

- Reputation
- Clearing rates
- Execution service
- Back office
- Sales and research support

Reputation of the FCM was the most important factor many IBs considered. In order to attract customers, IBs felt that they needed to "borrow the credibility and good name" of the FCM to whom they were introducing business. It is easier to solicit business if the FCM to whom the check is written has a recognizable, solid reputation for fair dealing.

When considering the reputation of any FCM with the general public, IBs also look at the capitalization of the FCM. A firm should have enough capital to support the level and type of customer business you want.

Execution service – the order entry process, the FCM's ability to fill the order and report it – is an ever-increasingly important factor in choosing your FCM. Most FCMs will require you to use their technology, so you should know what systems they use and how reliably they operate.

Back-office service can help in opening and servicing an account, or it can lose the account for you. Does the FCM have all the account opening documentation online? Is there a cut-off time for requesting customer checks or for bank wire transfers? Do they respond quickly to check requests?

Several ISBs responded to our survey saying they were looking for more sales support in the form of specific trade recommendations and leads or referrals from the FCM. Many IBs also said they did not like to compete for customers with their own FCM's in-house sales staff.

Because so much research is now available online, the research department of many FCMs has decreased somewhat in importance. However, if you will be servicing customers with particular needs, such as farmers who need cash commodity prices in their area, or energy or metals traders who need access to internal news and prices, you should know that the research department of your FCM can provide this information, and if there is any additional cost to you or your customers.

To request the complete list of FCMs registered with the NFA, call 800 621 3570. You can also request a list of only those FCMs that guarantee IB business.

Negotiating Your Clearing Rate and Agreement

The "Clearing Agreement" is the contract between the IB and the FCM. It is negotiable.

The "Guarantee Agreement" is the form required by the CFTC in order to be registered as a GIB. It is not negotiable. The language of the form is mandated by the CFTC.

The Clearing Agreement is a legally binding contract and will include sections regarding your clearing rate, interest payments on cash balances in customer accounts, restrictive agreements, account transfer options and security deposit requirements.

The rate for clearing customers' business will depend on various factors, including:

- (a) Volume of business transacted by your IB. Many FCMs will write-up a "sliding scale" rate, which decreases as your volume increases.
- (b) Markets your customers' trade. Some FCMs charge different rates for different exchanges or trading facilities. The rates often depend on whether the FCM is a member of the particular exchange or facility.
- (c) Balances that your customers keep in their accounts, and whether they are in cash or in Treasury bills or other acceptable deposits.
- (d) Compliance problems your IB business poses for the FCM. IIBs are generally thought to require less compliance oversight by an FCM than GIBs.
- (e) Availability of direct access to filling brokers on the trading floors. Not all FCMs offer such access and some who do charge a premium fee for the service.
- (f) The order entry platform you use. Most FCMs require IBs to use only the one they provide or approve. The cost of the platform service may be included in your clearing rate charge or it may be a separate line item each month.
- (g) Other services the FCM provides, such as sales support materials and programs, specialized research, and access to managed account programs or funds.

What an FCM Looks for in an IB

Choosing an FCM to transact your customers' business is not a one-sided affair. FCMs have very particular standards and characteristics they look for when deciding to do business with an IB.

FCMs agree they value solid, long-term working relationships with IBs. Some specific qualities that will make your business attractive to an FCM are:

1. Your Growth Plan

Before you begin your investigation of FCMs, take time to develop a growth plan for your business. Consult with your lawyer and your accountant so that you will have a realistic approach to the plan. Explore areas including:

- The initial number of APs in your office
- If you want to add APs, how you will find qualified people
- How your IB will be funded initially, and if you will apply for a loan
- How large your nest egg is, and long the IB can operate without turning a profit
- If you will specialize in one market rather than be a generalist
- If you will offer full-service or discount service
- If you will offer managed accounts
- If you will offer FX products
- What order entry processes you are familiar with and plan to use for your customer orders
- How you will solicit new customers
- If you will develop your own Web site
- If you will conduct seminars or publish a newsletter in order to generate and keep business

2. Your Risk Management Technique

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

Each customer's capacity for risk and capital investment must be evaluated by your office before the customer's account is opened and throughout the customer's trading history. Some IBs evaluate risk on a trade-by-trade basis; others look at the customer's overall account balance in relationship to trading practices. There are several software packages available to help make risk management decisions. Your FCM will also have risk filters 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 contract with your FCM will make you responsible for debts incurred in your customer's accounts.

3. Compliance with Regulations and Financial Requirements

If you have a disciplinary history, which includes any action that causes the NFA to impose an enhanced surveillance of your office such as additional audits or forced recording of your dealings with customers, you will find that most FCMs will not guarantee your IB.

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

4. A Deal in Which Both the IB and FCM Make Money

If the monetary part of the deal you negotiate with your FCM is not profitable for both parties, a renegotiation could take place sooner than you anticipated.

Many FCMs will discuss and make part of the Clearing Agreement a sliding scale arrangement that lowers the clearing rate for transactions as your volume and account balances grow. Those same FCMs may reserve the right to raise your clearing rate if the IB does not generate anticipated profits within a specified time after the relationship begins.

There are other reasons to renegotiate your Clearing Agreement, such as compliance problems, and the addition of branch offices that trigger the FCM's need for additional supervision and audits. Solicitation and service of managed accounts or funds are usually compensated for on a different scale than full-service speculative accounts, and may also be a cause for renegotiation if you decide to add these products to your offerings.

IBs should discuss their clearing relationship with their FCM annually, even if the FCM has not indicated a desire to reexamine the agreement. IBs can originate a discussion of terms, and if it reveals an IB/FCM relationship that is not profitable for both parties, the relationship will be unhappy and unstable. It may result in ending the clearing arrangement before one or the other party to the contract is ready.

5. Mutual Trust

Even taking into account recent mergers and buy-outs among FCMs, nearly half of all IBs have been with their current clearing FCM for more than three years; slightly over 80 percent have been with their FCM for more than one year.

According to NFA records, about 65 percent of all IBs are guaranteed by an FCM.

This record of stability is a result of many factors affecting the IB/FCM relationship, such as satisfaction with clearing rates, back office services, and other support. Both FCMs and IBs often cite mutual trust as the most important factor in a stable relationship.

When deciding to initiate a business relationship, both parties 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 by the parties in one another, can develop into respect and often into friendship between the IB and FCM. Even an IB whose volume has fallen off, or who experiences personal problems will find it easier to maintain business dealings with an FCM if their relationship is founded on trust and respect.

Two Good Ideas

- Meet with your attorney and accountant before investigating FCMs to be sure your financial plan is viable and you can fulfill the legal requirements of the futures and options industry.
- Plan a visit to an FCM's main office before you sign your Clearing Agreement. At the FCM's office meet:
 - Risk Management Supervisors
 - Compliance Managers
 - New Accounts Supervisor/Back Office Supervisor
 - IB Service Director
 - Floor Personnel
 - IT Manager
 - Research Department Manager
 - Night Desk or Other Special Order Desk Manager

CHAPTER 4 – BUSINESS PLAN

Business Plan: A strategy or system by which a commercial or mercantile activity or livelihood is conducted.

This chapter focuses on the business aspects of being an Introducing Broker. Starting and managing a business takes motivation, desire and talent. It also takes research and planning.

Success in the futures and options industry starts with decisive and correct opening moves. Initial small mistakes may not be fatal to the business, but it will take skill, discipline and hard work to regain your advantage.

To increase your chance for success, take the time up-front to explore and evaluate your business and personal goals. Use your ideas to build a comprehensive and well thought out business plan that will help you reach these goals.

The process of developing a business plan will:

- Identify the resources needed and those available
- Realistically evaluate the income the IB wants and what it can expect to make
- Recognize some of the potential problems the IB will encounter and plan for possible solutions
- Make the IB more attractive as a business partner to an FCM
- Be necessary to establish credit or apply for a bank loan
- Provide milestones to gauge your IB's success

Your business plan does not include your trading method. If you intend to make your living trading, you do not need to register as an IB. Most IBs do not trade for their own accounts while running their business.

Your lawyer, accountant and spouse should be consulted before you develop your business plan. Since the futures and options industry is highly regulated, the plan should also be carefully reviewed for compliance with regulatory requirements.

Organization of IB Business

Introducing Brokers may choose between several types of legal organizations when registering with the NFA.

Sole Proprietorship

In a sole proprietorship, the business entity has no separate existence from its owner. This is the easiest and generally 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 legal licenses. Attorney's fees for starting the business are typically less than other business forms because less document preparation is required and the owner has absolute authority over all business decisions.

For more information about forming a sole proprietorship, check out Sole Proprietor Magazine, <http://www.SoleProprietorMagazine.com>.

Partnership

A partnership is a type of business entity in which partners share with each other the profits 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 may be lower than incorporating. A partnership agreement could be helpful 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 may also be required by the FCM.

The NFA also allows registration of limited liability companies (LLCs), another form of partnership. LLCs are organized with a document called the “articles of organization,” or “the rules of organization” specified by individual state requirements. Additionally, it is most common to have an operating agreement privately specified by the members of the LLC.

LLCs are treated differently among the states. You should contact your attorney for assistance in forming an LLC.

Corporation

A corporation is a legal entity which, while being owned collectively by natural persons or other legal entities, can exist completely separately from them. This separation gives the corporation unique powers that other legal entities lack. The extent and scope of its status and capacity are determined by the law of the place of incorporation.

A business may incorporate without an attorney, but legal advice is highly recommended. The corporate structure is fairly complex and can be more costly to organize than the other two business forms. Control depends on stock or other interest ownership. Records must be kept to document decisions made by the controllers of the corporation, which is 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 record-keeping cannot be eliminated entirely. Officers of a corporation can be liable to stockholders for improper actions.

Your lawyer and accountant will be able to help you decide which legal business entity will be best for you. The NFA will require disclosure of that entity and its organization. Certain of the principals may also have to be individually registered.

Business Plan Basics

About half of all IBs have written business plans for five years or longer.

A business plan defines your business, identifies your goals, and serves as your firm’s resume. The basic components include a current and pro forma balance sheet, an income statement and a cash flow analysis. The plan helps you allocate resources properly, handle unforeseen complications, and make good business decisions. Because it provides specific and organized information about your IB and how you will repay any borrowed money, a good business plan is a crucial part of any loan application. Additionally, it informs sales personnel and FCMs about your operations and goals.

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. Remember the futures industry will bring both bullish and bearish years. Calculate revenue for the month by multiplying the number of transactions by the commission rate minus clearing and incidental costs.

Next, prepare a balance sheet detailing your present financial position.

