CME Group

The Complete IB Handbook

WRITTEN BY MELINDA H. SCHRAMM

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INTRODUCTION

So you decided to become an Introducing Broker (IB)… Congratulations.

It's been over 35 years since the IB came into existence, and the futures industry has changed dramatically.

Many changes came about because of advances in technology. Electronic order placement has replaced much of the in-person conversation once necessary to place a trade, research is easily accessible online and cryptocurrencies are an actual thing!

Many regulatory changes were brought about as a response to the September 11, 2001 attacks on the U.S., and to the unprecedented failures of two brokerage firms in 2011 and 2012. Legislation, including the Dodd-Frank Act, has had a substantial impact on all registrants in the futures industry.

And, of course, changes have happened simply because the way the industry is conducted has changed. In July 2007, the Chicago Board of Trade and the Chicago Mercantile Exchange merged to form CME Group, creating the world's leading and most diverse derivatives marketplace. Today, CME Group also includes the operations of the exchanges we used to know as the New York Mercantile Exchange, COMEX and the Kansas City Board of Trade.

Brokerage houses have merged or terminated business, so that there are fewer firms with which to clear retail customer business than at the first printing of this Handbook in 1999. That makes your FCM choice more important than ever before.

During the summer of 2015, the CME Group closed most of its futures trading pits on its several exchange floors. And, at the end of 2017, the exchange began trading a futures contract based off bitcoin. These events are part of the end of one era in the futures industry and the start of another.

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

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

Running an IB office is a business like any other. To be successful in the derivatives industry, you'll need a good business plan, you'll have to work hard and you'll have to stay in strict compliance with industry regulations. The Complete IB Handbook, 8th Edition, 2018, will help you make good decisions, and support your efforts as an Introducing Broker.

CME Group assists the IB community in many ways. Whether it is education, market information or research data and reports you need, you'll find it by contacting a CME Group Product Manager, or at their website, www.cmegroup.com.

The National Introducing Brokers Association (NIBA) can also help your IB grow. NIBA is a trade association which I founded in 1991, for industry professionals whose customers transact business primarily in retail markets. NIBA's purpose is to provide education for derivatives professionals – IBs, CTAs and APs registered with the NFA which aid their efforts to operate a successful business. NIBA posts an electronic newsletter twice-monthly, and holds four in-person member meetings annually. Each newsletter and meeting includes articles and presentations by industry experts on issues such as regulation, compliance, marketing and products. You can join the association and view the benefits, including the newsletter, at www.theniba.com.

The information contained in The Complete IB Handbook, 8th Edition, is based upon responses to a survey of all registered IBs conducted during the fall of 2017, by MHS Capital Resource, Inc. and CME Group. No individual response has been identified. Graphs, numbers and charts summarize or further detail the responses. Registration, regulatory and association information was obtained from the agencies or organizations themselves. Additional materials and assistance can be found on their individual websites.

Melinda Schramm
President, MHS Capital Resource, Inc.
Founder & Chairman, NIBA
melinda@futuresrep.com

CHAPTER 1
INTRODUCING BROKERS

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

Introducing Brokers (IBs) handle transactions for customers in futures and options markets, for managed accounts and in the forex and swap markets. IBs are sometimes viewed as the field sales force of the futures industry because they deal directly with the customer.

TOTAL IBS REGISTERED:	**1,220**
IIBS REGISTERED:	**602**
GIBS REGISTERED:	**618**

Source: NFA, Feb. 2018

Each IB must have a relationship with at least one Futures Commission Merchant (FCM). The FCM, referred to as the "clearing firm," handles trade execution and back office service for the customers IBs bring to the FCM.

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

FCMs charge IBs a fee for each trade executed for a customer. IBs set the commission fees charged to the customer.

Introducing Brokers must be registered and members of the National Futures Association (NFA) in order to do business with the public. IBs can register as either Independent (IIB) or Guaranteed (GIB). The "IB" designation refers to the entity (the firm itself), not to an individual. The firm can be organized as a sole proprietorship, partnership or corporation, and will be registered as such.

Why do customers open their accounts with an Introducing Brokers? Because IBs offer valuable services for those customers which include:

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

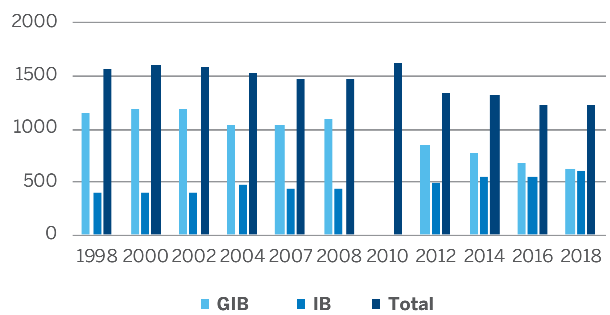
IBs are federally registered – with the Commodity Futures Trading Commission (CFTC). The largest number of currently registered IBs are located in Illinois, with New York, Florida, California, Texas, Iowa and Kansas rounding out the top seven states with the most IB offices.

IB offices can be located outside the United States. Those firms may be exempted from registration if they meet certain criteria with the NFA. SEC-registered broker-dealers that limit their futures-related activities to the sale of security futures products on contract markets, or derivative transaction execution facilities can "notice register" to become an IB.

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

Some IB offices transact other related business at their offices such as securities brokerage, auditing/accounting services, grain or feedlot operations or insurance.

Total Number of IBs



Source: NFA; MHS Capital Resource, 2018

The total number of Introducing Brokers has decreased by about 50 firms since publication of the last IB Handbook in 2016. IIB registration increased. GIB registration has decreased over the same period of time, and rather significantly since 2000. That is in part due to:

1. The collapse of MF Global and Peregrine Financial Group. After the 2011 and 2012 failures of these two firms, many GIBs changed their registration status to IIB in order to clear their customer business through more than one FCM
2. Changes in regulation and accounting requirements. FCMs have become less likely to take on the legal liability and financial responsibility of a GIB versus IIB.
3. Difficulty in keeping up with the costs and requirements of increased regulation, including cybersecurity, and recording programs for some smaller offices.

It should be noted that during this period, FCM registrations also decreased from 205 firms in 2002 to 63 in 2018. Approximately 15 of those 63 firms carry nearly all of the trades transacted by IBs, resulting in IB having fewer FCMs with which to do business.

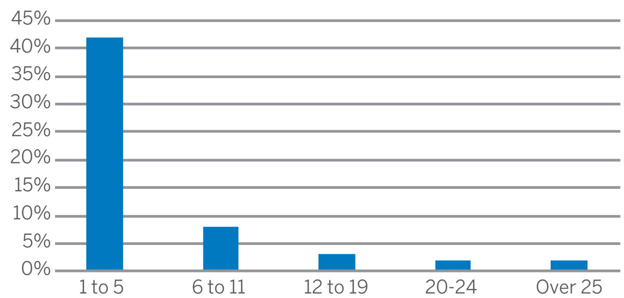
Per the NFA, becoming an IB with a temporary license (TL) to do business can take as few as three to four days after the required documentation is received if:

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

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

NFA records indicate there are 50,965 persons registered as APs as of February, 2018. This number is down from 55,755 reported in the 2016 edition of The Complete IB Handbook, and is reflective of the decrease in NFA registrants as a whole. The high of 56,745 AP registrations was reported by the NFA in February, 2014, and was likely the result of new swaps registration requirements implemented by NFA in late 2012 becoming effective.

How many APs do you have?



Source: 2017 Industry Survey

In late November, 2017, CME Group and MHS Capital Resource, Inc. asked all registered Introducing Brokers to participate in an online survey in order to determine the state of the IB community.

Among the questions asked on the survey were those related directly to the IB office, such as the number of years the IB has been registered, what markets are primarily traded by customers of that office and what factors influence an IB's choice of FCM. The replies to the survey questions formed the basis for the graphics and text of this Handbook in substantial part.

IIB or GIB

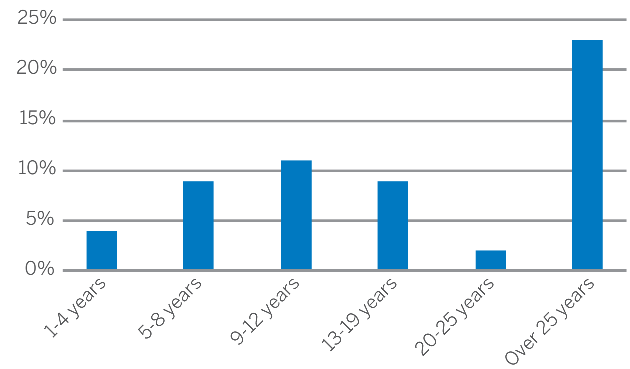
As of 2018 and for the first time in NFA registration history, the number of IIBs and GIBs is nearly equal – 602 IIBs versus 618 GIBs. IIB registration has increased, GIB registration has decreased since the last IB Handbook was published in 2016.

Those firms who register as GIBs cite capital requirements, less documentation and no required financial audits as the top three reasons for the decision not to register as an IIBs. Registrants new to the futures industry felt they did not have the experience necessary to operate as an IIB, and desired the closer supervisory relationship with an FCM which a GIB registration affords.

Industry and Related Experience

The average IB responding to the 2017 Industry Survey has been registered for approximately 15 years. Over 65 percent have held the registration for as least 9 years and about 28 registrants replied they have been in business for over 25 years. Less than 3% of the total respondents have been in business for four years or less.

How many years have you been a registered IB?



Source: 2017 Industry Survey

Many IB owners have experience in agricultural operations such as at a grain elevator or cash grain firm prior to becoming an IB. More IB owners have been involved in banking or other financial industries than in previous years. There are no clear experience indicators will clearly lead to success for the IB. Jobs IB owners have held are quite varied – teaching, law, construction, real estate, insurance and the service in the military, in addition to financial and agri-businesses. As more colleges and university offer degrees in the workings of the marketplace, IB owners report they have completed a college course or degree which focused on the financial industry prior to joining the business.

Some IBs register in other NFA categories or hold licenses to do business in other related industries. A swaps or forex designation or Commodity Trading Advisor (CTA) registration are the ones most often held by IBs. Securities licenses, insurance and real estate licenses are often held by IB owners.

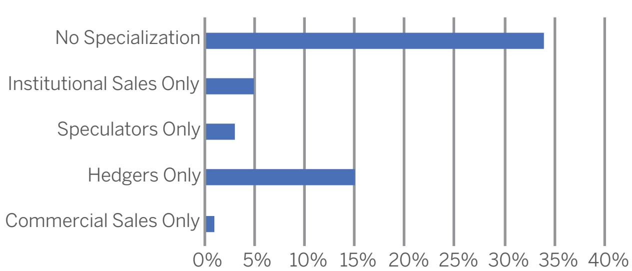
Specialization and Markets Traded

In the mid-1980's when the Introducing Broker category first came into being, agricultural products were the markets overwhelming traded by IB offices. In 2018, ag and ag-related products – grains, livestock – are still the most heavily traded markets but not by much. Some IBs reported that over 25% of their customers' transactions were in either the interest rate markets, currencies or indexes.

Additionally, about 1% of the IBs responding to the 2017 Industry Survey traded up to 50% of their total transactions in swaps markets, while about the same number traded 15% in forex products and slightly more traded about 10% of their total in the metals markets.

Agricultural hedging clients remained the largest single percent type of customer trading through IB offices. The majority of IBs do not specializes in any type of client. Those who did indicate a specialty, named institutional sales and commercial accounts most often.

What types of clients do you serve?



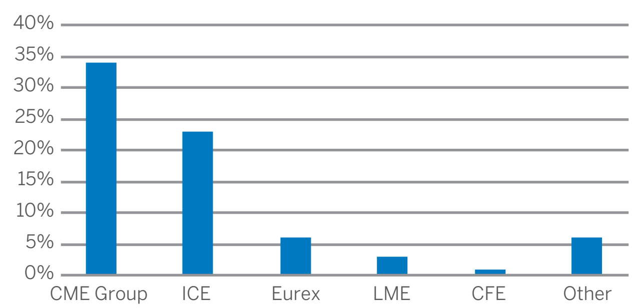
Source: 2017 Industry Survey

Trading by IB offices in the "softs" – cotton, cocoa, sugar and orange juice – has increased slightly since the 2016 Handbook. As the markets become more accessible through the public's access to market data, including cash market information and through increased transparency, those markets have become less dominated by professional and commercial traders.

Electronic order placement on platforms such as Globex, Clearport and others are giving IB customers increased opportunities to participate in all markets. While most IBs still do all or most of their trading in domestic markets, several IBs report that up to 10% of their trading is done outside U.S. markets.

Industry survey respondents reported that they transact customer business most often with CME Group. Eurex, the London Metal Exchange and the InterContinental Exchange are the next most often used trading facilities.

What exchanges do you use?



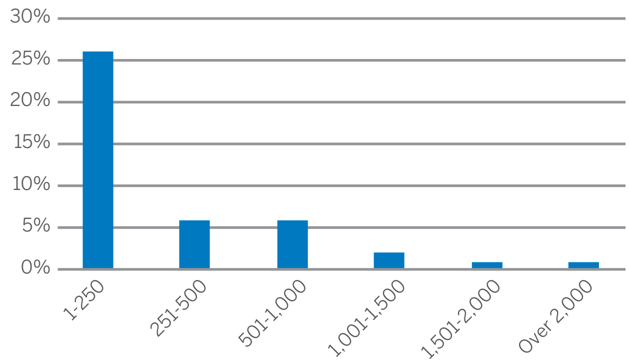
Source: 2017 Industry Survey

Accounts and Commissions

While about 50 percent of IBs indicated they have up to 500 accounts, including those opened by their branch offices, another 20% percent have between 501 and 1,000 accounts. Ten percent of the total reported they service over 1,001 accounts and about 2 percent of IBs have 2,000 or more customer accounts

Some offices which service specific types of clients such as hedgers, service as few as 40-50 customers per year.

How many accounts?



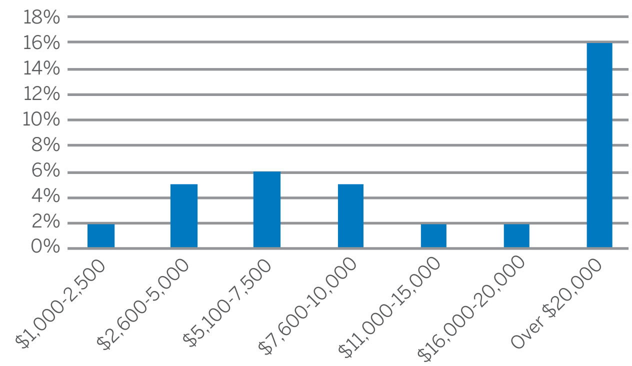
Source: 2017 Industry Survey

About half of IB offices have no non-domestic customers; about 12% report between 10 percent and 40 percent of their total accounts are non-domestic owned. Three offices stated that up to 65 percent of all their business comes from non-domestic customer accounts.

Most IB offices do not establish a minimum account size in order to open an account. However, some FCMs establish minimum requirements for certain customers or specific markets. Managed accounts will require a standardized minimum deposit to begin trading.

For about 20 percent of IBs responding to the Industry Survey, the initial account funding required is less than $10,000. Approximately 15 percent require a deposit of at least $20,000 before a customer can trade.

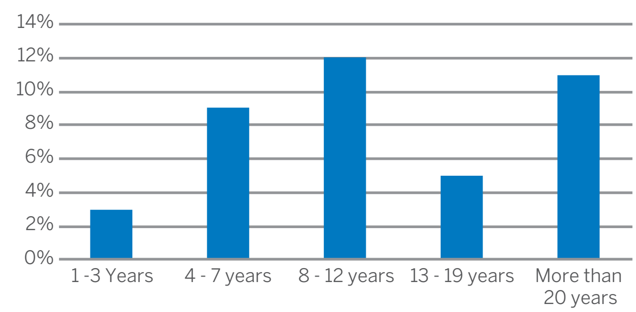
What is the average funding amount for a new account?



Source: 2017 Industry Survey

Approximately 14 percent of IBs report that accounts remain open with their office for at least seven years. Over half said they had the same clients trading through the IB for over 12 years. And about 16% of IBs are currently servicing clients whose accounts were opened over 20 years ago.

How long do your accounts typically stay open?



Source: 2017 Industry Survey

Customer commission rates are most often between $5 – $35.00 per side of a futures contract. While a few IBs charge less than $5 per side and a few others charge over $65.00, customer commission rates have remained consistent since the 2014 edition of the IB Handbook.

Slightly over two-thirds of all IBs charge the entire options transaction fees upfront.

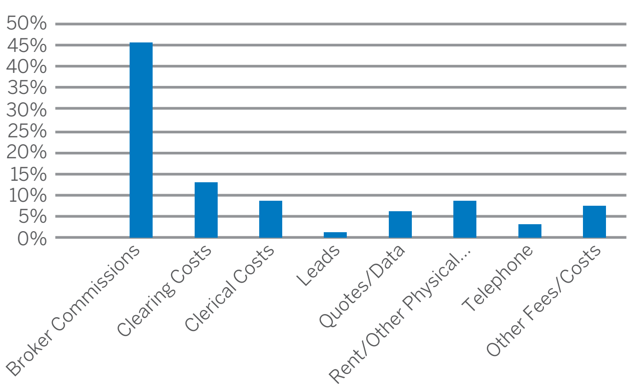
Income and Expenses

About 16 percent of Introducing Broker offices reported average monthly income generated by gross commissions was in excess of $200,000, consistent with the 2016 Industry Survey. No IB reported monthly gross commissions of less than $25,000. About 10% said their office generated between $25,000 and $50,000 monthly. These numbers are generally slightly higher than in 2016.

The five largest monthly expenses for IB offices are, in order of largest to smallest:

- Broker payouts
- Clearing costs
- Market quotes/data fees
- Rent and other normal office overhead
- Costs associated with compliance requirements, including recording and cybersecurity

What percentage of the monthly gross revenue generated by this IB is spent on the following?



Source: 2017 Industry Survey

APs

There are some sole proprietor registered IBs operating without additional AP assistance. The average IB office has three to five APs. This year's survey showed that there are a number of offices supported by over 25 APs, including those in the IB's branch offices.

APs are most often recruited for IB offices through referrals from other APs, networking within the community or word-of-mouth among friends, rather than through advertising for APs. Some IBs have found highly qualified interns through a college or university program.

Those IBs who support branch office systems generally have between four and seven remote locations. Becoming a branch office of an established firm is one way to start off in the IB business. Adding branch offices and their customers is also one way an established IB can grow its business.

Website and Social Media

Several of IBs responding to the 2017 Industry Survey do not have a firm website. In some cases, the FCM site links to the IB office or there is contact information on the FCM site for individual IB offices. All IBs open accounts electronically.

Most IBs do not use social media to communicate with their customers. The NFA regulates client solicitation of any kind whether it is print, electronic or tweeting.

