

The Complete IB Handbook

Written by Melinda H. Schramm

Sponsored by CME GROUP

9TH EDITION

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Each chapter includes a self-checklist

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Introduction

Congratulations, you've decided to become an Introducing Broker (IB).

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 IBs have faced — and met, numerous challenges. Some of those changes came about due to advances in technology such as electronic order placement. Research is now easily available online, cryptocurrencies are a real thing and markets are truly global in 2021.

Some changes have come about simply because the way our business 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 includes the operation of the exchanges we used to know as the New York Mercantile Exchange, COMEX and the Kansas City Board of Trade.

Many regulatory changes were brought about in 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 of 2010, has had a substantial impact on all registrants and participants in the futures industry.

In the summer of 2015, the CME Group closed most of the futures trading pits on its several trading floors. At the end of 2017, the exchange began trading a futures contract based off bitcoin. These events were part of the end of one era and the start of another.

COVID-19 caused unexpected challenges for IBs in 2020. Working from home or with reduced staff and Zoom consultations with customers were the norm. Changes in regulation of employee supervision as well as reporting and filing certain required transaction documentation had to be implemented. As of the writing of this Handbook, August 2021, many of those regulatory adjustments are still in effect as we continue to fight the virus.

Brokerage firms have merged or terminated business with few new futures commissions merchants opening (FCMs) since the first printing of this Handbook in 1999.

Introducing Brokers have changed with the times. Although agricultural markets are still the most actively traded by IB customers, all IB offices report they place orders in significant numbers for financial products such as the S&P futures contract, interest rate futures and foreign currency futures and options. Markets which were once considered primarily useful for professional traders — such as metals, energy, dairy, options and forex, are widely traded in IB offices.

CME Group supports the Introducing Broker community in many ways. You'll find education, market information, and research data and reports on their website, www.cmegroup.com. CME Group hosts several webinars and conferences each year and on line on subjects including specific product information as well as historical and current data analysis. CME Group Product Managers can be contacted through the website or by phone at (312) 930-1000.

NIBA can also help your IB grow. NIBA (formerly National Introducing Brokers Association) is a trade association I founded in 1991, whose purpose is to provide education for derivatives professionals which support their efforts to operate a successful business. Introducing Brokers, Commodity Trading Advisors (CTAs) and their Associated Persons (APs) are invited to join and to celebrate the Association's 30th Anniversary. NIBA distributes an electronic newsletter twice-monthly and hosts webinars and in-person member meetings in Chicago and New York. Each newsletter and meeting includes presentations by industry experts on issues such as regulation, compliance, marketing and products. Sign-up for the newsletter/join the NIBA/view archived articles/conference presentation at www.theniba.com.

The information contained in *The Complete IB Handbook, 9th Edition*, is based upon responses to a survey of all National Futures Association (NFA)-registered IBs sponsored by CME Group and MHS Capital Resource, Inc., and conducted during March/April 2021. 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 individual websites.

Running an Introducing Broker firm is a business which requires hard work, long hours, flexibility and strict compliance with regulation. Since my first day on the job in 1976, a career in the futures and options business has meant new challenges every day and has nurtured life-long friendships and relationships. I hope the readers of *The Complete IB Handbook, 9th Edition*, 2021 will find this guide useful and be just as excited about their careers 45 years from now.

Melinda Schramm

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Founder & Chairman, NIBA

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Chapter 1

Introducing Brokers

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

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

Total IBs registered:	1,048
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IBs registered:	512
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GIBs registered:	536
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Source: NFA Aug. 2021

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

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

FCMs charge IBs a fee for each transaction executed for a customer. In turn, IBs set the commission fees charged to each customer.

Introducing Brokers must be registered and members of the National Futures Association (NFA) in order to do business with public (with a few exceptions - *Chapter 2: Registration*). IBs can be registered as either Independent (IIB) or Guaranteed (GIB). The "IB" designation refers to the registered entity which can be organized as a sole proprietorship, partnership or corporation, and will be registered as such. NFA total membership includes 3,200 member firms in all registration categories and about 45,000 Associated Persons (APs - individuals' registrations). More about the NFA in *Chapter 5: The Regulators*.

Why do customers open their accounts with an Introducing Broker? Because IBs offer valuable services for those customers including:

- Assistance for new market participants who may not fully understand the risks of the market.
- Order placement and education which can prevent the customer from making a costly mistake during the order entry process.
- Experience necessary to evaluate market moves and spot opportunities for trading.
- Research which the public may not have access to.

- Understanding of the regulatory framework and 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 transactions where necessary.

Introducing Brokers are federally registered with the Commodity Futures Trading Commission (CFTC). NFA membership materials include CFTC registration requirements. The largest number of currently registered IBs are located in Illinois. New York, Texas, California, Iowa, Florida and Nebraska round out the top seven states with most IB offices.

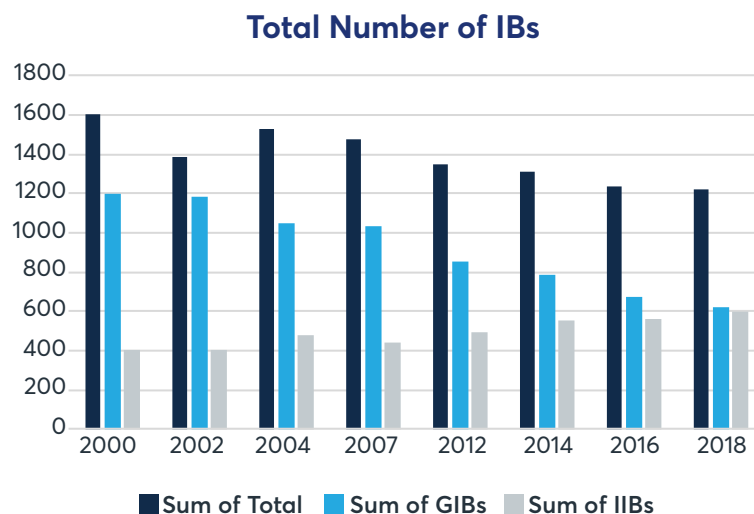
Source: NFA Aug. 2021

IB offices can be located outside the United States. Those foreign firms may be exempt 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 Guaranteed Introducing Brokers must be carried on the books of their guarantor FCM. Customer accounts of Independent Introducing Brokers may be carried on the books of one or more FCMs. 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 related business at their offices. The most common additional activities are securities brokerage, auditing and accounting services, grain/feedlot operations, insurance, and real estate.

IB Registration 1998 - 2021



Source: NFA Aug. 2021

The total number of registered Introducing Brokers has decreased from 1998 when the numbers were published in the 1st Edition of *The Complete IB Handbook*. Although IIB registration has increased in relationship to GIB registration, total IB registration has decreased by about 172 firms since publication of the 8th edition of the Handbook in 2018.

Decreases are in part due to:

- **The collapse of MF Global and Peregrine Financial Group:** After the 2011 and 2012 failures of these two clearing firms, many GIBs switched their registration status to IIB so that they could carry their customers' accounts and clear their business with more than one FCM.
- **Changes in regulation and accounting requirements:** Regulatory requirements have made it less likely that FCMs will take on the legal liability and financial responsibilities associated with clearing a GIB's business.
- **Difficulty in keeping up with increased costs of doing business:** Costs and requirements of doing business have increased – in some areas the increase is significant. Increased regulations, cybersecurity monitoring and technology upgrades are all areas registrants cite in which costs have gone up.
- **An aging demographic:** Many IB firms were established several years ago; a full 55% of respondents to the IB Survey said the firm had been registered for more than 15 years. Since the IB owner is generally an experienced professional, IB owners are retiring without younger professionals stepping in to take their places.
- **Coronavirus pandemic of 2020-present:** Just as the move to work-from-home has had an effect on all types of businesses, it has affected IBs. At the end of 2019, NFA reported a total of 1,109 registered IBs. In August 2021, the numbers had decreased to 1,048 in total. Supervision of employees, audit and supervision of branch offices with limited in-person contact are all challenges IBs faced and continue to meet while the pandemic runs its course.

It should be noted that during the period of 2002 to the present, FCM registrations decreased from 205 to 61 firms. Since only a small portion of those 61 firms (industry estimate is 15-17 firms) handle nearly all of the trades transacted by IBs, choosing the FCM for your business is very important to the success of your IB. (Chap. 3: FCMs.)

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

Associated Persons (APs) are individuals who work in IB offices and handle communications with the customers. Every registered IB office, including those who handle forex, swaps and are notice-registered broker-dealers, must have at least one AP registered with the NFA working in that office. Individuals must complete certain standardized mandatory exams in order to become APs. APs whose activities are solely limited to swaps transactions are exempted from the exam requirements.

NFA records indicate there are approximately 45,000 registered Associated Persons as of August 1, 2021. That number is down from 55,755 we reported in the 7th Ed., *The Complete IB Handbook* and is reflective of the decrease in registrants overall. In February 2014, AP registrations reached a high of 56,745. That number was likely the result of swaps registrations required by the NFA which became effective in late 2012.

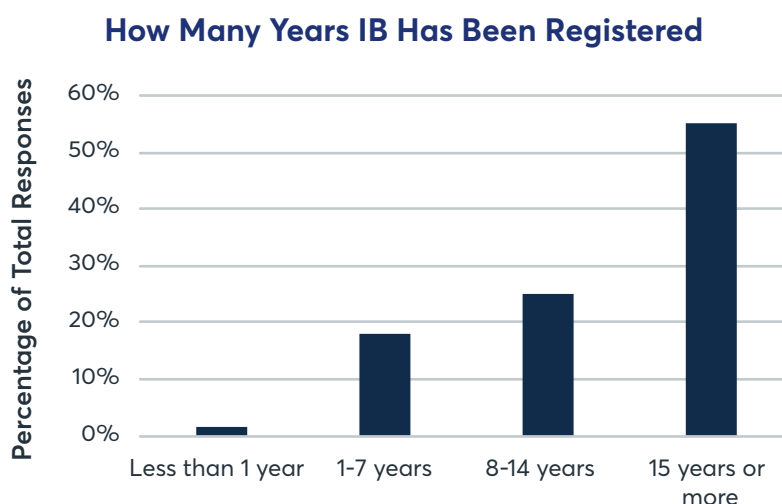
IIB or GIB

For the first time in NFA registration history, IIB and GIB registration numbers were nearly equal in 2018. By August 2021, IIB registration numbered 512 firms; GIBs numbered 536 firms.

Firms which decide to register as Guaranteed Introducing Brokers, most often cite capital requirements as the main reason. Less documentation needed and no required financial audits are the other two primary reasons for registering as a GIB. Many registrants who are new to the futures industry feel that they do not have the experience necessary to operate as an IIB and welcomed the closer supervisory relationship with the FCM that the registration category requires. Conversely, some FCMs prefer to work only with Independent Introducing Brokers. Check NFA membership information rolls or FCM websites prior to opening a conversation with an FCM to learn if the firm accepts GIB relationships.

Industry and Related Experience

Introducing Broker offices are long-lived businesses — about 55% of the IBs who responded to the IB Survey have held the IB registration for more than 15 years. Another 25% of the IB respondents have been operated for eight to 14 years with only about 2% of the respondents registered for less than 1 year.

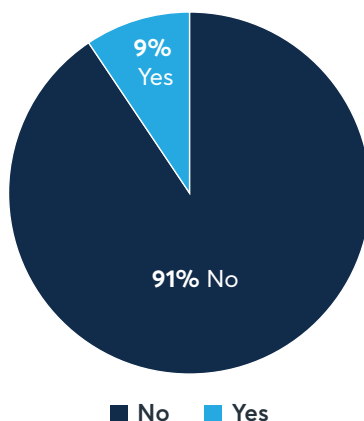


Source: 2021 IB Survey

Many IB owners have experience working for an FCM or established IB before opening their own business. Experience in agricultural operations such as a grain elevator or cash grain company is common among IB owners, as is a prior career in banking or other financial institution. IB owners have widely varying backgrounds – teaching, practicing law, construction, military service. More IB owners have completed college prior to entry in the industry than just a few years ago. While colleges and universities are offering more courses and degrees which apply to the financial industry, there are no obvious experience-indicators which will clearly lead to success as an IBs.

IB ownership is still overwhelmingly male. Only about 9% of the 2021 IB Survey registrants reported female or minority ownership.

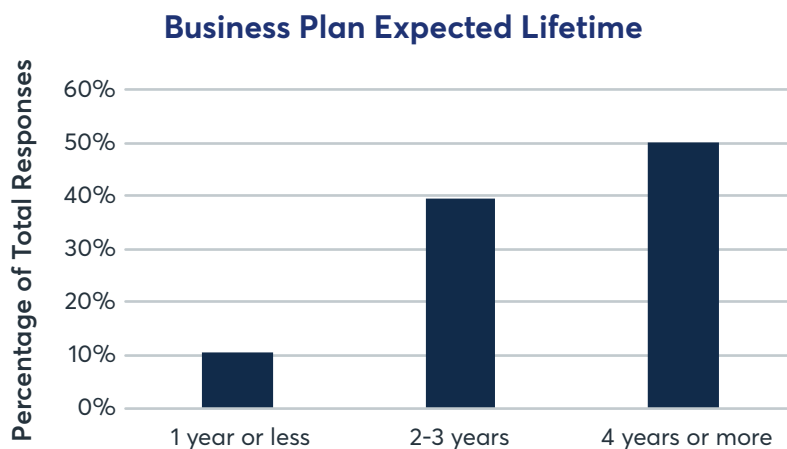
Is the IB Female or Minority Owned?



Source: 2021 IB Survey

Business Plans

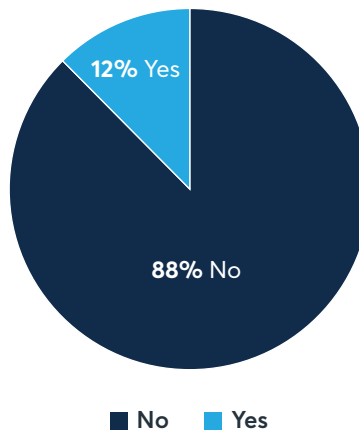
Like any other successful business, operating an IB depends on having a good business plan. See *Chapter 4: Business Plan* for suggestions for your IB.



Source: 2021 IB Survey

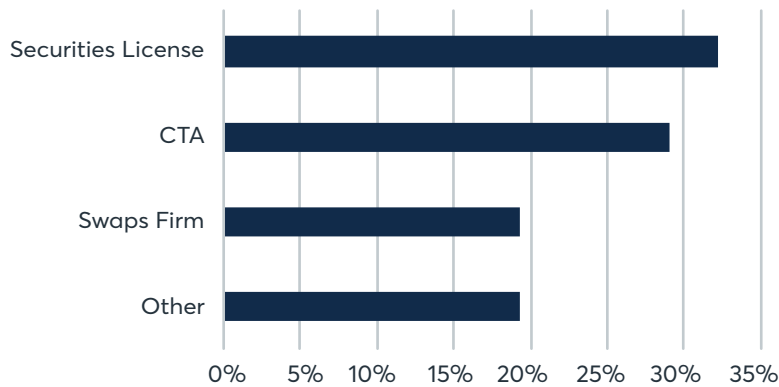
One conclusion easily drawn from the IB Survey responses, is that successful, long-lived IB offices have a formal, written business plan in place that extends at least four years into the future. Their plans include options for responding to regulatory changes, product development and personal challenges. The successful IB has a plan for growth and is prepared to be flexible enough to meet challenges along the way.