Include:

- Income from salary, investments, savings and other family income
- Debts such as credit card balances and loans
- The amounts needed for start-up capital
- Tax identification information
- Partnership or incorporation documents
- Professional registration applications and approvals
- Leases for quote equipment, telephones, computers
- Space rent agreements
- Loan documents
- Your personal credit report
- A timetable for your business plan

A Typical Business Plan Outline

Introduction:

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

Marketing:

- Identify the customer audience for your IB
- Identify your market, its size and geographic restrictions, if any
- Explain how your IB will be advertised and marketed
- Explain your commission structure and the strategy which developed it

Financial Management:

- Explain your source and amount of initial equity capital
- Develop a monthly operating budget for the first year
- Develop an expected return on the initial investment and monthly cash flow for the first year
- Discuss your break-even point
- Explain your personal balance sheet and method of compensating yourself
- Identify who will maintain your accounting records and how they will be kept
- Discuss “what if” statements that address alternative approaches to any problems that may develop

Operations:

- Explain how the IB will be managed on a day-to-day basis
- Discuss hiring and personnel procedures
- Discuss insurance, lease or rent agreements, and other issues pertinent to the IB
- Account for the equipment necessary to run your IB

Concluding Statement:

- Summarize your business goals and objectives and express your commitment to the success of your IB

Once you have completed your business plan, review it with a friend or business associate, attorney and accountant

Other things to consider:

- Do you have the mental and emotional attitude to implement your business plan?
- Does your spouse fully support your business plan?
- Are you healthy and have the energy necessary to implement your business plan?

Using the Business Plan

A business plan is a tool with three basic purposes: communication, management and planning. As a communication tool, it is used to attract investment capital, secure loans, convince workers to hire on and assist in attracting strategic business partners. 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 the problems and decided on potential alternatives before actually starting your IB business.

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 timeliness and milestones, 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 or methods of growth.

Here are the eight necessary steps which will help you create a business plan for your IB.

1. Summarize your business activity concisely

Describe the nature of the IB and its goals in a single sentence. This is harder than you think, but it is a good way to focus on what is really motivating you to register to do business as an IB.

Example: A-One is an Independent Introducing Broker providing service to speculative customers who are interested in the E-mini S&P 500 contract.

Example: FarmPro is a Guaranteed Introducing Broker that utilizes futures and options contracts as risk management tools for farmers and ranchers.

2. State your objectives

What do you want your IB to become? Where do you want it to be in a year? In five years? What do you expect to get out of your career?

Example: A-One's objectives for the first year are:

- To have 250 customer accounts open
- To have at least \$1 million in customer funds on the books
- To employ two APs, and
- To spend four uninterrupted days away from the office during the holidays.

Example: FarmPro wants to:

- Be recognized as an expert in risk management technique
- Have at least 200 clients attend the firm's annual outlook meeting, and
- Create and maintain a database of farmers and other producers living in the surrounding counties.

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

Look into the future by reading articles on the industry and talking to your FCM and your APs about changes that will have an impact on your business. Write down possible changes and what you will do to meet their challenges. This process helps you stay realistic and focused.

Example: A-One recognizes the current change in technology in the futures and options business. We understand that the ability to utilize reliable, stable software is one of the most important elements of our success. We will meet with our FCM to discuss its plans for software upgrades for risk management and order entry.

Example: FarmPro specializes in service to agricultural producers. The coming year will bring about more changes in farm programs instituted by the United States government which will greatly affect these producers. We will work with the USDA and futures exchanges to develop and offer risk management programs that will help our clients take advantage of these changes.

4. Take inventory of your resources

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

- How much money and other assets do I have available? How long can the IB operate unprofitably without changing my family's lifestyle?
- Do I have the skills and knowledge necessary to become a successful IB? Do I need more experience as an AP before opening my own business?
- How many APs do I need in order to meet my objectives? How will I find them, and how will I train and supervise them?
- Do I need a clerical staff? Where will I find backup personnel and vendors who are trained and experienced enough to support my IB?

5. Set some immediate objectives and a timetable for meeting them

If attracting one or two new APs to your IB is one of your short-term goals, map out precisely how you plan to accomplish this. Will you run a newspaper or Internet ad? Do you have a relative who wants to become an AP? Is there a client who is always talking to you about his or her interest in the business?

What makes your IB attractive to prospective APs? Do you have an existing client base? Can you offer the possibility of becoming a principal? Do you offer leads and other sales support?

In this step, set up a pay schedule which includes a commission structure, an insurance package and other benefits.

6. Write down the steps necessary to meet your goals

This is the step in which you plan marketing objectives for your IB. How will you reach new clients? Be sure to include the cost of any equipment or services you may need in order to help meet your 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 communication with the public are specifically discussed in the NFA Compliance Rules.

NFA membership is mandatory for IBs handling traditional futures and options transactions. 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, record-keeping 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, among other details.

Determine the regulatory requirements for the solicitation of new customers and the use of promotional materials before you decide on the methods, the equipment, or the personnel necessary to meet your marketing objectives. The NFA's Rules can be accessed online at www.nfa.futures.org.

7. Evaluate your managerial skills

What do you do best? What do you like to do? What are the professional credentials and do they apply to becoming a successful IB?

Consider your philosophy or basic beliefs. Answers to such questions as how you do business, how you go about planning, where you will find clients, how management will be organized, and how to handle any ethical dilemmas you may face are important in determining the long-term success of the business.

What commitments have you made or are you prepared to make toward the achievement of your objectives? What commitments do you expect from APs and clerical staff? How do these commitments affect your family?

8. Work your plan

Once your objectives are set and your resources are realistically evaluated, you must take action. Break down tasks into steps that progressively move you closer to your goal.

Make lists of what you want to accomplish each week, breaking down the larger projects into steps which can easily be completed and checked off. Go on to the next step and keep moving until the entire task has been performed.

Update or revise your objectives periodically.

CHAPTER 5 – THE REGULATORS

Regulate: Governing or directing according to rule; bringing under the control of law; bringing order, method or uniformity.

The futures and options industry is highly regulated. To join the industry, you must take the Series 3 Commodity Exam and submit your application to the CFTC and NFA for registration as an Associated Person and member of the association. Next comes the application for registration as an Introducing Broker, and possibly as a trading advisor or pool operator. Once you are approved and doing business, you must update your registration information, and you will be subject to supervision and scrutiny by your FCM and the NFA.

Although most of your regulatory contact 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 individuals and firms in the futures business, along with its other duties.

Your FCM and the exchanges you trade on also have authority over certain of your activities.

In order to comply with regulatory requirements, you should get to know the regulators. In this chapter, you will learn what each agency is responsible for and how it is organized. The Web sites of the organizations are particularly helpful if you have questions about specific areas of regulation. Do not hesitate to contact individuals at the CFTC and NFA. Both organizations are very open to helping registrants understand the rules and policies to stay in compliance.

In the futures and options industry, it will not matter to your FCM how much customer business you handle if you are not in compliance with the rules. FCMs will not work with IBs who generate customer complaints, or have a history of disciplinary problems. Paired with a good business plan, a clean disciplinary history will help to make you successful.

In early April 2008, the U.S. Treasury proposed a plan that would overhaul regulation of the financial markets. One part of the blueprint was a proposal that the CFTC and the Securities Exchange Commission (SEC) be merged into one agency. Each office would continue to have control over certain registration and enforcement duties, but the agencies themselves would merge into one “super agency” that would regulate commodities and equities.

The Treasury’s blueprint also contained plans for unifying other financial overseers and called for federal regulation of primarily state controlled financial matters such as mortgage companies.

This plan has been met with varying degrees of opposition and skepticism. Most futures-based organizations have expressed the opinion that because functions such as risk management, margining and short sales would work differently in futures markets than in the equities area, the CFTC should not be merged with the SEC or be a division of that agency.

In order to change the regulatory scheme of the markets, Congress must approve and authorize a plan. Therefore, even if the April 2008 blueprint were embraced by the legislators and the regulators themselves, no change in the current scheme would be implemented for some time, probably several years. The following information is accurate at the time of writing of this handbook and, in all likelihood, will be for quite awhile.

A Short History of Futures Regulation

From the early 1880s to about 1920, over 200 bills were introduced in Congress to regulate, ban or tax futures trading in the United States. As a response to intense speculation in grain futures during the farm depression following World War I, the Futures Trading Act was enacted in August 1921 for the regulation of futures trading in grain. 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 that 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 held to be constitutional. The Grain Futures Association was formed as an agency of the U.S. Department of Agriculture (USDA). This 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 to segregate customer funds that are deposited for margin, prohibited fictitious and fraudulent transactions such as wash sales and accommodation trades, and banned all commodity option trading. The option ban remained in effect until 1981, and the USDA continued to administer it.

Over the years, the Act 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 to institute minimum net financial requirements for futures commission merchants in the first major commodities legislation since 1936. The 1968 amendments also enhanced reporting requirements and increased criminal penalties for manipulation and other violations of the Act.

In 1973, grain and soybean futures prices reached record highs. Allegations of market manipulation and excessive speculation prompted Congress to consider revising the federal regulatory scheme and resulted in the Commodity Futures Trading Commission Act of 1974. This Act created the CFTC and expanded exclusive jurisdiction over futures trading in all commodities.

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

By 1979, the activities of CPOs and CTAs were added to those overseen by the CFTC. Shortly thereafter, in 1981, the National Futures Association was granted registration as a self-regulatory futures association.

By 1983, final rules governing IBs and APs were adopted. These were new registration classes created by the Futures Trading Act of 1982. The CFTC concurrently authorized the NFA to perform registration processing functions for IBs and their APs, the first time the NFA was authorized to perform registration functions.

By the mid-1980s, the CFTC had approved, for the first time, options on domestic agricultural commodity futures on six exchanges; had authorized the NFA to perform registration processing functions for FCMs, CPOs, CTAs, and their APs; developed and adopted improved surveillance, early warning procedures for adverse financial situations and better margining policies; and allowed options trading in non-agricultural, agricultural, and physical commodities.

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

During the years 1992 and 1993, market reports from exchanges were sent electronically to the Commission for the first time, and 46 new futures and options contracts were approved for trading. In 1995, the CFTC launched its Web site, www.cftc.gov.

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

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

The CFTC and NFA continue to provide registration and regulation for the futures and futures options industry. Each agency has its specific functions, as you will see in the next pages.

The Commodity Futures Trading Commission

The CFTC was created by Congress in 1974. It is an independent agency whose purpose is to regulate commodity futures and options markets in the United States. The CFTC reviews the terms and conditions of all proposed futures and options contracts and it requires daily reporting to assure normal market flow and prevent manipulation, abusive trade practices, and fraud. The CFTC must be reauthorized every five years.

The CFTC requires that FCMs keep customer funds in segregated accounts away from company funds; that 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 mandates ethical standards of behavior for registrants and monitors sales practices and internal controls. The registration process is handled through the NFA.

The CFTC's main office is in Washington, D.C. It also maintains offices in Chicago, New York and Kansas City.

The CFTC's Web site, www.cftc.gov, includes information on new products and trading facilities, including FX and foreign contracts approved for trading; disciplinary and enforcement action taken by the Commission, and certain reports required to be filed by the Commission.