FCMs and Clearing Relationships

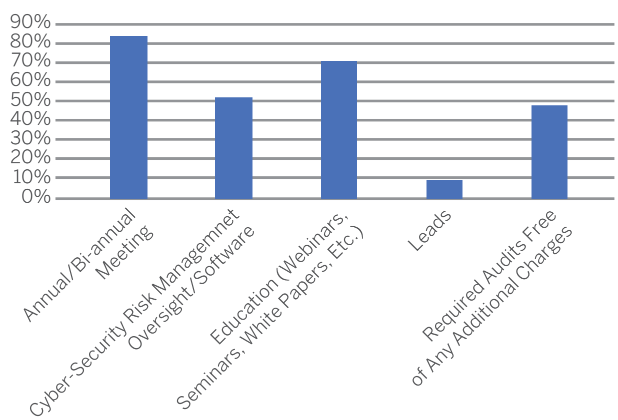
In Chapter 3 of this Handbook – FCMs, we discuss various reasons IBs choose their FCM. After the collapse of MF Global (MFG) and the failure of Peregrine Financial Group (PFG), it became more important than ever before to know your FCM's reputation and be aware of its financial health.

The MFG and PFG situations are highly unusual. Many IB offices will stay with their FCM relationships throughout their entire business career.

In addition to looking for the right clearing rate and trade execution for its customers, IBs choose FCMs which offer services they believe will help grow the IB. These include:

- An annual firm meeting
- Education (webinars/seminars/etc)
- Cybersecurity risk management oversight
- Required audits free of additional charge
- Risk management software
- Research that is necessary to their clients

% IBs who reported their FCM Providing



Source: 2017 Industry Survey

Trade Associations

IBs most often belong to the National Introducing Brokers Association (NIBA), a trade association for registered professionals who transact customer business primarily in the retail sector of the futures and options business. Founded in 1991, the mission of NIBA is education. The mission is accomplished with three to four in-person member meetings annually, a twice monthly electronic newsletter, and representation of its members' opinions with industry regulators.

Contact information for NIBA and other associations to which IBs belong is found in Chapter 8 of this Handbook.

Business Plans, Challenges and the Future

Business plans are discussed in Chapter 4 of this Handbook. Approximately 70% of IBs have a business plan, most for over 5 years into the future. It is reviewed and updated every six months.

The increased cost of regulation, including the cost of cybersecurity and other compliance costs is the number one concern of 2018's IB community. Many IBs are still uncertain if they are meeting cybersecurity threats effectively and whether they are in compliance with NFA requirements. Most IBs see these costs increasing.

IBs also reported their data equipment and fees are also increasing, adding to the overall cost of operating an IB.

IBs are concerned about the diminishing number of FCMs willing to guarantee IB business, which limits their choices. They are worried about finding the right fit for their clients and the strangle-hold a few FCMs might eventually have over the IB community.

Finding qualified APs is always on the minds of IBs. Some have turned to intern programs successfully, but work-of-mouth and referrals from current APs and clients remain the major way APs come to work with IBs.

In 2017, IB offices who were affected by the failures of MF Global in 2011 and Peregrine Financial Group in 2012, had, for the most part, recovered customer and revenue loss, and had a generally optimist outlook for the futures.

All industry participants, including customers, agree that Introducing Brokers hold a unique, valuable and essential position in the business.

Checklist for Chapter 1 – Introducing Brokers

1. Do I need to register – or do I really just want to trade?

2. Does the type of business I want to do require an IB license?

3. Do I have the experience necessary to own and operate an IB?

4. Do I fully understand the financial and time commitment that is necessary to operate an IB? Is my family fully informed and stand behind that commitment?

5. How will I build my customer base?

6. How will I find qualified APs and clerical staff?

7. Will I offer managed futures, forex or swaps transactions, and does that require an additional registration?

8. Do I need a firm website, who will develop it and how much will it cost to build and maintain?

9. Have I full investigated my FCM choices?

CHAPTER 2
REGISTRATION

Registration: The act or process of entering information on an official list

Registration with the CFTC and NFA membership is required for all Introducing Brokers (IBs).

The following types of business entities must register and be members of the NFA:

- "The tradition entity" solicits or accepts orders to buy or sell futures contracts or commodity options, including transactions in managed accounts
- "The forex entity" introduces forex customers to FCMs or Retail Foreign Exchange Dealers (RFEDs) (with narrow registration exceptions)
- The "swaps entity" is subject to the jurisdiction of the CFTC
- The "securities-registered entity" limits its futures-related activities to the sale of security futures products to contract markets or derivative execution facilities.

TOTAL IBS REGISTERED 2018:	**1,220**
TOTAL IIBS REGISTERED 1/2018:	**602**
TOTAL GIBS REGISTERED 1.2018	**618**

Source: NFA, 2018

Registration is not required for an IB if you are:

- registered as, and acting in the capacity of, an Associated Person (AP)
- registered as a Futures Commissions Merchant (FCM)
- registered as a Commodity Pool Operator (CPO) and only operate pools
- registered as a Commodity Trading Advisor (CTA) and don't receive per-trade commissions, or only manage accounts under a power of attorney
- a non-U.S. resident or firm with only non-U.S. customers, and the firm submits all trades for clearing to an FCM

Registration forms, including templates to help you understand the process, are available on NFA's website. When you complete those forms for CFTC registration, you are also applying for NFA membership. Required forms and actions include:

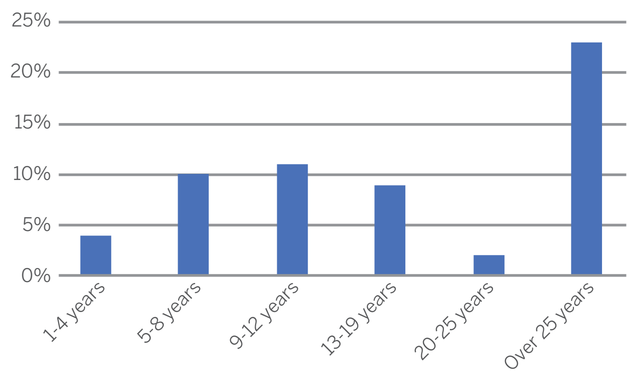
- designating a "Security Manager" in order to get secure access to NFA's Online Registration System (ORS)
- completing the Form 7R — the IB's firm application
- satisfying all compliance requirements in order to become an IB
- completing the Annual Questionnaire
- paying the non-refundable application fee of $200
- Paying non-refundable membership dues of $750 (or $2,500 for forex IBs)
- proof that each branch office manager has passed the required exam
- for IIBs, a statement describing the source(s) of the current assets of the IB, and that it has been contributed and will continue to be used for the IB
- for IIBs, a completed NFA Form 1-FR-IB (Part A) or a certified audit
- for GIBs, the NFA Form 1-FR-IB (Part B) completed by an FCM

An IB registrant is also required to file certain documents for its principals and associated persons. Required documentation and actions include:

- NFA Form 8-R for each principal and AP
- fingerprint cards
- proof that all proficiency requirements have been satisfied for every sole proprietor, AP and forex AP
- paying a non-refundable application of $85 for each principal and AP

IBs engaged in retail off-exchange forex activities or swap transactions are required to file additional documentation with the NFA. Broker-dealers registered by the securities industry can simply file a complete Notice Form. All necessary forms are found on the NFA's website. The NFA has also posted a video tutorial to help you understand the registration process.

How long have you been a registed IB?



Source: 2017 IB Survey

The Applications

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

Initial applications for registration can be filed as soon as entry of the required data is completed. Guaranteed IBs can be granted a temporary license (TL) after all filings for the IB have been received by the NFA, and it is determined that the IB and each of its individual principals meet the eligibility requirements. The FCM which guarantees the IB must also file its certification before the TL is issued.

Temporary licenses allow applicants to conduct business in the capacity for which they have applied while NFA is conducting the required background checks. It may take six to ten weeks to complete those background checks before the NFA grants a full registration to initial applicants.

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

Independent Introducing Brokers (IIBs) have to meet and maintain a financial requirement set by CFTC and NFA requirements. To determine your requirement, review NFA's Financial Requirements found on their website. IIBs must have an accounting system that records all of the firm's financial activity. Additionally, they are required to maintain at all times Adjusted Net Capital greater than the minimum net capital requirement for that IB.

IIBs file financial reports with the NFA semi-annually, including a fiscal year report which must be certified by an independent public accountant. These reports can be filed electronically with the NFA's Chicago Office.

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

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

All IIBs and GIBs must have compliance procedures (commonly referred to as a Policy & Procedures Manual) and additional documents ready for review by the NFA as part of the initial application. These include your Anti-Money Laundering (AML) compliance program, Business Continuity and Disaster Recovery Procedures, Promotional Material and Review Program, Customer Complaint Procedures, Source of Assets Letter and your Information Systems Security Program (ISSP). IBs are not required to designate an individual as the firm's Chief Compliance Officer (CCO), but if the firm appoints a CCO, that person must be listed as a principal of the firm.

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

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

Notice Registration

The Commodity Futures Modernization Act of 2000 provided for certain broker-dealers who are registered with the Financial Industry Regulatory Authority (FINRA) to "passport" into CFTC registration. If the FINRA-registered broker-dealer limits its futures-related activities to trading securities futures products, it can be registered as a Security Futures Product Broker-Dealer. The firm must be registered with the CFTC as a FCM or IB, and must be a member of the NFA. Registration form BD-N is available on the NFA's website. It is a two-page application which includes an execution page. It is filed with the NFA's Chicago Office. There is no cost for filing.

IBs which are registered with the CFTC and members of the NFA, who wish to offer and trade security futures, must notify the NFA and meet certain requirements. IBs who complete this process are exempt from requirements of the securities laws that duplicate futures requirements, including financial requirements and risk assessment rules. The IB is not required to become a member of FINRA as long as its securities business is limited to offering and trading security futures products.

Annual Registration Update Requirements

The NFA requires that certain updates be made annually so that your filings are complete and reflect the true, current nature of your business. Those updates include:

- completion of the Annual Questionnaire (electronically)
- completion of the Annual Registrations Update (electronically)
- payment of your annual dues, including a records maintenance fee on the anniversary of your firm's registration
- completion of the Self-Examination Questionnaire
- submission of applicable financial statements

- conducting Anti-Money Laundering training for your APs, including an audit of your AML procedures and of the training itself
- an annual onsite inspection of each branch office
- sending your Privacy Policy to each current customer
- verifying customer information
- testing your Disaster Recovery Plan
- conducting or otherwise providing Ethics Training
- monitoring and reviewing the effectiveness of your ISSP, and updating where needed

Common Mistakes Made on IB Registration Applications

Mistakes or omissions on your application, can slow your registration process or even cause your IB to be ineligible for a Temporary License. Some easily avoidable mistakes are:

- Applicable dues or fees are not received with the application
- No financial information or Guarantee Agreement is received with your Form 7R so the NFA cannot determine if the IB is applying to be a GIB or an IIB
- Form 8R is not included for a principal
- Principals who are in the "supervisory chain of command" have not filed to become APs if that registration is necessary

Who Must be Listed as a Principal

Deciding who should be listed as a principal on the NFA forms can be a bit confusing. The Form 7R Template found on NFA's website should help. In general, "principal" means a registrant or person required to be registered under the Act. "Person" is defined as an individual, association, partnership, corporation, limited liability company, limited liability partnership, trust or other form of business organization. Using these definitions, those people/entities who are required to registered with your IB are:

- An individual who is:
  - a sole proprietor
  - a general partner
  - a director, president, CEO, COO, CFO or person in charge of a business unit or division subject to regulation by the CFTC
  - a manager or managing member
  - a chief compliance officer
  - owner of 10% or more of the outstanding shares of any class of the IB's equity
  - entitled to vote 10% or more of the outstanding shares
  - empowered to sell or direct the sale of 10% or more of the outstanding shares
  - has the power to exercise a controlling influence over the IB
  - is entitled to receive 10% or more of the IB's net profits
- An entity that:
  - is a general partner of a partnership
  - is the direct owner of 10% of the outstanding equity of the IB
  - has contributed 10% or more of the IB's capital

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

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

Can a GIB clear its customers' futures and options transactions through an FCM other than its guarantor FCM?

No.

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 at the NFA will both be terminated.

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

No.

Does the NFA accept credit cards for registration fees or membership dues?

No. The NFA has three payment options:

1. Online Payment Request – only available to U.S. Firms
2. Wire Transfer
3. Check made payable to the NFA and sent to:

   National Futures Association
   Box 98383
   Chicago, IL 60693-0001

Definitions of Some Commonly Used Terms on Registration Forms

- 10% or more Interest: Direct or indirect ownership of 10% or more of an applicant's or registrant's stock; entitlement to vote or empowered to sell 10% or more of an applicant's or registrant's voting securities; contribution of 10% or more or an applicant's or registrant's capital; or entitlement to 10% or more an an applicant's or registrant's net profits.
- Adjudication: In a criminal case, a determination by the court that the defendant is guilty or not guilty.
- Adversary Action: A lawsuit arising in, or related to, a bankruptcy case commenced by a creditor or bankruptcy trustee by filing a complaint with the bankruptcy court.
- Alias: Another name used by an individual or previously used by an entity.
- Charge: A formal complaint, information, indictment or the equivalent containing an accusation of a crime.
- DBA: The abbreviation for Doing Business As. This is used when the firm is doing its futures, retail off-exchange forex or swaps business under an assumed name.
- Entity: Any person other than an individual.
- Financial Services Industry: The commodities, securities, accounting, banking, finance, insurance, law or real estate industries.
- Found: Dispositions of any type, including but not limited to consent decrees or settlements in which the findings are neither admitted not denied, or in which the findings are neither admitted nor denied, or in which the findings are for settlement or record purposes only.

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

Disciplinary, Regulatory and Financial Disclosures

A sole proprietor IB must disclose personal disciplinary actions on both NFA Forms 7R and 8R.

"Expungement" literally means to strike out or erase. On NFA applications, you are required to answer "yes" even if there was no adjudication or finding of guilt, the guilty plea was vacated or set aside, or the matter was dismissed upon completion of the diversion program.

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

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

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

You must provide a written explanation detailing the events and conduct for any questions to which you answer "yes." You can provide that electronically, or the explanation can be sent in hard copy form to the NFA. Additional documents regarding the disclosed matter generally must be sent to NFA. If the court documents are not available, a letter from the court verifying that is so, is required.

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

If you need some help understanding the forms or interpreting the questions, the NFA suggest calling their Registration Investigations or Legal staff. If you seek advice from the NFA, make a written record of the conversation, including the date of the conversation, the name of the staff person with which you spoke, as well as a description of the matter and the advice received.

Fingerprint Cards

Any individual applying to register as an AP or for approval as a principal must send a completed fingerprint card to NFA. No additional cards are required if you are currently registered with the CFTC or listed as a principal of a current CFTC registrant, or if you have received fingerprint card results from the FBI within 90 days preceding the date of filing. No additional cards will be necessary if the individual is foreign natural person or the applicant is registered as a broker-dealer.

Once the NFA receives your fingerprint cards, it submits the images to the FBI to determine if the applicant has a criminal record. NFA will only accept a completed and signed FBI applicant card.

Results are generally received in three days or less from the FBI. FBI must be able to analyze the print pattern of all ten fingers, and will reject cards that do not have legible patterns for all ten fingers. It is a good idea to submit more than one set of fingerprints with your application to avoid delays in obtaining additional sets should that become necessary.

Completed fingerprint cards should be sent to NFA's Chicago office:

National Futures Association
Attn: Registration Department
300 S. Riverside Plaza, Ste. 1800
Chicago, IL 60606-6615

NFA's Chicago office offers a fingerprinting service for applicants for $15. You will need to present two forms of identification, including a valid picture ID issued by a government agency. Make an appointment at least one day in advance by calling NFA's information center, (312)781-1300 during the work week.

You can also have your fingerprint cards prepared by a:

- bonding company
- city hall or a county courthouse
- futures or securities exchange
- police or sheriff's office
- U.S. Embassy

Proficiency Requirements

Each individual who is applying for NFA membership as an IB or as an AP of the IB, is required to satisfy proficiency requirements. In most cases those requirements will be satisfied by taking and passing the National Commodity Futures Examination (NCFE or Series 3) within two years preceding the application. To sign up for any of the futures industry exams, submit an application through FINRA's website. Generally, NFA will receive evidence directly from FINRA that you have passed the exam.

There are a few alternatives to the Series 3. They are exam based on your registration status and the type of business you conduct:

Futures Managed Funds Exam (Series 31):

For individuals registered with FINRA as a General Securities Representative, and whose sponsoring member firm is an NFA-registered IB. This is available to individuals who limit their futures activities to soliciting funds, securities or property for participation in a commodity pool, soliciting discretionary accounts which are managed by CTAs, or supervising persons who perform these activities.

Number of Questions: 45.
Length of exam: 60 minutes.
Cost: $85

Limited Futures Examination – Regulations (Series 32):

This alternative is available to individuals who have been registered or licensed to solicit customer business in futures in either Canada or the UK for the two years prior to filing the exam application. The applicant must submit proof of such registration or license to NFA.

Number of Questions: 35.
Length of exam: 45 minutes.
Cost: $85.

Referral of Securities Clients

This alternative is open to individuals who are registered with FINRA as a General Securities Representative with a FINRA member firm which is itself a NFA IB member firm. The individual must limit futures activity on behalf of the IB to that which is are solely incidental to the individual's business as a General Securities Representative.

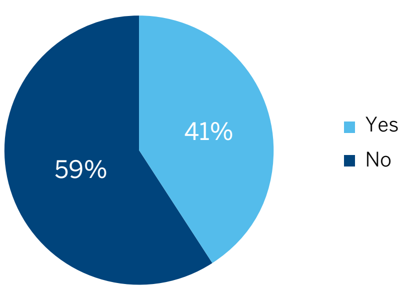
Waivers for CPOs and CTAs Trading Primarily in Securities:

Some individuals who are associated with CPOs solely registered to operate commodity pools principally engaged in securities transactions and/or who are associated with CTAs that are required to register only because their securities advisory services include advice on the use of futures and options for risk management purposes, may apply for a waiver from the examination.

APs Whose Activities are Limited to Swaps:

Individuals are not required to take an exam if their sole activities are subject to CFTC regulation are, and will continue to be limited to soliciting or accepting orders for swaps subject to the jurisdiction of the CFTC. APs whose activities are solely limited to swaps are automatically exempt from the exam requirements.

Do you have any branch offices?



Source: 2017 Industry Survey

Branch Manager Examination – Futures (Series 30)

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

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

Number of Questions: 50.
Length of exam: 60 minutes.
Cost: $85.

Retail Off-Exchange Forex Examination (Series 34)

NFA Bylaw 301 requires any individual seeking approval as a forex firm or forex individual to pass the Series 34 exam before engaging in off-exchange forex business with retail customers.

Number of Questions: 40.
Length of exam: 60 minutes.
Cost: $85.

All of the exams discussed above are administered by FINRA, and the application forms can be accessed on their website, FINRA.org. Once you submit the application form and fees have been received by FINRA, you will receive a confirmation and you can schedule an appointment to take the specific exam. You may only take the exam once within the next 120 days.

National Commodity Futures Examination (NCFE or Series 3)

Individuals do not need a sponsoring firm to the Series 3 exam, but you will need a sponsor to apply for registration with the CFTC as an IB. Simply passing one of the industry exams does not allow you to act as a registrant in the business.