Is the IB Registered in Other Capacities



Source: 2021 IB Survey

Additional Registrations Held by the IB



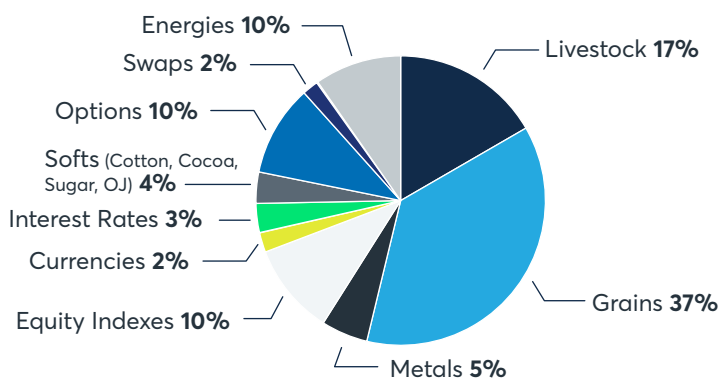
Source: 2021 IB Survey

Some IBs register in other NFA categories or hold licenses to do business in related industries. Commodity Trading Advisor (CTA) or Swaps designation are common. Securities licenses, real estate and insurance licenses are also often held by IB owners.

Markets and Exchanges Traded

In the mid-1980's when the Introducing Broker registration category came into being, agricultural (ag) products were overwhelming the most often traded markets by customers of IB offices. Today, ag and ag-related products are still where IBs place a majority of their customers' trades.

Volume of Trades Per Market



*Not represented due to less than 1% measurable results: Cryptocurrency, Forex

Source: 2021 IB Survey

Although results from the 2021 IB Survey were consistent with those previous, primarily "ag-IBs" are not the super-majority they were just a few years ago. The most recent IB survey indicated that 37% and 16% respectively of total IB transaction are in the grain and livestock markets. All other markets continue to be traded at notable levels including options on commodities with slight increases in cocoa, sugar, cotton and orange juice (the "softs").

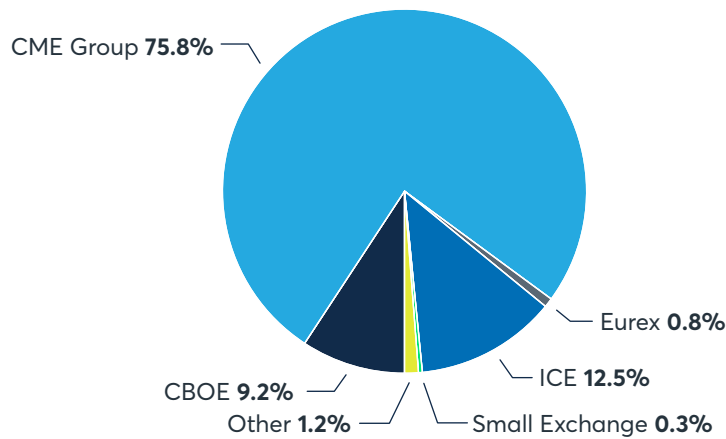
IB offices transacted less than 2% of their customers' transactions in the swaps market. Few offices trade one or two markets almost exclusively or handle only commercial or institutional accounts.

It was a bit surprising that there was no measurable response from the IBs responding when asked what percentage of their total transactions placed were for cryptocurrencies. Comments from IBs were favorable for the launch of the CME Micro Bitcoin product suggesting that the next IB Survey could show different results for customer trading in that market.

Increased transparency, public access to cash market information and electronic order placement gives IB customers increased opportunities to participate in all markets. A full 5% of all IB Survey respondents said that at least 50% of all their customers are non-domestic.

CME Group continues to be the exchange where most IB transactions are filled — a logical extension of the fact that grain and livestock are the most often-traded markets traded by IB customers.

Percentage of Monthly Orders Per Exchange



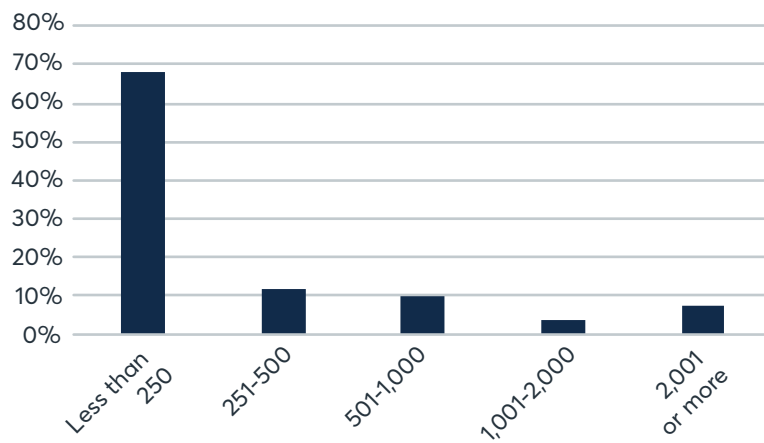
Source: 2021 IB Survey

The Intercontinental Exchange (ICE) increased business in IB offices somewhat; Chicago Board Options Exchange (CBOE) and Eurex exchange responses stayed roughly in the same range as in the last IB survey in 2018.

A new entrant, The Small Exchange, garnered a healthy response. That is good news for the industry as a whole since it evidences growth in the marketplace generally. For the IB community, it shows that the customer base is welcoming and even eager for new products and ways to trade them.

Accounts

Total Number of Accounts Serviced by IB

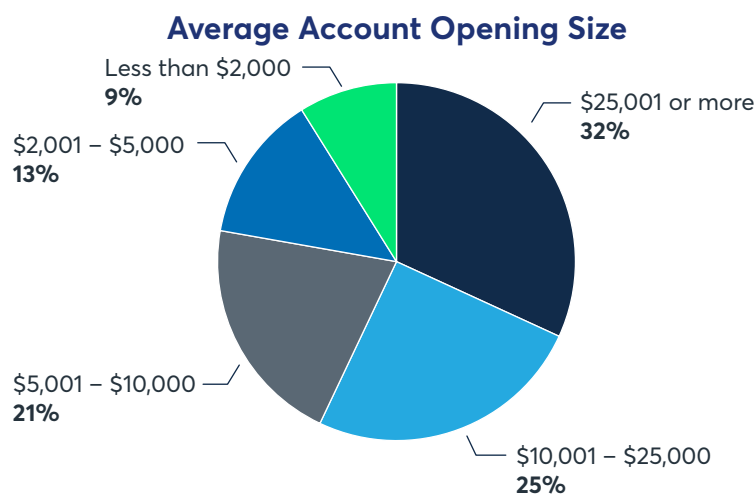


Source: 2021 IB Survey

About 90% of IB respondents service up to 500 accounts including those opened by their branch offices. Some offices which handle only hedging transactions have as few as 20 accounts and have no significant trading activity outside of hedging.

While most IB offices do not establish a minimum account size requirement in order to open an account (other than what is required for margining, etc.) some FCMs do establish minimum requirements for certain types of customers or specific markets. Managed account programs require a standardized minimum account deposit before trading begins.

Approximately 32% of the IBs responded that their customers' average opening account deposit was \$25,000 or more.



Source: 2021 IB Survey

Additionally, 36% of IBs responded that accounts stayed open for six to 10 years, while 22% more say accounts of their IB remain open for 20 years or more. That tells us that IB owners and their employees develop long lasting relationships with their customers which are firmly based on trust and good service.

Expenses

The five largest monthly expenses for IBs regardless of what markets are traded continue to be:

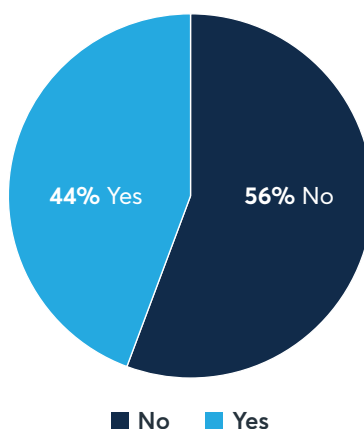
1. Broker payouts
2. Clearing costs
3. Data fees
4. Rent/normal office overhead
5. Costs associated with compliance requirements including recording and cybersecurity

During 2020 to the present, costs for rent and normal office overhead was affected by issues surrounding the coronavirus pandemic. As some employees return to work in the main office and others continue work-at-home a few days a week or permanently, costs for rent and normal office overhead will reflect those workplace changes.

Branch Offices and APs

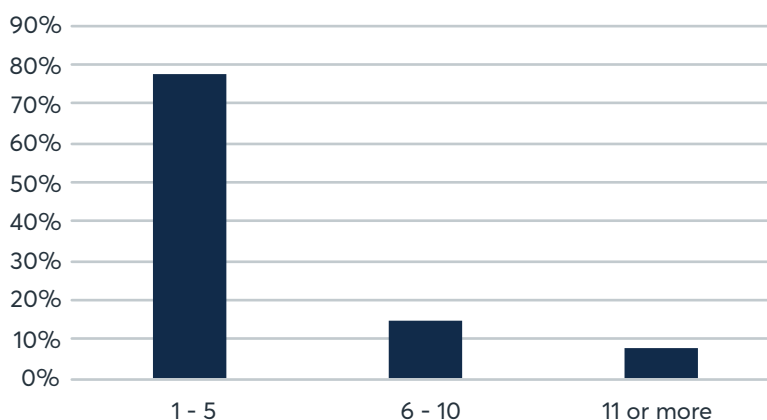
NFA reports there continue to be some sole proprietor registered IB offices operating without additional Associated Person (AP) assistance. There are also a number of offices supported by over 25 APs, including those in IB branch offices.

IBs with Branch Offices



Source: 2021 IB Survey

Number of Branches of IB



Source: 2021 IB Survey

Approximately 56% of the IBs responding have branch offices. Six of those IBs have an office system of 11 or more branches including the home office. Branch offices require periodic audits by the IB owner/compliance officer and other supervisory actions. Because many IB employees moved to work-at-home during COVID-19, the NFA has adjusted some regulations and is at the time of the writing of this guide, determining the best way to handle supervisory and other requirements related to branch offices.

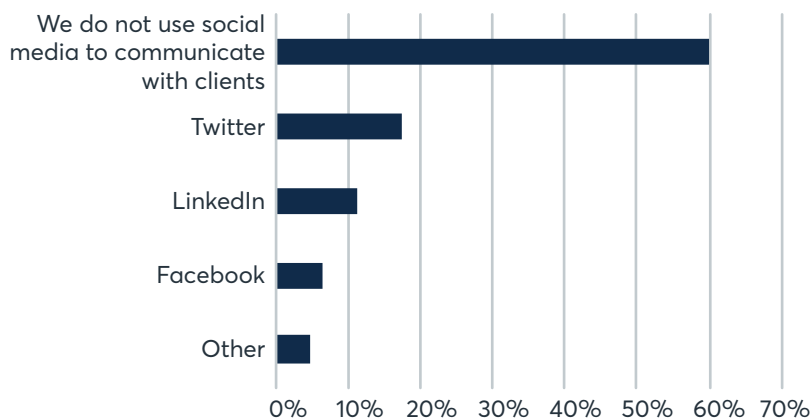
Becoming a branch office of an established IB is one way to gain the experience needed to become a registered IB. Adding branch offices can be a way for an established IB to grow its business.

Website and Social Media

In most cases, the FCM you choose will post links to office contact information or to your website. Your firm listing on the NIBA home website will also link directly to yours.

Although many IBs maintain a LinkedIn page, IBs responding to the 2021 Survey overwhelming do not use social media for business purposes.

Most Used Social Media Websites By IB



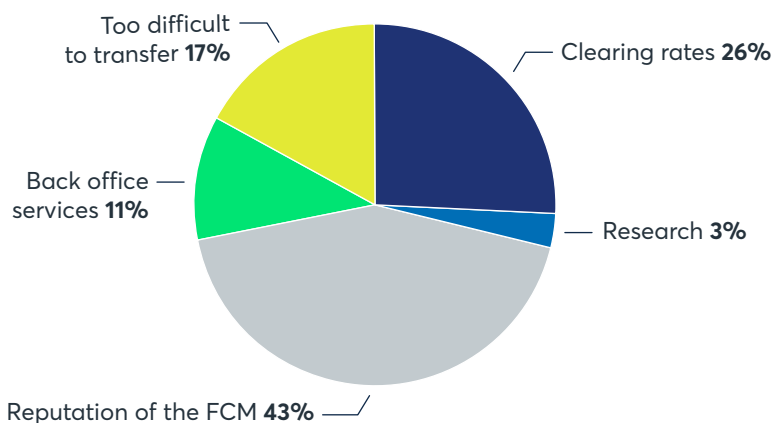
Source: 2021 IB Survey

NFA regulates client solicitation of any kind whether it is print, electronic or on social media. Check NFA requirements for client solicitation and communication before engaging in social media communications or prior to launching a website.

FCMS and Clearing Relationships

Chapter 3 of this Handbook discusses why IBs typically stay with an FCM or chooses additional FCMs to clear customer business. After the collapse of MF Global (MFG) and the failure of Peregrine Financial Group (PFG), it became more important than ever before to know and regularly monitor your FCM's reputation and be aware of its financial health. These two situations were highly unusual and have resulted in numerous regulatory changes, including increased reporting. Most IBs stay with their FCM relationship for many years.

Top Reason for Staying with Current FCM



Source: 2021 IB Survey

The number one reason most IBs stay with their current clearing firm is the reputation of that FCM. Clearing rates and the difficulties involved in transferring business from one FCM to another and clearing rates are two big reasons to stay with the current firm. Some IBs indicated that although they considered transferring FCMs from time-to-time, they were delaying any action until the return of a more "normal" environment post-pandemic.

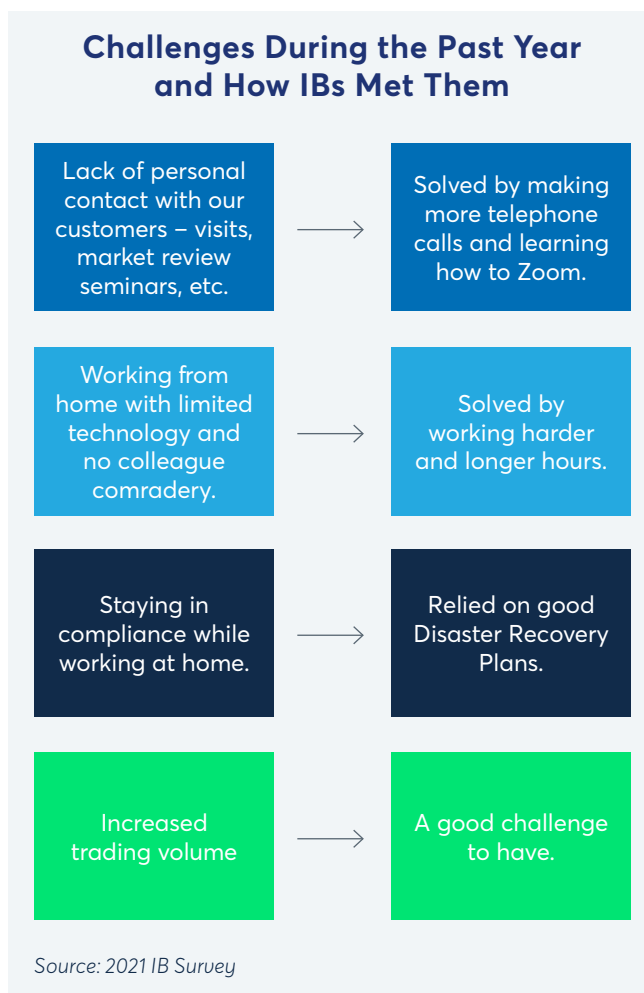
Trade Associations

Trade organizations are discussed in detail in *Chapter 8: Trade Associations*. IBs are most likely to join groups which support their customers' interest in specific markets and products. Support takes various forms and includes newsletters, conferences and other education.

NIBA is a trade association for all registered professionals transacting business for customers in futures, commodity options, forex and swaps markets. Founded in 1991, education is the purpose of the association. NIBA is headed by a volunteer board of directors who are actively engaged in the "business of our business." Registered IBs, CTAs, FCMs, plus service providers and exchanges direct NIBA's daily business activities. A full description of the NIBA and its benefits is found in *Chapter 8: Trade Associations*.

Challenges and the Future

The past few months have brought unprecedented challenges for the world and for our industry. Introducing Brokers shared some of their biggest concerns for the future and how they met the challenges of COVID-19 and others in 2020.



In addition to the responses detailed above, several IB owners replied they or a member of their family or an employee had suffered from COVID-19 at some time during the last 18 months. Some IBs also reported significant financial concerns. They relied and continue to rely on a good business plan which anticipates change and the flexibility to respond.