The CFTC has Six Major Operating Units

1. Division of Clearing and Intermediary Oversight

The functions of this division include oversight of derivatives clearing organizations, financial integrity of registrants, customer fund protection, stock-index margin, registration and fitness of Intermediaries (FCMs, IBs, CTAs, CPOs and APs), sales practice reviews, NFA activities related to intermediaries (i.e., salespeople) and foreign market access by intermediaries.

The Division of Clearing and Intermediary Oversight is directly responsible to the Chairperson of the Commission, and can be reached at dcio@cftc.gov.

2. Division of Market Oversight

The responsibilities of this division include initial recognition and continuing oversight of trade execution facilities, including newly registered futures exchanges and derivatives transaction execution facilities. The regulatory functions of the division include, among other things; market surveillance, trade practice reviews and investigations, rule enforcement reviews, review of product related and market related rule amendments, and associated product and market related studies.

The Division of Market Oversight is directly responsible to the Chairperson of the Commission, and can be reached at dmo@cftc.gov.

3. Division of Enforcement

The Division of Enforcement investigates and prosecutes alleged violations of the Commodity Exchange Act and CFTC regulations. Violations may involve commodity futures or options trading on domestic commodity exchanges, or the improper marketing of commodity investments. This division may, at the direction of the Commission, file complaints before the agency's administrative law judges, or in the U.S. District Courts. Alleged criminal violations of the Commodity Exchange Act or violations of other federal laws which involve commodity futures trading may be referred to the Justice Department for prosecution. The Division also provides expert help and technical assistance with case development and trails to U.S. Attorneys' Offices, other federal and state regulators, and international authorities.

The Division of Enforcement is directly responsible to the Chairperson of the Commission, and can be reached at de@cftc.gov.

4. Office of the Chief Economist

The Office of the Chief Economist is an independent office with responsibility for providing expert economic advice to the Commission. Its functions include policy analysis, economic research, expert testimony, education and training.

The Office of the Chief Economist is directly responsible to the Chairperson of the Commission, and can be reached at oce@cftc.gov.

5. Office of the General Counsel

This is the Commission's legal advisor. The Office of the General Counsel represents the Commission in appellate litigation and certain trial level cases, including bankruptcy proceedings which involving futures industry professionals. As the Commission's legal advisor, this office reviews all substantive regulatory, legislative, and administrative matters presented to it and advises the Commission on the application and interpretation of the Commodity Exchange Act and other administrative statutes. It also assists the Commission in performing its adjudicatory functions.

The Office of the General Counsel is responsible to the entire Commission, and can be reached at ogc@cftc.gov.

6. Office of the Executive Director

The Office of the Executive Director formulates and implements the management and administrative policies and functions of the agency. The staff formulates the agency's budget, supervises the allocation and use of agency resources, promotes management controls and financial integrity, and develops and maintains the agency's automated information systems. The Office of Proceedings, an office directly responsible to the Office of the Executive Director, provides the forum for handling customer complaints against individuals or firms registered with the NFA through the reparations program. The Office of Proceedings also hears and decides enforcement cases brought by the Commission.

The Office of the Executive Director is responsible to the entire Commission, and can be reached at oed@cftc.gov.

CFTC Office of International Affairs

Since September 11, 2001, the Office of International Affairs (OIA) has become increasingly important to the workings of the CFTC. The OIA operates under the Office of the Chairperson. Its purpose is to:

- Enhance the Commission's ability to meet challenges posed by the globalization of financial markets by compiling information on the applicable law and procedure in various jurisdictions
- Coordinate U.S. information sharing requirements pertaining to futures and options oversight and regulation
- Support Commission staff in promoting U.S. interests in international forums
- Aid foreign regulators in the pursuit of their mandates when inter-jurisdictional issues involving the U.S. arise

It can be reached at oia@cftc.gov.

The CFTC participates in a wide range of international initiatives. These initiatives work to:

- Strengthen international supervisory cooperation and emergency procedures
- Establish concrete standards of best practices that set international benchmarks for regulation of futures and derivatives markets
- Encourage improved transparency in those markets
- Improve the quality and timeliness of international information sharing
- Encourage jurisdictions around the world to remove any legal or practical obstacles to achieving these goals

The CFTC receives inquiries concerning what products traded on foreign futures and options exchanges may be offered or sold in the United States. In general, properly registered or exempt persons may offer or sell most foreign exchange-traded futures and commodity option products. Special procedures apply to the offer and sale of stock index and foreign government debt products.

The CFTC also handles inquiries regarding who may offer and sell foreign products to U.S. customers. Anyone who offers or sells a foreign futures or options contract to a U.S. customer must be registered under the Commodity Exchange Act unless specifically exempt from such registration requirement.

The OIA offers publications related to capital market issues, and more specifically, to derivative or contract markets. The Office of International Affairs is directly responsible to the Chairperson of the Commission.

Regional Offices of the CFTC (www.cftc.gov)

Headquarters

Three Lafayette Centre, 1155 21st St., NW,
Washington, D.C. 20581, 202 418 5000

Central Region

525 W. Monroe, Suite 1100,
Chicago, IL 60661, 312 596 0700

Southwestern Region

2 Emanuel Cleaver II Blvd., Suite 300,
Kansas City, MO 64112, 816 960 7700

Eastern Region

140 Broadway, New York, NY 10005, 646 746 9700

CFTC Commissioners

The CFTC is headed by five Commissioners. They are appointed by the President of the United States and must be approved by the U.S. Senate. Their purpose is to develop and implement agency policy and direction. They serve staggered five-year terms, and one Commissioner is appointed to be the chairperson. The Chairperson has the responsibility to interact with other government agencies, Congress, and the public. Major policy decisions and commission actions, such as approving new exchanges, adopting rules and authorizing enforcement actions, must be approved by a majority vote of the Commissioners. No more than three Commissioners at any one time may be from the same political party. When this guide was being written, mid-2008, there were only four sitting Commissioners. The fifth position was vacant.

Chairman Walter Lukken (2002 – 2010)

Mr. Lukken was appointed to the Commission in 2002 by President Bush and is serving his second term, due to expire in 2010. In September 2007, the President nominated him to serve as Chairman of the CFTC.

As Chairman, Mr. Lukken represents the agency as part of the President's Working Group on Financial Markets and works with other domestic and foreign financial regulators. He also serves as Chairman of the CFTC's Global Markets Advisory Committee (GMAC), an industry forum whose purpose is to discuss the complex and novel issues raised by the increasing globalization of futures markets.

Prior to joining the CFTC, Mr. Lukken served as counsel on the staff of the Senate Agriculture Committee under Chair Richard Lugar, where he was involved in the development, drafting, and passage of the Commodity Futures Modernization Act.

Mr. Lukken is a native of Richmond, Indiana, with a Law Degree from Lewis and Clark Law School in Portland, Oregon.

Commissioner Michael Dunn (2004 – 2011)

Mr. Dunn was appointed to the Commission in 2004 by President Bush and is serving his second term due to expire in 2011.

Commissioner Dunn serves as Chairman and Designated Federal Official of the Commission's Agricultural Advisory Committee (AAC). The AAC advises the CFTC on agricultural issues surrounding the trading of futures and options and serves as a communications link with the agricultural community. He is also the Chairman of the CFTC's FX Task Force whose objective is to raise the public's awareness of fraudulent activity in the retail foreign currency (FX) futures and options markets and to highlight the CFTC's enforcement activities in that area.

Prior to joining the Commission, Mr. Dunn served at the Farm Credit Administration and as Under Secretary of Agriculture for Marketing and Regulatory Programs. Mr. Dunn is a native of Keokuk, Iowa, and has a Master's Degree from the University of New Mexico.

Commissioner Jill E. Sommers (2007 – 2009)

Ms. Sommers was appointed to the Commission in August 2007 by President Bush for a term that expires in April 2009.

Ms. Sommers' experience in the futures and options industry includes acting as the Policy Director and Head of Government Affairs for the International Swaps and Derivatives Association, and working for the Chicago Mercantile Exchange (now CME Group). Her career in Washington included an internship for Senator Robert Dole and work as a legislative aide for two consulting firms specializing in agricultural issues. Ms. Sommers is a native of Fort Scott, Kansas, and she holds a Bachelors of Arts Degree from the University of Kansas.

Commissioner Bart Chilton (2007 – 2013)

Mr. Chilton was appointed to the Commission in August 2007 by President Bush, and nominated and approved for a second term during June 2008. That term expires in 2013.

He comes to the position from the Office of Government Relations at the National Farmers Union. He also worked at the U.S. Farm Credit Administration, and from 2001-2005, Mr. Chilton was a Senior Advisor to Senator Tom Daschle. In that capacity, he worked on several issues including agriculture and transportation policy.

Mr. Chilton also worked for various committees in the U.S. House of Representatives. He served on the boards of Bion Environmental Technologies and the Association of Family Farms. Mr. Chilton is a native of Delaware and holds a Bachelor's Degree from Purdue University in political science and communications.

The CFTC's Reparations Program

The CFTC provides a reparations program to customers who incur losses as a result of commodity law violations. To be eligible for reparations program, a customer's complaint must involve a futures trading professional registered with the CFTC at the time of the alleged wrongdoing, or at the time the complaint is filed.

In all reparations proceedings, customers may seek actual damages (such as out-of-pocket trading losses). If they prevail, customers also recover the filing fee. Prejudgment interest can also be awarded in formal and summary proceedings, but not in voluntary proceedings. In all proceedings, customers may represent themselves or be represented by a lawyer. Reparations complaints must be filed within two years of the date that a customer's cause of action accrues, which is the date when the customer knew (or should have known) of the wrongdoing.

Types of Reparations Proceedings

Voluntary Proceedings (\$50 filing fee) are the quickest of all reparations proceedings because they do not involve hearings or appeals. The cases are decided solely on the basis of written submissions and exhibits provided by the parties. There is no dollar limitation in a voluntary proceeding, but all parties must consent to the procedure and it is not appealable.

Summary Proceedings (\$125 filing fee) resolve claims for \$30,000 or less. Oral hearings are conducted by conference telephone call, if the administrative law judge decides a hearing is necessary. The losing party in a Summary Proceeding may appeal first to the full Commission, and then to a federal Court of Appeals.

Formal Proceedings (\$250 filing fee) resolve claims of over \$30,000 and involve an in-person hearing held at a location mutually acceptable to the parties. A formal proceeding may be appealed by the losing party to the full Commission and then to a federal Court of Appeals.

Market Reports

The CFTC produces reports that are released on a weekly, monthly, or annual basis to provide information to industry professionals and the public about the markets. The reports can be found on the CFTC's Web site, www.cftc.gov.

Bank Participation in the Futures and Options Markets: These monthly reports list U.S. and foreign banks active in the futures and options contract markets.