The NCFE is commonly called the "Series 3" by industry participants. It consists of two parts – market knowledge and regulations. Included in the market knowledge section of the exam are questions about:

- futures trading general theory, including hedging and speculative theory
- basic functions terminology
- futures and options terminology
- futures and options margining, premiums, price limits, settlements, delivery, exercise, settlement and assignment
- types of orders, customer accounts, price analysis
- basic hedging, basis calculations, hedging futures
- spreading
- speculating in futures
- option hedging, speculating and spreading

Included in the regulations section of the Series 3 exam are questions about:

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

Number of Questions: 120.
Length of exam: 2 1/2 hours.
Cost: $130

There is no examination in addition to the Series 3 required as a condition to registration as an IB.

Ethics Training

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

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

Topics the NFA suggests which should be addressed in your ethics training program should include:

- an explanation of applicable laws and regulations, and rules of the SRO or contract market and registered derivatives transaction execution facility
- an individual's obligation to the public to observe just and equitable principles of trade
- how to act honestly and fairly and with due skill, care and diligence in the best interest of customers and the integrity of the markets

- how to establish effective supervisory systems and internal controls
- obtaining and assessing the financial situation and investment experience of customers
- disclosure of material information to customers
- avoidance, proper disclosure and handling of conflicts of interest

More information on your ethics training procedures and program is found on NFA's website.

Contact Information

Each IB is required to provide the name, street address, phone and fax number and email address of the individual to whom specific inquiries should be directed for contact information to the NFA for the following areas:

- accounting
- arbitration
- compliance
- fee assessment
- membership
- registration

If Your Application is Denied

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

Making Changes on your Paperwork

Changes and additions to your paperwork are made by submitting a NFA Form 3R (Part 1). The form is available online and changes are entered electronically through NFA's website.

Terminating a Guarantee Agreement

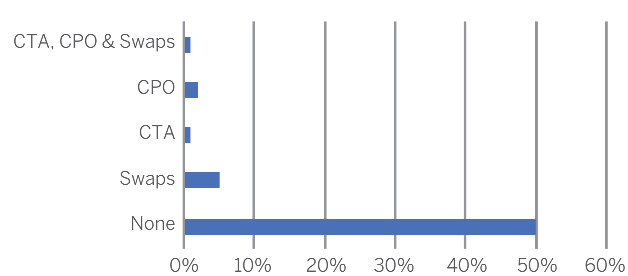
Either party to a Guarantee Agreement can initiate a termination process by providing written notice of intent to the other party, to the NFA, the CFTC and the FCM's SRO at least 30 days prior to the planned termination date. On the termination date, your IB must cease doing business until it files either a new Guarantee Agreement or the required financial reports to become an independent IB.

Terminating your Registration

If you decide to terminate your IB's registration you must notify the NFA. If a GIB's guarantee agreement is terminated by the FCM or the IB is unable to fulfill mandatory minimum requirements, the NFA may automatically terminate the IB registration.

Should you register as a CTA

IBs Registered in Other Capacities



Source: 2017 Industry Survey

A commodity trading advisor , or CTA, is an individual or organization which, for compensation or profit, advises others as to the value of, or the advisability of buying or selling futures contracts, options on futures, retail off-exchange forex contracts or swaps. If you provide this service, you may need to register as a CTA.

"Providing advice" includes exercising trading authority over a customer's account, as well as giving advice based upon knowledge of, or tailored to, a customer's particular commodity interest account, particular commodity interest trading activity or other similar types of information.

You will not need to register as a CTA if:

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

All registered CTAs who manage or exercise discretion over customer accounts must be members of the NFA in order to conduct futures business with the public. Registration requirements, including documents and fees can be found on the NFA's website.

Checklist for Chapter 2 – Registration

1. Do I meet the qualifications for registration as an IIB, including the financial requirements?
2. Do I have the appropriate Guarantee Agreement to register as a GIB?
3. Have I included the appropriate dues or fees with my application?
4. Did I properly disclose prior or current disciplinary, regulatory or adverse financial issues?
5. Are my Series 3 exam results or those of APs I wish to employ current?
6. Have I designated a Security Manager in order to use the NFA electronic filing system (this includes sole proprietor filers)?
7. Do I have Anti-Money Laundering, Ethics Training Programs and ISSP in Place?
8. Do I need to register as a CTA?

CHAPTER 3

FCMs

Futures Commission Merchant (FCM): an entity that solicits or accepts orders to buy or sell futures contracts, options on futures, retail off-exchange forex contracts or swaps, and accepts money or other assets from customers to support such orders.

Each Introducing Broker (IB) has a contractual arrangement with a Futures Commission Merchant (FCMs). In addition to clearing your customer transactions on various exchanges, the FCM bears the ultimate responsibility of collecting margins for customers' positions.

FCMs that are not primarily and substantially engaged in on-exchange futures business activities must be registered as retail foreign exchange dealers (RFED) to act as the counterparty to a retail off-exchange forex transaction.

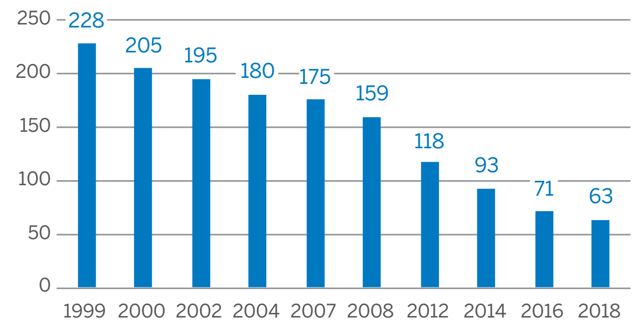
TOTAL FCMs REGISTERED:	**63**
TOTAL RFEDs REGISTERED:	**2**

Source: NFA, 2/2018

Registrations for FCMs has remained stable since the last update of The Complete IB Handbook in 2016. RFED registrations have decreased slightly. During the spring of 2016, the SEC closed an option that allowed broker-dealers registered with the SEC to offer retail forex transactions by "notice-registering" with the NFA. Notice registering is essentially filing a simple one-page notice in lieu of completing the full registration process. FCMs may also transact transactions for crypto-currency futures but as of late March, 2018, very few were offering these contracts.

FCM registrations have been decreasing since 1998, the first printing of the Handbook.

FCM Registrations (NFA, 2018)



Refco: Ceased operations in October, 2005
Iowa Grain: Sold FCM operations in September, 2008
Alaron: Chapter 7 liquidation in October 2010
MF Global: Declared bankruptcy in October, 2011
Peregrine Financial Group: Collapsed in July, 2012
Swaps registration became required in 2012
VFM: Withdrew registration as a FCM in April, 2015

Source: MHS Capital Resource, Inc., 1/2018

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

- a buyout 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 IIB

In 2011 and 2012, the unprecedented failure of two FCMs along with normal mergers and acquisitions, contributed to the decrease in the number of FCMs. One of those failures resulted in a criminal action with the person most responsible now serving a prison life-term. The other resulted in a bankruptcy. Although customers for the most part have seen the return of all their funds, brokers feel that rebuilding the trust with the public which brings customers and funds to the market, continues still. Those FCM failures caused both the CFTC and NFA to re-assess and re-draft customer segregation rules, including methods which make FCM capital health more visible to the public.

Interest rates for deposited funds have been very low for many years, while costs for technology, cybersecurity compliance and personnel have all increased. All these factors have contributed to mergers, buyouts and the ultimate decrease in FCM registrations.

It is estimated that of the 63 registered FCMs, about 15 firms handle approximately 85% of all IB business. That is due in part to the fact that the largest FCMs are banks or financial institutions which generally do not accept transactions for retail customers.

Some FCMs who do accept IB business, do not accept guaranteed introducing broker (GIB) relationships. In general, the FCMs who are members of NIBA accept IBs and have extensive support systems in place. Those FCMs, including the appropriate contacts at the firm, are listed on NIBA's website at www.theniba.com.

Swaps Dealers and Major Swap Participants registration was required for the first time as of October 2012. Firms that were not registered in any capacity with the CFTC as of that date, but acting as an FCM with respect to swaps came under the jurisdiction of the CFTC and are now required to register. The NFA has an archived webinar posted on its website which explains the registration process and compliance issues for swaps participants. As of February 2018, there are 100 swaps dealer members of the NFA. There are no major swaps participants members registered.

The registration process for RFEDs is also posted on the NFA website, nfa.futures.org and mirror those for FCMs in substantial part. Only two firms are registered with the NFA as RFEDs as of February 2018.

Most IBs will be transacting their business with one of the 15 or so FCMs who handle IBs. This chapter will focus on that relationship.

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

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

SEC-registered broker-dealers that limit their futures related activities to the sale of security products on contract markets or derivative transaction execution facilities can "notice register" by filing the appropriate NFA form. These firms will be primarily subject to SEC regulation.

All NFA-registered FCMs must name a Chief Compliance Officer (CCO), which must be listed as a principal of the firm. The CCO is required to prepare an annual report according to CFTC regulations and provide that report to the firm's senior management or board of directors.

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

- an online form 7R which includes a NFA membership application
- appropriate compliance requirements
- a non-refundable application fee of $500

- membership dues of $1,500 if the exchange is the designated self-regulatory organization (DSRO) or $5,625 if the NFA is the designated DSRO

In addition, all registered FCMs engaged in retail off-exchange forex activities are required to:

- apply to become a forex firm by completing an online form
- have at least one principal that is also an approved Forex Associated Person
- apply to become a Forex Deal Member if it will be a counterparty to retail off-exchange forex transactions
- satisfy compliance requirements for applicants
- submit membership dues of $25,000 if an exchange is the designated DSRO, or $125,000 if the NFA is the designated DSRO

In addition, all registered FCMs engaged in swaps transactions must:

- apply to become a swap firm by completing an NFA online form
- have at least one principal who is also an approved Swaps Associated Person
- submit membership dues which are levied according to a tiered-fee table which is posted on the NFA's website

FCMs are required to maintain an accounting system that records all of the firm's financial activity. The financial reports created from the accounting system must be prepared following U.S. generally accepted accounting principles (GAAP), be done on an accrual basis and be kept current. Some of NFA's requirements are more restrictive than GAAP with respect to the classification of current and non-current assets.

FCMs are required to maintain adjusted net capital greater than the minimum net capital requirements at all times. Adjust net capital is computed as follows:

Current Assets – Liabilities – Charges against Capital = Adjusted Net Capital

If an FCM's adjusted net capital falls below its minimum net capital requirements, it must immediately notify the appropriate agencies. An early warning capital level is also in place for FCMs. If the firm falls below the early warning level, it will be subject to additional reporting requirements and may be prohibited from guaranteeing IBs.

As safeguards, the Commodity Exchange Act (CEA) and CFTC regulations require that all customer funds received by an FCM must be segregated from, and accounted for separately from, the FCM's own funds. FCMs must obtain acknowledgment letters from depositories, including derivatives clearing organizations (DCOs) and other FCMs, that declare certain funds placed with it are customer funds. These acknowledgment letters must be filed with the CFTC and the firm's DSRO. The accounts in which segregated funds are kept must be titled for the benefit of the FCM's customers, and neither a bank or clearinghouse has the right of offset against the accounts for FCM's debts.

Customer funds in segregation have a bankruptcy preference in the event of an FCM insolvency. To the extent that customer funds would not be sufficient to pay customer claims in the event of an FCM bankruptcy, the remainder of what customers are owed participate pro rata in any distributions to unsecured creditors of that FCM.

An FCM must be adequately prepared with an appropriate back office system to account for customer equities and for handling customer funds in an appropriate manner. An FCM must inform NFA of its intent to accept customer funds prior to doing so.

All FCMs that hold customer funds are required to establish, maintain and enforce a system of risk management policies and procedures designed to monitor and manage the risks associated with the FCM's activities. As a part of the Risk Management Program, each FCM is required to provide its senior management and its governing body with a quarterly Risk Exposure Report, as well as interim reports any time the FCM detects a material change in the its risk exposure.

FCMs must have in place:

- Anti-Money Laundering Procedures: This program is a set of procedures designed to guard against someone using the firm to facilitate money laundering or terrorist financing. The main components of the program which must be included are:
  - internal policies, procedures and controls reasonably designed to assure compliance with the Bank Secrecy Act and implementing regulations;
  - appointment of a designated compliance officer to oversee the program's day-to-day operations;
  - A customer identification program (CIP), including the identification of beneficial account owners
  - an ongoing training program; and,
  - an independent audit.
- Certain Books and Records which are used in the daily activities of the business. They are required to be kept at the main office of the FCM for five years and in readily accessible form for the most recent two years.
- Business Continuity and Disaster Recovery Plan. This plan would be used in the event of an emergency or significant business disruption. FCMs are required to submit the name and contact information for their designated disaster recovery contacts.
- Cybersecurity – Information Security Systems Program (ISSP): ISSP procedures must be adopted and enforced which are appropriate to the firm's circumstances. The NFA requires those procedures secure the firm's electronic systems, as well as customer data.
- Enhanced Supervision Policies (if applicable). Firms that employ APs and principals who have worked at firms that have been formally sanctioned or barred for using misleading or deceptive sales practices or promotional material may be required to adopt enhanced supervisory requirements which are designed to prevent sales practice abuse. A waiver process is available from this requirement, but those meeting the criteria must, among other things:
  - maintain enhanced capital requirements;
  - make complete audio recordings of all telephone conversations that occur between their APs and existing and potential customers; and,
  - file all promotional materials with NFA at least 10 days prior to its first use.
- Security Futures Products (SFPs) Procedures. SFPs are futures whose underlying instrument is either a single security or a narrow-based security index. SFPs are considered both a futures and securities contract., and are regulated by both the SEC and CFTC. As such, there are numerous additional rules which apply to FCMs offering SFPs. Those rules can be viewed at the NFA's website.
- Sales Practices and Promotional Materials are addressed in NFA Compliance Rule 2-29 and 2-36.

The rules cover:

- general prohibitions
- content of promotional material
- treatment of hypothetical results
- treatment of statements of opinion
- recordkeeping and supervisory requirement
- radio and television advertisement
- NFA required filings

NFA Compliance Rule 2-19 requires FCMs to submit certain types of promotional material designed to reach a public audience through mass media for pre-approval to the NFA 10 days prior to first use.

- Supervision of employees and agents is imposed by NFA Compliance Rules 2-9, 2-36 and 2-43. Because each firm is different in size and complexity of operations, there is a degree of flexibility when an FCM develops its supervision plan.

Minimum financial requirements for clearing firms have long been established by the Commodity Exchange Act (CEA). Legislation also requires FCMs and RFEDs to segregate customers' margin deposits from company funds, and prohibits using one customer's funds to meet the margin requirements of another customer's account.

The CFTC has enforcement power over FCMs, RFEDs and swaps registrants. Information regarding the principals of those companies, which includes firm and individual disciplinary history, can be found online at the NFA's BASIC search site, nfa.futures.org/BASIC. Information on a FCM's capitalization and other financial information can be found on both the NFA website and the CFTC website, www.cftc.gov.

It is easy to see that choosing your FCM is not simply a matter of finding the one which offers the lowest clearing rates. Carefully and thoroughly perform your due diligence on all aspects of the FCM's history – financial, disciplinary and reputational.

Choosing your Clearing Relationship

The top three reasons IBs choose an FCM when looking for a clearing relationship are:

- Reputation of the FCM
- Back Office service
- Clearing rates

Overwhelmingly, IBs responding to our 2017 Industry Survey said that the reputation of the FCM was either the first or second most important factor they considered when they looked for a clearing firm. Generally, reputation means the way others think about you, or your actions or beliefs. So, IBs want to associate with an FCM who the has both a reputation with the public for good business practices, and with the industry for fair-dealing.

You might like the idea of having a bank-owned FCM, but that may not be realistic for your IB. Banks have off-loaded customers as they deal with constricting balance sheet capital, so it has become more difficult to meet all their criteria, including trading volume and total customer equity. Conversely, as your IB grows your smaller FCM may not be able to accommodate your capital and trading needs.

You should be aware which exchange memberships the FCM holds. If the FCM you choose has to use another FCM to access those exchanges your customers want to trade, your IB and your clients will be charged for that access.

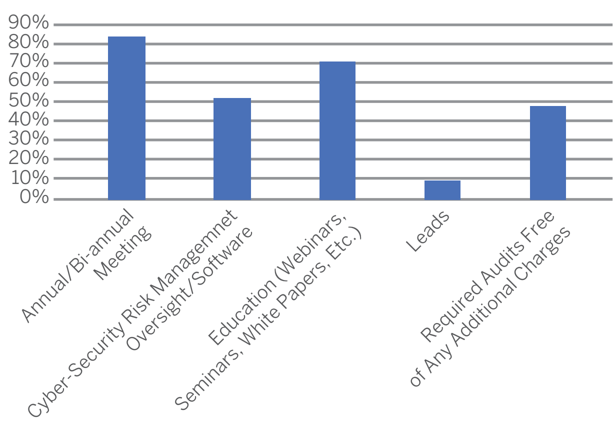
IBs also report that a good FCM back office is essential to being able to adequately serve customers. You want to know what the policies of the FCM are before entering the clearing relationship regarding:

- opening accounts
- bank wire transfer procedures
- check requests

Many clearing firms require IBs, particularly GIBs, to use the platform(s) they have developed or supply in order to enter customers' orders. Make sure you know what platforms your FCM supports and endorses, including its technology requirements, and its costs and limitations. If online account viewing at intervals during the day is important to your customers' trading strategies, be sure to ask the FCM what their capability and policy is, because many FCMs only provide an end-of-day feed that summarizes all the trades done during that day.

Over 50 percent of IBs responding to our Industry Survey report that their clearing FCM offers an annual or bi-annual meeting for both educational and social purposes.

% IBs who reported their FCM Providing:



Source: 2017 Industry Survey

Additionally, most FCMs offer some type of risk management and cyber-security oversight or software which the IB can or is required to use. Only one IB told us his/her FCM offered assistance with website development, and only four IBs reported that the FCM had a lead program in which the IB could participate.

Although a great deal of research is now available online, research is still a factor for many IBs when choosing an FCM. IBs which are servicing customers with particular needs, such as farmers who want cash commodity prices or metals traders who need information on corporate data, look for FCMs who produce or have access to that research. Be sure you have discussed what research you need access to, what will be available to you regularly, and whether your IB will be charged any additional fees by the FCM.

Negotiating the Terms of your Clearing Agreement

The term "Clearing Agreement" means the contract between your IB and the FCM or clearing firm. It is negotiable.

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

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

There is no standard rate charged by all FCMs to IBs for handling customer transactions. Your clearing rate will depend on various factors, including:

1. Volume of business transacted through your office: Many FCMs will write a "sliding scale" rate which decreases the cost per transaction as volume of transactions though your IB increases.

2. Markets traded:
   Some FCMs charge different rates for trades on different exchanges or platforms. The rates may depend on whether the FCM is a member of the particular exchange or facility. Over half of the IB responding to the Industry Survey said they handled no non-domestic market transactions. But if your customers need non-domestic market access, make sure the FCM you choose can handle it, and at what cost.