Although only about one-quarter of the IBs responding to the 2021 Survey expect to return to an office business model similar to the one in which they worked pre-COVID, nearly all IB respondents are cautiously optimistic about the future, and in particular, the next 12 months.



Nearly one-third of IBs will (or hope to) hire new employees in the near future. Nearly a quarter of IBs expect their businesses to be more profitable in the next year than in 2020 with most expecting to increase trading volume in the coming year. Forty-four percent expect (or hope) to attend in-person events again - following COVID-19 vaccinations and other guidelines.

Encouragingly, several IB owners reported their business had grown during 2020. Trading volume had increased despite hardships resulting from the coronavirus pandemic. A few IBs added a branch office or bought and transferred business from an established office to theirs.

The industry, including customers, agree that Introducing Brokers have a unique, valuable, and essential role in the business.

Checklist for Chapter 1: **Introducing Brokers**

1. Do I need to register as an IB – or do I really just want to trade?
2. Do I have the experience necessary to own and operate an IB?
3. Do I fully understand the financial and time commitments necessary to operate an IB? And does my family stand behind this decision?
4. Does the type of business I want to do require an IB registration or should I research a CTA or other type of license?
5. Should my IB offer managed futures, forex or swaps transaction and will that require additional registrations?
6. Have I fully investigated choices for clearing my customers' trades?
7. How will I build my customer base?
8. How will I find qualified APs and other staff?
9. Who will develop my website, how much will it cost to build and maintain?

NOTE: In order to be listed on CME Group's Find-a-Broker page, the IB must have a website. To find additional information on that resource check out <http://www.cmegroup.com/tools-information/find-a-broker.html>.

Chapter 2

Registration

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

Registration with the Commodity Futures Trading Commission (CFTC) and National Futures Association (NFA) membership is required for all Introducing Brokers (IB) in order to do business with the public.

The following types of business entities must register:

- "Traditional" - IB solicits or accepts orders to buy or sell futures contracts or commodity options, including transactions for managed accounts.
- "Forex" - introduces forex customers to FCMs or Retail Foreign Exchange Dealers (RFEDs) with narrow exceptions.
- "Swaps" - subject to the jurisdiction of the CFTC.
- "Securities-registered" - limits its futures-related activities to the sale of security futures products to contract markets or derivative execution facilities.

Registration is NOT required as an IB if the individual or organization is:

- 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 operates pools
- registered as a Commodity Trading Advisor (CTA) and either solely manages accounts under powers of attorney or doesn't receive per-trade compensation
- a non-U.S. resident or firm with only non-U.S. customers and the firm submits all trades for clearing to an FCM.

All registered IBs must be NFA members.

Total IBs registered:	1,048
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IBs registered:	512
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Source: NFA Aug. 2021

GIB or IIB

GUARANTEED INTRODUCING BROKERS (GIBs) do not have minimum net capital or financial reporting requirements. They satisfy financial and reporting requirements by executing a Guarantee Agreement with the FCM that carries its customer account. NFA Form 1FR-IB is the ONLY form the NFA accepts for a Guarantee Agreement. Its language cannot be altered.

Either party – the FCM or the IB – can initiate the termination of a Guarantee Agreement by following the criteria set forth by the NFA at least 30 days prior to the planned termination date. On the termination date, the IB must cease doing business until it files a new Guarantee Agreement with the NFA or it files the required financial reports to become an IIB.

If the FCM guarantor's minimum required adjusted net capital falls below the required early warning level for a specified period of time, the FCM may be forced to terminate its Guarantee Agreements. A FCM is subject to discipline for violations of NFA rules by its GIBs.

INDEPENDENT INTRODUCING BROKERS (IIBs) are required to maintain an accounting system to record all the firm's financial activity. The reports created from the system must be prepared following U.S. generally accepted accounting principles (GAAP), must be performed on an accrual basis and must be kept current.

NFA Financial Requirements, Sec. 5 and CFTC Regulation 1.17 include definitions every IIB should review. A few important items to note:

Adjusted Net Capital (ANC) – AT ALL TIMES IIBs are required to maintain Adjusted Net Capital greater than the minimum net capital requirement for that IIB. NFA computes ANC with the following formula:

$$\text{Current Assets} - \text{Liabilities} - \text{Charges against Capital} = \text{ANC}$$

Firms are able to exclude liabilities subordinated to the claims of all general creditors as long as they execute a satisfactory subordination agreement. NFA recommends that IIBs use templates that can be found on their website to facilitate the approval process.

If an IIB's ANC falls below its minimum net capital requirements, it must immediately notify all appropriate agencies and may not withdraw capital when under certain restrictions. IIB members must maintain equity capital of at least 30% at all times.

IIBs must file financial reports on a periodic basis with the NFA; those filings must be done electronically. Each report filed late is subject to a fee of \$1,000 for each business day it is late; failure to pay the late fee within 30 days of the due date is deemed by NFA as a request to withdraw from NFA membership.

Registration Requirements and Forms

All registration forms and templates which explain the registration process are available on NFA's website, www.nfa.futures.org. By completing those forms, you apply for both CFTC registration and NFA membership. This chapter is meant to help with some common definitions of language used on the forms and offer some tips to get your forms filed without errors that could cause delays or refusal of registration. Do not rely solely on this chapter - many IB applicants engage an attorney and/or an accountant for assistance.

Required actions and forms to register as an IB and become an NFA Member include:

- Designating a Security Manager in order to obtain secure access to NFA's Online Registration System (ORS. The Security Manager will file and update your annual reports and any updates required during the year
- Completing Form 7-R, the firm's IB application, online
- Completing the NFA membership application, online
- Satisfying all compliance requirements for IB applicants
- Completing the Annual Questionnaire, online
- Paying the non-refundable application fee of \$200
- Paying non-refundable IB membership dues of \$750 or as determined for forex and swaps IBs

Required actions and forms for Principals and Associated Persons of IBs include:

- Completing Form 8-R for each principal and AP.
- Submitting fingerprint cards.
- Satisfying the proficiency requirements for each sole proprietor, AP, forex AP and swap AP.
- Paying the non-refundable application fee of \$85 for each principal and AP.*

** An application fee for principals and APs is not required if the individual is currently registered with the CFTC in any capacity or is listed as a principal of a current CFTC registrant. Only one application fee is required if the individual is filling an application as both an AP and principal. One principal MUST be an AP. One principal of a forex IB must be a forex AP. One principal of a swap IB must be a swap AP.*

Additional required forms for GIBs:

- NFA Form 1-FR IB Part B (Guarantee Agreement), completed by an FCM

Additional required forms for IIBs:

- NFA Form 1-FR-IB Part A or the equivalent certified audit
- Statement describing the source(s) of the current assets of the IB, that it has been contributed and will continue to be used for the IB

Additional required for IBs with Branch Offices:

- Proof that each branch office manager passed the required exam

Furthermore, all IBs must have written compliance procedures and additional documents ready for review by the NFA. Commonly referred to as a Policy and Procedures Manual, this includes a description of 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
- Information Systems Security Program (ISSP)

If the IB appoints a Chief Compliance Officer (CCO), that person must be listed as a principal of the firm.

Introducing Brokers can change their registration status from GIB to IIB by filing:

- a financial statement (either a Form 1-FR-IB or FOCUS report) certified by an independent public accountant as of a date not more than 45 days prior to the date on which the report is filed; or
- a financial statement (either a Form 1-FR-IB or FOCUS report) as of a date not more than 17 business days prior to the date on which such report is filed and a financial statement (either a Form 1-FR-IB or FOCUS report) certified by an independent public accountant as of a date not more than one year prior to the date on which such report is filed.

Contact information for professional independent public accountants is found in *Chapter 7: Resources*.

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. Registration Form BD-N is available on the NFA website. It is a two-page application filed with NFA's Chicago Office at no cost. The firm must be registered with the CFTC as an FCM or IB and must be a member of the NFA.

Introducing Brokers which are registered with CFTC and members of the NFA who want to offer clients security futures must notify the NFA and complete its requirements. IBs who complete that process are exempt from requirements of securities laws that duplicate futures requirements. 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. NFA Compliance Rule 2-4 details requirements for Notice Registration.

Security Manager

Introducing Brokers, including those registered as sole proprietors, are required to designate a Security Manager. The Security Manager has complete authority and responsibility to establish and maintain security accounts for other users at the firm. The Security Manager has access to NFA's Online Registration System (ORS), the electronic filing system.

IBs must login to ORS to designate the Security Manager, establish or delete the user's security account, assign or update security levels for the account users and reset users' passwords.

NFA recommends that every firm designate more than one individual as a Security Manager. If the firm has only one individual designated and that person is unavailable or has left the firm, a listed principal of that firm must notify the NFA.

For examples and complete requirements regarding Security Managers and Accounts, check the NFA website.

A few important notes:

- The Security Manager will use ORS credentials to access EasyFile systems, the place where a firm's financial data is entered and submitted.
- 1-FR-IB Filers: These individuals must be a "principal" of the firm and meet all other requirements of CFTC Regulation 1.10(d)(4).
- Forex Filers: These individuals must be a supervisory employee who is, or is under the supervision of a principal who is also, an NFA AP. Filing of certain financial reports also requires that the reporting individual have the authority to bind the firm.
- Regulatory Filers and Promotional Material Filers also have access to the ORS if they are designated by the Security Manager.

Annual IB Updates

Once your IB registration has been granted, the NFA requires that certain annual updates be filled so that the true, correct and current nature of your business is known. The Questionnaire and Registration Updates as well as several other required documents must be filed electronically. IBs are also required to pay annual dues of \$750 plus a records maintenance fee of \$100 to the NFA on the anniversary of the IB's registration.

Your Anti-Money Laundering Training Program and procedures, verifying customer information, monitoring the effectiveness of your ISSP and testing your Disaster Recovery Plan are among the items IBs are required to review, audit and update annually.

Ethics Training must be provided as outlined in your training procedures. The operations of any Branch Office needs to be reviewed and an onsite audit conducted (see NFA's COVID relief instructions).

Your IB will receive electronic notification of annual questionnaires and updates as they come due.

These are only some of an IBs yearly responsibilities. Check with the NFA, your lawyer and accountant to make sure you are aware of the full list of annual requirements.

Who Must be Listed as a "Principal"

Not listing a "principal" on the NFA registration forms is a common mistake IB applicants make. The Form 7R template found on NFA's website is very helpful. In general, "principal" means a registrant or person required to be registered by the CFTC/NFA. "Person" is defined as an individual, association, partnership, corporation, limited liability company, limited liability partnership, trust or other form of business organization.

Individuals required to be registered with your IB are:

- 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

Entities required to be registered with your IB are:

- a general partner of a partnership
- the direct owner of 10% of the outstanding equity of the IB
- a contributor of 10% or more of the IB's capital

Definitions of Some Commonly Used Terms on the Registration Forms

Don't hesitate to contact the NFA directly or check their website if you are confused about any terms which appear on the registration forms. Here are a few definitions for some of the terms used frequently on the forms:

- **10% or more interest:** Direct or indirect ownership of 10% or more of an IB's stock; entitlement to vote or empowered to sell 10% or more of an IB's voting securities; contribution of 10% or more of an IB's capital; or entitlement to 10% or more of an IB's net profits.
- **Adjudication:** A determination by the court that the defendant is guilty or not guilty in a criminal.
- **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. Used when a firm is doing its futures, retail off-exchange forex or swaps business under an assumed name.
- **Entity:** A 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 consent decrees or settlements in which the findings are neither admitted nor denied, or in which the findings are for settlement or record purposes only.
- **Self-Regulatory Organization (SRO):** a private, non-governmental organization authorized to set and enforce standards or conduct for an industry. NFA, FINRA and U.S. securities and futures exchanges are examples of domestic SROs.

Disclosure Tips

Failure to disclose a disciplinary matter on your initial IB application or in subsequent updates can be costly. NFA can access a late disclosure fee of \$1,000. The following are examples of error made with regard to the need for disclosure on the IB application.

- A sole proprietor IB must disclose personal disciplinary action on both NFA Form 7-R and Form 8-R – forms for firm and individual registration.
- The NFA requires a "yes" answer 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.
- 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 if they have already been entered into the NFA BASIC system (disciplinary history system).
- Bankruptcy proceedings must be disclosed.
- If you answer "yes" to any question on the application, you need to provide a written explanation detailing that situation. It can be provided electronically or in hardcopy form.

NFA suggests calling their office if you need some help understanding the forms or questions. If you seek advice directly from the NFA, make a written record of the conversation including the date of the conversation and 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 for registration as a principal of your IB must submit a completed fingerprint card to the NFA. NFA only accepts a completed and signed FBI applicant card which can be obtained at your local city hall or county courthouse, police or sheriff's office or a bonding company, as well as at a futures or securities exchange and a U.S. Embassy.

Completed fingerprint cards should be sent to NFA along with your application. NFA suggests submitting three cards when applying to avoid delays if an additional set was necessary for processing. The NFA will submit the images to the FBI to determine if the applicant has a criminal record. Results are generally received in three days or less from the FBI.

NFA's Chicago office is not offering an in-person fingerprint service during COVID-19. When it re-opens, you can make an appointment at least one day in advance by calling NFA's information center at (312) 781-1300.

No fingerprint card is necessary if:

- the individual is currently registered with the CFTC or listed as a principal of a current CFTC registrant and fingerprint cards in relation to that registration have previously been received by the NFA.
- FBI fingerprint card results have been received within 90 days preceding the individual's Form 8-R (Associated Person) filing.
- you have registered with FINRA within the previous 90 days.
- the individual is a foreign natural person.
- the individual is an outside director and the application included the proper notice.

Common mistakes on IB registration applications

Mistakes or omissions on your application can slow the registration process or even cause your firm 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 the application so the NFA cannot determine if the application is for IIB or GIB.
- Form 8-R is not included for a principal.
- Necessary fingerprint cards are not included.
- Principals who are in the supervisory chain of command have not filed to become APs if that registration is necessary.

Swaps Registration

Every IB that is registered and engages in activities involving swaps subject to the jurisdiction of the CFTC must be approved by NFA as a swaps firm. NFA has online guidance, interpretative letters and notices to help you determine if your firm needs to be designated as a swaps firm. All swaps firms must have at least one principal who is registered as an AP and is approved as a swaps AP.

Forex Transactions Regulations

Every IB that is registered and engages in forex activities must be approved by the NFA as a forex firm. NFA has online guidance, interpretative letters and notices to help you determine if your firm needs to be designated as a forex firm. All forex firms must have at least one principal who is registered as an AP and approved as a forex AP.

Frequently asked questions about the IB registration process

Do I need an additional registration to offer virtual currencies?

No, but additional disclosure information is required for each customer of the IB who intends to trade in the virtual currency markets.

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

The process generally takes eight to ten weeks (pre-COVID) if the fingerprint checks must clear the FBI. In the case where all principals are either already registered with the CFTC or are approved as principals of another CFTC registrant, the process can be completed in as few as two to three weeks.

If the firm is applying as a GIB and is otherwise 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.

How long does a firm have to file either a new guarantee agreement or the appropriate financial filings to become an IIB if their Guarantee Agreement terminates?

Thirty days. If not filed within 30 days of termination, the IB registration with the CFTC and its membership with the NFA will both be terminated. No extension are granted.

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

No. The NFA has three payment options:

1. Online Payment Request – available only to U.S. firms
2. Wire Transfer
3. Checks made payable to NFA and sent to:
National Futures Association
Box 98383
Chicago, IL 60693-0001

Proficiency Requirements

Every individual who is applying for NFA membership as an IB or an AP of the IB is required to satisfy certain proficiency requirements. In most cases those requirements are satisfied by taking and passing the National Commodity Futures Examination (NCFE, often referred to as “the Series 3 exam”) within two years preceding the application. You can register for any of the futures industry exams by submitting your application through FINRA's website. NFA will receive evidence from FINRA that you have passed the exam.

All the exams discussed below are administered by FINRA. The application forms are found on FINRA's website, FINRA.org. You will receive a confirmation once the form and fees have been received at FINRA; then you can schedule an appointment to take the specific exam. You may only take that specific exam once within the next 120 days.