Commitments of Traders: These reports are released each Friday at 3:30 p.m. and provide 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.

Cotton On-call: This weekly report is released each Thursday after 3:30 p.m. and provides "on-call" positions in spot cotton based on New York Cotton futures reported by merchants in special account status as of the preceding Friday.

CUSIPS Delivery for CBOT Treasury Futures Contracts (now maintained by CME Group): Delivery may occur on any business day during the delivery month, as defined by exchange rules. All bonds or notes delivered against a single contract are usually the cheapest to deliver issue in the contract's deliverable basket.

Financial Data for Futures Commission Merchants: Selected financial information from the monthly financial reports that futures commission merchants file with the CFTC.

Futures Industry Registrants by Location: This is an annual report showing the number of futures industry registrants in each registration category by state.

CFTC Advisory Committees

The CFTC has created various advisory committees to provide input and make recommendations to the Commission on regulatory and market issues. The committees currently include:

- Agricultural Advisory
- Global Markets Advisory
- Energy Markets Advisors

Futures professionals, industry participants and other regulators are appointed to the committees by the CFTC.

The National Futures Association

The NFA is a not-for-profit membership corporation. It was granted formal designation as a “registered futures association” by the Commodity Futures Trading Commission in September 1981, and began operations in October 1982. The NFA’s primary focus is investor protection and market integrity. It develops rules, programs, and services that ensure industry integrity, protect market participants, and help its members meet their regulatory responsibilities.

The NFA has no market affiliation.

All futures professionals are required to be members of 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.

There are currently approximately 4,200 members of the NFA, and nearly 55,000 associate members (salespeople employed by member firms).

Members of the NFA have a voice in the regulatory process and work closely with staff and industry experts on several committees and in member meetings.

NFA policy is developed by a 25-member Board of Directors. There are 14 representatives from FCMs, IBs, CPOs and CTAs. There are six exchange representatives and five public representatives. The Board of Directors is elected by the membership.

Policy supervision is effected by a 10-member Executive Committee consisting of the NFA President, Chairman of the Board, three board directors who represent FCMs or IBs, two board directors who represent exchanges, two board directors who represent CPOs or CTAs, and one public director. Policy implementation is handled by the NFA officers and staff.

According to NFA records, during the 27 years of NFA operations, trading volume on U.S. exchanges has increased in excess of 400 percent. During the same period, customer complaints dropped 72 percent and losses due to firm insolvencies have decreased more than 90 percent.

Committees at the NFA are made up of association members appointed by the NFA staff. The Committees include:

- Appeals
- Audit
- Business Conduct
- Compliance Consultive
- Executive
- Finance
- Floor/Floor Trader Subcommittee Panel
- Hearing
- Membership
- Special Committee for Customer Protection
- Telemarketing Procedures Waiver

The NFA’s Chicago offices are located at 300 So. Riverside Plaza, #1800, Chicago, IL 60606. The toll-free number is 800 621 3570.

The Web site address is www.nfa.futures.org. The New York Office of the NFA is located at 120 Broadway, Ste. 1125, New York, NY 10271. The phone number is 212 608 8660.

NFA Areas of Responsibility

- **Registration:** All firms and individuals who intend to conduct business with the public in connection with futures trading must be registered with the CFTC and be members of the NFA.

Most registration forms and other materials can be found online. Annual registration updates are also done electronically.

- **Compliance:** The NFA monitors all member firms and individuals to ensure they are in compliance with NFA and CFTC approved rules.

Compliance oversees your daily activities, the manner in which you interact with your customers and the face-to-face audit performed by staff of the NFA.

- **Arbitration:** The NFA provides both arbitration and mediation forums in which customers and members can resolve futures-related disputes.

Arbitration proceedings are generally conducted by other members of the NFA and may include lawyers, accountants, and others with special knowledge of the industry. Hearings can be in-person or not; they are generally conducted by a panel.

- **Education:**

- **Member Services:** The NFA provides print and electronic resources to assist members in understanding and meeting their regulatory responsibilities.

The NFA conducts several member meetings each year throughout the U.S. to discuss issues of importance. In recent years, topics have included compliance with anti-money laundering provisions of the Patriot Act, using the electronic registration process and updates on disclosure statements.

- **Investor Services:** The NFA develops and disseminates information to help investors and prospective investors obtain a better understanding of futures investments.

- **Trade Practice/Market Surveillance:** The NFA provides a variety of programs to electronic exchanges to ensure the fair treatment of customers and to maintain orderly markets.

Four Things You Should Know About the NFA

1. The Online BASIC Program

In 1991, The NFA created the first clearinghouse of disciplinary information about futures firms and salespeople. The clearinghouse allowed investors and others, for the first time, to get a background check from government and self-regulatory sources about the disciplinary history and other background of 150,000 individuals and 10,000 firms that either are now, or have been, involved in the futures industry.

In 1998, the NFA introduced the Background Affiliation Status Information Center (BASIC) when it moved the clearinghouse online. BASIC is accessed through the NFA Web site and contains current and historical registration information concerning all current and former CFTC registrants. It also provides information concerning disciplinary actions taken by the NFA, the CFTC, and all U.S. futures exchanges. According to the NFA, investors and other industry participants conduct more than 600,000 BASIC searches every year. Before associating with another registrant, it is a good idea to check their listing on BASIC.

2. “Rogue Broker” Initiative

In 1993, NFA adopted a “telemarketing profile” rule to minimize the likelihood of deceptive sales practices. The rule requires member firms that employ a certain percentage of individuals previously employed by the firms closed by the NFA or CFTC for sales practice fraud to adopt strict supervisory procedures. The procedures include requiring firms to tape record and maintain a record of conversations with the public, meet increased capital requirements, and submit promotional material to the NFA for pre-approval. The purpose of this rule is to reduce the number of “problem firms” and “rogue brokers” in the futures industry.

In 2007 the definition of a disciplined firm was expanded to include those that have been sanctioned in any way during the preceding five years for deceptive telemarketing and promotional material violations; and those firms that charge 50 percent or more of their customers round-turn commissions, fees and other charges that total \$100 or more per futures, FX or option contract.

To see if the firm or individual you are doing business with is subject to the telemarketing rules or has a negative disciplinary history, check the NFA’s Web site.

3. Library of Education Materials

The NFA publishes a series of educational brochures to help investors understand how the futures markets work, as well as the risks and opportunities involved in trading. These materials are offered free of charge and may be downloaded from the Web site. These publications are very helpful in explaining the basics of futures trading to potential investors.

The NFA also offers educational material to industry professionals. In-person seminars and workshops are conducted from time-to-time in various locations around the country, which focus on issues important to registrants, such as changes in rules, using the electronic registration process, and updates on disclosure statements.

4. Dispute Resolution

The NFA offers two methods of dispute resolution. The arbitration program began in 1983 and is now the primary venue for dispute resolution in the futures industry. It may be used by customers who have a claim against a member of the NFA and to solve disputes arising among members of the NFA, such as IB to FCM, or AP to IB. Arbitrators are industry professionals and others, such as lawyers and accountants, who have specific knowledge about the futures and options industry. The NFA arbitration is the primary venue for dispute resolution in the futures industry.

Mediation was first offered at the NFA in 1991 and an in-house program was introduced in 2001. Mediation is less formal than arbitration, and is often a less expensive and quicker method to resolve disputes. To date, more than 1,500 cases have been referred to mediation.

Since 2001, parties have been able to file arbitration and mediation claims online. All necessary forms can be found at the NFA's Web site. Parties can then follow the status of the case online as it progresses.

NFA Board of Directors

A 25-member Board of Directors is the principal governing and policy development body of the NFA. All members of the NFA Board of Directors are listed on the NFA's Web site.

Representatives from FCMs, IBs, CTAs and CPOs are elected from the membership. Other representatives are appointed by the Board. Bob Wilmoth, former President and CEO, is the permanent Special Policy Advisor to the NFA. A ten-member Executive Committee is responsible for policy supervision.

Most of the members who represent FCMs, IBs, CPOs and CTAs are registered APs. At the time of writing this book, the two IB representatives were:

- GIB – Paul Georgy, paul@allendale-inc.com
- IIB – John Vassallo, john@arcfutures.com

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

Staff Directory

There are approximately 200 individuals working in the NFA's corporate headquarters in Chicago, with about 25 additional staff members in New York.

All NFA staff may be e-mailed through the NFA Web site at www.nfa.futures.org. Some of the key departments and staff you may be working with are:

Compliance:	Yvonne Downs, Sr. Vice President, ydowns@nfa.futures.org Regina Thoele, Vice President, rthoele@nfa.futures.org Sharon Pendleton, Assoc. Director, spendleton@nfa.futures.org
Arbitration:	Heather Cook, Manager, hcook@nfa.futures.org
Registration:	Greg Prusik, Vice President, gprusik@nfa.futures.org
Treasurer:	David Hawrysz, VP/Treasurer, dhawrysz@nfa.futures.org
Communications and Education:	Larry Dykeman, Director, ldykeman@nfa.futures.org
General Counsel:	Kathryn Camp, Assoc. General Counsel, kcamp@nfa.futures.org Carol Wooding, Assoc. General Counsel, cwooding@nfa.futures.org
Information Center:	Yvette Christman, Sr. Manager, ychristman@nfa.futures.org
Membership/ Registration:	Same as Information Center
Information Systems:	Steve Earl, Director, searl@nfa.futures.org

CHAPTER 6 – FIRST AUDIT

Audit: A methodical examination and review.
An examination with intent to verify.

IBs may be audited by their FCM and the NFA within their first year of business. Virtually every IB who responded to our survey had been through an audit.

Each FCM is required to supervise its GIBs and branch offices in all aspects of their futures activities. In an Interpretive Notice issued by the NFA, the agency suggested that it was appropriate for FCMs to periodically inspect IBs on-site, and that procedures and detailed steps for the visit would help to ensure that the review process is performed in a consistent manner.

The notice also outlined suggested areas to look at, including:

- Customer Information Recorded
- Customer Order Procedures
- Sales Practices
- Customer Complaints
- Handling of Customer Funds
- Proprietary Trading
- Follow-up Procedures

FCMs generally schedule on-site audits of their GIBs every year, although some FCMs use electronic or fax audit updates for IBs who have not changed their method of business, added clients, or encountered any compliance problems within the past year.

Because each FCM develops its own specific procedures for your audit, it is wise to discuss the audit before you select your clearing FCM. Some FCMs also require an IB to pay a portion, or all, of the costs associated with an on-site audit.

In addition to your FCM, the NFA, the CFTC and exchanges have the right to audit the procedures at your IB. 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 their member firms (FCMs), as they can find detailed information about individual IBs and the firm's IB system through an examination of the FCM's books and records, but can audit at the IB level.