3. Products traded:
   If your customers place trades for foreign exchange or swaps, products, costs may be different than for standard futures and options transactions. FCMs also often determine and charge different rates for IBs using managed futures and CTA directed accounts.

4 Customer balances and the form in which they are kept:
   Although interest rates have remained at low levels for past several years, the interest on funds deposited by your customers generally belongs to the FCM. If your IB negotiates a portion of any accrued interest on Treasury Bill deposits or if that interest is returned to the customer, it could affect your clearing rate.

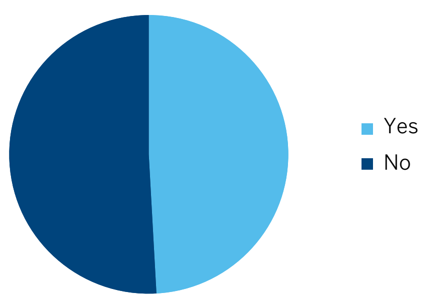
5. Compliance or disciplinary issues:
   IIBs are generally thought by FCMs to require less compliance oversight than GIBs. But, if your office has customer complaint or disciplinary issues, it will be difficult to obtain and keep an FCM relationship regardless of your registration category.

6. Order entry platform:
   Many FCMs require IBs to use the one or several of the platforms which they provide or approve. If you registered as an IIB, you will likely use multiple platforms to place orders to your various FCMs

7. Direct access to filling (floor) brokers:
   CME Group continues to support open outcry for options and the larger S&P 500 contract in Chicago.

Most FCMs require IBs to fund a "security deposit" or escrow account" when they enter a clearing relationship. The fund could be an initial amount set by the clearing firm, or it could be established, then funded by percentages or other set amounts of your office's monthly gross revenue. Some FCMs do not require any security deposit. About 50 percent of the IBs in the Industry Survey said they had a set-aside account which they funded monthly with a percentage of the total commissions earned that month. The fund was used in the case of a errors, or customers debits or complaints.

Does your IB have an error fund?



Source: 2017 Industry Survey

What FCMs look for in the IB Relationship

The clearing relationship is not a one-sided affair. Each FCM has specific criteria for entering into the relationship with you, and they will look for particular characteristics. All FCMs who clear IB business agree they value long-term relationships, and will work hard to keep them.

Some of the specific criteria which an FCM will look at are:

Your Risk Management Technique
Being able to manage risk is what sets the winners apart from the losers in the derivatives business. Developing techniques or habits which ensure that your customers are not over-extended or on margin call, will keep you and your business in good standing with the regulators and your clearing firm.

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

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

Compliance with Regulations and Financial Requirements
For most FCMs, compliance and risk management techniques are two of the most important factors they examine when considering a relationship with an IB.

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

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

Your Business Plan
Chapter 4 of this Handbook discusses your business plan – how to develop one and how to use it. A methodical scheme for professional growth is a big part of your business plan and includes the following considerations:

- initial number of APs at your IB
- how you will recruit qualified APs and clerical staff
- how your business will be funded initially
- how large your "nest egg" is, and how long you can operate without showing a profit
- whether you will specialize in one or a few markets
- whether you will offer full-service or discounted service
- whether you will offer forex transactions
- whether you will add a swaps designation
- whether you will offer managed accounts

- whether you will register as CTA in addition to the IB
- what order entry processes you are familiar with
- costs associated with market data costs
- costs associated with the order entry process you have chosen
- how you will solicit new customers
- whether you will develop your own website
- whether you will conduct seminars, webinars or publish a newsletter

Both Parties Must Make Money
A renegotiation of your Clearing Agreement will take place sooner than you anticipated if the FCM/IB relationship is not profitable for both parties.

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

There are many reasons to review your Clearing Agreement from time-to-time. Compliance problems, or the addition of branch offices or products which trigger the IB's need for additional supervision and audits, will definitely signal the need for a review.

Managed accounts or funds are usually compensated at a different rate than full-service speculative accounts because they often require a different type of service. If you add managed accounts to your office offerings, you will renegotiate your agreement. Likewise, adding forex and swaps could call for a close look at the agreement.

Discuss your relationship with your clearing firm annually, including the amount of your security deposit. You can originate the discussion of terms. If the discussion reveals a one-sided relationship or one that is not profitable for both sides, get a head-start on a more mutually satisfying relationship.

Mutual Trust
Even taking into account the FCM failures of 2011 and 2012, and their eventual collapse, changing clearing firms is a rare event. This record of stability is a result of many factors affecting the clearing relationship, including satisfaction with clearing rates and back office services. All FCMs and IBs agree that mutual trust is one of the top five most important factors in a stable relationship.

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

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

I encourage you to visit the home office of the FCM you select prior to negotiating your Clearing Agreement. Meet the risk management supervisors, the compliance managers, the IB service director, the new accounts supervisory, the research department personnel and the information technology managers. Understand which trading platforms you will be using. Discuss fully all costs associated with your Clearing Agreement. You will be glad you took the time to make personal contact with all these people – they are your business partners in a very real sense.

Checklist for Chapter 3 – FCMs

1. What is the FCM's reputation in the industry?
2. What do my customers know about the FCM?
3. Have I checked the FCM's financial health by looking at both the CFTC and NFA websites?
4. What trading platforms will I be using and what are the associated costs?
5. Is the research my customers need available, and at what cost?
6. Does the FCM handle swaps, forex or cryptocurrency transactions?
7. Will I have to pay additional charges for my required audits?
8. Do I like what I see?

CHAPTER 4

BUSINESS PLAN

A business plan: A written document that that details how a business is going to achieve its goals.

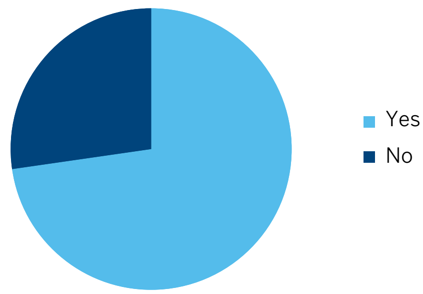
Why do you need a business plan?

Whether you are a start-up IB or have an existing office, you will use your plan to:

- define your business
- define your objectives and describe the strategies for achieving them
- support a loan application
- describe the relationships between partners both within the IB and external (FCMs, Service Providers, etc.)
- define your business cyber-risk and set a cost on implementing your information systems security program (ISSP)
- evaluate the time and methods for expansion of your business
- create a regular review cycle of the state of business, and recognize when and where corrections in strategies should be made
- set a value on your business in the event you decide to sell or merge, or for other legal purposes

About 70 percent of the IBs who responded to our 2017 Industry Survey replied that they had a business plan. Most often IBs have plans that look out at least five years into the future, with a review and reevaluation periodically, most often every six months.

Do you have a business plan?



Source: 2017 Industry Survey

A successful business plan is like a calling card. It can get you in the door of a clearing firm or a banker. It will also help create trust with clients or investors in your IB.

Important to Remember:
Your trading plan is not your business plan. Take the time to explore and evaluate your professional and personal goals. Lay out your strategy from the viewpoint of marketing, finances and operations. Be able to demonstrate that you have the tools, talent and support necessary to make it in the derivatives business.

What type business plan is best for me?

Business plans can also be called strategic plans, expansion plans, operational plans, investment plans or annual plans. The trading plan or strategy you've developed is not your business plan.

The best plan for you is the one that matches your unique situation. If you are talking to an FCM for the first time or applying for a bank loan, financial and compliance history of your IB and its employees is very important. If you are talking to a potential customer, a description of your management team and how it makes decisions is most important. If you are reviewing the plan for internal purposes such as expansion or a merger, background information will not be as important as your ideas for the future.

Some simple ways to approach the type of plan best for your situation are:

Start-Up Plan: This plan will help define the steps necessary for a new business venture. It will cover topics such as who the principals are, what types of customers you will serve, what services you intend to offer, what ideas your IB will employ to attract customers, what your costs of doing business are (clearing fees, broker payouts, etc.), how the relationship with your clearing firm and APs will be handled and who your management team is.

Growth or Expansion Plan: This plan generally focuses on a specific area of your business. It might include explanation and cost analysis of adding APs to your main office, upgrading your technology or moving your office. Include detailed forecasts of expenses for the expansion in this plan.

Feasibility Plan: This plan includes a preliminary analysis of costs and expenses you expect to incur operating the IB. This type of plan can help you decide whether to add a CTA registration, offer managed accounts or forex transactions, or even whether you should add another FCM. The detail will help you decide whether you plan is feasibly worth pursuing.

Business Plans Basics

Introducing Brokers most often have business plans for five years into the future or longer. Since the futures business itself has both bullish and bearish years just like the markets, you will need to take a hard, realistic look at your projected cash flow work sheet.

Pay particular attention to your first year's income projection and expenses. Calculate revenue for each month using number of transactions, commission rate(s) charged, clearing and other fees, along with other planned expenses.

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

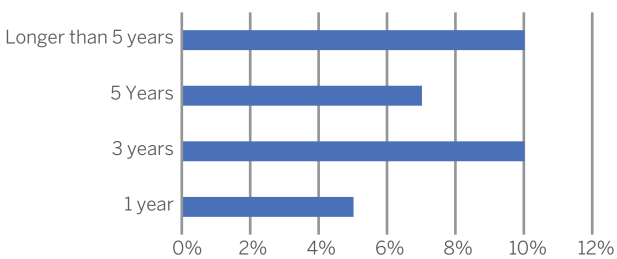
- income from all sources – savings, salary, investments and other family income
- debts from loans and credit card balances
- amount(s) needed for start-up capital
- tax Identification information
- partnership or incorporation documents
- NFA and other professional registrations and approvals
- lease agreements for data information devices, telephones, computers
- rental agreements for office and document storage space
  - loan agreements
  - your personal credit report
  - your business plan timetable

Other components of your plan can include:

- An executive summary: This is an introduction to you and your business, and should include the IB's business highlights. You may find it is easier to write these pages after you have completed the other parts of the plan.
- A company description: Describe the legal organization of your IB, its history and your start-up plan.
- Your market focus: Will you handle only traditional futures and options transactions or include forex business? Do you have a clear understanding of the markets in which you will participate, and the benefits of the marketplace in general?
- Customer Analysis: Who are your customers and what are their needs. How will you reach new customers?

- Strategy and Implementations: Include management responsibilities with specific dates and budgets for completion. Make sure you have procedures in place to track the results.
- Web/Media Strategy: Your website can be a valuable education tool which draws customers. Include development and maintenance costs in your plan. Remember – your website is considered promotional material by the NFA, and falls under its regulations. Develop and use the site with compliance in mind.
- Management Team: Do you have a partner? Who is your compliance officer, your sales manager and your research/analysis department? Each member of your team has specific responsibility under NFA regulations, so review the NFA website carefully again.
- Financial analysis: How much capital do you need to start up? Where will it come from? What are your profit and loss projections?

How long does your business plan go?



Source: 2017 Industry Survey

Legal Organization

The NFA allows you to choose the legal organization under which you will register. Your business plan may depend on your decision type of legal form.

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

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

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

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

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

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

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

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

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

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

You can incorporate without using an attorney, but it is not recommended. Corporations can be more costlier to organize than other legal structures because corporate structure itself is generally more complex. Control depends on stock or other interest ownership. Records must be kept to document decisions made by the controllers of the corporation, most often a board of directors. With control of stock shares or 51 percent of stock, a person or group is generally able to make policy decisions. Small, closely held corporations can operate more informally, but recordkeeping cannot be eliminated entirely. Officers of a corporation can be held liable to stockholders for improper actions or conduct.

Incorporation documents will be reviewed by the NFA and are required by an FCM prior to entering onto a clearing relationship. Your incorporation documents will be required in order to open a trading account.

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

Typical IB Business Plan Areas

The derivatives business, including IBs, have specific considerations when constructing a business plan. Here is a basic guide.

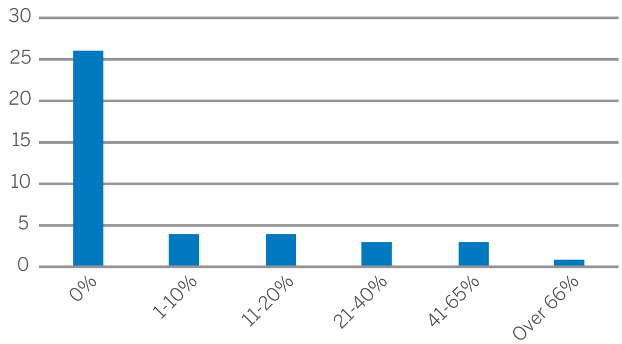
Introduction:

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

Marketing:

- identify your customer audience – type of trader, markets traded
- identify your geographical restrictions, if any
- explain your advertising and marketing plan
- explain your commission structure and the strategy you used to develop it

What % of your clients are non-US?



Source: 2017 Industry Survey

Financial Management:

- identify the source and amount of your initial equity capital
- develop a monthly operating budget for the first year of operations
- develop an expected return on the initial investment and monthly cash flow for at least the first 12 months of operations
- understand your breakeven point
- create your personal balance sheet, including how you compensate yourself
- identify the person(s) who will maintain accounting records and how they will be kept
- identify and account for costs associated with your ISSP
- account for alternative approaches to handle problems that might arise

Operations:

- identify the day-to-day manager of the office and management procedure
- identify your Compliance Officer
- identify your Risk Management Officer
- identify your Sales Supervisor
- identify your Information Systems Supervisor
- identify your New Accounts Supervisor
- identify your AML and Cybersecurity Contacts/Supervisors
- discuss hiring and personnel procedures
- understand your insurance, lease and rental agreements for space/equipment

Concluding Statements

- summarize your business goals and objectives
- consider whether you have the mental and emotional attitude to implement your business plans and reach your goals. Are you physically healthy?
- does your spouse fully support your goals, business plan and ideas?

When you complete your business plan, review it with your attorney, your accountant, a business associate who can tell you how realistic it is, and most importantly, your family.

Using Your Business Plan

A good business plan is a tool to help you build a better business, it is not a homework assignment. It requires that you return to it on a regular basis and update as you learn more about your customers' needs. A business plan is a living document. To use it effectively, first understand its three basic purposes – communication, management and planning.

As a communication tool, the business plan is most often used to attract investment capital, secure loans, convince employees to hire on and assist in attracting strategic business partners, including your FCM. The development of a comprehensive plan can identify whether the business has the potential to make a profit. It requires a realistic look at every phase of a business, and allows you to demonstrate your strengths, including that there are alternatives in place to deal with anticipated problem areas.

As a management tool, the business plan helps you track, monitor and evaluate your progress. The plan is a living document that you modify as you gain knowledge and experience. You gauge your progress by establishing milestones and timelines, then assessing your actual accomplishments to your projections and modifying or moving the "goal lines."

As a planning tool, the business plan guides you through various phases of your business life. The thoughtful plan identifies roadblocks and obstacles, including business trends and changing regulation, and establishes alternative directions for growth or methods for changes to compliance procedures.

Here's a few more tips to help you develop a business plan for your IB:

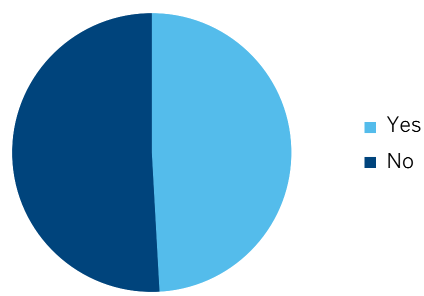
1. Summarize your business activity concisely. Describe the nature of the office (traditional IB, options only, hedgers only, managed business/third party CTAs, etc.), and its goals in a single sentence. This harder than you think!

2. State your objectives. What do you want your business to become? What do you want the business to accomplish in the first year? In the first 3 years? What do you expect to accomplish with your career – both financially and personally?

3. Anticipate trends that may affect your IB's growth. Talk to your clearing firm and APs about changes that may have an impact on your IB. Attend conferences and industry meetings, and subscribe to industry newsletters and alerts to learn how others in the business are handling compliance issues, changes in taxation, and technology. Stay informed. Meet product managers and other exchange staff who can help your business grow. Consider whether you should register as a CTA or add forex/swaps to your client offerings.

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

Do you have an error fund?



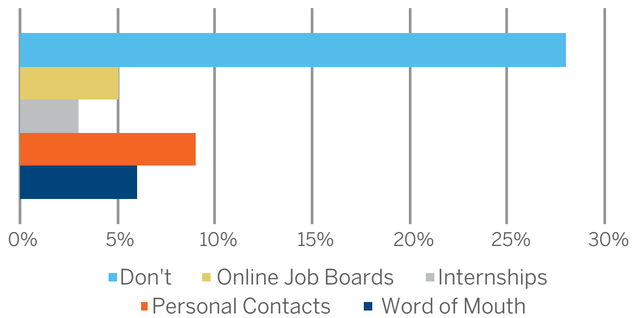
Source: 2017 Industry Survey

4. Inventory your resources. List your assets. Do you have enough money to realize your objectives? What equipment will you need? Is your physical space adequate? Do you have a plan to attract more APs and the clerical staff to support them? Some questions to include in your inventory are:

    - How much cash and other assets do you have easily accessible?
    - How long could I operate unprofitably without changing my family's lifestyle?
    - Do I have the skills and knowledge necessary to operate an IB office?

- Do I need more experience before I open my own IB?
- How many APs will I need to meet my objectives?
- How will I recruit, train and supervise APs?
- Do I need clerical staff?
- Where can I find backup personnel and service vendors who are knowledgeable and experienced in futures industry?

How do you recruit APs?



Source: 2017 Industry Survey

5. Set some realistic immediate objectives – the "baby-steps" approach. Set one or two goals which are achievable within a few weeks or a few months. Achieving these first objectives will help you get into the routine of setting goals, meeting them and setting new ones. It makes it easier to tackle the larger or longer-term projects when you break them up. Accomplish one task at a time and mark it off your list. Move on to the next item feeling good about what you have done. This is the "baby-steps" approach — and it really works.

6. Write down the steps necessary to meet your objectives. Here you plan marketing objectives for your office such as how to reach new clients or how to introduce existing clients to a new product. The physical act of writing is important. It makes your plan tangible, and helps the plan feel "real." Include the cost of any equipment or training you need to meet your goals.

You must be an NFA member 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 Bylaw 1101 states that registrants must be diligent when conducting business with other registrants, third-party account controllers and branch office managers because these parties must also be members of the NFA.

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

7. Evaluate your managerial skills. What do you do best? What do you like to do? What are your professional credentials, and do they apply to building a successful IB?

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

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

Update or revise your objectives periodically. When you reach a goal, plan for the next one. Evaluate your plan on a regular schedule.

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

IBs Look into the Future

Introducing Broker businesses, along with all other NFA registrants were impacted by the failures of MF Global and Peregrine Financial Group. In both of those cases, the sanctity of customers' segregated funds was breached or otherwise misused. In the years since, both the CFTC and NFA have responded with regulation to provide transparency and clarity to the accounting and reporting functions associated with segregated funds.