National Commodity Futures Exam (NCFE or Series 3):

Individuals do not need a sponsoring firm to take the Series 3 exam, but you will need a sponsor to apply for registration as an IB.

NCFE is commonly called “the Series 3 exam” by industry participants. It consists of two parts - market knowledge and regulations. Included in the market knowledge section are questions regarding:

- 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 are questions regarding:

- 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 and promotional materials
- CPO/CTA disclosure documents, fees and records 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 additional examination required to register as an IB.

Branch Manager Exam - Futures (Series 30)

Each 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 with these exceptions:

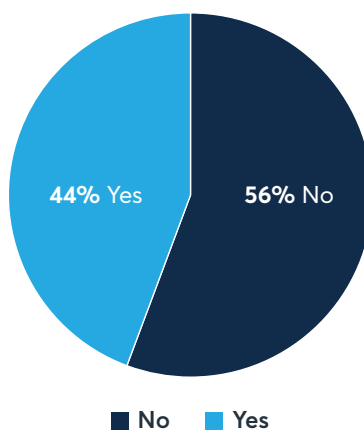
- you passed the exam within two years of the date of your IB application
- you are currently approved as a Branch Office Manager
- you are qualified as a branch office manager or supervisor under FINRA rules

Number of Questions: 50

Length of Exam: 60 minutes

Cost: \$85

IBs with Branch Offices



Source: 2021 IB Survey

Retail Off-Exchange Forex Exam (Series 34)

NFA Bylaw 01 requires any individual applying for approval as a forex firm or forex individual to pass the Series 34 exam before engaging in any off-exchange forex business with retail customer. Keep in mind that NFA requires forex firms to have at least one principal who is registered as an AP and approved as a forex AP.

Number of Questions: 40

Length of Exam: 60 minutes

Cost: \$85

There are a few exam alternatives to the Series 3 exam available depending your current registration status and the type of business conducted.

Approximately 32% of the 2021 IB survey respondents indicated that in addition to a Series 3 License, they held a license in the securities industry.

Managed Futures Exam - Futures (Series 31):

This exam is limited to individual currently registered with FINRA as a General Securities Representative and whose sponsoring IB member firm is NFA registered. To be eligible for this exam, individuals must limit their futures activities to soliciting funds, securities or property for participation in a commodity pool, solicit discretionary accounts which are managed by CTAs or supervise persons who perform either of the previous activities.

Number of Questions: 45

Length of Exam: 60 minutes

Cost: \$85

Limited Futures Examination - Regulations (Series 32)

This alternative exam is available to individuals who have been registered or licensed to solicit customer business in futures in either Canada or the United Kingdom for 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

NFA-Registered Foreign IBs	
United Kingdom	48
Singapore	11
Canada, Hong Kong and United Arab Emirates	6 each
Australia.	5
Chile, France, Mexico and Switzerland	3 each
Ireland, Japan, Puerto Rico and South Korea	2 each
Brazil, Cyprus, Denmark, Israel, Spain and Sweden.	1 each

Source: NFA Aug. 2021

For information on the following, check with NFA or FINRA:

Referral of Securities Clients

This is an alternative open to individuals registered with FINRA as a General Securities Representative with a FINRA firm which is also an NFA IB member firm. The individual must limit futures activity on behalf of the IB to that which is 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 Commodity Pool Operators (CPOs) solely registered to operate commodity pools principally engaged in securities transactions and/or who are associated with Commodity Trading Advisors (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 be exempt from the Series 3 exam.

Associated persons whose activities are limited to swaps

Individuals are not required to take the Series 3 exam if their sole activities are and will continue to be limited to soliciting or accepting orders for swaps subject to the jurisdiction of the CFTC.

Ethics Training

Ethics Training is one of an IB's supervision 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 operation.

All APs registered with an IB office must complete an ethics training program and must periodically update that training. GIBs most often use a program provided by the FCM. Contact information for professional ethics training firms can be found in *Chapter 7: Resources*.

NFA suggests that all ethics training programs should include:

- an explanation of applicable laws in addition to the rules and regulations of the SRO or contract market/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 with due skill, care and diligence in the best interest of customers and 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 including fees, forex and cryptocurrencies if applicable.
- avoidance, proper disclosure and handling of conflicts of interest.

NFA has more information about ethics training programs on their website.

Anti-Money Laundering Requirements

All Introducing Brokers are required by the NFA to have an anti-money laundering (AML) compliance program in place by the NFA. The AML program is made-up of procedures designed to guard against someone using the firm to facilitate money laundering or terrorist financing. Contacts for professional AML training can be found in *Chapter 7: Resources*.

NFA Interpretive Notice to Compliance rule 2-9: FCM and IB Anti-Money Laundering Program outlines the minimum standards of an adequate AML program. Some suggestions are:

- internal policies, procedures and controls reasonably designed to achieve compliance with the Bank Secrecy Act and implementing regulations.
- appointment of a designated compliance officer to oversee the program's day-to-day operations.
- an ongoing training program.
- an independent audit.
- appropriate risk-based procedures for conducting customer due diligence including understanding the nature and purpose of developing a customer risk profile and conducting ongoing monitoring to detect and report suspicious transactions and, on a risk basis, to maintain and update customer information (including identifying and verifying beneficial owners.)

Required IB Contact Information

Each IB is required to provide the name, street address, phone and fax numbers and email address of an individual to whom NFA should direct specific inquiries for the following areas:

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

Grounds for Denial of IB Registration

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. Grounds for denial of registration are listed in the NFA Manual, Bylaw 301(c).

Making Changes on your Paperwork

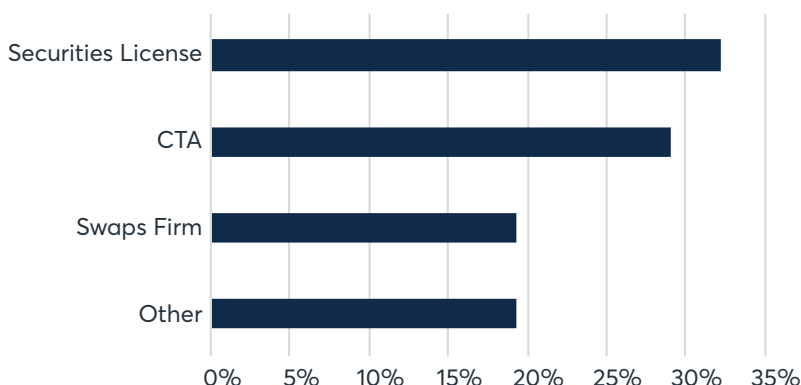
Changes and additions to your initial paperwork are made by submitting a NFA Form 3-R (Part 1). The form is available online; changes are entered electronically.

Terminating the Registration

To terminate your IB registration, you must notify the NFA. If an IIB is unable to fulfill its mandatory minimum requirements, the NFA may automatically terminate that IB's registration. If an IIB's Guarantee Agreement is terminated by the FCM and no new Guarantee Agreement or the required financial reports to become an IIB are not filed with 30 days of the termination, the NFA may automatically terminate the IB registration.

Should you register as a CTA?

Additional Capacities of IB



Source: 2021 IB Survey

A commodity trading advisor (CTA) is an individual or organization that for compensation or profit, advises other – directly or indirectly – as to the value of or the advisability of trading futures contracts, options on futures, retail off-exchange forex contracts or swaps. If you engage in these services, you may need to register as a CTA.

All registered CTAs who manage or exercise discretion over customer accounts or provide commodity trading advice based on or tailored to the commodity interest or cash market position or other circumstances or characteristics of particular disciplines must be NFA Members.

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 the entity does not generally hold itself out to the public as a CTA, OR
- the entity is CFTC registered and advice is solely incidental to its business or profession, OR
- the advice provided is not based upon knowledge of, or tailored to, a customer's particular trading account or trading activity.

1,354 – Number of CTAs currently registered with NFA

Source: NFA Aug. 2021

Complete criteria for registering as a CTA can be found on NFA's website. The initial application costs are a non-refundable application fee of \$200 and CTA membership dues of \$750 or \$2,500 for forex or swaps CTA registration. One principal of the CTA must be an AP. One principal of a forex CTA must be a forex AP. One principal of a swap CTA must be a swap AP.

Checklist for Chapter 2: **Registration**

1. Do I need to register as an IB to accomplish what I want to do?
2. Am I qualified to own and operate an IB, including my experience, financial condition, understanding of the industry and supervision skills?
3. Have I done my "homework" (research) on possible FCM relationships?
4. Have I contacted my attorney and accountant for assistance with the documentation required to register as an IB?
5. Have I confirmed and understand that I am disclosing any prior or current disciplinary, regulatory or adverse financial issues which need to be disclosed on the IB registration application?
6. Have I enclosed the appropriate dues/fees with my application?
7. Have I designated a Security Manager - this includes sole proprietor filers.
8. Do I have an AML and Ethics training in place? Do I have a cybersecurity program in place?
9. 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. FCMs soliciting or accepting orders to buy or sell retail off-exchange forex contracts and accepting money or assets from retail customers, must also be designated as a Forex Member.

Each Introducing Broker must have a contractual arrangement with a Futures Commission Merchant (FCM). In addition to clearing an IB's customer transactions on various exchanges, the FCM bears the ultimate responsibility of collecting margins for those positions. All registered FCMs must be NFA members; one principal must be a registered Associated Person.

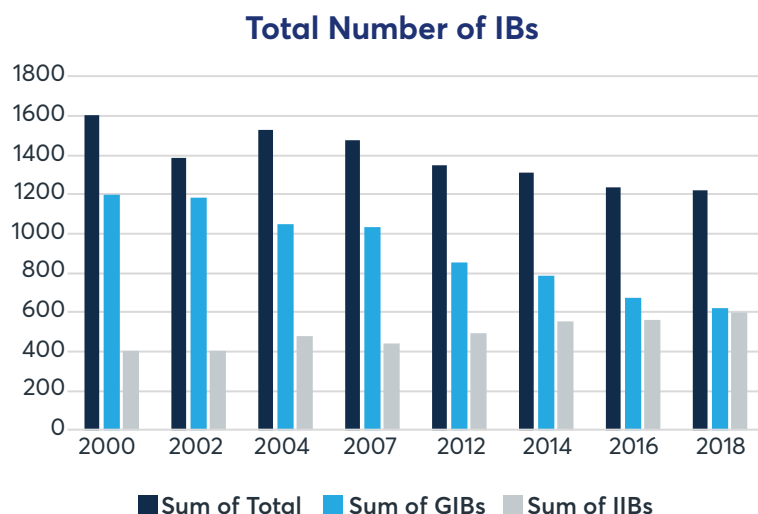
FCMs soliciting or accepting orders to buy or sell retail off-exchange forex contracts for customers and accepting money or assets from those customers, must be designated as a Forex Dealer Member. All registered RFEDs must be NFA members; one principal must be a registered Associated Person.

Total FCMs registered	61
Total RFEDs registered	4
Total Swaps Dealers Registered	109

Source: NFA Aug. 2021

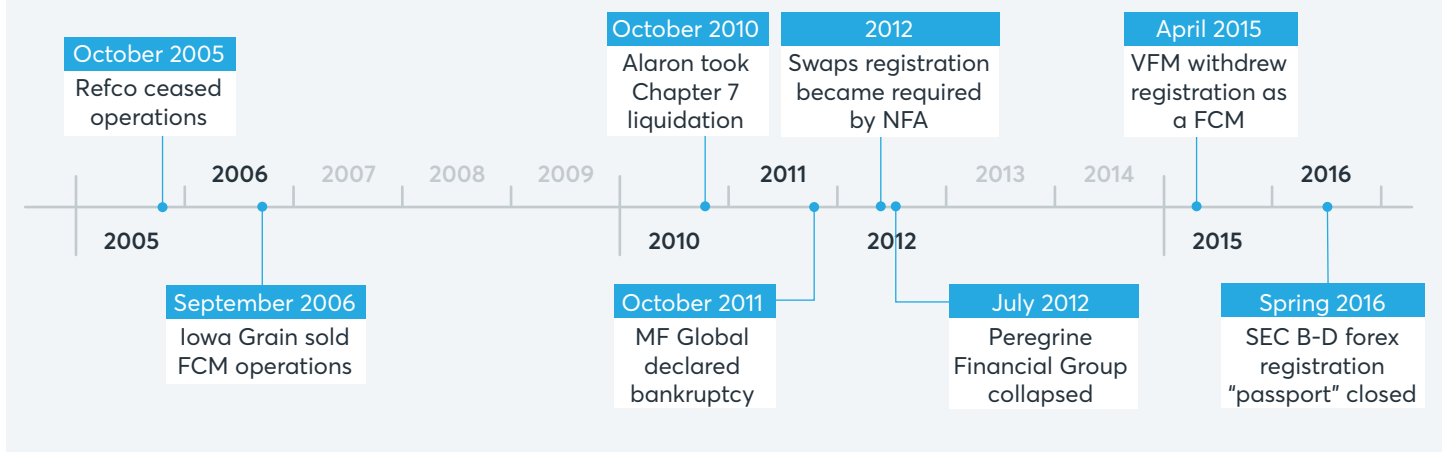
Registration for FCMs has remained stable since the last edition of *The Complete IB Handbook* published in 2018 while registration for both RFEDs and SEFs have increased as business in those markets increased.

The total number of FCMs registered has been decreasing steadily since 1999, the first printing of this Handbook.



Source: NFA Aug. 2021

FCM Registrations (1999-2021)



Until 2011, 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 industry saw the unprecedented failure of two FCMs in addition to the decreases due to normal factors. One of those failures resulted in bankruptcy. Although customers eventually saw the return of their funds for the most part, many brokers spent several years restoring trust in existing customers and rebuilding confidence in the integrity of the industry. The other failure resulted in a criminal action with the person most responsible continuing to serve a life-term prison sentence.

Those FCM failures caused both the CFTC and NFA to re-assess and re-draft customer segregation rules, including increased reporting requirements and other methods designed to make an FCM's financial health more visible to the public.

Interest rates for deposited funds have been very low for many years. Costs of technology, cybersecurity compliance and personnel have increased. A combination of these factors has also contributed to the ultimate decrease in FCM registrations.

Many of the largest registered FCMs are banks or other financial institutions which either do not offer IB relationships or offer them on an extremely limited basis. Of the 61 currently registered FCMs, about 12-15 firms handle nearly all transactions from IB customers.

Further, some FCMs accept IB business, but do not accept Guaranteed Introducing broker relations (GIBs). In general, FCMs who are members of NIBA accept IBs and have extensive support systems in place. Those FCMs, including the appropriate contact at the firm, are listed on NIBA's website, www.theniba.com.

Swaps Dealer and Major Swap Participants registration was first required in October, 2012. At that time, firms acting as an FCM with respect to swaps came under CFTC jurisdiction and were required to register. As of August 2021, there are 104 swaps dealer members of the NFA with no major swaps participants members registered.

The registration process for all FCMs, including RFED FCMs and swaps FCMs is posted on the NFA website, www.nfa.futures.org.

The great majority of IBs transact their customers' business with one of the FCMs that actively solicit for IB relationship. The most recent IB Survey completed April 2021, confirmed that IB customers in general trade very little in both the swaps and forex markets. Both responses were barely measurable. Source: 2021 IB Survey. As a result, this chapter will focus on the "traditional" FCM and its relationship with the "traditional" IB.

An FCM can be organized for the purpose of transacting business in the futures and options markets only. The FCM could also be a division of a national or regional brokerage company that also offers securities products. Many of the largest FCMs registered have a parent company — a commercial bank, an agri-business company or other commercial enterprise.

Foreign entities can be FCMs. If a foreign entity FCM handles business directly with U.S. customers solely in futures contracts and commodity options, they must provide proof they are subject to a CFTC-comparable regulatory structure by a foreign regulator which has been recognized by the CFTC. They are also required to appoint an authorized U.S. agent for service of process and notify the NFA.

SEC-registered broker-dealers which limit their futures-related activities to the sale of security products on contract markets or derivative transaction execution facilities, can be FCMs by filing the appropriate notice with the NFA. Those firms will remain primarily subject to SEC regulation.