The CFTC will audit or review an IB from time-to-time, particularly if that office has a number of customer complaints, or if its APs are using questionable sales practice techniques. The CFTC and the NFA have been quite effective in running the "bad guys" out of the IB business.

The NFA has primary responsibility for GIB audits along with the clearing FCM. NFA auditors generally visit each IB at least every three years. Auditors call a few days in advance to schedule your review. Depending on the size and type of your business, and whether this is your first audit, they can often tell you how long they will be in your office. NFA audits typically last one to five days. The NFA has the right to audit your IB unannounced if they believe it is necessary.

The timing and frequency of your audit will depend on a number of factors, including the amount of money the firm has under management, customer complaints received, or concerns noted during the NFA's review of financial statements or other documents.

NFA staff conducts between 700 and 800 IB audits per year. They try to schedule several audits in one geographical area at one time. Your review may be conducted by two or three people who will communicate with other staff members in the NFA's Chicago office. The auditors will be in your office during the work day, so you will be asked to provide a separate work space for the team.

The NFA staff will communicate with the IB throughout the process. Once the audit team has completed its work, they will conduct an exit interview, during which time they will recap everything that was discussed during the audit. Once they return to NFA's office, they will also provide a written report.

NFA audits have two major objectives:

- (1) To determine if the IB is maintaining records according to NFA rules and CFTC regulations, and
- (2) To ensure the IB is being operated in a professional manner and customers are protected against unscrupulous activities and fraudulent or high pressure sales practices.

For members new to the NFA and futures industry, the NFA's Compliance Department offers an "educational visit." A manager and staff member will meet with the IB's principals to inform them about the services that NFA provides, reporting and record-keeping requirements, and NFA's audit process. Every new registrant should take advantage of this service.

Information regarding record-keeping and other requirements is also found in the NFA Manual and Regulatory Requirement Guide. Both of these resources can be found online at the NFA's Web site, www.nfa.futures.org.

Two Very Important Areas of Your Audit

The NFA will review several activities conducted by your IB. The following two areas are particularly important.

1. Communications with the Public and Promotional Material

NFA Compliance Rule 2-29 addresses all forms of communication to the public by NFA members, including sales or educational literature, print and electronic advertising, phone solicitations, sales scripts, and material posted on the Internet. This rule requires, among other things, that:

- Statements made in promotional materials be factually true
- Statements concerning the possibility of profit are balanced by equally prominent statements of the risk of loss
- Hypothetical results are not presented for any trading program for which the member has at least three months of actual trading results
- Statements regarding actual past trading profits mention that past results are not necessarily indicative of future results
- Statements of opinion are identified as such

The rule prohibits the use of any promotional material that is likely to deceive or mislead the reader; uses or is part of a high-pressure sales approach; omits any fact that might make the material misleading or deceptive, or states that futures trading is appropriate for everyone.

The NFA offers a pre-review of promotional material not yet used. A principal or firm contact from the IB must submit the promotional material to the NFA along with a cover letter that indicates that the materials have been submitted for pre-review. The materials can be mailed to NFA's home office in Chicago, or electronically filed. NFA will complete its review of the material within 14 days of receipt, and either verbally or electronically communicate comments to the IB.

2. Enhanced Supervision/Telemarketing

The NFA Compliance Rule 2-9 places a broad and continuing responsibility on every member to diligently supervise its employees and agents in every aspect of their futures activities. NFA developed this rule to provide supervisory guidelines – it is not a "one size fits all" rigid form of supervision.

In 1993, the NFA expanded Rule 2-9 in an effort to prevent the deception of customers through abusive telemarketing. Today, the rule indicates criteria that dictate when a firm is required to implement enhanced supervisory procedures over its telemarketing activities. NFA member firms triggering the requirements must record all telephone conversations between their APs and both existing and potential customers, submit all promotional material at least ten days prior to first use, adopt written supervisory procedures, and either operate under a guarantee agreement, or maintain an enhanced level of adjusted net capital.

The NFA Board of Directors has determined that an IB will be required to adopt specific supervisory procedures over its sales practice activities if: (1) for firms with fewer than five APs, two or more of its APs have been employed by one or more member firms that have been disciplined by the NFA or the CFTC for sales practice fraud; (2) for firms with at least five, but less than ten APs, 40 percent or more of its APs have been employed by one or more disciplined firms; (3) for firms with at least ten, but less than 20 APs, four or more of its APs have been employed by one or more disciplined firms; or (4) for firms with at least 20 APs, 20 percent or more of its APs have been employed by one or more disciplined firms.

In November 2007, two changes to the rule went into effect. They:

- (i) Expanded the definition of a “Disciplined Firm” to include firms that have been sanctioned in any way during the preceding five years for deceptive telemarketing and/or promotional material violations; and
- (ii) Imposed the enhanced supervisory requirements on firms that charge. Fifty percent or more of their customers’ round-turn commission, fees, and other charges that total \$100 or more per futures, FX or option contract.

The NFA considers an FCM and the IBs it guarantees as a single firm when determining whether an FCM meets this requirement. Therefore, it is very important for each IB to be aware of the disciplinary history of the FCM with which you choose to work. A list of disciplined firms can be found on the NFA’s Web site.

An IB meeting the definition of “Disciplined Firm” is required either to operate pursuant to guarantee agreement, or maintain an adjusted net capital of at least \$250,000. The IB will be required to tape record all telephone conversations that occur between their APs and both existing and potential retail customers and maintain such tapes for a period of five years.

A daily log for sales solicitations must be kept by each AP and all promotional materials need to be filed with the NFA at least ten days prior to its use. These rules apply to FX-only FCMs, as well as to traditional futures and options firms.

Many FCMs will not offer a Guarantee Agreement to IBs who fall under this rule, so those IBs must meet the capital requirement on their own. Information about both of these specific areas of the NFA’s audit can be found on their Web site, or by calling the Information Center at 1 800 621 3570. The NFA also publishes A Guide to NFA Compliance Rule 2-20: Communications with the Public and Promotional Material.

The NFA's Checklist

Because there are differences in size and complexity of the operations of IBs, the NFA has recognized that there must be some degree of flexibility in determining what constitutes “diligent supervision” for each firm. The NFA’s policy is to leave the exact form of supervision to the IB and its clearing FCM. However, all members must regularly review the adequacy of their supervisory procedures.

In order to satisfy their continuing supervisory responsibilities under Compliance Rule 2-9, IBs must review their operations on a yearly basis using a self-examination checklist. The checklist will aid you in recognizing potential problem areas and alert you to procedures that need to be revised or strengthened. The checklist focuses on an IB’s regulatory responsibilities and solicits information regarding whether the IB’s internal procedures are adequate for meeting these responsibilities.

The checklist is divided into five sections. The first section is a general checklist that is used by all registration categories. Additionally, the NFA has developed a separate supplemental checklist for each of the four registration categories, FCM, IB, CTA and CPO. You must complete each checklist that is applicable to your registration status.

The appropriate supervisor must sign and date a written attestation that he or she has reviewed the IB’s operations in light of the matters covered by the checklist. Only one attestation is necessary per office, even if checklists have been completed for several registration categories. However, a separate attestation must be made for each branch office of the IB. Guarantor FCMs must obtain copies of the signed attestation from GIBs, including branch offices of those GIBs. The attestations are kept by the FCM and IB, and should be readily available for the past two years and retained for the past five years.

A review of operations of the IB must be performed annually.

The NFA updates the checklists periodically to reflect new and amended rules. The most recent version of the lists is always found on the NFA Web site.

If you have any questions, you can contact the NFA Compliance Department at 800 621 3570.

General Registration

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

- All individuals who have the following authority or ownership interest in the IB are listed as principals on your Form 7-R:
 - Any person, including, but not limited to, a sole proprietor, general partner, officer, director, or other person having the power, directly or indirectly, to exercise a controlling influence over the IB’s futures accounts.
 - A holder or beneficial owner of 10 percent or more of the outstanding shares of any class of stock, or any person who has contributed 10 percent or more of the capital, including subordinated debt.
- All individuals who are responsible for supervising APs must also be registered as APs.
- A list of all branch office locations and their managers must be included on your Form 7-R. All managers must complete the Branch Manager exam.
- All personnel engaged in transacting security futures transactions must complete the proper requirements and file the information with the NFA.
- You must review all the firms with which you do business in order to ensure that those firms which are required to be registered are registered with and members of the NFA.
- Only NFA members can be paid commissions for customer business.
- Only registered APs are allowed to handle customer accounts, and unregistered office personnel must act in a clerical manner only.
- All guarantee agreements and termination forms required must be filed with the NFA.
- You must have a copy of your signed IB 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 (talk to your FCM – they will often provide a standardized manual for use in all their GIB offices).
- 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 the IB has identified which accounts 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 power of attorney authority is terminated in writing.
- If fees and charges are not determined on a per-trade or round-turn basis, that customers are provided with written explanation of the charges and reasonable examples on a per-trade or round-turn basis.
- That the IB provides adequate risk disclosure to customers purchasing deep out-of-the-money options.
- If APs are allowed to maintain accounts at other IBs, 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.
- For a one-person office, that customers are informed if you are unable to service the account due to illness, or vacation, or other matters, and who will be handling the account during this time.

Account Opening Procedures

The NFA will review documentation regarding the following account opening issues:

- All necessary and appropriate documents and risk disclosures must be provided before new accounts are allowed to trade.
 - Appropriate documents and other steps must explain the risks associated with trading on different exchanges and through different clearing organizations.
 - Your potential customer's credit worthiness, business reputation, market knowledge, and anticipated trading patterns should be examined prior to opening an account.
 - You must review, sign and date the account documents before transmitting them to the FCM.
 - You must obtain the following information for each customer: name, address, occupation or type of business, estimated annual income, estimated net worth, age and prior investment and/or futures related experience.
 - You must include a statement that the customer declined to provide the information, if any of the information is not obtained.
- You may not allow any employees of exchanges or regulatory agencies to trade with you, and if you allow your APs to have accounts at other FCMs or IBs, you must have certain authorizations.
 - Corporate resolutions are required documentation for any corporation wishing to open an account.
 - You must identify discretionary accounts. APs that handle those accounts must have at least two years prior continual registration. Additional written documentation for any accounts controlled by an outside party is also needed.
 - If your IB will trade an account for itself or an affiliate, it must define its trading objectives and establish and maintain loss limits or risk guidelines consistent with these objectives. IBs who grant trading authority to an account manager, or rely on individuals to implement the IB's objectives must institute appropriate procedures to protect against unauthorized trading by APs, employees or an independent account manager.