Now it is much easier to check on the financial health of an FCM because certain financial reports are required to be filed with the regulatory agencies, and made public, either through the agency websites or other means. These changes make it easier for IBs to explain and demonstrate how and where customers' money is held and safeguarded.

Among the biggest concerns of IBs in 2017-18 is the proliferation and cost of increased regulation. The cost of cybersecurity and uncertainty of whether or not their ISSP and their FCM's ISSP is even working, worries IBs. The dwindling number of FCMs with which to do customer business and the on-going search for qualified APs in an era of aging IBs owners are also high on the list of things that concern IBs.

Despite those concerns, the IB community is still a valued, essential component of the derivatives community. Customers understand the value of having a broker who understands and plans for each individual's unique needs and situation. FCMs and exchanges understand the value of having an experienced professional speak and act directly with the customer to help him/her navigate the marketplace.

Your success as an IB will not be automatic or accidental – you'll have to plan for it.

Checklist for Chapter 4- Business Plan

1. Do I have a written document that covers my business plans for at least 12 months into the future?

2. Have I fully discussed my business plan with my lawyer, accountant and my family?

3. Do I have a “nest egg?”

4. Have I assessed my weaknesses and taken into account options for overcoming them?

5. Do I have a complete and readily accessible listing of all my bank accounts and business investments, including the access information for each account?

6. Do I have a complete and readily accessible listing of all my promotional information, including client communications, website contents and print communications which I use with both existing clients and prospects?

7. Do I review my business plans regularly, and amend or update them?

8. Do I need to register, or do I really just want to trade for myself?

CHAPTER 5

THE REGULATORS

Regulator: a person or body that supervises a particular industry or business activity

Introducing Brokers are required to register with the Commodity Futures Trading Commission (CFTC) and be members of the National Futures Association (NFA) in order to deal with the public with regard to the derivatives markets.

Your Introducing Broker (IB) is required to update registration information annually and when changes make updates necessary. An IB's business activities are subject to supervision and scrutiny by the NFA on an ongoing basis.

TOTAL # IBS REGISTERED:	**1,197**
TOTAL # CTAS REGISTERED:	**1,601**
TOTAL # CPOS REGISTERED	**1,527**
TOTAL # FCMS REGISTERED	**63**
TOTAL # RFEDS REGISTERED	**2**
TOTAL # OF SWAPS DEALER REGISTERED	**100**
TOTAL # OF EXCHANGES REGISTERED	**6**
TOTAL # OF ASSOCIATED PERSONS	**50,965**

Source: NFA Records 2/2018

Although the majority of your regulatory and compliance contact will be with the NFA, it is the CFTC which is the top regulator in the industry. From its creation in 1974 until it approved the creation of the NFA in 1981, the CFTC was the main agency for regulation of both individuals and firms.

Get to know your regulators. In this chapter, you'll learn what each agency is responsible for, and how it is organized. The websites of both agencies are very helpful, and are a valuable resource for your IB. The individuals who work at the CFTC and NFA are true professionals who should be your first contact when you have questions about the rules of the industry.

If you do not remain in compliance with CFTC rules and NFA regulations, your will not find a clearing firm willing to work with you. It doesn't matter how much equity your customers have on the books or how many trades your office transacts during the month, FCMs will not take the risk and liability of working with IBs who have a history of disciplinary problems or customer complaints.

Remember the three top ingredients for a successful IB business are:

1. Good business plan
2. Willingness to work hard
3. Strict compliance to regulations and policies

On July 21, 2010, Congress signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Dodd-Frank was basically a response to the recession of the late 2000s, and brought significant changes to financial regulation in the U.S. The Act is meant to promote the financial stability of the country by improving transparency and accountability in the financial system, to protect consumers from abusive financial services practices and to end "to big to fail." Over the past 18 years, it has made and continues to make, changes in the financial regulatory environment that affect all federal financial regulatory agencies, including the CFTC.

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

To date, CFTC has issued 79 new rules, exemptive orders and guidance actions, plus seven other actions as a result of Dodd-Frank.

NFA initially identified 38 areas in which they would eventually make new regulation. Those areas include regulation of swap clearing and trading, data particular products, enforcement of regulation and position limits.

A Short History of Futures Regulation

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

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

The 1922 Act was replaced in 1936 by the Commodity Exchange Act (CEA) which extended federal regulation to many more commodities such as cotton, rice, butter and eggs. The CEA also required FCMs to segregate customer funds that are deposited for margin, and prohibited fictitious and fraudulent transactions such as wash sales and accommodation trades, as well as banning all commodity option trading. The option ban remained in effect until 1981.

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

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

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

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

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

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

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

During 1992-93, market reports from exchanges were beginning to be sent electronically to the CFTC for the first time, and a total of 46 new futures and options contracts were approved for trading. In 1995, the CFTC launched its website: www.cftc.gov.

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

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

In July 2007, the Chicago Mercantile Exchange and the Chicago Board of Trade announced the completion of a merger, forming the world's largest futures exchange – the CME Group. In 2008, New York Mercantile Exchange and COMEX, both located in New York City, became a part of CME Group.

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

In October 2011, and again in July 2012, the sanctity of customers' segregated funds was breached by two separate FCMs. Much of the focus of both the NFA and CFTC during the years since those breaches has been on updating existing regulations and instituting new rules with the purpose of restoring integrity in the markets and protecting the public using those markets.

In 2012, CME Group acquired the Kansas City Board of Trade, and consolidated its operations with the Chicago office.

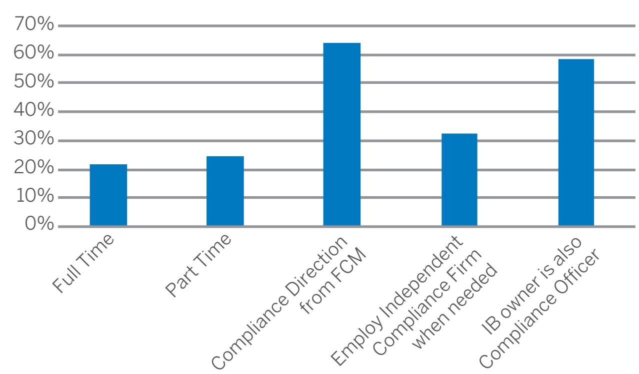
Swaps regulation began in 2014, creating a large pool of new registrants.

In November 2015, the CFTC brought its first legal case against "spoofing."

During 2017, the CFTC addressed identification and review of regulations which can be simplified under a program called "Project KISS." It is ongoing.

Also in 2017, the CFTC issued guidance for the regulation of bitcoin. In early 2018, a federal court ruled that bitcoin and other cryptocurrencies can be commodities. This means that derivatives on cryptocurrencies that are not securities, such as bitcoin futures, will be exclusively regulated by the CFTC. On the other hand, some derivatives based on cryptocurrencies may be jointly regulated by the CFTC and SEC if the underlying cryptocurrency is classified as a security. In late 2017, CME Group began transacting cryptocurrency futures contracts.

Compliance Office Types



Source: 2017 Industry Survey

The Commodity Futures Trading Commission (CFTC)

Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581
(202)418-5000
www.cftc.gov

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

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

Source: CFTC website, 2/2018

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

The CFTC requires, among other requirements, that:

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

The CFTC also mandates ethical standards of behavior for registrant, and monitors sales practices and internal controls. The registration process itself is handled by the NFA in their Chicago office.

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

Funding for CFTC operations comes from Congress. For 2018 and again for 2019, the agency has requested a budget of 218.5 million dollars (source: www.cftc.gov). CFTC currently employs approximately 700 people, and has requested authority to add about 50 more.

The CFTC website, www.cftc.gov, includes information about:

- new products and trading facilities
- forex and foreign contracts approved for trading
- swaps trading and regulation
- disciplinary and enforcement action taken by the Commission
- financial reports required to be filed with the Commission, including those of FCMs
- market reports such as Commitments of Traders
- bitcoin and other cyrptocurrency

Organization of the CFTC

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

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

As of the writing of this Handbook, there are only three Commissioners approved and sitting in the Washington, D.C. office. In recent times it is not unusual to have less than the full number of five commissioners to do the work of the CFTC. Commissioners are supported by several hundred staff who work for the federal government. Many of the "staffers" have been employed at the CFTC for over 20 years, are highly experienced and are very open to answering your questions about CFTC rules.

Commissioners serving as of February 2018, per the CFTC website, are:

Chairman J. Christopher "Chris" Giancarlo (term 8/2014-4/2019)
Prior to entering public service, Chris served as Executive Vice President of GFI Group Inc., a financial services firm. He is a founding co-editor of eSecurities, Trading and Regulation on the Internet. Chris initiated Project KISS, a review and identification of existing rules at the CFTC with a view toward simplification. He is from Jersey City, NJ and has a law degree from Vanderbilt University School of Law

Commissioner Brian D. Quintenz (term 8/2017-4/2020)
Brian founded and was the managing principal and CIO of a commodity pool operator that specialized in risk management and technical analysis investment strategies. He started his career with a registered investment advisor where he implemented proprietary hedging strategies among other duties. Brian also served as the senior policy advisor to Congresswoman Deborah Pryce (OH). He holds a MBA from Georgetown University.

Commissioner Rostin Behnam (term 9/2017-6/2021)
Rostin served as senior counsel to Senator Debbie Stabenow (MI), focusing on policy and legislation related to the CFTC and the Department of Agriculture. Prior to joining Senator Stabenow's team, he practiced law in New York and New Jersey. Rostin earned a law degree from Syracuse University College of Law.

CFTC is organized into four separate divisions:

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

2. **Enforcement (DOE):** The Division of Enforcement investigates and prosecutes alleged violations of the CEA and Commission regulations. Potential violations include fraud, manipulation and other abuses concerning commodity derivatives and swaps that threaten market integrity, market participants and the general public. According to its records, DOE imposed about $413 million in sanctions in 49 actions during fiscal year 2017. Most of these cases involved retail fraud or manipulation/false reporting. (Source: CFTC, 2018).

3. **Market Oversight (DMO):** The Division of Market Oversight fosters derivatives markets that accurately reflect the forces of supply and demand, and are free of disruptive activity. It oversees trade execution facilities and data repositories, conducts surveillance, reviews new exchange applications and

examines existing exchanges to ensure compliance with applicable core principles. DMO also evaluates new products to ensure they are not susceptible to manipulation.

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

Offices which support and advise the Commission include:

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

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

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

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

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

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

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

Office of Minority and Women Inclusion (OMW): This office focuses on civil rights, equal employment issues and diversity inclusion within the CFTC.

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

CFTC's Reparations Program

Most disputed issues between customers and IB offices are handled through the arbitration or mediation process administered by the NFA. However, customers who allege that an IB has engaged in activities which violate the CEA or CFTC rules can file their complaint directly with the CFTC. Those violations include transactions that involve futures contracts, options, physical commodities and leverage contracts. Types of violations include fraud, breach of fiduciary duty, unauthorized trading, misappropriation, churning, wrongful liquidation, failure to supervise and nondisclosure.

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

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

CFTC's Whistleblower Program

In January 2012, the CFTC instituted a Whistleblower Program created as a result of the Dodd-Frank Act, which allows for the payment of monetary awards to eligible whistleblowers and provides anti-retaliation protections for whistleblowers who share information with, or assist the CFTC. The total amount of a whistleblower award will between 10 and 30 percent of the monetary sanctions collected in either a Commission action or related action. The largest single payout under this program was $10 million.

A whistleblower can be any person who voluntarily provides the CFTC with original information about a violation of the CEA that leads to a CFTC enforcement action that results in more than $1 million in monetary sanctions. The information can be based on either the person's independent knowledge or independent analysis. A whistleblower may file anonymously on the form found on the CFTC website. The Commission reports 58 whistleblower tips were filed in 2012, the first year of the program. By 2017, that number had increased to 465 tips. CFTC believes the increase is due in part to their outreach program in combination with their new website approach and design.

CFTC's Market Reports

The Commission produces several market reports which are available to the public on the CFTC's website, www.cftc.gov. These easily accessible, free reports are a great way to keep up with the financial and trading information collected by the Commission. You should use this information to access the ongoing health of your FCM, to update your knowledge of open and trade interest in various markets and to provide support and documentation when developing trading strategies. A few of the reports available are:

Bank Participation Reports: Compiled monthly, this futures and option positions report includes the commodity type, open interest and bank type.

Cleared Margin Reports: Derivatives Clearing Organizations such as CME Group and others are required to file initial margin deposits daily.

Commitment of Traders (COT): A breakdown of each Tuesday's open interest for markets in which 20 or more traders hold positions equal to, or above the reporting levels established by the CFTC. The reports are released on Friday afternoon.

Financial Data for FCMs: These monthly reports provide a look at the financial health of FCMs and RFEDs. They include information on both adjusted and net capital, customer assets held in segregation at the FCM/RFED and several other benchmarks. Currently 63 registrants file these monthly reports.

Index Investment Data (IID): Monthly reports by swap dealers and index traders responding to a "special call" as it is described in CFTC Rule 18.05, showing the notional values and equivalent number of futures contracts for all U.S. markets with more than $0.5 billion of reported net notional value of index investment at the end of any one month.

Net Position Changes: The Large trader report shows the daily average net position for large traders in 27 physical and eight financial futures markets for any given week. Trading Account Net Position Changes tracks the same information at the trading account level for 20 physical and eight financial futures markets. The data depicts trading that changes or creates an end-of-day net position, such as spread or day trading.

National Futures Association (NFA)
300 So. Riverside Plaza, Ste. 1800
Chicago, IL 60606
(312) 781-1300

One New York Plaza, Ste. 4300
New York, NY 10002
(212) 608-8660

Information Center: 800-621-3570/ 312-781-1410
Website: www.nfa.futures.org

The NFA is the self-regulatory organization for the U.S. futures, options, foreign exchange and swaps industry. It is a not-for-profit membership corporation. It began operations in October 1982, after being granted formal designation as a registered futures association by the CFTC in 1981.

The CFTC provides governmental oversight for the entire industry. Each futures exchange governs its traders and member firms. The NFA regulates every firm and individual who conducts futures, options, forex and swaps trading business with the public. NFA Membership is mandatory for all futures professionals doing business with the public.

The NFA is completely self-funded. Futures compliance is primarily funded by assessment fees on futures and options transactions, and through the dues of swaps and forex members.

NFA's primary focus is on investor protection and market integrity. NFA develops the rules, programs and services that ensure industry integrity, protects market participants and helps its members meet their regulatory requirements.

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

TOTAL # OF NFA MEMBERS A/O FEB. 2018	**4,546**

Source: NFA Website, 2/2018
**Associates (APs) not included as members.*

Individuals apply for membership in the NFA at the same time they apply for registration by the CFTC. As of Feb. 2018, there were 4,546 members of the NFA (legal entities or firms such as IBs, CTAs, etc.). Numbers are up about 550 applications from mid-2016. NFA records show 50,965 Associates (these are the individuals employed by members firms as APs) – down about 3,300 individuals from 54,299 mid-2016.

NFA is an independent organization with no ties to any specific marketplace.

There are approximately 500 people working for the NFA in its two offices. Policy implementation is handled by NFA offices a nd staff. All NFA personnel can be reached by email or phone through the NFA website, nfa.futures.org.

NFA officers and key personnel as of February 2018:

Tom Sexton:	President & CEO
Dan Driscoll:	Executive Vice-President & COO
Regina Thoele:	Senior Vice-President, Compliance
David Hawrysz:	Senior Vice-President, CFO & Treasurer
Karen Wuerz:	Senior Vice-President, Strategic Planning
Edward Dasso:	Vice-President, Market Regulation
Carol Wooding:	Vice-President, General Counsel & Secretary
Yvette Christman:	Vice-President, Membership & Registration
Jamila Piracci:	Vice-President, OTC Derivatives
Tim McHenry:	Vice-President, Information Systems

NFA policy is defined by its Board of Directors (BoD). Representatives for all registration categories are elected from the general membership to serve on the BoD, along with a few appointees. Policy Supervision is handled by a 15-member Executive Committee elected by the BoD. Most BoD members are registered APs.

Introducing Brokers have two representatives on the NFA BoD, one each from the Guaranteed IB (GIB) and Independent IB (IIB) category. As of February 2018, IB representatives are:

GIBs: Scott Stewart: CEO, Stewart-Peterson Group
West Bend, WI
sstewart@stewart-peterson.com

IIBs: Mike Burke: CEO, Highground Trading
Chicago, IL
mikeb@highgroundtrading.com

The NFA issues a financial report to members annually and holds an annual membership meeting at its Chicago office each year in February. All members of the NFA are qualified to attend. NFA also posts a video report on its website following its quarterly meetings.

IBs and their APs may be appointed to the various committees of the NFA. These committees meet periodically to advise staff on proposed regulation and respond to CFTC requests and other membership issues. As of February 2018, NFA committee include:

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

NFA's Areas of Responsibility

NFA works to develop rules, programs and services that safeguard market integrity, protect investors and help NFA members meet their regulatory responsibilities.

Source: NFA Website, 2018

Registration: All firms and individuals who conduct futures business with the public must be registered with the CFTC and members of the NFA. Most registration forms and explanatory materials are found online at the NFA's website, nfa.futures.org. Annual registration updates are required for IBs and can be filed electronically.

NFA reports it processed 540 firm registrations and 9,600 individual registrations including update reports during 2017.

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

In 2017, the Business Conduct Committee of the NFA issued 21 complaints against 39 members for violations of NFA rules. Discipline Panels issued 28 decisions which included 22 expulsions from membership and 22 suspensions. NFA collected approximately $700,000 in fines during 2017.

Dispute Resolution: In 1983, NFA began an arbitration program which became the primary venue for dispute resolution in the industry. Since 1991, they have also offered a mediation program. Arbitration proceedings are generally conducted by other members of the NFA, often sitting as a panel. Lawyers, accountants and others with special knowledge of the industry be included in an arbitration hearing. The hearing can be conducted in-person or by each party submitting documents for review to the hearing officer or panel.

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

In the past year, NFA distributed restitution awards to approximately 1,800 customers who claimed harm as a result of a broker's action.

Education: NFA provides education resources to both members and investors. It conducts member meetings throughout the U.S. to discuss issues of current importance. Recent webinar topics have included the new website launch (6/2017); a Town Hall (3/2017); and, cybersecurity (2/2016). Audio recordings of those meetings are posted online at NFA's website.

Additionally, NFA has print and electronic educational materials available for investors. Some of those topics include the basics of trading futures and forex, and a glossary of basic terminology. Other materials booklets defining often used terms, opportunities and risks of trading futures and how to use of securities futures products, as well as cybersecurity issues are also available.

Good to Know about the NFA

The NFA is the regulatory agency with which your IB will have most contact. From your initial registration to submitting your advertising materials, the NFA has quite literally become your everyday business partner.

BASIC: In 1998, the NFA introduced the Background Affiliation Status Information Center (BASIC), an online clearing house of disciplinary information about firms and APs. BASIC is accessed through the NFA website – you do not have to be a member to view the directory. NFA reports more than 800,000 individual BASIC searches each year.

BASIC contains current and historical registration information about all current and former CFTC registrants, including business address and listed principals of the firm. Information can be searched by individual name or by firm name. Information concerning disciplinary actions taken by the NFA, CFTC and all U.S. futures exchanges can be found in BASIC.