All NFA-registered FCMs must designate a Chief Compliance Officer (CCO). That person must be listed as a principal of the FCM. The CCO is required to prepare an annual report and provide the report to the FCM's senior management or board of directors. The report must be furnished to the CFTC not more than 90 days after the FCM's fiscal year-end. The annual report includes certification by the CCO or the CEO regarding the accuracy and completeness of the report. This requirement is one of several meant to increase transparency with regard to the financial health of the FCM.

Each FCM is 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), must be done on an accrual basis and must be kept current.

If a FCM's adjusted net capital as computed by these standards and following NFA requirements, falls below a proscribed level, the FCM is required to immediately notify the appropriate agencies of the deficiency (commonly referred to as an "early warning" notification.) FCMs file financial reports with the NFA and CFTC on a periodic basis and are subject to late filing fees of \$1,000 each business day the required report is late.

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. CFTC has a related requirement for foreign futures and options customer funds, and a related requirement for cleared swaps customer collateral.

FCMs must keep on file acknowledgment letters from depositories and other FCMs that declare certain funds placed with it are customer funds held in accordance with CFTC regulations.

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 an FCM bankruptcy, the remainder of what customers are owed participate pro rata in any distributions to unsecured creditors of that FCM.

FCMs must support an appropriate back office system to account for customer equities and for handling customer funds in an appropriate manner, and inform NFA of its intent to accept customer funds prior to doing so.

CFTC regulations also require the FCMs have policies and procedures in place to monitor and manage the risks associated with their FCM activities and file a Risk Assessment Report annually which details the firm's organizational chart among other items, and to report any material changes in those items within 60 days after the end of the fiscal quarter where the change occurred.

Before contracting your IB relationship with any FCM, you should ensure they have the following in place as required:

- Anti-Money Laundering Procedures
- Business Continuity and Disaster Recovery Plan
- Cybersecurity - Information Security Systems Program
- Security Futures Products Procedures
- Sales Practices and Promotional Material Procedures
- Virtual Currency Notice to Customers
- 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. **Those FCMs meeting the criteria must, among other things:***

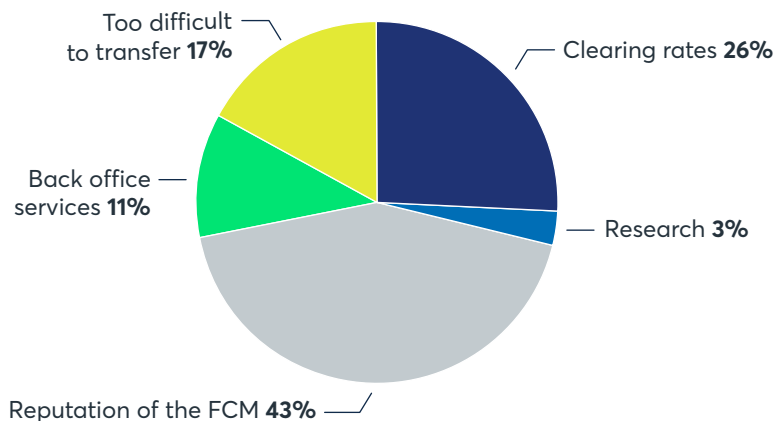
- maintain enhanced capital requirements,
- make complete audio recordings of all telephone conversations that occur
- between their APs and existing and potentials customers, AND
- file all promotional materials with NFA at least 10 days prior to its first use.

CFTC has enforcement jurisdiction 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 NFA's BASIC search site, nfa.futures.org/BASIC. Information regarding an FCM's capitalization and other financial information can be found on both the NFA website and the CFTC website, www.cftc.gov.

Choosing a FCM to handle your customers' transactions is not simply a matter of finding the one which offers the lowest clearing rates. Perform your own thorough due diligence on every portion of the FCM's history and operation – reputational, disciplinary and financial.

Choosing your Clearing Relationship

Top Reason for Staying with Current FCM



Source: 2021 IB Survey

The number one reason IBs stay in their clearing relationships is the reputation of that FCM. This has been the top reason for IBs choosing and staying in FCM relationships since the failure of MF Global in 2011 and Peregrine Financial Group in 2012. Reputation is defined generally as the “ways others think about you or your actions or beliefs.” Overwhelmingly, IBs associate with an FCM who has a reputation with the public for good business practices and with the industry for fair-dealing.

IBs often like the idea of contracting with a bank-owned FCM, but that is often not a realistic plan for your IB. Over the past several year many banks have off-loaded customers as they deal with constricting balance sheet capital, including trading volume and total customer equity. Conversely, a smaller FCM may not be able to accommodate the capital and trading needs of your customers as your IB grows.

You should also be aware of which exchange memberships the FCM holds. If the FCM does not have membership access to the exchanges your customers want to trade, your IB, and ultimately your customers will be charged a fee for that access.

A back office at the FCM is essential to being able to adequately serve customers. Be sure to understand the policies of the FCM before entering the clearing relationship regarding procedures relating to opening accounts, bank wire transfers and check requests.

Many clearing firms require IBs, particularly GIBs to use the platform(s) they have developed or subscribe to, in order to enter customers’ orders and manage risk. Ask what platforms the FCM supports and endorses, and its technology requirements as well as the cost and limitations. If online account viewing at intervals during the day is important to your customers’ trading strategies, make sure the FCM offers it, as some FCMs only provide an end-of-day feed that summarizes all the trading done during that day.

Although a great deal of research is now available online — some exclusively online — about 3% of the IBs responding to the 2021 IB Survey told us research is still very important to them. IBs servicing customers with particular needs such as cash commodity prices or corporate data, should look for FCMs who produce or have access to that research. Ask the FCM what is available, how you can access it and if you will be charged an additional fee by the FCM for accessing it.

Negotiating the Terms of your Clearing Agreement

The term "Guarantee Agreement" refers to the form required by the CFTC in order to be registered as a Guaranteed Introducing Broker (GIB). The language of that form is mandated by the CFTC - it is non-negotiable.

The term "Clearing Agreement" refers to the contract between your IB and the FCM. The FCM is the "clearing firm." The clearing agreement is negotiable. It is a legally binding contract which details clearing rates, additional fees and services, restrictive agreements, interest payments on balances in customers' accounts, account transfer procedures and security deposit requirement, if any. The clearing agreement is negotiated and prepared by the FCM to reflect each IB relationship.

There is no standard rate charged by all FCMs to IBs for handling customer transactions. The clearing rate your IB will pay depends on many factors, including:

1. **Volume of business transacted:** Many FCMs will write a "sliding scale" rate provision in your Agreement which decreases the cost per transaction as the volume of business at your increases.
2. **Markets traded:** Some FCMs charge clearing rates based on which exchanges or platforms are traded, including whether the IB customers need non-domestic market access. Be sure you know whether the FCM can handle any market your business needs and at what cost.
3. **Products traded:** Clearing costs will be different for traditional futures and options on commodities transactions than for forex access or swaps. Expect separate pricing for clearing managed account transactions and CTA-directed trades.
4. **Customer balances:** Interest rates on customer balances have remained low for many years. That interest on funds deposited by your customers generally belongs to the FCM. If your IB negotiates for any portion of that interest, it will affect your clearing rate.
5. **Compliance or disciplinary issues:** IIBs are generally considered by FCMs to require less compliance oversight than GIBs by FCMs. But if your IB has customer complaints or disciplinary issues, you'll find it difficult to obtain and keep a FCM relationship regardless of your registration category. Your Clearing Agreements will include a provision for termination in the event of IB disciplinary problems.
6. **Order entry platform:** Many FCMs require IBs to use the platform(s) they provide or endorse for order placement. IIBs which clear through various FCMs, will likely use multiple platforms. Understand the limitations and cost of each.

Most FCMs require IBs to fund a "security deposit" or "escrow account" as part of the clearing arrangement. The account might be funded with an initial amount determined by the FCM and added to monthly (or as agreed between FCM and IB) with set-asides from the IBs monthly gross revenue. Some FCMs do not require this deposit or account, but many IBs establish a sit-aside fund themselves for use in the event of errors, customer debits or complaints which would otherwise affect the IB's month income.

What FCMs look for in IB Relationships

FCMs closely vet Introducing Brokers before contracting and throughout their relationships. They involve their compliance and legal departments prior to beginning a clearing arrangement, and continue to monitor the IB's activities. FCMs are liable for the acts of their Guaranteed Introducing Brokers and are held financially responsible.

The Introducing Broker system is important to futures commission merchants, and for many FCMs, it is the main or only sales force. An IB office eliminates the need for FCMs to hire brokers and maintain physical or work-from-home offices that are costly and require constant supervision. Through an IB's office the FCM can do business on a local level with a local person or entity that generally has an already established reputation and knowledge of the local customers' needs.

The clearing relationship is not exclusively the IB's to choose. Each FCM has a specific set of criteria for entering into the relationship and will look for particular characteristics in the IB owner, the style of business and the overall operation. All FCMs who clear for IBs' customers agree they value long-term relations and will work hard to keep them.

Some of the items an FCM will generally review prior to contracting with an IB are:

Risk Management Technique

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

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

Being able to identify risk and manage it is one very important factor in maintaining your IB in good standing with your FCM and the regulators.

Compliance with Regulations and Financial Requirements

Compliance with the regulations of the industry and the rules set by your FCM, including financial requirements, is another important factor an FCM considers prior to contracting with an IB. The FCM will evaluate for that compliance throughout the relationship.

Any action which causes the NFA to impose enhanced surveillance of your IB's activities will cause most FCMs to hesitate to do business with you. Enhanced supervision can include additional audits, recording of all your dealings with customers or even heavy monetary requirements or fines. Any of these disciplinary issues will make it difficult to establish clearing arrangements for GIBs and IIB alike.

Compliance problems, financial requirement deficiencies or customer complaints can be the cause of immediate termination by your FCM.

Your Business Plan

Chapter 4: Business Plan of this Handbook lays out some basics on how to develop and use a business plan. A methodical scheme for professional development goes a long way toward the success of your IB. A few considerations are:

- initial number of APs in your IB office
- how the IB will recruit APs and clerical staff
- how the IB will be initially funded
- how large your "nest egg" is and how long your IB can operate without showing a profit
- whether the IB will specialize in a market or type of trading
- whether the IB will offer full-service or discounted service
- whether the IB will offer forex transactions
- whether the IB will offer swaps transactions
- whether the IB will offer managed accounts
- whether the IB will also register as a CTA
- what order entry process the IB will use
- costs associated with market data delivery
- costs associated with the order entry process
- all other fees and costs charged to the IB
- how the IB will solicit new customers
- who will develop the IB's website and who will maintain it
- whether the IB will conduct seminars, webinars or publish a newsletter

Are Both Parties Making Money?

Most FCMs will negotiate a sliding scale arrangement to lower clearing costs as the IB's volume and account balances grow. Conversely, the FCM may reserve the right to raise the IB's clearing rate if the IB does not generate anticipated profits within a reasonable time after the relationship begins.

A renegotiation of the Clearing Agreement will likely take place if the FCM/IB relationship is not profitable for both parties. Other factors likely to cause renegotiation are the addition of branch offices by the IB; the addition of products such as forex or swaps or managed account programs by the IB; compliance issues or customer complaints.

Many IBs request a Clearing Agreement evaluation annually to discuss items such as your security deposit or potential expansion of your office or the addition of products or services which materially impact your relationship with the FCM. Any time the FCM/IB relationship is one-sided or not profitable for both sides, it needs to be reevaluated and renegotiated.

Mutual trust

Transferring customer accounts from one FCM to another is a rare event. This record of stability, even after taking into account the transfers necessitated by the collapses of MF Global in 2011 and Peregrine Financial Group in 2012, is a result of many factors affecting the successful clearing relationship. Mutual trust and respect is necessary.

When parties initiate a business relationship, they need to trust that the other party will professionally handle the side of the partnership they are responsible for, and fulfill the terms upon which they have agreed. Over time, the trust initially invested develops into respect and very often into friendship. Even an office whose volume has fallen off, or who experience changes in the personal life of the owner/operator will find it easier to maintain a business dealings with the FCM 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 that you can fulfill the legal and accounting requirements of the industry and an FCM. I encourage IB owners to visit the home office of the FCM selected prior to negotiating the Clearing Agreement. This has been more difficult during the limitations imposed as a result of COVID-19, but personal observations are an important factor for both the FCM and IB in deciding to initiate a relationship. Meet the risk management supervisors, the compliance managers, the IB service director, the new accounts supervisor, the research department personnel and the information managers. Understand the trading platform(s) your IB 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 on the FCM's financial health by looking at the CFTC and NFA websites?
4. Does the FCM accept GIB relationships?
5. Does the FCM handle forex, swaps, managed accounts or cryptocurrency transactions, if applicable?
6. What trading platform(s) will I be using and what are the associated costs?
7. Is the research my customers need available and at what cost?
8. Does the FCM require a security deposit or escrow account?
9. Will I have to pay additional charges for my required audits?
10. Do I like what I see?

Chapter 4

Business Plan

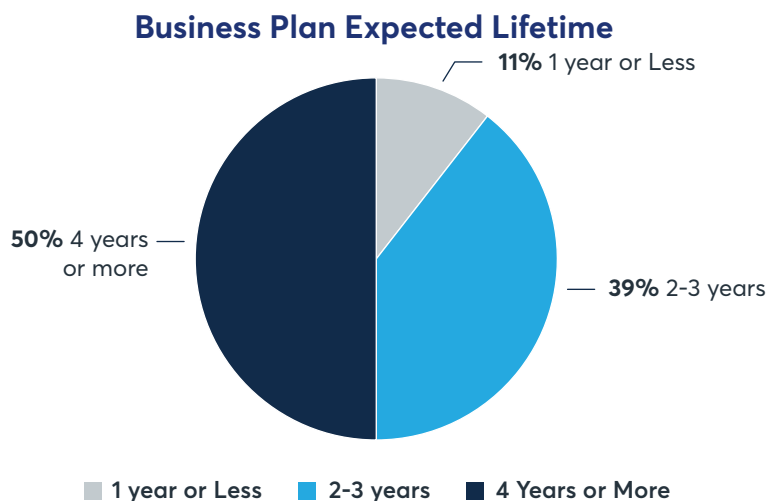
Business Plan: a document that sets out the business' future objectives and strategies for achieving them

Why do i need a business plan? Writing a formal business plan can seem very intimidating. You know you need to put a plan together, but you may not be sure where to start. This chapter helps you identify the reasons you need a business plan and some important elements you need to include before registering as an Introducing Broker and entering into a Clearing Agreement with an FCM.

The world has changed since the "business plan" template was formalized and rigidly adhered to years ago. If your start-up is not going to require much outside funding or a substantial bank loan, you will most likely be able to quickly figure out your strategic goals and accomplish them.

But, starting a new business – any business - is not just about funding. Funding, and the ability to show your plan to a lender or investor is important. But it is the PROCESS of writing the plan that is valuable. As you pull your individual plan together, you discover what your goals actually are and what it will take to achieve them. The plan is really all about you. You need to be able to explain your ideas for the future of your IB to yourself before you can explain them to others. You're going to need the support of your family, your partners, your FCM and your lender to operate a successful IB.

You will reduce your risk of wasting time, money and resources if you have a plan. Planning is essential for the successful, long-lived IB.



Source: 2021 IB Survey

Getting through a crisis is another reason to have a plan. In the recent IB Survey, respondents said they handled some of the challenges resulting from the COVID crisis by relying on the ability to be flexible because of a flexible business plan along with a Disaster Recovery Plan as required by the NFA.

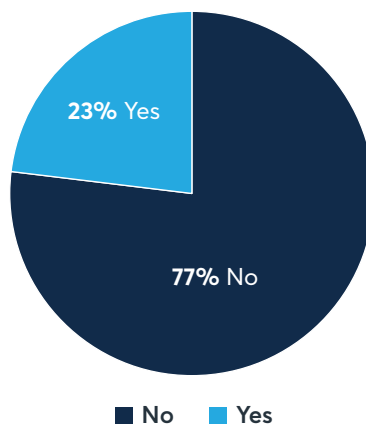
Start by keeping it simple. Focus on a distilling your strategy into simple, concise statements which help you set goals and track your progress. Build in flexibility for change in direction and strategy. Think in bullet points and short sentences.