Customer Trading

The NFA will review documents regarding the following customer trading issues:

- Your IB must maintain any documents produced or obtained as a result of the order flow/trading process for a period of five years. These include:
 - Order tickets
 - Trade listings
 - Equity runs
 - Customer statements
 - Open position listings
 - Day trade listings
 - P&S recaps
- Pre-numbered customer order tickets or internally generated order numbers must be assigned to each order ticket immediately upon receipt of the order from the customer.
- All customer order tickets must be kept. This includes filled, unfilled, open and canceled orders.
- Information must be sufficient to identify the customer from entry through post-execution reporting.
- The following information must be recorded on customer order tickets:
 - Date
 - Commodity options/futures
 - Account identification
 - Quantity long/short
 - Requested price and fill price
- Customer option orders must also record put or call, strike price and premium.
- All discretionary orders must be identified.
- Futures order tickets must carry a timestamp immediately upon receipt of the order.

- Options order tickets must carry a timestamp immediately upon receipt of the order and upon transmission of the order for execution.
- The carrying broker or floor personnel must be immediately notified upon receipt of the customer order during market hours.
- Fill price must be recorded when received.
- Fill information must be transmitted to the customer promptly upon receipt by the IB.
- Customer orders executable at or near the market must be transmitted before any orders in the same commodity for proprietary accounts or other accounts affiliated with the firm.
- Understand and identify “block order” procedures.

Cash Flow

The NFA will review documentation regarding the following cash flow issues:

- IBs cannot accept money, securities or property from customers, except for checks made payable to the FCM. Your APs must return any checks not issued to your clearing FCM.
- IBs should make a photocopy of a check and then immediately deposit any check received from a customer in a qualifying bank account.
- All disbursements at the IB should be made by check or wire, except for minimal petty cash.
- Bank checks should be accessible only to authorized personnel.
- If signature plates or endorsement stamps are used, only authorized personnel should have access to the plates or stamps.

Financial

The NFA will review documents regarding the following financial issues:

- IBs must retain financial records for five years.
- IBs must maintain their general ledger on an accrual basis.
- IBs must reconcile positions and equities with the clearing FCM in a timely manner.
- IBs must review the equity run periodically to ensure that accounts of officers, directors, partners and employees are reflected separately from customers.
- IIBs must prepare, review and transmit additional financial reports. All IBs are subject to compliance audits including financial reviews. IIBs have several additional financial and reporting requirements.

Automatic Order Routing System (AORS)

The NFA will review documents regarding the following automatic order routing system issues:

- IBs are required to establish written procedures to ensure that the AORS process protects the integrity and confidentiality of order and account information at all points during the process. The delivery and reporting of customers' orders must be timely and efficient. Customer complaints about order delivery and reporting must be handled expeditiously. The routing system used must monitor trading and impose controls on trading activity for each customer in order to prevent the customer from entering into trades that create undue financial risks for the FCM, IB or other customers.

- IBs must disclose to customers pertinent information about the AORS, including, but not limited to:
 - The timeframe established for completion of transactions
 - The timeframe and process for informing customers of exceptions to normal processing of orders or requests
 - Days and hours of operation
 - Fees, commissions or costs associated with the transaction
 - Information to enable customers to ask questions or register complaints regarding AORS
- IBs must establish security procedures appropriate to protect internal systems from viruses and malicious codes, and to prevent unauthorized access. Additionally, an IB must monitor security procedures and update accordingly to keep up with technology changes.
- IBs must disclose to users of AORS any breaches or possible breaches to the system.
- IBs must monitor availability and capacity compared to the disclosed commitments and provide for expected future requirements.
- Your IB will be responsible to document, authorize, test, and approve proposed system changes before they are implemented and provide for backup, offsite storage, restoration, and disaster recovery processes sufficient to achieve the disclosed availability commitments.
- You will also be responsible to ensure that your IB's policies are current with disclosed business practices, laws and regulations.

Specifically Options

The NFA will review documents regarding the following options transactions issues:

- Prior to the first option transaction order, your IB must inform customers of all options transaction costs, including commissions and costs to exercise an option.
- Customers must be informed of the premium and strike price for subsequent options transactions.
- Your IB must retain documentation to prove the above information was provided.

Anti-Money Laundering

(NFA Interpretative Notice “NFA Compliance Rule 2.9: FCM and IB Anti-Money Laundering Programs”)

Each IB must adopt a written anti-money laundering (AML) program tailored to its operations. The AML program has four components.

1. General Questions

This section addresses such questions as the consequences if an AP does not follow the IB’s AML policy and what the AML Compliance Officer’s duties and responsibilities are.

2. Customer Identification Program (CIP)

This section discusses the various methods IBs use to learn the true identification of their customers. The CIP discusses documentation an IB might require, such as a driving license with a photograph or thumbprint, and under what circumstances an IB might open the account if documents cannot be obtained.

This section also deals with opening accounts for customers who do not appear in person, such as those who open accounts online.

An IB must have a procedure in place for refusing to open an account and restrictions that are placed on customer transactions while the firm is verifying the customer’s identity. An IB must also have a procedure in place to identify situations under which a suspicious activity report might be filed.

3. Identifying High-Risk Accounts

How does the IB identify potentially high-risk accounts? An IB must determine if a customer is from a country that appears on a federal list of uncooperative countries and if that individual has been identified as a known or suspected terrorist or member of a terrorist organization. The federal directives can be found online.

4. Suspicious Activity

Each IB must have a procedure to detect and report suspicious activity.

Business Continuity and Disaster Recovery Plan

(NFA Interpretative Notice “NFA Compliance Rule 2:38: Business Continuity and Disaster Recovery Plan”)

Each IB must adopt a written business continuity and disaster recovery plan tailored to its specific operations. The IB should maintain its business continuity and disaster recovery plan with other firm procedures. The IB must also implement and follow that policy and communicate it to its APs.

Your Continuity and Disaster Recovery Plan should include such topics as:

- Where the IB’s backup facilities (including systems and personnel) are located. This could be in your home or at a bank or college. You will want to pick a location in a different power grid than the primary facility, if possible.
- What procedures does the IB have for backing up or copying essential documents and data and how often is this done?
- Where is the backup information stored and what form is it in – hard copy or electronic?
- What staff competencies or duties are critical to continuing the IB’s operations? Has your IB duplicated those competencies in order to minimize the effect on the IB’s operation if it loses primary staff?
- What specific steps will the firm take to minimize the impact of business interruptions encountered by the following third parties (be specific):
 - Banks
 - Carry brokers
 - Order routers
 - Data providers
 - Other third parties that are critical to continuing your operation
- Which employees have been told of the disaster recovery plan and have the essential components been discussed with all employees?
- The IB must provide the NFA with emergency contact information for one or more individuals who NFA can contact in the event of an emergency. This information can be updated in the IB’s annual questionnaire online.

Ethics Training Policy Questionnaire

(NFA Interpretative Notice “NFA Compliance Rule 2.9: Ethics Training Requirements”)

Each IB must adopt a written ethics training policy tailored to its specific operations. The IB should maintain its ethics training policy with the firm’s other procedures. The IB must also implement and follow the policy.

Your IB’s written policy should contain information on the following areas:

- Who will conduct the ethics training? If the firm conducts training in-house, what are the titles and names of the training personnel? If the IB utilizes an outside provider, who is that provider?
- What are the training personnel’s or provider’s qualifications? What proof does the IB maintain that the training personnel or provider are qualified to conduct this training?
- Does the IB use the Internet, audiotapes, computer software, video tapes, or in-person courses for the ethics training course?
- How often are APs required to complete the training? How soon and how often are new registrants required to complete ethics training? How often are other registrants required to complete ethics training?
- How long is the ethics training program for new registrants – one hour? Four hours? How long is it for other registrants – one hour or less?
- What topics does the ethics training program cover?
- What type of written materials are distributed during training? How does the IB ensure that it maintains copies of those materials?
- What type of documentation or records does the firm maintain as proof that its employees have completed the ethics training?
- How often does the IB’s management review the ethics training policy.

Privacy Policy Questionnaire

Several elements of the IB’s privacy policy must be described in the privacy notice given to customers. GIBs most often use the document approved and provided by their FCMs.

If you design your own privacy policy for the IB, you will want to consult CFTC Regulation 160 – Privacy of Consumer Financial Information found on their Web site.

An IB who solicits, accepts, or has any customers who are individuals and who use the IB’s services or products primarily for personal, family, or household purposes must have a privacy policy. It should include sections on:

- What type of non-public personal information the IB collects from customers
- What the IB does administratively, technically, and physically to maintain the confidentiality and security of customer information
- If the IB discloses information to nonaffiliated third parties and who those are
- When the IB’s privacy policy is provided to new customers
- What method the IB uses to distribute the privacy policy to customers (e.g., electronically or mailed)
- If the IB provides customers an opt-out notice. (Your IB does not have to give customers an opt-out notice if it does not share non-public personal information with nonaffiliated third parties)

CHAPTER 7 – RESOURCES

Resource: A source of support, information or expertise.

The categories in this chapter are:

- Educational institutions
- Futures, stocks and options exchanges
- Government, quasi-government and association sites
- News and market commentary
- Data vendors and equipment
- Web design and marketing
- Ethics providers
- Accountants/compliance firms and lawyers

Many sources listed in this chapter offer information and materials free of charge.

You should not use any materials found on any Web site in your solicitation materials or promotional information without first checking with your compliance officer. Electronic solicitation is regulated by the NFA in the same manner as print or telephone solicitation and is subject to the same rules.

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 the record and subject to NFA regulation.

Listings do not constitute or imply endorsement by the author or CME Group.

Educational Institutions

University and college sites information includes research papers online and country-by-country statistics. Most states have separate departments of agriculture, finance, or economics. Those departments often have their own Web sites and are linked internally.