Prior to associating with an FCM, CTA or CPO or prior to hiring any AP, check BASIC to review the information reported. And check periodically to ensure the information displayed about you and your firm has been reported and updated correctly.

Cybersecurity: During February of 2016, NFA issued an Interpretive Notice requiring members to adopt and enforce written policies and procedures to secure customer data and access to their electronic systems. The Notice became effective March 1, 2016 and applies to all membership categories.

Recognizing that a one-size-does-not-fit-all approach would not work for the varied business models engaged in the derivatives business it regulates, the NFA adopted a principles-based risk approach. This approach allows member firms a degree of flexibility in determining what constitutes "diligent supervision" given the differences in firm sizes and complexities of their operations, the make-up of their customer bases and counterparties and extent of the firm's interconnectedness. Each Member is required to adopt and enforce an information systems security program (ISSP) appropriate to its circumstances.

This written program must be maintained with the firm's written procedures, it must be implemented, followed and reviewed at least annually to keep it current and complete. An audio recording and materials from the Chicago Cybersecurity Workshop held in February 2016 is viewable on NFA's website.

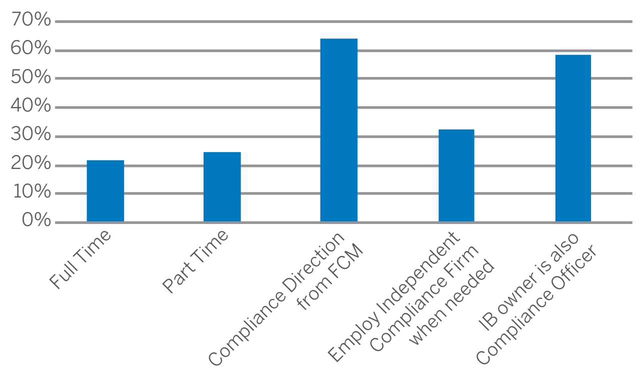
Enhanced Supervision: NFA Compliance Rule 2-9 was designed to prevent deceptive sales practices by putting continuing responsibilities on each member to supervise its APs in all aspects of their industry activities, including sales practices. In 2007, the NFA added specific criteria to be measured against every firm to determine if that firm and its APs should be subject to "enhanced supervision."

Enhanced supervision includes the recording of all conversations with existing and potential customers, additional capital requirements, filing of all promotional materials with the NFA, and written supervisory procedures to ensure that all NFA compliance rules are being followed.

This supervision requirement could affect your choice of FCM, and most definitely should be considered when you hire APs. A list of Disciplined Firms is found on the NFA's website and includes firms that have been disciplined by the CFTC or NFA in connection with sales practices.

In January 2018, NFA issued an Interpretive Notice addressing and updating issues surrounding Enhanced Supervision. That notice can be accessed through the NFA website.

Compliance Office Types



Source: 2017 Industry Survey

Electronic Filing: An IIB can use NFA's electronic filing system to meet its regulatory filing requirements. You can register with the CFTC and apply for NFA membership electronically. Audited and unaudited financial statement can be sent to the NFA through either EasyFile or WinJammer.

Firms can designate an Executive Representative Contact who has the Member's sole authority to sign nominating petitions, receive notices of member meetings and proxy materials, complete proxy cards and provide voting instruction and cast votes on behalf of the member.

IBs can also access their annual questionnaire, use the system to develop their AML procedure and submit required regulatory documentation.

Both the CFTC and the NFA employ a highly professional, experienced group of people who are open to direct communication with you – the people and firms they regulate. Don't hesitate to contact them if you need help in understanding the rules and regulations.

Checklist for Chapter 5 – Regulators

1. Do I understand who the CFTC is, and my obligations?
2. Do I understand who the NFA is, and my obligations?
3. Have I checked my BASIC listing to ensure the information posted is correct?
4. Have I registered for electronic filing with the NFA and named an account manager?
5. Should I request an appointment with NFA to review my promotional materials?
6. Do I regularly check the NFA website listing before hiring any APs or associating with any clearing FCM?
7. Have I watched, and instructed my APs to watch the NFA's cybersecurity webinar?
8. Are any of the CFTC's Market Reports useful to my business?

CHAPTER 6

FIRST AUDIT

Audit: an official inspection of accounts, records and documents to check their accuracy.

Members of the NFA are required to comply with NFA rules and CFTC regulations. As a member, you will be monitored to assure your office is in compliance. One means of monitoring is periodic on-site exams – commonly referred to in the industry as "audits." All IBs can expect to be audited in their office by the NFA at least once every three years.

Your FCM also has a responsibility to supervise all aspects of your futures, options, forex and swaps activities. NFA Interpretative Notices have suggested over the years that it is appropriate for FCMs to inspect IBs on-site periodically, and that procedures detailed for that visit will help ensure that the review process is performed in a consistent manner.

HAVE YOU BEEN AUDITED BY FCM/NFA	
FCM – YES	85%
NFA – YES	95%

Source: 2017 Industry Source

The timing and frequency of audits, or examinations by the NFA, depends on several factors including your office's:

- customer complaints
- net capital history
- prior audit findings
- concerns noted during the review of your financial statements or other filings typically made with the NFA

NFA audits have two major objectives:

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

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

The NFA conducts about 400 audits of IBs each year. That means you can expect to be audited by the NFA about every three years.

NFA's audit program is designed so that the examiners (NFA staff) must perform a certain amount of work in your office. As part of the examination, an IB's records and relevant documents will be required to be produced, and relevant personnel must be available. If documents or personnel are not readily available, the audit will take longer. Additionally, if the firm, a principal or AP is registered in another capacity other than IB, the exam may take longer. Audits of IBs most generally last one to five days depending on the nature of your operations and areas of concern.

The NFA will conduct the audit in three phrases:

1. **Planning:** The NFA most often calls the IB to announce an upcoming exam. They follow-up with a more formal notice, known as a First Day Letter, to confirm the date and time NFA staff will be in your office.
2. **Fieldwork:** During the time NFA staff are in your office, you can expect them to:
   - review reports and documentation
   - interview key personnel
   - monitor the firm's operations
   - conduct an oral exit interview
3. **Reporting:** Upon completion of their fieldwork, NFA will hold an examination closing meeting ("exit interview") to discuss findings with IB personnel, and issue a written audit report.

Preparing for an Audit

NFA staff will tell you there is only one way to prepare for an audit – that is by having properly prepared and maintained books and records available for review at all times. That will enhance the likelihood of a satisfactory exam report.

Introducing Brokers should review the information published by the NFA and posted on their website for advice and assistance with regard to establishing and maintaining the required records. Additionally, NFA suggests reviewing the NFA Manual itself.

I have found the Self-Examination Checklist which all NFA Members complete on a yearly basis is a very valuable source of information with regard to your regulatory responsibilities and internal procedures, and great resource for preparing for the audit. It is available on NFA's website.

A preliminary list of records needed for the audit will be provided when the exam is announced. NFA staff will also talk to the individual that is most knowledgeable about the firm's business. That individual is most often your Compliance Officer or you if you are the Sole Proprietor. Questions asked will include information on the types of customers the firm has, the solicitation methods used and the types of promotional material used. This pre-audit conversation helps NFA to plan the time they will need to be on-site in your office.

During the Audit Process

On the first day of your audit, a member of the exam team will explain the purpose and scope of the audit and indicate what books, statements and other information will be reviewed. During the course of the exam, additional records or documentation will most likely be requested. Some of those documents include:

- sales materials and practices
- performance representations
- trading records

NFA staff will observe the IBs operations and they can conduct interviews with your personnel. They may ask you to copy certain documents or may ask to take documents back to the NFA office. Ask for a receipt if any documentation is removed from your office.

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

All documents your IB files with the NFA must be in English. If you prepare any promotional materials in any other language, you must keep English translations of that material.

The required IIB financial reports must also be prepared in English, using U.S. dollars and U.S. accounting standards. If you handle any business in any language other than English, you will be required to assure the NFA that an English-speaking individual who is knowledgeable about the IB's business is available to the NFA during the audit process.

After the Audit

After your audit is completed, but before the examiners leave your office, they generally meet with you for the "exit interview." The purpose of the exit interview is to discuss the findings of the exam – particularly any deficiencies which were noted, and the ways in which they can be corrected. The audit team will also obtain oral representations from the appropriate IB personnel about how the firm will correct those deficiencies.

Upon returning to the NFA office, the auditors will prepare an Exam Report. If no material deficiencies were found during the exam, the Exam Report will state that the audit has been completed and no material deficiencies were noted. If there were deficiencies, the Exam Report will note them. Your written response to the Exam Report may be required.

Even if the NFA audit discloses relatively few deficiencies, you cannot represent that the firm has been approved or recommended by the NFA. NFA Compliance Rule 2-22 prohibits any representation that any member's abilities have been passed upon by the NFA, or any federal or state regulatory body.

If the audit indicates serious or repeated violations of NFA rules, the Compliance Department will forward the matter to the Business Conduct Committee (BCC). The BCC is made up of NFA members. Depending on the seriousness of the violation, the BCC may direct that a Warning Letter be sent to the IB or it may issue a formal complaint charging the IB with specific violations of NFA rules.

If a complaint is issued, the NFA member IB is given the opportunity to answer, and is entitled to a hearing before the Hearing Committee, which is also made up of NFA members. If the Hearing Committee finds that a member violated NFA rules, that IB is subject to several possible disciplinary actions, including expulsion from NFA membership, suspension for a fixed period of time, prohibition from future association with any NFA Member, censure, reprimand and/or a fine of up to $250,000 for each violation. The IB can appeal any adverse decision by the Hearing Committee to a committee of directors created by the NFA Board of Directors – the Appeals Committee. Decisions of the Appeals Committee are final, subject to review by the CFTC.

In emergency cases — essentially when an infraction by an IB is deems to pose an imminent danger to markets, customers or other NFA members, the President of NFA with the concurrence of the Board of Directors or the Executive Committee, may initiate a Member Responsibility Action (MRA). This action can require the firm to immediately cease doing business, restrict a firm's operation or impose other remedial actions. Any member subject to an MRA will be offered a hearing before several members of the Hearing Committee as quickly as possible. An MRA may be initiated following an audit or investigation, or event during the course of the audit or exam if circumstances call for such emergency action.

Some of the records and documents the NFA will generally examine during the course of an IB audit are:

- Basic Records: Most of these may be stored for the required five years electronically except trading cards and customer orders. All records must be readily available for the first two years of storage.
- Customer Statements
- Customer Orders
- Operations and Activities of the IB
- Position Limit and Reportable Positions at the IB
- Policies Against During Business With Non-Members
- Customer Information, Including Risk Disclosure
- Your Anti-Money Laundering Program*
- Privacy Policy*
- Customer Protection Information
- Your Risk Management Program
- Discretionary Accounts
- Disclosure of Costs Associated with Futures Transactions
- Ethics Training*
- Your Business Continuity and Disaster Recover Plans*
- Plan for General Supervision (including Branch Offices)
- Cybersecurity
- Your Chief Compliance Officer
- Accounting Requirements for IIBs
- Financial Requirements for IIBS
- Required Accounting Records for IIBs
- Financial Reporting
- Subordinated Loan Agreement
- Segregation Requirements
- Margins
- Requirements for a GIB Agreement
- Termination of a Guarantee Agreement

** NFA suggests an IB review the Appendix which it has published for each of these areas. They are posted on NFA's website.*

General Registration

NFA staff will review specific documentations and records in regard to general registration requirements. They include:

- That all individuals required to be listed as principals are listed.
- That anyone responsible for supervising aps is registered as an ap.
- That a list of all branch office locations and their managers is included on your filings. Branch managers must complete the branch manager exam.
- That any personnel transacting security futures business has completed specific and additional requirements.
- That you are only doing business with registered firms, and that they are nfa members, if required to be.
- That commissions for customer transactions are being paid only to nfa members.
- That no unregistered office personnel are handling customer accounts.
- That guarantee agreements and terminations have been filed with nfa.
- That gibs have a copy of their guarantee agreement on file.

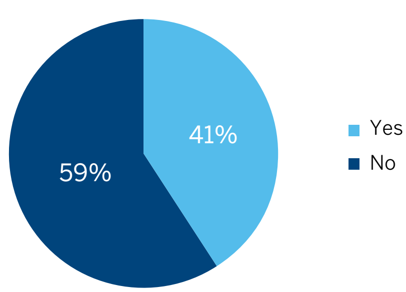
General Supervision

NFA Compliance Rule 2-9 puts a continuing responsibility on each IB to diligently supervise its employees and agents in all aspects of their futures activities. The exact form of supervision is up to the individual member so that the procedures are flexible enough to be developed with the IBs own business situation in mind.

Other NFA Compliance Rules impose additional duties with respect to supervision. Rule 2-8 requires detailed supervision of discretionary accounts. Rule 2-29(e) requires each IB to adopt and enforce written procedures regarding communications with the public, including advance review and approval of all promotional material by a supervisory person. Rule 2-30(h) requires each IB to adopt and enforce procedures regarding customer information and risk disclosure.

Supervision of Branch Offices: Although IBs may tailor their supervisory procedures to meet their particular circumstances, an adequate program for supervision must include procedures for performing day-to-day monitoring and surveillance activities, conducting on-site visits of remote locations and conducting ongoing training for firm personnel. The IBs policies and procedures for the supervision of branch offices must be in writing, and be on file with each branch office.

Do you have any branch offices?



Source: 2017 Industry Survey

Day-to-Day Supervision: As a general rule, NFA expects GIBs and branch offices to be inspected annually. After the inspection, a written report will be prepared by your FCM or you, if you inspected a branch office, and its findings should be discussed with the principals and appropriate supervisors.

Procedures to review the day-to-day activities of your office should include the following:

- **Hiring:** IBs must conduct thorough screening procedures for prospective employees to ensure they are qualified and to determine the extent of supervision required. You must obtain any documentation necessary to support any "yes" answer of the AP's registration form and review for any disqualifying information.

  You should check with NFA for any futures-related disciplinary proceedings against any AP's prior employers by reviewing the candidate's history on BASIC.

- **Registration:** Commission records generated by the IB or GIB should be broken down by AP and should be frequently reviewed to ensure that no commissions are being paid to unregistered individuals.

- **Customer Information:** NFA procedures require that appropriate account documentation be kept by both the FCM and the IB, and any branch office. The documentation should be reviewed to ensure the account was appropriately approved and that the customer received the appropriate risk disclosure. It might be necessary to contact your customer to verify that the disclosure was provided and the customer understood its meaning. Customer identification includes identification of beneficial account owners.

- **Account Activity:** Trading activity in customer and AP personal accounts should be reviewed and analyzed in order to discover any account which may require further scrutiny. Reviewing order tickets, trade registers as well as talking to the broker or even contacting your customer may be necessary.
- **Discretionary Accounts:** NFA compliance rules contain detailed requirements concerning the supervision and review of discretionary accounts. Be sure to check NFA records to ensure the AP handling the accounts have had the proper registration for the requisite two-year minimum.
- **Promotional Material:** All promotional material should be submitted by the branch manager or the GIB to the home office or FCM for review and approval prior to its first use. Review and approval of the material should be documented.
- Customer Complaints: A written record of all customer complaints should be maintained. Complaints which meet certain criteria described by your FCM or NFA must be sent to the main office of the FCM. The branch manager and FCM is required to review the complaint for possible rule violations and similarity to other complaints which may indicate a pattern of abuse.
- **Ongoing Training:** An IB's supervisory responsibilities include the obligation to ensure that its employees are properly trained to perform their duties. Written procedures must be in place to ensure that APs receive adequate training to abide by industry rules and obligation and to properly handle customer accounts. The form of the training program depends on the size of the firm and the nature of its business.
- **Chief Compliance Officer:** IBs are not required by CFTC Regulation 3.3 to designate an individual at the firm's CCO. But if the firm appoints a CCO, that person must be listed as a principal of the firm.

Anti-Money Laundering

The International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 was signed into law in October of that year. IBs are included in the definition of a financial institution, which means that significant responsibilities were place upon them by the Act. The NFA requires all IBs to adopt a written Anti-Money Laundering (AML) program which should be appropriate to its operations. GIBs will generally be provided with an appropriate program by their FCM. Before developing your own AML program, carefully review the NFA's Anti-Money Laundering Questionnaire found on their website.

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

- that the IB's policy is firmly against money-laundering and terrorist financing
- that the firm is committed to following all applicable laws and regulations to ensure its business is not used to facilitate money laundering
- that a member of the IB's senior management approved the AML program in writing
- that the IB provides training at least every 12 months to all its employees that work in areas susceptive to money laundering

- that the program has been subject to an independent review which tests the adequacy of the program at least every 12 months
- that your Customer Identification Program (CIP) is adequate. CIP is the portion of your AML procedures which requires an IB to have in place a written program to detect, prevent and mitigate identity theft in connection with the opening of accounts and maintaining an existing account. The CIP needs to include sufficient information to enable the IB to form a reasonable belief that it knows the true identity of each customer, including beneficial owners.

More information regarding CIPs can be found on the NFA website. Some items required at a minimum to be included in the program are:

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

If you detect suspicious activity, you must consult with your FCM and/or your attorney. Some triggering activities might include:

- any activity that is designed to conceal the funds being deposited are from illegal activity
- any funds that are from an obvious illegal activity
- that the activity observed does not appear to serve any business or apparent lawful purpose
- any attempt to involve you and your IB to facilitate a criminal activity

Business Continuity and Disaster Recovery

Each IB must adopt a written Business Continuity and Disaster Recovery plan which is tailored to your operations. Carefully consider the following questions when you are designing your plan. These areas address minimums which your IB's program will include:

- Where are the IB's backup facilities — are they located in separate geographical areas from your primary office?
- What are the IB's procedures for backing up or copying essential documents and data?
- Does the IB store the information in hard copy or electronic format, and where is the backup information stored?
- Which staff members are critical to continuing your operations and how has the IB duplicated the staff competencies if the IB loses primary staff?
- What specific steps will the IB take to minimize the impact of any business interruptions at banks, FCMs, order routers, data providers or other third parties?
- How often is the plan reviewed and updated?
- Which key employees have received the plan?
- Have you updated the NFA with emergency contact information?

Cybersecurity

NFA has issued an Interpretive Notice entitled Information Systems and Security Programs (ISSPs) which requires IBs to adopt and enforce written policies and procedures to secure customer data and access to their electronic systems. This Notice applies to all NFA members.

The Notice adopts a principles-based risk approach to allow firms a degree of flexibility when determining what their policies will include taking into account the differences in firms' size and complexity of operations, the make-up of customers and counterparties, and the extent of the firm's interconnectedness.

Your cybersecurity ISSP should contain:

- a security and risk analysis
- a description of the safeguards against identified system threats and vulnerabilities
- the process used to evaluate the nature of a detected security event, tounderstand its potential impact and to take appropriate measures to contain and mitigate the breach
- a description of the IB's ongoing education and training related to information systems security for all appropriate personnel

Your ISSP must be approved by an executive level official, and requires monitoring and regular review at least every 12 months. IBs must provide employees a copy of the ISSP upon hiring and periodically update and re-train. ISSPs must address risk posed by any critical third-party service providers.