Can you describe your business in one sentence? Often financial professionals are labelled brokers or bankers or analysts. IBs owners are bit of all those with a touch of "mothering," maker of the coffee and handler of all the normal business needs combined. Describing your business in one sentence is harder than you think.

Planning for a start-up IB or considering expanding an existing one, your business plan will generally include:

- defining your objectives and the strategies for achieving them.
- support for a loan application.
- description of relationships between partners in the IB and external partners such as FCMs and Service Providers.
- definition of your business cyber-risk and set a cost on you information systems security program (ISSP).
- evaluation of the time and methods for expansion of your business.
- creation of a regular review cycle of the state of the IB's business and how to recognize when/where corrections should be made.
- valuation of your IB in the event you decide to sell or merge, or for other legal purposes.

Do You Plan to Retire Your IB in the Next 5 Years?



Source: 2021 IB Survey

Your trading plan is not your business plan.

Take the time to explore and evaluate your professional and personal goals. Lay out your strategies for financing, marketing and options. A successful business plan is your professional calling card. It can get you "in the door" of a clearing firm or a banker. It can help create trust with your customers. And, it will demonstrate that you have the tools, the talent and the support necessary to make it as an Introducing Broker.

What Type Business Plan is Best for Me?

Business plans are sometimes called strategic plans, expansion plans, operational plans, investment plans or annual plans. The best plan for you is the one that matches your unique situation. The plan must include financial and disciplinary history disclosures if you are presenting it to a bank loan officer or to an FCM. If you are talking to a potential customer, a description of your management team and how the team helps them to manage risks and make good trading decisions is an important part of the plan. Background information will not be as important as your plans for the future of the IB if you are reviewing the business plan for internal purposes such as a merger or an expansion.

There are many ways to approach writing a business plan. Many IB owners engage an attorney or accountant to help. Here are three simple ways to decide what plan your IB needs:

1. **The Start-Up Plan:** Here you define the steps necessary for a new business venture. The plan should cover items such as who the principles are, what types of customers are served, what services the IB will offer, how you will solicit for business, what the anticipated costs of doing business are, who the management team is and the basics of your FCM/IB relationship.
2. **The Growth or Expansion Plan:** This plan generally focuses on a specific area of the IB's business. It could include explanation and cost analysis of adding APs in the home office, upgrading the technology or cybersecurity program. Detailed forecasts of expenses of the expansion should be included in this plan.
3. **The Feasibility Plan:** This plan includes a preliminary analysis of costs and expenses you expect to incur operating the IB. Once summarized and analyzed you can decide whether to add a CTA registration, offer managed accounts or forex transactions, or whether you should add another FCM for clearing purposes or transfer your customer accounts to a different FCM. The detail you add will help you decide whether the plan is worth pursuing for your goals.

A Couple of Plan Basics

In the 2021 IB Survey, IB owners responded they had developed business plans for their IB which were in place for at least four years into the future. These IBs have plans that have a degree of flexibility and are able to respond to regulatory change, product development and personal challenges.

Since the futures industry itself has both bullish and bearish years just like the markets we trade, one area to take a realistic, hard look at is your projected cash flow work sheet. Pay particular attention to your first year income projection and expenses. Calculate expected revenue for each month using the number of transactions completed, the customer commission rate(s) charged, your clearing rate fees and all other fees, and any other anticipated expenses.

Prepare a Balance Sheet which details your present financial position. Include:

- income from all sources – savings, salary, investments and other family income.
- debits 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, etc.

- rental agreements for office and document storage space.
- loan agreements, your personal credit report and your business plan timetable.

Other components of your plan may include:

An Executive Survey: This is an "introduction" to you and your business and should include the IB's business highlights. You may find it easier to write this page after you have completed the portions of the plan.

A Company Description: This area describes the legal organization of the IB and includes your start-up plan or history if the IB is already in existence.

Market Focus of the IB: This is a description of whether your IB will trade in traditional futures and options on commodities, whether it will include forex or swaps business or handle managed accounts. Here's where you show you have a clear understanding of the markets and the benefits of market participation in general.

Analysis of Customer Demographic: Who are the customers of your IB and what are their specific needs, including a description of how the IB will reach and add new customers.

Strategy and Implementation: In this portion of the plan, include management responsibilities and 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 that draws customer attention and maintains the relationship. Include development and maintenance costs.

Remember, your website is considered promotional material by the NFA and as such is regulated. Contact a developer with NFA compliance in mind.

Management Team: Do you have a business partner? Who is your compliance officer, your sales manager and your research/analysis department? The NFA website should be reviewed carefully to determine what responsibilities each member of the management team may have to the NFA.

Financial Analysis: How much capital do you need to start-up? Where will that come from? What are the profit and expense/loss projections for the IB?

Legal Organization

The NFA allows you to register as an IB under several legal organization methods. Your business plan may depend on the form of legal organization you choose for the IB.

- **Sole Proprietorship:** In 2021, there are still several Introducing Brokers organized as sole proprietorships. It is the easiest and often the least costly way to structure your IB. The business entity (the IB) has no separate existence from its owner. It 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 a partnership can be formed:
 - **General Partnership:** the most often used form of organization. All partners manage the business and are personally liable for its debts. Although a general partnership can be formed by oral agreement, a more formal agreement drawn up by an attorney is preferred by the NFA and required in order to apply for a business loan. A partnership can be helpful in solving any disputes arising in connection with operating your IB, and documentation will be required to open a trading for the benefit of the partnership. Evidence of the written agreement of partnership will likely be reviewed by your FCM and by the NFA during an audit.
 - **Limited Liability Partnership (LLP):** is essentially a general partnership with protection for each individual partner against personal liability for certain partnership liabilities. The NFA allows LLPs to register as IBs. The limit of an individual partner's 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 involvement in supervising wrongful activity. All states require a filing and registration within the state. They also require that an LLP include the words or acronym "Registered Limited Liability Partnership" or "LLP" in the name. Some states require proof that the partnership has obtained adequate insurance or has adequate assets to satisfy potential claims. In New York, only professional service providers such as attorneys, physicians, dentists and accountants can registers as LLPs. You will most like need an attorney to form an LLP. The LLP documents should be kept readily accessible for review by your FCM and the NFA during an audit.
- **Limited Liability Company:** LLCs are just another form of partnership. They are organized with a document called the "Articles of Organization" or "The Rules of Organization" which will be specific to individual state requirements. Owners of the LLC are called members and may be corporations, foreign entities or other LLCs since most states do not restrict ownership to natural people. Some states also allow single member LLCs. If you register as an LLC, you should consult an attorney because the states have widely varying requirements. LLC documentation should be kept on file for review by your FCM and by the NFA during an audit.
- **Corporation:** is a legal entity which can exist completely separate from its owners, whether they are natural persons or legal entities. The separation gives the corporation unique standing that other legal entities lack. The extent and scope of the corporation's status and capacity are determined by the law of the place of incorporation. You can incorporate without using an attorney, but it is not recommended. Corporations can be more costly 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 controllers of the corporation, most often a board of directors. With control of stock shares or 51% 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. Incorporation documents will be required in order to open a trading account for the IB.

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 documentation regarding 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: Registration*, and on the NFA [website](#).

Some Typical Business Plan Considerations for IBs

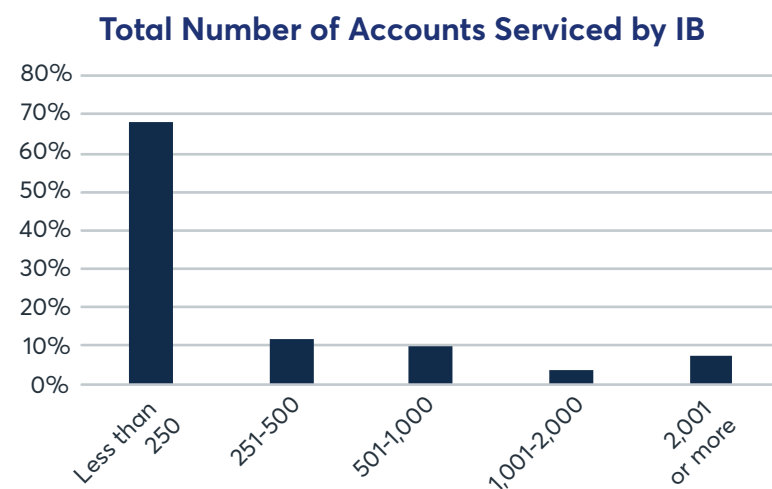
The derivative business, including Introducing Brokers have specific considerations when constructing a business plan. Here are some basics:

The Introduction is a detailed description of the IB and its goals. It includes:

1. the ownership and legal structure of the IB.
2. listing of skills and experience you bring to the business.
3. the advantages you have over possible competitors.

Marketing includes:

1. identifying your customer audience - type of trader, markets traded.
2. identifying your geographical restrictions, if any.
3. explaining your advertising and marketing plan.
4. explaining your commission structure and the strategy used to develop it.

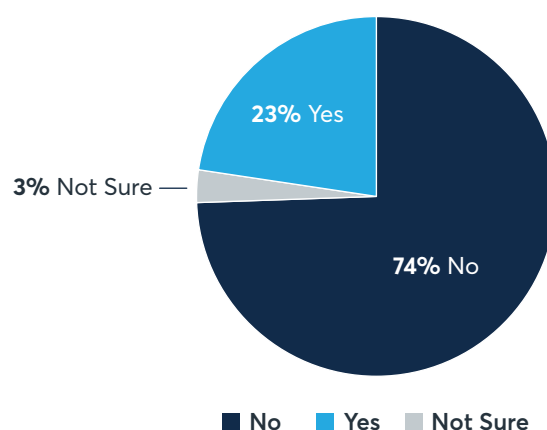


Source: 2021 IB Survey

Financial includes:

1. the source and amount of your initial equity capital.
2. a monthly operating budget for the first 12 months of operations.
3. anticipate the expected return on the initial investment and monthly cash flow for at least the first year of operations.
4. understanding your breakeven point.
5. your personal balance sheet, including the compensation you pay to yourself.
6. identifying the person(s) who will maintain accounting records and the method(s) used to maintain them.
7. identifying and accounting for costs associated with your ISSP.
8. accounting for alternative approaches to handle other financial concerns which might arise in the operation of the IB.

**Does IB Generate Gross Monthly Commissions
Over \$200,000?**



Source: 2021 IB Survey

Operations includes:

1. identifying the day-to-day manager of the IB office and management procedures.
2. identifying the Compliance Officer.
3. identifying the Risk Management Officer.
4. identifying the Sales Supervisor.
5. identifying the Information Systems Supervisor.
6. identifying the New Accounts Supervisor.
7. identifying the AML and Cybersecurity Contacts/Supervisors.
8. identifying hiring and personnel procedures.
9. understanding the insurance, lease and rental agreement for equipment, data equipment, physical space, etc.

Concluding Statements: should summarize your business goals and objectives. Take into account whether you have the mental and emotional attitude to implement the business plan and reach your goals. Are you physically healthy? And, very important, does your spouse understand your business plans and fully support your goals?

When you complete the business plan, review it with your attorney and your accountant. Seek out a trusted business associate who can tell you how realistic your plans are. And, review the plan with your family again.

Using the Business Plan

The good business plan is not a homework assignment to be hurriedly thrown together and forgotten about. It is one tool to help you build a better IB. It requires that you return to it on a regular basis and update as you learn more about your customers' needs and the requirements of operating a federally regulated derivatives business. It is a living document. Use it for its three most basic purposes – communication, management and planning.

As a **communication** tool, the business plan is most often used to attract investment capital, secure business loans, convince employees to hire on and assist in attracting strategic business partners, including the FCM. The development of your comprehensive plan can help identify whether your IB has the potential to make a profit. Take a realistic look at every phrase of your operation and use your plan to demonstrate your strengths. The plan should be comprehensive enough to offer alternatives to deal with anticipated problem areas and flexible enough to deal with unexpected challenges and opportunities.

As a **management** tool, the business plan helps you track, monitor and evaluate your progress. The plan should be continually modified as you gain experience and knowledge. Gauge your progress by establishing milestones and timelines, then assessing your actual accomplishments in comparison to the projections, and again, modifying or moving the "goal line."

As a **planning** tool, the business plan guides the IB through various phases of its "life." A thoughtful plan will identify roadblocks and obstacles. In the derivatives industry, those include business trends and changing regulations. Alternative directions for IB growth or procedures for change need to be part of the plan.

A Few Easy Tips for your IB's Business Plan

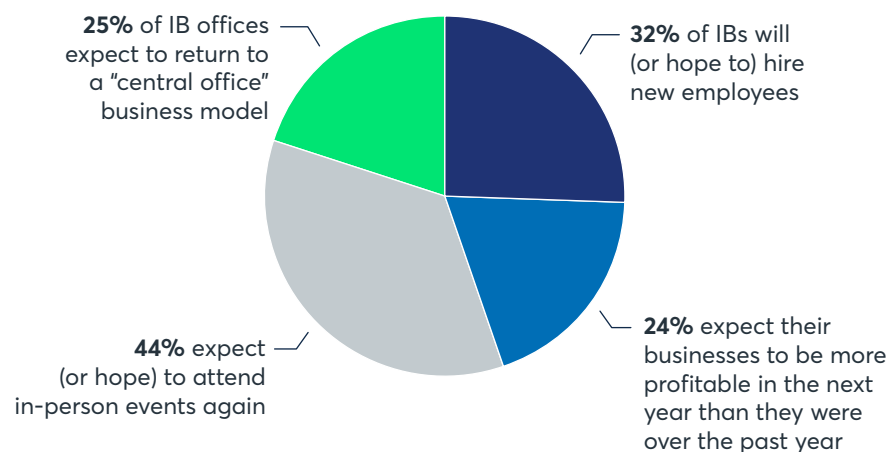
- a. Summarize the business activity concisely. Describe the nature of the office (ie., traditional IB, options only, hedging primarily, only forex, etc.) and the goals of the business in a single sentence. This harder than you think!
- b. State your objective. What do you want the business to accomplish in the first 12 months? In the first 3 years. What do you personally expect to accomplish as a registered derivatives professional and owner/operator of an IB?
- c. Anticipate trends that may affect your IB's growth. Talk to your FCM and APs about changes that have an impact on your IB and its customers. Attend conferences, industry meetings and webinars and subscribe to newsletters, alerts and market advisories to learn how your colleagues are handling industry issues, such as compliance updates, changes in taxation and new technology. Stay informed. Meet product managers and other exchange staff who can help your IB grow. Consider whether to expand your business by registering as a CTA or adding forex or managed accounts to your customer offerings.
- d. Be prepared for errors or customer debits by funding a special, stand-alone account to use only in the event of one of those unforeseen situations.

- e. Inventory your resources. List your assets.
 - How much cash and other assets do you have easily accessible?
 - How long could you operate unprofitably without changing your family's lifestyle?
 - Evaluate your skills and knowledge level realistically.
 - Understand how many, if any, APs will be needed to operate your IB and how you will recruit, train and supervise them?
 - How the necessary technology works and how to contact service providers who are knowledgeable and experienced in the futures industry.
- f. Set some realistic immediate objectives - also known as "the baby-step approach." Set one or two goals which are achievable within a few weeks or few months of getting started such as a certain number of accounts opened or a certain amount of new customer equity in a stated time. Achieving those first objectives will help get you into the routine of setting goals, meeting them and setting new ones. It is easier to tackle larger or longer-term projects when they are broken up into smaller tasks or goals. Accomplish something - mark it off. Move on the next item feeling good about what you have accomplished and knowing you can do more. The baby-step approach really works.
- g. Write down your objectives for the IB and the steps necessary to meet those objectives. If you want to reach new customers or teach existing customers how to use a new product, plan out the steps you'll need to take to reach that objective. Include the cost of any equipment or additional training you might need.
- h. Remember: Your IB must be a NFA member before it solicits customers. 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 addressed in NFA Compliance Rules.
- i. Work your plan. Once objectives for your IB are set and your resources are evaluated, take the action necessary to move forward. Physically write down or enter those things you want to accomplish into your calendar. Break down those larger projects into steps which can be easily be completed will encourage you. In turn, you can give the support to your APs and clerical staff needed to operate a successful IB.
- j. Update or revise your business plan, including the objectives you have for the IB periodically. One of the many lessons learned from the MF Global and Peregrine Financial Group tragedies of 2011 and 2012 and again in response to COVID-19 is that things don't always go the way they've been originally planned. Realistic flexibility will keep you growing.