- Abraham Baldwin Agricultural College, Tifton, GA
www.stalion.abac.peachnet.edu
- Alcorn State University
www.alcorn.edu
- Angelo State University
www.angelo.edu
- Arizona, University of – Agriculture
www.ag.arizona.edu
- Arkansas, University of
<http://division.uaex.edu>
- Auburn University
www.auburn.edu
- California, Berkeley, University of
www.berkeley.edu
- California, Davis, University of
www.aes.ucdavis.edu
- California State University, Chico, College of Agriculture
www.csuchicoag.org
- Clemson University
www.clemson.edu
- Connecticut, University of
www.uconn.edu
- Connors State College of Agriculture, Warner, OK
www.connors.cc.ok.us

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- Cornell, College of Agriculture and Life Sciences
www.cals.cornell.edu
 - Colorado State University
www.colostate.edu
 - Delaware College of Ag-Sciences, University of
www.ag.udel.edu
 - Delaware Valley College of Science and Agriculture
www.delval.edu
 - Florida, University of
www.ufl.edu
 - Fort Hayes State University
www.fhsu.edu
 - Georgia Institute of Technology
www.gatech.edu
 - Georgia, University of
www.uga.edu
 - Hawaii, University of
www.hawaii.edu
 - Idaho, University of
www.uidaho.edu
 - Illinois State University
www.cob.ilstu.edu
 - Illinois, University of – College of Agriculture
www.aces.uiuc.edu
 - Iowa State University
www.iastate.edu
 - Kansas State University
www.k-state.edu
 - Kentucky, University of
www.uky.edu
 - Louisiana State University
www.lsu.edu
 - Massachusetts at Amherst, University of
www.umass.edu
 - Michigan State University
www.msu.edu
 - Minnesota, University of
www.umn.edu
 - Mississippi State University – Department of Ag-Economics
www.agecon.msstate.edu
 - Missouri, University of
www.missouri.edu
 - Montana State University – Bozeman, College of Agriculture
www.montana.edu
 - Nebraska, University of – College of Ag-Science and Natural Resources
www.casnr.unl.edu
 - New Hampshire, University of – College of Life Sciences and Agriculture
www.unh.edu
 - New Mexico State University – College of Ag and Home Economics
www.cahe.nmsu.edu
 - North Carolina Agricultural and Technical State University
www.ncat.edu

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- North Carolina State University – Agriculture and Life Sciences
www.ncsu.edu
 - North Dakota State University, College of Agriculture
www.ndsu.nodak.edu
 - Ohio State University Extension
www.extension.osu.edu
 - Oklahoma State
www.okstate.edu
 - Oregon State University
www.oregonstate.edu
 - Penn State University
www.psu.edu
 - Purdue University – School of Agriculture
www.agriculture.purdue.edu
 - Rice University, Dept. of Economics
www.ruf.rice.edu/~econ
 - South Dakota State University, Agriculture Experiment Station
<http://sdaes.sdstate.edu>
 - Southeast Missouri State University
www.semo.edu/study/finance
 - South Plains College, Levelland, Texas
www.southplaincollege.edu
 - Southern Illinois University
www.siu.edu
 - Southwest Missouri State University
www.missouristate.edu
 - Sul Ross State University
www.sulross.edu
 - Tennessee, University of – Institute of Agriculture
www.agriculture.tennessee.edu
 - Texas A&M University
www.tamu.edu
 - Texas Tech University
www.ttu.edu
 - Utah State University – Dept. of Economics
www.huntsman.usu.edu/econ
 - Vermont, University of
www.uvm.edu
 - Virginia Tech
www.vt.edu/
 - Washington State University
www.wsu.edu
 - Washington State University at Tri-Cities
www.tricity.wsu.edu
 - Western Illinois, University of
www.wiu.edu/marketing
 - Wisconsin, University of
www.wisc.edu
 - Wisconsin, University of – College of Agriculture
www.cals.wisc.edu
 - Wyoming, University of
www.uwyo.edu

Exchanges/Trading Platform

Exchange and trading platform sites are great resources. In addition to information about individual products, they generally have free educational pages that explain basic trading technique, Web seminars, end-of-day quotes, charts and sales support materials.

- Australian Securities Exchange
www.asx.com.au
- BGC Partners, Inc.
www.bgcpartners.com
- BM&F – Brazilian Mercantile & Futures Exchange
www.bmf.com.br
- Central Japan Commodity Exchange
www.c-com.or.jp
- Chicago Board Options Exchange
www.cboe.com
- Chicago Climate Exchange
www.chicagoclimatex.com
- CME Group
www.cmegroup.com
- Eurex/Eurex US
www.eurexchange.com
- Hong Kong Exchanges and Clearing, Ltd.
www.hkex.com.hk
- Hotspot FX, Inc.
www.hotspotfx.com
- Intercontinental Exchange
www.theice.com
- International Securities Exchange, Inc.
www.iseoptions.com
- Kansas City Board of Trade
www.kcbot.com
- Korea Exchange
www.eng.krx.co.kr
- London Metals Exchange
www.lme.co.uk
- Marche á Terme International de France
www.euronext.com
- Minneapolis Grain Exchange
www.mgex.com
- Montreal Exchange
www.m-x.ca
- NASDAQ
www.nasdaq.com
- New York Stock Exchange
www.nyse.com
- OneChicago
www.onechicago.com
- Osaka Securities Exchange Co., Ltd.
www.ose.or.jp
- Philadelphia Stock Exchange
www.phlx.com
- RTS Stock Exchange
www.rts.ru
- Singapore Exchange Limited
www.ses.com.sg
- Taiwan Futures Exchange
www.taifex.com.tw
- The Tokyo Commodity Exchange
www.tocom.or.jp
- The Tokyo Grain Exchange
www.tge.or.jp
- Tokyo Stock Exchange, Inc.
www.tse.or.jp

Government, Quasi-government and Associations

At these sites you will find many well-researched reports and papers. The CFTC site lists disciplinary actions and posts the Commitment of Traders report weekly. The NFA site has registration forms online, as well as information about member meetings and rule changes.

- Bank for International Settlements
www.bis.org
- Briefing.com
www.briefing.com
- Commodity Futures Trading Commission (CFTC)
www.cftc.gov
- Fed World
www.fedworld.gov
- Futures Industry Association (FIA)
www.futuresindustry.org
- Managed Funds Association (MFA)
www.mfainfo.org
- National Futures Association (NFA)
www.nfa.futures.org
- National Introducing Brokers Association (NIBA)
www.theniba.com
- Securities Exchange Commission (SEC)
www.sec.gov
- The Gallup Organization
www.gallup.com
- U.S. Department of Agriculture (USDA)
www.usda.gov
- U.S. Department of Commerce
www.doc.gov
- U.S. Treasury
www.treas.gov

News and Market Commentary

News and market commentary can be found on all exchange Web sites, as well as on many FCM sites. Your local area newspaper may also be listed at www.naa.org, the Newspaper Association of America.

A Commodity Trading World
www.aacommodity.com

Active Trader
www.activetradermag.com

Advantages in Options
www.optioncaddie.com

Allendale, Inc.
www.allendale-inc.com

Bank Credit Analyst
www.bcaresearch.com

Barron's
<http://online.barrons.com>

Bloomberg
www.bloomberg.com

Business Week
www.businessweek.com

Cheese Market News
<http://cheesemarketnews.com>

Cheese Reporter
www.cheesereporter.com

Chicago Business
<http://chicagobusiness.com>

Chicago Sun-Times
www.suntimes.com

Chicago Tribune
www.chicagotribune.com

CNBC
www.cnn.com

CNN
<http://money.cnn.com>

Commodity Traders Club News
www.webtrading.com

Commstock Investments, Inc.
www.commstock.com

Consensus
www.consensus-inc.com

Dairy Market News
www.ams.usda.gov

Dairy Profit Weekly
www.dairyprofit.com

Daytraders Online
www.daytraders.com

Dealing with Technology
www.dealingwithtechnology.com

Derivatives Week
www.derivativesweek.com

Dow Theory Letters
www.dowtheoryletters.com

EContent
www.econtentmag.com

Elliot Wave Theorist
www.elliottwave.com

Emerging Markets Monitor
www.businessmonitor.com

Euromoney
www.euromoney.com

European Business Week
www.eubusiness.com

Farm Week
www.farmweek.ilfb.org

Fast Company
www.fastcompany.com

Feedstuffs
www.feedstuffs.com

Financial Management Association, Intl.
www.fma.org

Financial Times
<http://news.ft.com>

Forex News
www.forexnews.com

Fox Business News
www.foxbusiness.com

Futures and Options Week
www.fow.com

Futures Industry Association
www.futuresindustry.org

Futures Magazine
www.futuresmag.com

Futures Truth
www.thefinancials.com

FX Week
www.fxweek.com

Grant's Interest Rate Observer
www.grantspub.com

Hightower Report
www.futures-research.com

Hoard's Dairyman
www.hoards.com

Information Today
www.infotoday.com

Institutional Investor
www.institutionalinvestor.com

Investment Dealers' Digest
www.iddmagazine.com

Investor's Business Daily
www.investors.com

John Lothian Letter
www.johnlothiannewsletter.com

Lowry's Market Trend Analysis
www.lowryresearch.com

Managed Account Reports
www.marhedge.com

Marketwatch
<http://marketwatch.com>

Moore Research Center
www.mrci.com

Morningstar Mutual Funds
<http://morningstar.com>

National Hog Farmer
www.nationalhogfarmer.com

Need to Know News
www.needtoknownews.com

New York Times
www.nytimes.com

Opportunities in Options
www.oio.com

Optima Investment Research
www.oir.com

ProFarmer Ag Trader
www.agweb.com

Reuters
www.reuters.com

Stocks, Futures & Options Magazine
www.sfomag.com

Sunny Harris & Associates
www.moneymentor.com

TeachMeFutures.com
www.teachmefutures.com

Technical Analysis, Stocks & Commodities
www.traders.com

The Chartist
www.thechartist.com

The Economist
www.economist.com

Trader's Edge
www.atradersedge.com

The Wall Street Journal
www.wsj.com

U.S. News & World Report
www.usnews.com

USA Today
www.usatoday.com

Wall Street & Technology
www.wallstreetandtech.com

Wall Street Letter
www.wallstreetletter.com

Waters Magazine
www.watersonline.com

Data Vendors and Equipment

Appian Graphics

www.appian.com

ATI Technologies

www.ati.amd.com

Bloomberg LP

www.bloomberg.com

CQG

www.cqg.com

DTN

www.dtn.com

eSignal FutureSource

www.esignal.com

eTraderTools

www.etradertools.com

Marketsource Online

www.msodata.com

Matrox Graphics

www.matrox.com

World Data Source

www.worlddatasource.com

Web site Design/Marketing

Gate39media

shate@gate39media.com

Trungale, Egan & Associates

fs@trungaleegan.com

Books on Web Design, Internet Marketing and Sales

Beckwith, Harry & Christine. *The Art of Selling Yourself*.

New York: Warner Business Books, 2006.

Bernoff, Jos and Li, Charlene. *Groundswell: Winning in a World*

Transformed by Social Technologies. Cambridge:

Harvard Business Press, 2008.

Catalino, Frank and Smith, Bud. *Internet Marketing for Dummies*.

Hoboken: Wiley & Sons, 2000.

Gitoma, Jeffrey. *Little Red Book of Selling: 125 Principles of Sales*

Greatness. Austin: Bard Press, 2004.

Lee, Dick. *The Customer Relationship Management Survival Guide*.

Minneapolis: HYM Press, 2000.

Mandino, Og. *The Greatest Salesman in the World*. New York:

Bantam Books, 1968.

Myerson, Mitch and Scarborough, Mary. *Mastering Online*

Marketing. Newburgh: Entrepreneur Press, 2007.

Myerson, Mitch. *Success Secrets of the Online Marketing*

Superstars. New York: Kaplan Business, 2005.

Nastetskaya, Milana. *65 Instant Web Design Answers, E-book*.

Carlisle: First Business Web site.

Niederst, Jennifer. *Web Design in a Nutshell*. Cambridge: O'Reilly

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Schwartz, Steven. *How to Make Hot Cold Calls*. Markham:

Fitzhenry & Whiteside, Ltd., Revised Ed. 2001.

