

# Executive Summary: 2021 Introducing Broker Handbook

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Since their creation in 1984 as a recognized financial registration class, Introducing Brokers (IBs) have played an important and unique role in the futures and options business. IBs offer professional knowledge and market access in addition to customized trading programs and services for hedgers and speculators alike.

Over the past 37 years, Introducing Brokers have faced, and met numerous challenges such as the rise of electronic trading and the discount broker, the consequences of the failures of two clearing houses in 2011 and 2012, and the rising costs of compliance and technology. In 2020, COVID-19 caused unexpected changes in the way an IB handles the day-to-day business of the firm, including some that are regulatory-related such as supervision of its employees, reporting, and filing certain required transaction documentation. Some changes are more personal such as Zoom consultations with customers while working from home.

In March 2021, CME Group sponsored a survey of all National Futures Association (NFA)-registered Introducing Brokers. The results of the entire survey will appear in the Ninth Edition of The Complete IB Handbook, a guide to doing business as an Introducing Broker, which I have written since 1998. This summary focuses on eight questions and responses for an overview of where the IB community stands today.

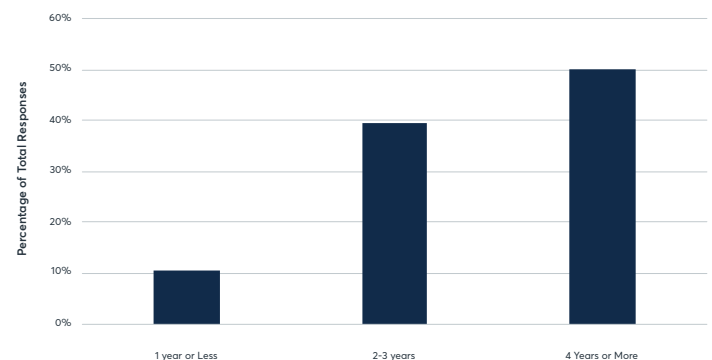
## How many years has your IB been registered?

LESS THAN 1 YEAR	2%
1-7 YEARS	18%
8-14 YEARS	25%
15 YEARS OR MORE	55%

IB offices are long-lived businesses – about 55% of the IBs who responded have held Introducing Broker registration for more than 15 years. Several IB owners surveyed have operated as an

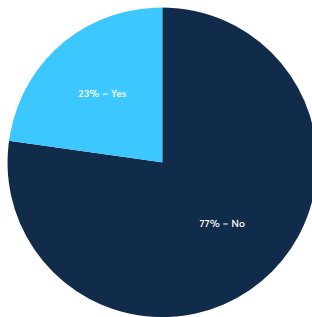
IB for 20 years and a few have been in business over 25 years. The responses tend to show that well-founded, well-run IBs establish long-term relationships with their customers, offering market information and access for many years.

## For how many years in the future is your business plan?



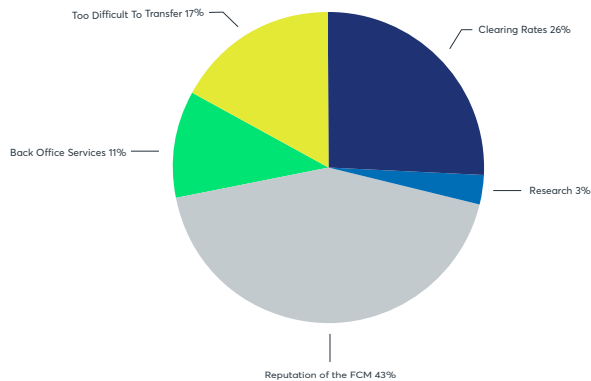
Another conclusion we can draw from the survey responses is that long-lasting IB offices have a formal, written business plan in place that extends at least four years into the future. All IB owners replied they had a business plan – not just a “trading” plan. Their plans include options for responding to regulatory change, product development, and personal challenges. These IBs have a plan for growth and are prepared to meet challenges along the way.

## Do you plan to retire in the next few years?



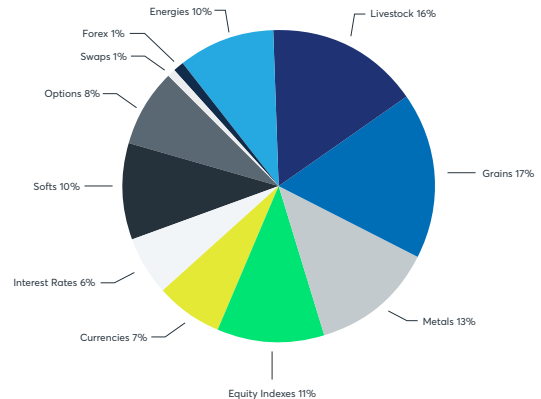
This is a new question for the IB survey, and the responses were eye opening. Nearly one-quarter, 23% to be exact, of the respondents expect to retire within the next few years. While this response could be inferred by the number of IBs that have been registered for over 15 years, some as long as 25 years, the reasons for retirement are not that simple. The rising costs of technology and compliance and lack of interest in running the business from a "qualified younger generation" are the responses most given by the retiring IB owners. Some owners may seek a buyer, such as another IB or a buy-out, but most still hope to find someone in the family or community to carry on the business.