NFA has a Cybersecurity section in its Self-examination Questionnaire, which can be accessed through their website.

Ethics Training Policy

Each NFA member firm must adopt a written ethics training policy tailored to its operations. The training format is flexible and can be tailored to the IB's particular situation. IBs can fulfill this requirement by completing training provided by outside providers. Whether you decide to use a third-party provider or develop your own program, you can use these questions as a guide:

- Who conducts the training? The policy must include the name and title of the specific person or outside provider.
- What are the provider's qualifications?
- What medium is used for the training course – Internet, tapes, in-person?
- How frequently must APs complete the training?
- How long is the program for new registrants? Existing registrants?
- What topics does the training program address?
- What written materials are distributed during the training, and how are they maintained?
- What documentation does the IB maintain as proof the APs have completed the ethics training?
- How often is the training policy reviewed?

Privacy Policy

Your IB is required to comply with federal privacy laws and CFTC's regulations which apply those laws to future registrants. The CFTC's regulations require that customer information be protected. Each IB's privacy policy must be described in the privacy notice given to customers when the account is opened. There also must be a separate writing describing the IB's policy for protecting customer records and information. The policy should be updated periodically.

FCMs will generally provide the approved policy and notice to GIBs. NFA's website includes general guidelines for developing and updating your Privacy Policy.

Promotional Materials

All GIBs must submit their promotional material to their FCM for review and approval prior to its first use. Review and approval of the materials must be documented by supervisory personnel. All registrants can also submit promotional matter directly to the NFA's Chicago office.

In additional to your clearing firm and the NFA, both the CFTC and exchanges have the right to examine the activities of your IB in an audit. If you are registered to handle securities or cash commodities transactions, those industry regulators may also audit your office activities.

Exchanges generally limit their review to members firms such as FCMs, because they can discover information about the FCM's IB system and individual IBs with a thorough examination of the FCM's books and records.

The CFTC will audit or review an IB occasionally, particularly if that office has a number of customer complaints, or if there is reason to believe the IB is using questionable sales practice techniques. The CFTC and NFA are widely considered by the industry in general to be effective in identifying "bad apples," and running them out of the business.

You must notify your FCM if you are notified that your office will be audited. Most IBs also notify their lawyers and accounts. Although audits are serious, you should have no trouble if you keep your books and records in compliance with all NFA regulations and other applicable rules, you communicate your policies to your APs and you review all your policies and procedures regularly.

I think you will find NFA staff to be knowledgeable and willing to respond to inquiries you have about running your business. Take advantage of a good relationship with the regulator and your FCM by reaching out for help when you have questions about regulations or about keeping your records updated and complete.

Checklist for Chapter 6 – Audit

1. Are my policies and procedures for all required areas being kept where I can review and update them periodically?
2. Have I designated a Compliance Officer?
3. Have I reviewed the NFA Checklist prior to my audit date?
4. Have I notified my FCM of the upcoming NFA audit date?
5. Have I prepared a desk or other space in my office for the auditors, and informed my employees of the audit date?
6. Do I have a copy of my Guarantee Agreement?
7. If I moved my office location or made other changes at the IB, have I notified NFA and updated my Business Continuity and Disaster Recovery Plan?
8. Following my audit, did I follow up with the NFA and my FCM to ensure that any deficiencies found during the audit have been addressed?

CHAPTER 7

RESOURCES

Resource: A source or supply of assets that can be drawn on in order to function effectively

In this chapter, I've listed some websites and other resources which IBs use for information on the markets, compliance and networking. Many of these resources are free.

Websites and networking group communications are regulated by NFA Compliance Rules 2-9 and 2-29. Whether you link to another site, develop your own or use information from a site or other source, NFA requires you to:

- have written procedures which supervise the preparation and use of sites
- meet the standards of content established by NFA Compliance Rule 2-29
- ensure that any paid hyperlinks to your IB's website do not contain deceptive information regarding derivative trading
- monitor the general content of any website to which you link
- perform adequate reviews on the personal websites or online social networking groups your APs may use to attract business to the firm

Email Communications are also regulated. You must make your APs aware of, and review from time-to-time, issues around email use including:

- ensuring your written procedures regarding the use of futures-related email identifies by title or position the person responsible for conducting the review of the communication, how often the emails are reviewed, how the review is documented by your IB and which emails will be pre- and post-reviewed.
- ensuring emails are in compliance with NFA's promotional material content and review procedures

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

Do not link to any site without prior permission.

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

Listings in this chapter do not constitute or imply endorsement by the author or by CME Group. All examples in this chapter are hypothetical interpretations of situations and are used for explanation purposes only. The views in this report reflect solely those of the authors and not necessarily those of CME Group or its affiliated institutions. This handbook and the information herein should not be considered investment advice or the results of actual market experience.

Resources listed in this chapter include many that IBs have told me they find useful. The categories include:

- Regulatory, Government and Association sites
- News and Market Commentary
- Futures, Stocks, Options, Forex and Swaps Exchanges/Facilities
- Educational Institutions
- Ethics and Anti-Money Laundering Training Providers
- Data vendors and Equipment
- Accountants, Compliance, Lawyers and Other Professional Service Providers
- Web Design and Marketing
- Print and Electronic Publications

Regulatory, Government and Association Sites

You will find registration forms, rule change information and member meeting details on regulatory sites such as the CFTC's, www.cftc.gov and NFA's, www.nfa.futures.org. You can also find a number of industry reports which are regularly produced and posted by these groups.

Check the CFTC site regularly for the financial health of your FCM. Check BASIC on the NFA website before you hire any AP or associate with any CTA to see any disciplinary actions. Also check to make sure the information listed about you and your IB is correct.

Government sites often include well-researched white-papers and industry reports.

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

American Petroleum Institute (API)	www.api.org
Bank for International Settlements	www.bis.org
Briefing.com	www.briefing.com
Chartered Market Technicians (CMT)	www.cmtassociation.org
Commodity Futures Trading Commission (CFTC)	www.cftc.gov
Commodity Markets Council (CMC)	www.commoditymkts.org
CTA Intelligence	www.ctaintelligence.com
Energy Institute	www.emi.org
Financial Industry Regulatory Authority (FINRA)	www.finra.org
Financial Management Association, Intl.	www.fma.org
Futures Industry Association (FIA)	www.fia.org
Gallup Organization, The	www.gallup.com
Global Association of Risk Professionals (GARP)	www.garp.org
International Swaps and Derivatives Association (ISDA)	www.isda.org
Managed Funds Association (MFA)	managedfunds.org
National Cattlemen's Beef Association (NCBA)	www.beefusa.com
National Futures Association (NFA)	www.nfa.futures.org
National Grain & Feed Association (NGFA)	www.nfga.org
National Introducing Broker Association (NIBA)	www.theniba.com
Securities Exchange Commission (SEC)	www.sec.gov
Securities Industry and Financial Markets Association	www.securtiesindustry.org

U.S. Department of Agriculture (USDA)	www.usda.gov
U.S Department of Commerce	www.commerce.gov
U.S. Treasury	www.treas.gov
Women in Technical Analysis (WTA)	www.cmtassociation.org

News and Market Commentary

News and market commentary can be found on all exchange websites, as well as on the sites of many FCMs. Your local newspaper can be found online. IBs have found the following sites useful. Some of them are electronically produced only.

A Commodity Trading World	www.acommodity.com
Active Trader	www.activetradermag.com
Advantages in Options	www.tradecaddie.com
Ag Resource	www.agresource.com
Agricultural Marketing Services	www.ams.usda.gov
Allendale, Inc.	www.allendale-inc.com
Bank Credit Analyst	www.bcaresearch.com
Barclay Hedge	www.barclayhedge.com
Barrons	www.online.barrons.com
Bloomberg	www.bloomberg.com
Business Monitor International	www.bmiresearch.com
CattleFax	www.cattlefax.com
Chartist, The	www.thechartist.com
Cheese Market News	www.cheesemarketnews.com
Chicago Business	www.chicagobusiness.com
Chicago Sun-Times	www.suntimes.com
Chicago Tribune	www.chicagotribune.com
CIS, Inc.	www.cis-okc.com
CNBC.com	www.cnbc.com
CNN	www.cnn.com
Commstock Investments, Inc.	www.commstock.com
Consensus	www.consensus-inc.com
Derivatives Intelligence	www.globalcapital.com/derivatives

Dow Theory Letters	www.dowtheoryletters.com
EContent	www.econtentmag.com
Economist, The	www.economist.com
Elliot Wave International	www.elliottwave.com
EQ Derivatives	www.eqderivatives.com
Farm Week	www.farmweeknow.com
Fast Company	www.fastcompany.com
Feedstuffs	www.feedstuffs.com
Financial Times	www.ft.com
Fox Business News	www.foxbusiness.com
Futures and Options World	www.fow.com
Futures Truth	www.thefinancials.com
Grant's Interest Rate Observer	www.grantspub.com
Hightower Report, The	www.futures-research.com
International Investor	www.institutionalinvestor.com
Investor's Business Daily	www.investors.com
John Lothian News	www.johnlothainnews.com
Lowry's Market Trend Analysis	www.lowryresearch.com
Market Watch	www.marketwatch.com
Managed Account Research, Inc.	www.ma-research.com
Mergers & Acquisitions	www.themiddlemarket.com
Modern Trader	www.monderntrader.com
Moore Research Center	www.mrci.com
Morningstar Mutual Funds	www.morningstar.com
MSNBC	www.msnbc.com
National Hog Farmer	www.nationalhogfarmer.com
New York Times	www.nytimes.com
NIBA Journal, The	www.theniba.com
Opalesque.com	www.opalesque.com
Optima Investment Reserach	www.optimaresearch.com
ProFarmer Ag Trader	www.agweb.com

QuikStrike	www.cmegroup.com/tools-information/quikstrike
Reuters	www.reuters.com
Technical Analysis, Stocks & Commodities	www.traders.com
Trader's Edge	www.atradersedge.com
U.S. News & World Report	www.usnews.com
USA Today	www.usatoday.com
Wall Street Journal, The	www.wsj.com
Wall Street Letter	www.fundintelligence.global
Wall Street & Technology	www.wallstreetandtech.com
Waters Technology	www.waterstechnology.com

Futures, Stocks, Options, Forex and Swaps Facilities

Exchange and trading platform sites are terrific resources. Most offer free education pages which include everything from basic trading techniques to webinars and other sales support materials. Exchange-produced materials, including well-researched white papers and state-of-the-industry reports are generally free.

Australian Securities Exchange	www.asx.com.au
Bombay Stock Exchange	www.bseindia.com
Bourse de Montreal	www.m-x.ca
Brazilian Securities, Commodities & Futures Exchange	www.bmfbovespa.com.br
Chicago Board Options Exchange	www.cboe.com
CME Group	www.cmegroup.com
Dubai Gold & Commodities Exchange	www.dgcx.ae
Eurex Group	www.eurexchange.com
Frankfurt Stock Exchange	www.deutsche-boerse-cash-market.com
Hong Kong Exchange & Clearing, Ltd.	www.hkex.com
InterContinental Exchange	www.theice.com
Johannesburg Stock Exchange	www.jse.co.za
Korea Exchange	www.eng.krx.co.kr
London Metals Exchange	www.lme.com
London Stock Exchange	www.londonstockexchange.com
Mexican Derivatives Exchange	www.mexder.com.mx
Minneapolis Grain Exchange	www.mgex.com

Moscow Exchange	www.moex.com
NADEX	www.nadex.com
NASDAQ	www.nasdaq.com
New York Stock Exchange	www.nyse.com
OneChicago	www.onechicago.com
Singapore eExchange, Ltd	www.sgx.com
Taiwan Futures Exchange	www.taifex.com.tw/eng
Tel Aviv Stock Exchange	www.tase.co.il/eng
Tokyo Commodity Exchange, The	www.tocom.or.jp
Tokyo Stock Exchange, Inc.	www2.tse.or.jp

Education Institutions

University and college sites include research papers prepared by the staff in their agriculture, economics and financial departments. Most of the data is available to download free of charge, but be sure to check the date of preparation of the data and whether it has been updated since it was initially posted

Alaska, University of – Anchorage	www.uaa.alaska.edu
Arizona, University of – College of Agriculture & Life Sciences	www.cals.arizona.edu
Auburn University	www.auburn.edu.
Arkansas, University of	www.uark.edu
California, Berkeley, University of	www.berkeley.edu
Clemson University	www.clemson.edu
Connecticut, University of	www.uconn.edu
Colorado State University	www.colostate.edu
Delaware, University of	www.udel.edu
DePaul University	www.depaul.edu
Florida, University of	www.ufl.edu
Georgia Institute of Technology	www.gatech.edu
Hawaii, University of	www.hawaii.edu
Idaho, University of	www.uidaho.edu
Illinois, University of – Ag College	www.aces.illinois.edu
Illinois State University	www.illinoisstate.edu
Iowa State University	www.iastate.edu

Kansas State University	www.k-state.edu
Kentucky, University of	www.uky.edu
Louisiana State University	www.isu.edu
Massachusetts at Amherst, Univ. of	www.umass.edu
Michigan State University	www.msu.edu
Minnesota, University of	www.umn.edu
Mississippi State University	www.msstate.edu
Missouri, University of	www.missouri.edu
Montana State, University – Bozeman	www.montana.edu
Nebraska, University of	www.nebraska.edu
New Hampshire, University of	www.unh.edu
New Mexico State University	www.nmsu.edu
North Carolina State University	www.ncsu.edu
North Dakota State University	www.ndsu.edu
Ohio State University Extension	www.extension.osa.edu
Oklahoma State University	www.osuokc.edu
Oregon State University	www.oregonstate.edu
Penn State University	www.psu.edu
Purdue University, Dept. of Agriculture	www.ag.purdue.edu
Rice University, Dept. of Economics	www.economics.rice.edu
South Dakota State University	www.sdstate.edu
Southern Illinois University	www.siu.edu
Tennessee, University of	www.tennessee.edu
Texas A&M University	www.tamu.edu
Texas, University of	www.utexas.edu
Utah State University	www.usu.edu
Vermont, University of	www.uvm.edu
Virginia Tech	www.vt.edu
Washington State University	www.wsu.edu
Wisconsin, University of	www.wisc.edu
Wyoming, University of	www.uwyo.com

Ethics and Anti-Money Laundering Training Providers

The NFA requires periodic training regarding its Anti-Money Laundering provisions and ethical behavior regulations. If you do not develop your own training programs, you will use one of the firms who offer programs specifically targeted to the derivatives industry with NFA rules in mind. Most firms offer in-person or computer-based training.

Center for Futures Education	www.thectr.com
Compliance Supervisors, Inc.	www.compliancesupervisors.com
Exchange Analytics	www.xanalytics.com
FINRA	www.finra.org
Futures Industry Association	www.fia.org
Institute for Financial Markets	www.theifm.org
Walsh Agency, The	www.walshagencyinc.com

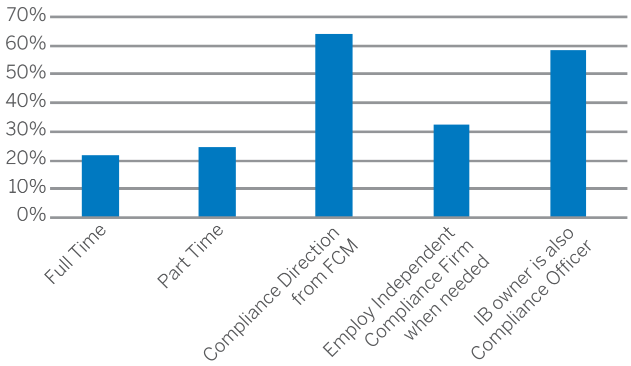
Data Vendors and Equipment

Check with your FCM to see if any vendors are required to be used or preferred by the FCM. Check with trade associations to see if your association membership entitles you to discounts or special member packages.

Barchart.com	www.barchart.com
Bloomberg, LP	www.bloomberg.com
Commodity Systems, Inc.	www.csidata.com
CQG	www.cqg.com
DTN/The Progressive Farmer	www.dtnprogressivefarmer.com
eSignal	www.esignal.com
Marketsource Online	www.msodata.com
Metal Prices.com	www.metalprices.com
QT Info Systems	www.qtmarketcenter.com
Reuters Data Link	www.metastock.com
Schneider Electric	www.schneider-electric.com
Tick Data, Inc.	www.tickdata.com
Trading Technologies	www.tradingtechnologies.com
Vela	www.tradevela.com

Accountants, Compliance, Lawyers and Other Professional Services Providers

Compliance Office Types



Source: 2017 Industry Survey

IIBs and CTAs must file certain financial reports directly with the NFA. It is important that the reports meet NFA requirements – you could be subject to a fine for non-compliance. All IBs can benefit from a consultation with accountants and compliance specialists who are familiar with the futures and options industry.

Advanced Regulatory Compliance, Inc.	www.advreg.com
Compliance Supervisors Inc.	www.compliancesupervisors.com
Michael Coglianese CPA, PC	www.cogcpa.com
DeMarco, Sciaccotta, Wilkens & Dunlleavy, LLP	www.dscpactroup.com
Futures Accounting & Compliance	www.futuresaccounting.com
Great Lakes Credit Union	www.glcu.org
Michael Liccar, CPA	www.liccar.com
Midland IRA	www.midlandira.com
Millennium Trust Co.	www.mstrustcompany.com
Strategic Compliance Solutions	www.strategiccompliancesolutions.com
Turnkey Trading Partners	www.turnkeytradingpartners.com
United Lex	www.unitedlex.com

Lawyers

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

Baker & McKenzie, Matt Kluchenek	matt.kluchenek@bakermckenzie.com
Gekas & Associates, Chris Gekas	CIG@gekaslaw.com
Funkhouse, Vegosen, Liebman & Dunn, Ltd., Jeff Kopiwoda	jkopiwoda@fvld.com
Greenburg Traurig LLP, Jeff Henderson	hendersonj@gtlaw.com
Kennyhertz Perry LLC, Braden Perry	braden@kennyhertzperry.com (816) 527-9445
Howard & Howard Attorneys, Jeff Burclay	(312) 456-3433
Ruddy Gregory Law, Mark Ruddy	mruddy@ruddylaw.com
Ulmer & Berne, LLP, Ken Berg	www.ulmer.com

Web Design and Marketing

Your website is your online calling card. While a few FCMs offer assistance to their IBs, you will most likely need to contact a professional designer to develop your site. Choose a firm that is very familiar with the futures and options industry, and understands the need for strict compliance with NFA regulations for solicitation.

Contact marketing professionals who understand the financial industry and are aware of the regulations you must comply with before you allow anyone to develop marketing or sales materials for you.

Blue Fountain Media, Inc.	www.bluefountainmedia.com
Financial Brand, The	www.thefinancialbrand.com
Gate 39 Media	www.gate39media.com
Ginger Szala Ink	www.gingerszalaink.com
GlossyDev	www.glossydev.com
Lida Citron	www.lida360.com
Propel Growth	www.propelgrowth.com
Trungale + Egan	www.trungaleegan.com
Windy City Web Designs	www.windycitywebdesigns.com

Print & Electronic Publications – Web Design and Sales

Sometimes nothing but a good book will help! Most of the publications listed below are available for purchase online and most can be purchased in hardcopy or for your electronic reader.