IBs Look into the Future

Even during this challenging year, most IB respondents to the 2021 IB Survey are cautiously optimistic about their businesses in the next 12 months.

Expected Activities Over Next 12 Months



Source: 2021 IB Survey

About one-third of the respondents will (or hope to) hire new APs. Nearly one-quarter expect their IBs to be more profitable in the next year. And a full 44% expect (or hope) to attend in-person events again – following COVID-19 vaccinations and other guidelines. Some firms even added branch offices and employees during the pandemic.

IBs are worried about the rising costs of doing business, particularly cybersecurity, data feeds and compliance with regulation costs. They are also worried about a lack of qualified "younger generation" women and men coming into the business. Success as an IB is not automatic or accidental. You have to plan for it.

Checklist for Chapter 4: Business Plan

1. Do I have a written document that communicates business plans for my IB for several years into the future?
2. Have I fully discussed plans for the IB with my lawyer, accountant and family?
3. Do I have a "nest egg" and is it easily accessible?
4. Have I realistically assessed my weaknesses?
5. Have I realistically assessed my strengths?
6. Do I have a complete and readily accessible list of all my bank accounts and business investments, including the access information for each account?
7. Do I have a complete and readily accessible list of all my promotional materials, including client communications, website content and print communications which I use with both existing customers and prospects?
8. Do I review my IB business plan regularly and amend or update the plan as needed?
9. Do I need to write a business plan and register as an IB 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 concerning derivatives markets (futures contracts, options on futures contracts, forex, swaps).

The IB will be required to update registration information annually and make changes when necessary. The IB's business activities are subject to supervision and scrutiny by the NFA on an ongoing basis.

Total # IBs registered	1,043
Total # CTAs registered	1,353
Total # CPOs registered	1,239
Total # FCMs registered61
Total # RFEDs registered.	4
Total # Swaps dealers registered.	109
Total # Exchanges registered	6
<hr/>	
Total # associated persons registered	43,976
<i>Source: NFA Aug. 2021</i>	

The majority of your regulatory and compliance contract will be with the NFA, but the CFTC 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 primary agency for regulation of both individuals and firms that did futures business with the public.

In this chapter, you will learn the areas of responsibility for each agency, how those agencies are organized and how their oversight affects the IB's daily business. The individuals who work at the CFTC and NFA are professionals who should be among your first contacts when you have questions about rules or compliance in the industry.

If you, your employees or or firm do not remain in compliance with CFTC rules and NFA regulations, clearing firms will not handle your customers' business. Regardless of the amount of account equity or trading volume your IB handles, FCMs will not take the risk or the ultimate liability of working with any firm that has a history of disciplinary problems.

The Top Three Characteristics of a successful IB:

- 1. A good business plan.
- 2. A willingness to work hard.
- 3. Strict compliance to industry regulations.

Source: NFA Aug. 2021

In the aftermath of the 2008 financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank or the Act), was signed into law in July, 2010. The Act was a response to the recession of the late 2000's, and brought significant changes to financial regulation in the U.S. The Act is meant to promote financial stability by improving transparency and accountability in the system, to protect consumers from abusive financial services practices and to end "too big to fail."

Dodd-Frank required the CFTC to conduct a number of studies and reports on a variety of issues that affect the derivatives market. The reports, including rules issued as a result of those studies, exemptive orders and guidance actions taken by the CFTC since 2010 are available on the CFTC website, www.cftc.gov.

Included in the Act were several changes to regulation of the financial markets and its professional participants, including bringing derivatives onto exchanges and including Introducing Brokers in the definition of "financial institutions." By defining IBs with other financial institutions, many of the resulting rules apply directly to an IB.

The NFA initially identified 38 areas in which they would eventually make new regulations. Those areas include data collection regarding particular products, review of position limit regulation and review of public reporting. Those reviews and updates continue.

Because the CFTC views swaps, which were not regulated in the U.S. prior to Dodd-Frank, as having been at the center of the 2008 financial crisis, great emphasis on swaps registration, regulations and enforcement was placed on that part of the markets. To date, the CFTC has made rules which require swaps dealers to meet recordkeeping and reporting requirements and meet robust business conduct standards. Swap dealers are subject to capital and margin requirements meant to lower risk in the system. A list of registered swap dealers is found on NFA's website, www.nfa.futures.org.

Ultimately, the implementation of the Dodd-Frank Act was meant to increase transparency and improve pricing in the derivatives marketplace. Standardized derivatives are required to be traded on regulated exchanges or swap execution facilities. Increased transparency is hoped to have the effect of increasing competition, thereby bringing better pricing to the markets resulting in lower costs of participation for end-users.

A Very Short History of Futures Regulation

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

In 1922, the Grain Futures Act was passed. Because it was based on the interstate commerce clause of the U.S. Constitution 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).

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

During the years from 1936, 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, prices for grain and soybean futures reached highs never before seen in the market. Allegations of market manipulation and excessive speculation prompted Congress to consider revising the entire federal regulatory scheme. That revision resulted in the Commodity Futures Trading Act of 1974, which created the Commodity Futures Trading Commission (CFTC or Commission). The CFTC's exclusive jurisdiction was expanded over futures trading in all commodities.

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

In 1979, the activities of commodity pool operators (CPOs) and commodity trading advisors (CTAs) began to be overseen by the Commission. In 1981, NFA was created and granted registration as a self-regulatory futures association.

Final rules governing introducing brokers (IBs) and associated persons (APs) were adopted by 1983. 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 (ie. "early warning" procedures for adverse financial situations); and, better margining policies; and allowed options trading in non-agricultural and physical commodities.

On October 19, 1987, the U.S. stock market took the biggest one-day plunge recorded to that date. No firms defaulted on customer obligations. All CFTC-regulated systems functions.

Market reports began to be sent electronically to the CFTC during 1992-93 for the first time, and a total of 46 new futures and options contracts were approved for trading. The CFTC launched its website, www.cftc.gov in 1995.

The Commodity Futures Modernization Act of 2000 brought significant changes to the CEA, creating a more flexible structure for the regulation of futures and options on commodities trading. It clarified CFTC jurisdiction over certain foreign currency transactions (forex) and repealed the 18-year old ban on trading of single stock futures.

Significant changes also followed the September 11, 2001 attacks on the United States. CFTC restructured its staff in order to more effectively deal with anti-money laundering legislation and increased globalization of the markets themselves. Domestic trading of single stock futures was permitted beginning in 2002.

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, CME Group. In 2008, the New York Mercantile Exchange and COMEX, both located in New York City, became 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 of that year the Dodd-Frank Act was signed. Title VII of the Act 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.

The sanctity of customers' segregated funds was breached by two different FCMs in October 2011 and again in July 2012. Much of the focus of both the CFTC and NFA 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.

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

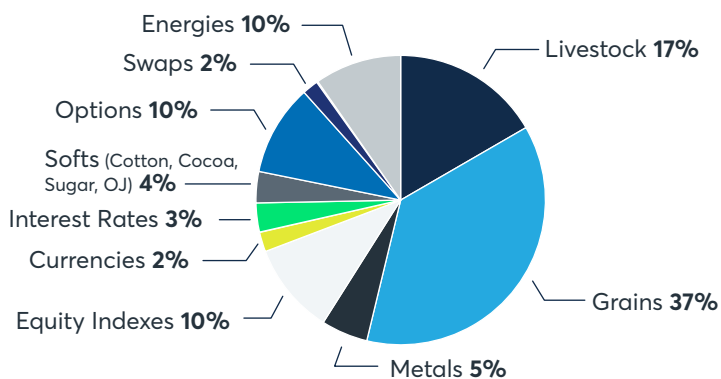
Swaps regulation took effect in 2014 which created a large pool of new registrants.

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

During 2017, the CFTC addressed identification and review of those regulations which could be simplified under a program called "Project KISS." Also, in 2017, the CFTC issued guidance for the regulation of bitcoin.

A federal court ruled in 2018 that bitcoin and other cryptocurrencies can be commodities. That meant that derivatives on cryptocurrencies that are not securities, such as bitcoin futures, are exclusively regulated by the CFTC. Conversely, some derivatives based on cryptocurrencies are jointly regulated by the CFTC and SEC if the underlying cryptocurrency is classified as a security. By late 2017, CME Group began transacting cryptocurrency futures contracts.

Volume of Trades Per Market



*Not represented due to less than 1% measurable results: Cryptocurrency, Forex

Source: 2021 IB 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 was created by Congress in 1974. It is an independent agency whose original purpose was to regulate futures and options markets in the United States. The enactment of the Dodd-Frank Act brought the regulation of swaps transactions 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

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 to prospective customers.

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

The main office of the CFTC is located in Washington, DC with field offices in Chicago, New York City and Kansas City, MO.

Funding for CFTC operations comes from the U.S. Congress. For 2021, the agency requested a budget of **\$304 million**, 7% above the budget requested for 2020. CFTC currently employs approximately 668 people.

Source: CFTC 2021

The CFTC website, www.cftc.gov, includes the following among other information:

- new product and trading facilities descriptions
- forex and foreign contracts approved for trading
- updates and changes to swaps trading regulation
- disciplinary and enforcement actions taken by the Commission
- access to financial reports required to be filed with the CFTC, including those of FCMs
- market reports such as Commitments of Traders and others
- information on regulation of bitcoin and other cryptocurrency trading

Organization of the CFTC

The CFTC organization consists of the offices of the Chairman and Commissioners as well as the agency's 13 operating divisions and offices. The agency is led by the Chairman in his/her capacity as the agency's Chief Executive. Along with his/her staff, the office of the Chairman directs the day-to-day management of the agency, coordinates Commission business and shapes the CFTC's regulatory and enforcement agenda.

Five Commissioners are appointed by the President of the United States to lead the CFTC. They must be approved by the Senate and serve staggered five-year terms. The President designates one Commissioner to act as 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 time of writing of this Handbook, there are only two Commissioners sitting in the Washington, DC office of the CFTC. Two more Commissioners have been nominated by the President of the United States and are awaiting U.S. Senate approval. Additionally, the President has nominated the currently Acting Chairman of the Commission to a permanent position. 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 and are highly experienced individuals. CFTC staffers are very open to answering registrants' questions about rules, regulation and policy.

Commissioners serving as of August 2021, per the CFTC website are:

Commissioner Rostin Behman, Acting Chairman (term began 9/2017)

Mr. 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. Mr. Rostin earned a law degree from Syracuse University College of Law.

Commissioner Dawn DeBerry Stump (term began 9/2018)

Mrs. Stump was President of Stump Strategic, a consulting firm she founded prior to joining the CFTC. Previous to Stump Strategic she was Executive Director and Sr. Vice President of U.S. Policy for the Futures Industry Association (FIA) and Vice President at the New York Stock Exchange. Mrs. Stump also served in staff positions in both the U.S. Senate and House of Representatives. She has a B.S. from Texas Tech University.

The Responsibilities of CFTC's Operating Divisions and Offices

The operating divisions and offices of the CFTC are staffed by professionals, many of which have worked for the Commission for as long as 20 years. These people can be a great resource in understanding the Commission's rules and will generally be available to take questions on possible upcoming or updated regulation.

Clearing and Risk (DCR): oversees derivatives clearing organizations and other market participants in the clearing process. These include futures commission merchants, swap dealers, major swap participants and large traders.

Enforcement (DOE): investigates and prosecutes alleged violations of the Commodity Exchange Act and Commission regulations. Potential violations include fraud, manipulation and other abuses concerning commodity derivatives and swaps that harm market integrity, market participants and the general public. The CFTC's Whistleblower Office is within DOE.

Market Oversight (DMO): fosters open, transparent, fair, competitive and secure markets through oversight of derivatives platforms and swap data repositories. DMO reviews new applications for designated contract markets, swap execution facilities, swap data repositories and foreign boards of trade, and examines existing trading platforms and swap data repositories to ensure their compliance with applicable core principles and other regulatory requirements, including system safeguards.

Market Participants Division (MPD): primarily oversees derivatives market intermediaries including IBs, CPOs, CTAs, FCMs, RFEDs, swap dealers and major swap participants along with designated self-regulatory organizations. The Office of Customer Education and Outreach is also within MPD.

Division of Data (DOD): is responsible for the CFTC's data strategy and data governance approaches. DOD creates data architecture for analytics, visualization and storage of data.

Legal Division (LD): provides legal services and support to the Commission and all of its programs. These services include: representing the Commission in appellate, bankruptcy and other litigation; assisting in the performance of adjudicatory functions; providing legal advice and support for Commission programs; drafting and assisting in preparation of Commission regulations; interpreting the CEA; advising on legislative, regulatory and operational issues; and managing the policymaking and enforcement docket. The LD is also responsible for the Secretariat, Privacy, Library, E-discovery and Freedom of Information programs.

Division of Administration (DA): directs the internal management of the Commission's business, personnel, financial, technological, security and strategic operational resources. The DA's role is to effectively and efficiently ensure the fulfillment of the Commission's mission through continued success in continuity of operations, while providing the required resources for regulating the derivatives markets.

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

Office of International Affairs (OIA): advises on international regulatory issues and initiatives, represents the Commission in international forums and provides technical assistance to foreign market authorities, including advice, training and an annual meeting and symposium.

Office of Public Affairs (OPA): is the CFTC's primary public-facing office which provides information across all communication platforms. It conducts outreach and creates messaging designed to raise awareness of the CFTC.

LabCFTC: is the focal point for the CFTC to promote responsible fintech innovation and fair competition for the benefit of the American public. It is designed to make the CFTC more accessible to fintech innovators in the financial markets.

Office of Legislative and Intergovernmental Affairs (OLIA): provides support on matters before the U.S. Congress and serves as the official CFTC liaison with members of Congress, federal agencies and the Administration.

Office of Minority and Women Inclusion (OMWI): heads up the CFTC's civil rights, equal employment opportunity and diversity and inclusion programs.

The Inspector General's Office (OIG)

The OIG is an independent organizational unit of the CFTC whose mission is detect waste, fraud and abuse within the CFTC. OIG reviews all of the CFTC's programs, activities and records and issues semiannual reports on its findings and recommendations.

CFTC's Reparations Program

The CFTC's Reparations Program provides an inexpensive, expeditious and fair forum to resolve disputes between derivatives customers and registered trading professionals. To use the program, the parties must satisfy certain requirements including attempting to resolve the matter on their own. The issues are decided by a CFTC judgment officer who specializes in commodity derivatives law. Full information on by who and how the reparations program may be used is found on the CFTC's website, www.cftc.gov, in addition to adjustments made to the procedures in use during COVID-19.

Violations eligible to be heard in the Reparations Program 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 the 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.

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. It 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 an award will be between 10 and 30 percent of the monetary sanctions collected in either a CFTC or related action. According to CFTC records for 2020, over \$123 million dollars have gone to whistleblowers since the program began.

The number of whistleblower tips filed have steadily increased over the past nine years. The Commission believes that to be due in part to their outreach program in combination with information highlighted on their website.

CFTC's Market Report

The CFTC publishes a number of reports which are available to the public on their website. These easily accessible, free reports are a great way to keep up with the financial and trading information collected by the Commission. IBs can use these reports to access information about the ongoing financial health of their FCM(s), to update your knowledge of open and trade interest in various markets and to provide support and documentation when developing trading strategies. The complete list of available reports can be found on the CFTC's website. A sampling of the reports includes:

Bank Participation Reports: compiled monthly and includes commodity type, open interest and bank type with regard to held futures and options positions.