## Why do you stay with your current FCM?



The number one reason IBs stay with their current clearing firms is the reputation of the FCM – this has been the case since the failure of two separate clearing firms in 2011 and 2012. Both collapses resulted in wide-ranging changes, including in regulatory oversight, and how an IB and its customers view their FCM(s). Clearing rates and the difficulties involved in transferring business from one FCM to another FCM had almost equal responses as in years past. Many IBs indicated that although they had considered transferring to a different FCM from time-to-time, they were currently delaying any action until the return of a more "normal" environment post-pandemic.

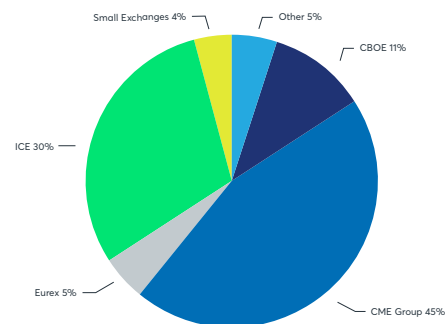
## Markets traded



Not represented: Cryptocurrency 0%

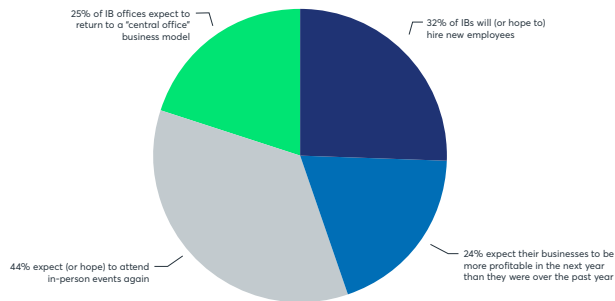
It is no surprise that IBs report grains as the most traded market for their customers, with livestock a close second. That has not changed from previous surveys. It is a bit surprising that there were no measurable numbers of IBs currently trading cryptocurrency for customers. Many IBs think that might change with the launch of the new CME Micro Bitcoin product, which is expected to appeal to the IB community. Equity indices, energy products, and softs (sugar, cotton, cocoa, orange juice) continue to be traded at notable levels through IB offices, while FX and swaps remain at about one percent of the IBs' transactions.

## Exchanges traded



CME Group continues to be the exchange where most IB transactions are filled – a logical extension of the fact that grain and livestock markets are the most often-traded markets by IB customers. CBOE, ICE, and Eurex exchange responses stayed in roughly the same range as in the last survey. A new entrant, The Small Exchange, garnered a healthy response – possibly strengthening the widely-held belief that our customer base is welcoming, and even anxious for new products and ways to trade them. A positive sign for the industry.

## In the next 12 months, do you expect your firm to:



Nearly all IB respondents are cautiously optimistic about the future – particularly the next 12 months. Nearly one-third (32%) of IBs will (or hope to) hire new employees. Nearly a quarter (24%) expect their businesses to be more profitable in the next year than in 2020 with most respondents expecting to increase trading volume in the coming year. And 44% expect (or hope) to attend in-person events again – following COVID-19 vaccinations and other guidelines. But only about one-quarter of IBs expect to return to the "central office" similar to one at which they worked pre-COVID. After several months of learning to work, trade, supervise and report from home, this interesting response could mean changes in the ways IBs interact with their FCMs, Exchanges and Regulators.

## CHALLENGES DURING THE PAST YEAR AND HOW IBs MET THEM

Lack of personal contact with our customers – visits, market review seminars, etc.

Solved by making more telephone calls and learning how to Zoom.

Working from home with limited technology and no colleague comradery.

Solved by working harder and longer hours.

Staying in compliance while working at home.

Relied on good Disaster Recovery Plans.

Increased trading volume

A good challenge to have.

The full results of the 2021 Introducing Broker Survey will appear in *The Complete IB Handbook*, written by Melinda Schramm and sponsored by CME Group. It will be available on CME's website, [www.cmegroup.com](http://www.cmegroup.com) and the website of the NIBA, [www.theniba.com](http://www.theniba.com). Download is permissible. Re-branding or deletion of credit of the copyrighted handbook is not permissible. Please contact Melinda with any questions, [melinda@futuresrep.com](mailto:melinda@futuresrep.com)

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