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

Duckett, Jack: ***Web Design with HTML, CSS, JavaScript and jQuerey Set***
Paperback and Hardcover Editions, 2014
(Free download at www.wakwaw.com with registration)

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

Hoffman, Reid and Ben Casnocha: ***The Start-Up of You: Adapt to the Future, Invest in Yourself***
Hardcover, Paperback, Audio CD and Kindle Editions, 2012

Johnson, Spencer & Kenneth Blanchard: ***Who Moved my Cheese: An Amazing Way to Deal with Change in Your Work and Your Life***
Hardcover, Paperback, Audio CD and Kindle Editions, 1998 (Revised 2002)

Kis-Lev, Jonathan: ***Fear of Success: An Emotional Manual***
Paperback and Kindle Editions, 2016

Mandino, Og: ***The Greatest Salesman in the World***
Hardcover, Paperback, Audio CD and Kindle Editions, 1968
(Free audiobook on YouTube)

Riccobini, Adam and Daniel Callahan: ***You, Inc., The Art of Selling Yourself***
Paperback, Audio CD and Kindle Editions, 2012

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

Robbins, Jennifer: ***Learning Web Design***
Paperback and Kindle Editions, 2012

Scott, David: ***The New Rules of Sales and Service***
Hardcover and Kindle Editions, 2015

Vee, Jimmy and Travis Miller: G*ravitational Marketing: The Science of Attracting Customers*
Hardcover and Kindle Editions, 2015

Zimmerman, Jan and Deborah Ng: ***Social Marketing for Dummies***
Paperback and Kindle Editions, 2014

Checklist for Chapter 7 – Resources

1. What information do I need to supplement my knowledge of the industry?
2. What information do I need to supplement my knowledge of the markets?
3. How much time can I actually afford to researching and using outside sources to build my business?
4. Will I develop my own AML policy, ethics training program or ISSP, or should I contact an outside source?
5. Have I contacted any website before I link to it?
6. Have I properly sourced any material or information I used from a website or publication?
7. Does my trade association offer support or assistance to help me locate attorneys, accountants and other professional services?
8. Have I created a "Solicitations" folder to maintain any material from any outside source I use when I communicate with the public?

CHAPTER 8

TRADE ASSOCIATIONS

Trade Associations: Organizations founded and funded by businesses that operate in a specific industry. The major focus of a trade association is most often collaboration between companies to promote their common interests. Many are non-profit entities governed by bylaws and directed by officers who are also members.

Trade associations are one of the tools successful entrepreneurs use to build their businesses. Before you join, ask yourself what benefits you will receive directly for the dues paid or time expended. Does the association deliver education and actionable ideas that work? Do you want a lobbying voice?

"Think of a professional association membership as an investment in knowledge and your career"

– Source: Forbes Magazine, 11/1/2013

IBs belong to such diverse trade associations as the National Cattlemen's Association, Futures Industry Association and the American Petroleum Institute, as well as NIBA. Here are the ways they boost their businesses with a membership in a trade association:

Education: Trade associations are clearing houses of information and education that help professional growth. It is very likely someone in the industry has already discovered the solution to the problem you're working on, or has the same questions you do. Workshops, newsletters, forums and webcasts, along with personal contacts, offer opportunities to share fresh ideas and learn best practices.

Compliance: Let's face it – regulation and how to comply with it is the number one industry concern each and every business day. Trade associations keep up with rapidly changing industry regulations so you can continue to stay in compliance.

Professional Development: Improve your professional skills such as marketing or how to use new products. You might also learn how to use your website more effectively or where to hire an intern who ultimately contributes significantly to your firm's growth.

Personal Connections: IBs rate personal connections and networking as a top reason to join a trade association IBs and other industry professionals who meet at conferences and workshops share ideas for problem solving – after all, we're all in this together. Your circle of business contacts and their ideas will expand, and you may even create alliances or partnerships which will enhance your bottom line. Successful entrepreneurs aren't afraid to network with competitors.

Research: Many associations conduct market research and analysis on specific industry issues. White papers and research reports can offer insight and help you stay ahead of changes and trends.

Advocacy: Advocacy is one of the most overlooked benefits of belonging to a trade association. When you become a member, you belong to an organization dedicated to protecting and advancing the needs of our industry. Being part of the group means making your opinion count. The collective effort helps raise the image and influence of the entire IB community, turning one small voice into a persuasive, collective shout.

OVER 50% OF IBs ATTEND ANNUAL INDUSTRY MEETINGS WHICH INCLUDE CYBERSECURITY TRAINING, REGULATORY UPDATES AND MARKETING STRATEGY.

Source: 2017 Industry Source

NIBA

Address:	55 West Monroe, Ste. 3600 Chicago, IL 60603 (312) 977-0598
Website:	www.theniba.com
Primary Contacts:	Melinda Schramm: melinda@futuresrep.com Mike Burke: mikeb@highgroundtrading.com

NIBA, based in Chicago, IL, is a non-profit membership organization focused on the needs of derivatives professionals. Founded in 1991, NIBA includes Introducing Brokers, Commodity Trading Advisors and Associated Persons among its members, along with Futures Commission Merchants who clear retail business. NIBA also has the sponsorship of domestic exchanges and service providers in the industry.

NIBA's mission is to provide education to registered derivatives professionals to help them grow their businesses while staying in compliance. That purpose is accomplished through four membership meetings annually, as well as a twice-monthly electronic newsletter and various webinars throughout the year. The association's business is done by its board of directors – a combination of elected IBs and CTAs working with appointed FCM, exchange and service provider representatives. Officers and committee members are volunteers who are actively engaged in the industry.

NIBA regularly holds scheduled meetings with the NFA, and meets twice yearly with the CFTC. The association's annual member conference, held each fall in Chicago, emphasizes continuing education, networking, marketing and updates from NFA Board Members on the state of regulation change. Other member events are held in New York City and in partnership with DePaul University, Chicago and various industry participants.

NIBA member benefits include a click-through firm listing on the website directory; complimentary attendance at in-person events; members only-premium content accessed through its electronic newsletter; a resource directory for professional goods and services; and, advocacy with the CFTC, NFA and others on issues pertinent to the daily business activity of its members.

All registered IBs and CTAs may claim their free membership by going to NIBA's website, theniba.com. The free membership offer continues through August 31, 2018. After September 1, 2018, membership fees are $150 for IBs and CTAs. $75 for APs annually. FCMs and other industry professional may also join in supporting categories.

The 2018 Board of Directors of the NIBA includes:

*Founder/Chairman of the Board:	Melinda Schramm – melinda@futuresrep.com
*President:	Mike Burke – mikeb@highgroundtrading.com
*Vice-Pres/Sec/Newsletter:	Ryan Griffeth – ryan.griffeth@postrockbrokerage.com
*Treasurer:	Mike Coglianese – mike@cogcpa.com
*Past Pres/Serv Pro Members:	Steve Petillo – spetillo@straitsfinancial.com

*Member/AG Committee:	Rodney Dow – rodney@thedowcorp.com
*Member/NYC Conf:	Howard Rennell – hrennell@e-windham.com
*Member/DePaul Projects:	Tom Sandy – ts@ricedairy.com
*Member/IB & CTA Members:	Brad Janitz – bjanitz@midlandira.com
*Member/DePaul Conf:	Mark Shore – mshore@shorecapmgmt.com
*Member/FCM Issues:	Brian Gaffud – bgaffud@rcgdirect.com
*Member/FCM Issues:	Mark Washack – mark.washack@wedbush.com
*Member/FCM Issues:	Paul Fry – pfry@straitsfinancial.com
*Member/Exchange Issues:	Barbara Schmidt-Bailey – barbara.schmidt-bailey@cmegroup.com
*Legal Advisor:	Matt Kluchenek -matt.kluchenek@bakermckenzie.com

American Petroleum Institute (API)

Office: 1220 L Street, N.W.
Washington, DC 20005
(202) 682-8000

Website: www.api.org

Primary Contact: Jack Gerard: jgerald@api.org

The American Petroleum Institute (API) represents all aspects of this country's oil and natural gas business, and promotes public policy in support of strong, viable industry. Six hundred plus corporate members of API include producers, refiners, suppliers, pipeline operators and marine transporters, as well as service and supply companies.

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

Throughout the year, API organizes seminars, workshops and conferences on current public policy issues. For over 90 years, the association has advocated for the industry, negotiated with regulatory agencies, formed coalitions and litigated to achieve achieve its goals. More information is found at www.api.org.

Commodity Markets Council (CMC)

Office: 1300 L Street, N.W., Ste. 1020
Washington, DC 20005
(202) 842-0400

Website: www.commoditymkts.com

Primary Contacts: James Newsome: james.newsome@commoditymkts.com
Kevin Batteh: kevin.battah@commoditymkts.com

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

CMC advocates for an open, competitive marketplace by addressing issues focusing on agriculture, energy, finance, infrastructure and transportation. Key areas of focus for 2018 are ensuring that end-users are able to utilize markets for risk management that are safe, stable and liquid; the capital requirements of swap dealers and major swap participants; passage and implementation of MiFID; and obtaining legislative and regulatory relief from burdensome regulations on commodity end-users.

Members of CMC are the regular users of the CME Group, ICE Futures and other exchanges. CMC began in 2006 as a successor to the National Grain Trade Council, with the initial purpose of working with the CFTC and lawmakers to improve transparency and accountability.

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

Chartered Market Technician (CMT)

Office:	25 Broadway, Ste. 10-036 New York, NY 10004 (646) 652-3300
Website:	www.cmtassociation.org
Primary Contacts:	Alvin Kressler: alvin@cmtassociation.org Marie Penza: marie@cmtassociation.org Stanley Dash: stan@cmtassociation.org

Chartered Market Technician Association (formerly MTA) is a not-for-profit professional credentialing body with over 4,500 market analyst members in 85 countries. Its main objectives involve the education of the public, the investment community and its membership regarding the theory, practice and application of technical analysis.

Certification as a CMT is offered through the association. A candidate must complete a three-level exam and abide by the association's Code of Ethics. The CMT designation can be helpful when you are applying for a research position.

Affiliate member status is open to anyone who is interested in learning technical analysis. Students may also apply to join the association.

Futures Industry Association (FIA)

Office: 2001 Pennsylvania Ave., N.W., Ste. 600
Washington, DC 20006
(202) 466-5460

Website: www.fia.org

Primary Contacts: Walter Lukken: wlukken@fia.org
Will Acworth: wacworth@fia.org
Toni Vitale-Chan: tvitalechan@fia.org

Futures Industry Association (FIA) is a trade association representing the cleared derivatives industry. Its membership includes over 85 percent of registered FCMs. Those FCMs are responsible for more than 80 percent of the customer business transacted on U.S. futures exchanges, and include the top 20 firms in terms of customer equity.

FIA's primary purposes are to provide a forum to discuss industry issues, work with exchanges, represent public customers, study ways to reduce costs, eliminate abuse of credit and cooperate on educational efforts.

FIA Divisions include:

- Chicago Chapter
- Law and Compliance Division
- Operations Division
- Japan Chapter
- Market Technology Division

FIA Events Include:

- an annual Expo held in Chicago which focuses on technology and software. This is the largest expo of its kind in the U.S. and usually draws over 4,000 attendees.
- an annual Law and Compliance workshop held in Baltimore, MD.
- a 3-day annual membership meeting held in Boca Raton, FL.
- meetings in global venues including Japan, New York, London, Geneva and Chicago.

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

FIA membership fees vary based on the applicants organizational structure and/or registration status. Once the entity becomes a member, its employees may join the various divisions.

Global Association of Risk Professional (GARP)

Office: 111 Town Square Place, 14th FL
Jersey City, NJ 07310
(201) 719-7210

Website: www.garp.org

Primary Contacts: Richard Apostolik: richard.apostolik@garp.org
Certifications: support@garp.org

The Global Association of Risk Professionals (GARP) was founded in 1996. Its mission is to advance the risk profession through education, training and promotion of best practices globally. GARP works to expand views and increase recognition of the global risk management community through in-person events, publications, webinars and certification programs.

GARP offers two risk management certification programs – Financial Risk Manager (FRM), and Energy Risk Professional (ERP). Both certifications require an examination (approximately $300) which covers the major disciplines of financial risk and energy-related practices.

Annual membership and regulatory conferences are held in New York City. Chapter meetings are held locally with the purpose of bringing together senior risk managers, leading academicians, regulators and policy makers to discuss the latest developments in the practice of risk management. "Locally" includes Chicago, Singapore, Dubai, London and Houston.

GARP counts a worldwide membership of over 150,000 individuals in 190 countries who work in banks, asset management firms, insurance companies, securities regulation, hedge funds, universities, large industrial and multinational corporations.

GARP website registration is free and includes access to articles from its magazine and research webcasts. Membership and fees are divided into three categories for U.S. based persons: (i) individual Members @ $195 annually (this membership includes access to premium content on the website, discounts and attendance at various events); (ii) Students @$95 annually; and, (iii) Affiliates (defined as "all who access the public areas of the association website) are free.

International Swaps and Derivatives Association (ISDA)

Office (D.C.):	600 13th St., N.W., Ste 320 Washington, DC 20005 (202) 683-9330
Office (NYC):	10 East 53th, 9th FL New York, NY 10022 (212) 901-6000
Website:	www.isda.org
Primary Contacts:	Scott O'Malia: somalia@isda.org Mary Cunningham: mcunningham@isda.org Liz Zazzera: lzazzera@isda.org

Founded in 1985, the purpose of the International Swaps and Derivatives Association (ISDA) is to make global derivatives markets safer and more efficient. ISDA has over 875 members in 68 countries which include representatives from a broad range of derivatives market participants – corporations, investment managers, government entities, insurance companies, energy and commodities firms, and international and regional banks. The membership also includes law firms, accounting firms and other service providers, as well as exchanges, intermediaries, clearing houses and repositories.

ISDA holds several conferences throughout the year, and presents webcasts intended to promote stable financial markets and a strong financial regulatory framework.

The three categories of membership are: (i) Primary Member: an investment or commercial bank or other business organization that deals in derivatives as part of its business; (ii) Associate Member: service providers such as brokers, law firms, exchanges and software providers; and, (iii) Subscriber Member: financial institutions and government entities who use privately negotiated derivatives to manage risk. Information on dues can be found at their website, www.isda.org.

Managed Funds Association (MFA)

Office (D.C.):	600 14th Street, N.W., Ste. 900 Washington, DC 20005 (202) 730-2600
Office (NYC):	546 5th Avenue, 12th FL New York, NY 10036 (212) 542-8460
Website:	www.managedfunds.org
Primary Contacts:	Richard Baker: rbaker@managedfunds.org Anthony Coley: acoley@managedfunds.org Roscoe Butler: rbutler@managedfunds.org

The Managed Funds Association (MFA) is an advocacy, education and communications organization representing hedge fund and managed futures firms in the alternative investment industry members participate in public policy discourse, share best practices and learn from their peers.

MFA's global membership includes FCMs, banks, hedge fund advisors, IBs, CTAs and CPOs, and work with pension plans, university endowments, charitable organizations and other qualified investors to diversity investments, manage risk and generate attractive returns.

Some of MFA's 2017-18 initiatives include discussion on U.S. tax policy, capital market regulation and promoting fair and stable swaps markets.

Member benefits include an electronic newsletter, Washington representation, in-person conferences in various cities including Chicago, New York and Miami, research and discounts on meetings and various publications.

National Cattlemen's Beef Association (NCBA)

Office:	Seven regional office throughout the U.S.
Website:	www.beefusa.org
Primary National Contacts:	Craig Uden: cuden@beefusa.org Kent Frazier: kfrazier@beefusa.org

National Cattlemen's Beef Association (NCBA), formerly known as the National Livestock Growers Association, held its first convention in Denver, Colorado in 1898. After three mergers, two world wars, numerous organizational splits, as well as economic and natural disasters, the NCBA is widely recognized as the voice of the American cattle industry.

Membership is organized by geographical region. Dues are levied according to production levels. For example, a producer with up to 100 head of cattle pays $150 annually to belong to the NCBA. Membership for those without live cattle is available for as little as $150; full-time students pay $50 each. Member advantages include a weather blog and other benefits from other NCBA members such as the Caterpiller and John Deere companies.

National Grain and Feed Association (NGFA)

Office:	1400 Crystal Drive, #200 Arlington, VA 22202 (202) 289-0873
Website:	www.nfga.org
Primary Contacts:	Randy Gordon: rgordon@ngfa.org Faith Silvers: fsilvers@nfga.com

The National Grain and Feed Association (NGFA) focuses on enhancing the growth and economic performance of U.S. agriculture by representing and providing services for grain, feed and related commercial business.

Founded in 1896, NGFA's more than 1,000 firm members handle approximately 70 percent of all U.S. grain and oilseeds used in both domestic and export markets. Members include country elevators and feed mills, export elevators, cash grain and feed merchandisers, futures brokers and end-users of grain and grain products.

NGFA's 30 state and regional association affiliates account for more than 10,000 grain and feed companies nationwide. Contacts for those regional associations are found on their website, www.nfga.org. Annual fees are prorated; minimum dues for a firm are $600.

Women in Technical Analysis (WTA)

Office:	25 Broadway, Ste. 10-036 New York, NY 10004 (646) 652-3300
Website:	www.cmtassociation.org
Primary Contact:	Marnie Owen: marnie@cmtassociation.org

Women in Technical Analysis (WTA) is a division of the Chartered Market Technician (CMT) association. Its purpose is to provide a forum for women focused on market analysis to network and exchanges ideas, and further the profession with diverse opportunities in continuing education, advocacy, ethnics awareness and networking.

WTA presents both webcasts and in-person events. Fees are $325 annually for membership; $250 for the CMT certification program.

Checklist for Chapter 8 – Trade Associations

1. What value will I directly receive from belonging to a trade association?
2. What type of professional support am I looking for – colleague networking, market strategies, understanding changing regulation?
3. Do I want to attend in-person events? Do I want webinars, newsletters and research that are produced by the association?
4. Would I benefit from advocacy in my behalf with the regulators?
5. Who are the other members?
6. Periodically ask yourself why you joined the association, and if it is still meeting your expectations and needs.

CME GROUP HEADQUARTERS

20 South Wacker Drive
Chicago, Illinois 60606
cmegroup.com

CME GROUP GLOBAL OFFICES

Chicago
+1 312 930 1000

New York
+1 212 299 2000

London
+44 20 3379 3700

Singapore
+65 6593 5555

Bangalore
+91 80 3323 2300

Beijing
+86 10 5913 1300

Belfast
+44 28 9089 6600

Calgary
+1 403 444 6876

Hong Kong
+852 2582 2200

Houston
+1 713 658 2347

São Paulo
+55 11 2787 6279

Seoul
+82 2 6336 6700

Sydney
+61 8051 3210

Tokyo
+81 3 3242 6233

Washington D.C.
+1 202 638 3838

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