Vee, Jimmy. *Gravitational Marketing: The Science of Attracting*

Customers. Hoboken: Wiley & Sons, 2008.

Ziglar, Zig. *Selling 101: What Every Successful Sales Professional*

Needs to Know. Nashville: Thomas Nelson & Co., 2003.

Accountants/Compliance

Advanced Regulatory Compliance, Inc.
www.advreg.com

CCS Financial Service
www.ccsfinancialservices.com

Compliance Supervisors
www.compliancesupervisors.com

Michael Liccar, CPA
www.liccar.com

Ethics Providers

Exchange Analytics, Inc.
www.xanalytics.com

Futures Industry Institute
www.fiafi.org

Walsh Agency
www.futuresethicstraining.com

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CHAPTER 8 – TRADE ORGANIZATIONS

Organization: A functioning structure arranged into a coherent unity or whole by systematic planning and united effort.

Organizations that focus primarily on the futures industry are good support groups. Approximately 50 percent of all IBs responding to our March 2008 survey and about 85 percent of all FCMs belong to a professional organization. The networking, newsletters, conferences and continuing education will help you grow your business. Look for professional organizations offering the following benefits:

Networking: Meet IBs, CTAs and other registered professionals at conferences and workshops in order to learn how they solve the same challenges you are facing. Expand your circle of business contacts.

Information and Education: Have access to practical information and educational tools you can use to expand your knowledge and your business.

Professional Development: Improve your professional skills in areas such as marketing and new product utilization. Learn how to expand your business using effective Web sites or newsletters and seminars.

Publications: Receive organization publications.

Power of Belonging: A unified voice is stronger and more likely to be heard on issues affecting your business than on individual voice.

Representation with the Regulators: Be informed and represented when key issues affecting your business are discussed by the CFTC, NFA and federal government.

Member Discounts: Receive discounts on publications, software, quotation devices and other equipment and meetings.

The following associations are organizations that all IBs are eligible to join. Additional information can be found at each Web address and by searching “managed funds” on Google.

National Introducing Brokers Association

The National Introducing Brokers Association (NIBA), based in Chicago, IL, is a non-profit membership organization focused specifically on retail professionals in the futures and options business. Founded in 1991, it has over 350 members including IBs and CTAs, plus the sponsorship of 10 FCMs and all domestic exchanges.

The purpose of the NIBA is to provide a forum for IBs and others primarily engaged in retail offerings to discuss and evaluate issues directly affecting their livelihood and to respond with a unified voice. 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.

The NIBA holds regularly scheduled meetings with the NFA and CFTC, and sponsors annual conferences held in Chicago and New York that emphasize networking, marketing and continuing education.

NIBA members benefits include a quarterly electronic newsletter, Washington representation, discounts on Web site design, marketing and quotation equipment, and a resource center for professional assistance.

All IBs and CTAs registered and in good standing with the NFA may join. NIBA membership is \$150 annually for both IBs and CTAs. APs and FCMs may also join in supporting categories.

NIBA is located at 55 W. Monroe, Ste. 3330, Chicago, IL 60603. The phone number is 312 977 0598, and the Web site is www.theniba.com.

The 2008 Board of Directors includes:

- Founder / Chairman of the Board, Melinda Schramm
Melinda@futuresrep.com
- President / Membership Chair, John Jenson
hwfi@pacbell.net
- Vice President/E-Newsletter, Bucky Isaacson
isaacson@att.net
- Treasurer, Bob Pirie
traderbob@laketradingcompany.com
- Secretary, Chris Haverkamp
chris@piitrader.com
- NY Representative, Bill Purpura
wpurpura@nymex.com
- Member Benefits, Tim Merryman
intercom@yahoo.com
- Webinars, Buck Haworth
buck@borncapital.com
- Conference, Con Conolly
john.conolly@cmegroup.com
- 2008 FCM Representative, John DeMartino
john.demartino@fcstone.com
- Legal Advisor, Steve Pherson
spherson@schuyhlerroche.com
- Marketing Advisors, Fred Steingraber
fs@trungaleegan.com
- Web site/Communications Advisor, Shane Stiles
shane@gate39media.com

Commodity Floor Brokers and Traders Association

The Commodity Floor Brokers and Traders Association (CFBTA), founded in 1990, represents the interests of the New York floor community. As a non-profit group, the CFBTA's goal is to explain, enhance, improve and represent the profession to the trading community, investment public and regulatory bodies.

The CFBTA's mission is to be ethical in all its dealings with fellow members, the public, and customers and employees, and conduct themselves professionally so that individuals' acts will be deemed in good faith and a credit to the profession.

Benefits and discounts include benefit plans, mortgage services and ethics training.

Membership fees are \$50 per year.

The CFBTA is located at One North End Avenue, Box 204, New York, NY 10282. For more information, please contact Chairman George Gero at info@cfbta.org. The phone number is 212 317 7479, and the Web address is www.cfbta.org.

Futures Industry Association

The Futures Industry Association (FIA) is open to all organizations that have an interest in the futures markets. The FIA has approximately 180 corporate members.

Regular members are FCMs. The FIA estimates that their regular members are responsible for more than 80 percent of the customer business transacted on U.S. futures exchanges; they include the top 20 firms in terms of customer equity.

Associate members include international exchanges, banks, legal and accounting firms, IBs, CTAs, CPOs and other market users, and information and equipment providers headquartered in the United States and abroad.

As a corporate member, employees of the firm are entitled to join the FIA's divisions, receive the FIA publications, use the FIA as a legal, statistical, and informational resource, and attend the FIA events at special reduced member rates.

FIA divisions include:

- Japan chapter
- Chicago chapter
- Information Technology
- Law and Compliance
- Futures Services

Events include:

- An annual FIA Expo held in Chicago, focusing on technology and software
- A meeting focused on regulation and compliance generally held in Baltimore
- An annual member meeting in Boca Raton, Florida, which is one of the industry's best attended conferences

Membership benefits offered by the FIA include Washington representation, division membership, conferences, publications and case studies.

FIA membership fees vary. They are based on the applicant's structure; once the corporate member joins, its employees may join the various divisions.

The Futures Industry Association's main office is located at 2001 Pennsylvania Ave., N.W., Ste. 600, Washington, D.C. 20006. The phone number is 202 466 5460, and FIA's Web site address is www.futuresindustry.org.

- President John Damgard: Jdamgard@futuresindustry.org
- Exec. V.P. and Gen'l Counsel, Barbara Wierzynski: bwierzynski@futuresindustry.org
- Sr. V.P. Industry Relations, Mary Ann Burns: maburns@futuresindustry.org
- Relationship Manager, Courtney Ragar: cragar@futuresindustry.org

Global Association of Risk Professionals

The Global Association of Risk Professionals (GARP) is a not-for-profit association with a membership of over 75,000 individuals worldwide who are involved in financial risk management.

Members come from over 100 countries, and work in regional and global banks, asset management firms, insurance companies, central banks, securities regulation, hedge funds, universities, large industrial corporations and multinational corporations.

The GARP's aim is to encourage and enhance communications between risk professionals, practitioners and regulators worldwide. Through its events, publications, Web site and certification examination (FRM), The GARP works on expanding views and increasing recognition of the global risk management community.

The GARP's stated mission is to be the leading professional association for risk managers, managed by and for its members dedicated to the advancement of the risk profession through education, training, and the promotion of best practices globally.

There are four levels of membership available:

- Individual Membership (\$100)
- Student Membership (\$50)
- Fellow Members (\$100) – open to individual members who are FRM certified
- Affiliate Membership (Free) – open to all who access the public areas of the GARP's Web site

The GARP offers a certification program, Financial Risk Manager (FRM), three major conventions annually and a risk management review magazine published six times per year, supplying coverage of trends, strategies, and best practices in financial risk management.

The GARP has an office in the United States and one in the United Kingdom. The address and phone number for each is: 111 Town Square Place, Ste. 1215, Jersey City, NJ 07310, 201 719 7210, and 1st Floor, 42 Mincing Lane, London, EC3R 7AE, UK, +44 0 20 7397. The Web site address is www.garp.com.

- President/CEO, Rich Apostolik, 201 222 0054 x 12
- Membership, Mary Theriault, 203 264 6380
- Vice President, FRM Certification, Diane Beebe, 201 222 0054 x 14
- Events Coordinator, London, Katherine Barnes, 44 0 20 7397

Managed Funds Association

The Managed Funds Association (MFA) is located in Washington, D.C. Its stated mission is to enhance the image and understanding of the alternative investment industry through media relations initiatives, further constructive dialogue with regulators in pursuit of regulatory reform, and improve communications with, and training of, associate members through effective communication programs.

The MFA has more than 650 members worldwide. Regular members include FCMs, banks, hedge fund advisors, IBs, CTAs and CPOs. MFA estimates these firms are responsible for the discretionary management of the vast majority of the approximately \$2 trillion currently invested in absolute return strategies, as well as significant amounts invested in hedge funds and other financial and commodity linked investments.

The MFA's member advantages include: a monthly newsletter, Washington representation, conferences held around the world, research and discounts on publications and meetings.

Membership dues vary by corporate structure and volume of business transacted by the applicant. Fees vary from \$2,000 to \$40,000.

The MFA offers a Special Exception Membership category. To qualify, the applicant must have been in the industry less than 18 months with less than \$20 million under management or be a small firm with less than five people employed and less than \$1 million under management. Membership fees in the Special Exception category are \$500 annually.

The MFA is headquartered in Washington, D.C. with an office in New York. The address and phone number for each office is: 2025 M St., N.W., Ste. 610, Washington, D.C. 20036; 202 367 1140, and 360 Madison Ave., 18th Floor, New York, NY 10017, 212 313 1300. The Web site of the MFA is www.mfainfo.org.

- President and CEO, Richard Baker: rbaker@mfainfo.org
- Special Advisor, John Gaine: jgg@mfainfo.org
- Legal Counsel, Jennifer Han: jhan@mfainfo.org
- Director, Marketing, Communications: Stacy Hudson: shudson@mfainfo.org
- Committees and Programs, Catherine Van Son: cvanson@mfainfo.org

Market Technicians Association

The Market Technicians Association (MTA) is a not-for-profit organization with membership of over 2,500 market analysis professionals in 56 countries.

The mission of the MTA is to:

- Educate the public and the investment community to the value and universality of technical analysis
- Attract and retain a membership of professionals devoting their efforts to using technical analysis
- Expand the field of technical analysis and share their body of knowledge with their fellow members
- Establish, maintain and encourage the highest standards of professional competence and ethics among technical analysts

The MTA offers regional chapter meetings, a newsletter, and an annual seminar. Membership fees are \$300 annually.

The MTA is located at 61 Broadway, Ste. 514, New York, NY 10006. For more information, please contact Executive Director and CEO, Tom Silveri at toms@mta.org. The phone number is 646 652 3300 and the Web address is www.mta.org.



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