Cleared Margin Reports: filed by derivatives clearing organization such as CME Group daily to report initial margin deposits.

Commitments of Traders (COT): provides a breakdown of each Tuesday's open interest for futures and options on futures markets in which 20 or more traders hold positions equal to or above the reporting levels which have been established by the CFTC. The CFTC does not publish information on how individual traders are classified in the COT reports. Generally, the data contained in the reports is from Tuesday and released on Friday of the same week. The CFTC received the data from the reporting firms on Wednesday and reviews and verifies it for release by Friday afternoon.

Financial Data for FCMs: are monthly reports which provide a look at the financial health of FCMs and RFEDs. They include information on both adjusted and net capital as well as customer assets held in segregation by FCMs and RFEDs along with several other financial benchmarks.

Net Position Changes: is a large trader report showing the daily average net position for large traders in 27 physical and eight financial futures markets for any one week. The trading account net position changes report track 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.

Weekly Swaps Report (WSR): details the market-facing trades that occurred during the reporting week and open swap positions that transfer risk between independent entities. NOTE: The redesigned service platform used to produce the WSR, went live the weekend of November 20, 2020 and CFTC expects to resume publication of the WSR on its website during late summer 2021.

The National Futures Association (NFA)

300 S. Riverside Plaza, Ste. 1800
Chicago, IL 60606
(312) 781-4300

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

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

The NFA is the self-regulatory organization (SRO) for the U.S. futures, options, foreign exchange and swaps industry. It is a not-for-profit membership corporation which 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 on futures contracts, forex and swaps trading business with the public. NFA Membership is mandatory for all futures professionals doing business with the public.

Introducing Broker offices are located throughout the United States with fewer offices non-domestic. Non-domestic office locations were listed in *Chapter 2: Registration*. The state and number of IBs currently registered in that state if the total is more than eight are listed below.

Location and Number of NFA-Registered IBs by State

Illinois	159	New Jersey	36	Connecticut	16
New York	133	Kansas	28	Ohio	14
Texas	72	Missouri	24	North Dakota	11
California	48	South Dakota	24	Massachusetts	10
Iowa	48	Indiana	20	Oklahoma	10
Florida	47	Tennessee	19	Arkansas	8
Nebraska	46	Colorado	17	Michigan	8
Minnesota	38	Wisconsin	17		

Source: NFA Aug. 2021

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

NFA has initiated a number of initiatives during COVID-19 in order to operate effectively, fulfill its regulatory duties and continue to perform its regulatory oversight of its members. Like most IBs, NFA pivoted to a work-at-home environment for most of 2020 and well into 2021. As of this writing, NFA employees are returning to the Chicago office. NFA adopted many rules which required in-person supervision to suit the remote working situation and held its meetings virtually. IBs and other registrants feel the NFA adapted well and that communication with NFA employees was handled efficiently.

NFA 2020 Statistics*

Information Center: This Information Center is used by members and the public. It is reached at (800) 621-3570 or (312) 781-1410 or through the NFA's website, www.nfa.futures.org. In 2020, NFA's Information Center received more than 21,000 calls and responded to nearly 4,000 emails.

Registration: NFA must screen all firms and individuals who want to register with the CFTC and become NFA members. In 2020, the Registration Department processed approximately 370 firm registrations and over 6,600 individual registrations.

Registration Investigation: Approximately 1,150 cases were opened by the Registration Investigations Department of the NFA in 2020. The investigations were MOSTLY due to fingerprint card results, answers to disciplinary information questions on registration forms or disciplinary information obtained during NFA's background check.

Restitution: The NFA restitution programs have returned about \$69 million to more than 16,000 individuals over the life of the program.

Enforcement Actions: In fiscal year 2020, the Business Conduct Committee of the NFA issued 16 Complaints against 35 respondents. Many of those cases involved members and their employees who failed to supervise, cooperate with NFA in an investigation or observe high standards of commercial honor, and just and equitable principles of trade. NFA's disciplinary panels issued 19 Decisions and ordered 11 expulsions and nine suspensions from membership. In 2020, NFA collected more than \$2.7million in fines which were primarily the result of complicated investigations involving the CFTC and other regulators.

**Source: NFA 2021*

NFA Membership: The following NFA membership listing is current as of August 2021*:

Total # IBs registered	1,043
Total # CTAs registered	1,353
Total # CPOs registered	1,239
Total # FCMs registered	61
Total # RFEDs registered	4
Total # Swaps dealers registered	109
Total # Exchanges registered	6
<hr/>	
Total # associated persons registered	43,976

Source: NFA Aug. 2021

**Total membership counts each member entity once. Many members are registered in multiple categories which is not reflected.*

All futures professions who do business with the public, including IBs, must join the NFA. Once you become a registrant, you may not accept orders for another person EXCEPT FROM A DIRECT CUSTOMER unless that person belongs to the NFA or other registered futures association such as an exchange.

Individuals apply for NFA membership at the same time they apply for registration by the CFTC. As of August 2021, there were 3,815 members of the NFA which is down from the 4,546 total reported in the 2018 printing of this guide. NFA records indicate there are currently 43,976 Associated Persons (APs) down from 50,965 in 2018.

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

As of August 2021, about 604 people work for the NFA in its two offices. Policy implementation is handled by NFA offices and its staff. All NFA personnel can be reached by email or phone through the NFA website, www.nfa.futures.org.

NFA Officers and key personnel as of December 2020 include:

Tom Sexton:	President & CEO
Dan Driscoll:	Special Policy Advisor
Regina Thoele:	Senior Vice-President, Compliance
David Hawrysz:	Senior Vice-President
Karen Wuertz:	Senior Vice-President, External Affairs & Communication
Carol Wooding:	Senior Vice-President, General Counsel & Secretary
Edward Dasso:	Vice-President, Market Regulation
Yvette Christman:	Vice-President, Registration
Michael Otten:	Vice-President, OTC Derivatives
Tim McHenry:	Vice-President, Information Systems

NFA policy is defined by its Board of Directors (BoD). Representatives from all registration categories are elected from the general membership to serve on the BoD along with a few individuals appointed from the public and the industry at large. Policy Supervision is handled by a 15-member Executive Committee elected by the BoD. The majority of BoD members are currently or have been registered as APs. Maureen Downs is the current Board of Directors Chairperson.

Introducing Brokers have two representatives on the NFA BoD, one each from the Guaranteed Introducing Broker (GIB) and Independent Introducing Broker (IIB) category. As of August 2021, IB representatives are:

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

IIBs: Mike Burke: CEO, HighGround Trading Group
Chicago, IL mikeb@highhgroundtrading.com

NFA issues a financial report to members annually and holds an annual membership meeting at its Chicago in February annually. All members of the NFA are eligible to attend. NFA also posts a video report on its website quarterly to update members on NFA initiatives throughout the year.

IBs and their APs may be appointed to the various committees of the NFA. These committees meet periodically to advise NFA staff on proposed regulation and respond to CFTC requests and other membership issues. I have been a Special Advisor to the IB Advisory Committee for many years and find it very worthwhile.

Committees include:

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

NFA's Areas of Responsibility

NFA's stated responsibility is to develop rules, programs and services that safeguard market integrity, protect investors and help NFA members meet their regulatory responsibilities.

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, www.nfa.futures.org. Annual registration updates are required for IBs. You will be notified of the update deadline date and you will file electronically.

NFA reported in its Annual Report that it processed 370 firm registrations and over 6,600 individual registrations during 2020.

Rulemaking and 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 NFA staff approximately every three years. During COVID-19, these required audits have been performed virtually and post-pandemic, NFA may continue IBs audits virtually, at least in part.

The NFA Annual Report states that the Business Conduct Committee of the NFA issued 16 Complaints against 35 respondents in 2020. The disciplinary panels issues 19 Decisions and ordered 11 expulsions and nine suspensions. It collected more than \$2.7 million in fines.

Dispute Resolution:

In 1983, NFA began an arbitration program which has become the primary venue for dispute resolution in the industry. Since 1991, they have also offered a mediation program. Arbitration proceedings are generally conducted by members of the NFA, often sitting as a panel with lawyers, accountant and other industry participants. The hearing can be conducted in-person or by each party submitting documents for review to the hearing officer or panel.

NFA dispute resolution can be used for member-to-member disputes such as IB to FCM issues, and for customer-to-member disputes such as customer to IB. The cost is determined by the amount in dispute. Forms for filing an arbitration or mediation request are found on the NFA website, www.nfa.futures.org. In 2020, NFA reports it disbursed over \$14 million to approximately 700 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 workshops throughout the U.S. and during 2020 continued those workshops virtually. Recent topics have included a regulatory workshop in May 2021. Audio recordings of those meetings are posted online at the 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 market terminology as well as how to use securities futures products and cybersecurity questions. These are available on NFA's website and are updated quarterly.

Good to Know about the NFA

Your IB will have regulatory contact more often with the NFA than any other regulatory agency. From your initial registration to submitting advertising materials, the NFA is quite literally your partner in operating the IB office.

BASIC

In 1998, 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. Non-members can also view the directory. NFA reports more than 800,000 individual BASIC searches average each year.

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

Prior to associating with an FCM, CTA/CPO or other IB or prior to hiring any AP, check BASIC to see work history and any disciplinary actions taken. Check BASIC periodically to ensure the information displayed about you and your IB has been reported and updated correctly.

Cybersecurity

During February 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. NFA's Interpretive Notice to NFA Compliance Rules 2-9, 2-36 and 2-49 are the latest updates to require all member firms regarding these ISSP requirements. NFA's Self-Examination Questionnaire contains a cybersecurity section that is a good resource.

NFA recognizes that a one-size-fits-all approach does not work given the various business models of IB registrants. It has adopted a principles-based risk approach which allows IBs a degree of flexibility in determining what constitutes "diligent supervision" given the differences in firm sizes and complexities of their operations.

Each IB must adopt an ISSP appropriate to its circumstance. The 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. IBs must also notify NFA of certain cybersecurity incidents related to their business. NFA's website explains those circumstances and how to file notice electronically.

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, NFA added specific criteria to determine if a firm and its APs should be subject to "enhanced supervision." Interpretative Notice 9021 lists those requirements which are based on the disciplinary history of their APs and principals or on the firm's commission levels. Most firms required to implement enhanced supervision are designated "Disciplined Firms."

A disciplined firm is one that has been sanctioned by the NFA or the CFTC during the past five years or permanently barred by NFA or CFTC based on formal charges of sales practice or promotional material violations. It includes a firm that has been sanctioned for sales practices involving the offer, purchase or sale of security futures products.

You can find a Disciplined Firm list on BASIC. If an FCM enters into a Guarantee Agreement with an IB that has been charged in an NFA or CFTC enforcement action alleging sales practice or promotional material violations and the charges have not been resolved, the APs of the GIB count toward the FCM's total number of APs.

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

Electronic Filing

An IB can use NFA's electronic filing system for the firm and its APs to meet its regulatory filing requirements. Register with the CFTC and apply for NFA membership electronically. Audited and unaudited financial statements and reports can, and in most cases, must be filed electronically through its website using EasyFile or WinJammer.

IBs access their annual questionnaire and submit required regulatory documentation electronically. Information found on the website of the NFA can help you develop your AML procedures. Electronic notices are also used to receive notice of member meetings, provide voting instructions for NFA's Board of Directors and cast votes.

Virtual Currency

NFA issued Interpretive Notice 9073 which established disclosure requirements for FCMs and IBs that engage in activities related to virtual currencies or virtual currency derivatives. The Notice requires IBs to provide those customers with specific information to further the customer's understanding of virtual currency trading and its risk prior to or at the time the customer places a trade. The language of the Notice is standardized, is found on the NFA's website as well as in the Notice and cannot be amended.

Checklist for Chapter 5: Regulators

1. Have I completed registration requirements for the CFTC and do I understand what role CFTC plays in the industry regulatory scheme?
2. Have I completed membership requirements for the NFA and do I understand what role NFA plays in the industry regulatory scheme?
3. Have I checked NFA's BASIC listing to ensure my FCM and any APs I plan to hire are not subject to NFA's Enhanced Supervision requirements?
4. Have I checked my own BASIC listing to make sure the information posted is correct?
5. Has my IB registered for electronic filing with the NFA and named an Account Manager?
6. Should I request an appointment with NFA to review my promotional materials prior to their first use?
7. Do I have an appropriate ISSP in place, do I have written procedures regarding the ISSP and have my APs been trained?
8. Do I have an appropriate AML program in place, do I have written procedures regarding the program and have my APs been trained?
9. Have I reviewed CFTC's market reports to see if any will be useful to my IB?

Chapter 6

First Audit

Audit: a formal examination of accounts, records and documents to determine their accuracy.

NFA MEMBERS are required to comply with NFA rules and CFTC requirements. As a member, your IB will be monitored for compliance by the NFA during periodic examinations. Commonly referred to in the industry as "audits," the examinations are generally conducted in-person at IB office every three years. During COVID-19, audits have been conducted virtually and NFA is considering continuing conducting at least some portions of the exams virtually post-COVID.

Your FCM also has a responsibility to supervise all aspects of your futures, options, forex and swaps activities. NFA Interpretative Notices over the years have suggested 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 is performed in a consistent manner throughout their system. During 2020-21, these audits have very successfully been conducted virtually.

All members are subject to being audited, but the timing and frequency of examination will vary depending on the following factors among others:

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

NFA audits have two major objectives:

1. To determine whether the firm is maintaining records in accordance with NFA rules and CFTC regulations; and
2. 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 NFA 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 (GAAP).

Up to the emergence of COVID-19, the NFA conducted about 400 audits of IB each year. At current registration levels, your IB might expect to be audited by the NFA about every three years.

Also pre-COVID, NFA's audit programs were designed so that the audit examiners (NFA staff) had to perform a certain amount of their work in your office. During COVID, the entire exam may be conducted by the NFA virtually from the NFA's office. Your firm's records and relevant documents are required to be produced and relevant personnel must be available. If the IB, a principal or AP is registered in another capacity, the exam may take additional time. Most IB audits last one to five days or up to two weeks depending on the nature of your operations and areas of concern.

NFA examinations are conducted in three phases:

1. **Planning:** NFA most often contacts the IB to announce an upcoming audit. Following the initial contact, a formal notice which includes the initial document request list and confirms the date and time NFA will conduct the exam. NFA has the right to conduct a "surprise" audit. Surprise audits are rare and most often involve concerning activity at the IB office, including customer complaints or issues noted during the review of an IB's financial statements or other NFA filings.
2. **Fieldwork:** during this phase of the exam, you can expect NFA to:
 - a. review reports and documentation
 - b. interview key personnel
 - c. monitor the firm's operations
 - d. conduct an oral exit interview
3. **Reporting:** Upon completion of the fieldwork, NFA will hold an examination closing meeting ("exit interview") to discuss the findings with IB personnel; contact the IB for any follow-up questions or requests; and issue a written examination report.

NFA requires that audit records be maintained and readily available.

NFA has some resources available to assist you in preparing for an audit. I have found the Self-examination Checklist available on the NFA website is a valuable source with regard to your regulatory responsibilities and internal procedures. It can be a great resource to IB. The NFA suggests reviewing the NFA Manual itself which is posted in its entirety on the NFA website.

A preliminary list of records and documents needed for the IB audit will be provided when the exam is announced. NFA staff will also be in contact with the individual that is most knowledgeable about the firm's business operations. That person may be the IB's Compliance Officer or you, if you are the Sole Proprietor. Questions will likely include what types of customers the IB has, the solicitation methods used by the IB and the types of promotional material used. A pre-audit conversation will help to determine what additional documentation or personnel may be needed and how long the complete exam will take.

During the Audit Process

On the first day of the IB audit, a member of the NFA's 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 IB's operations and they might conduct interviews with your personnel. They may ask you to copy certain documents or to take documents back to the NFA office. Ask for a receipt if any documentation is removed from your office. During virtual exams, documentation may be scanned or emailed to meet the requests.

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. Most records will be stored with an electronic media storage system. Any digital storage system

that preserves information in a permanent format, indexes and records the data, 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 filed by your IB with the NFA must be in English. If you prepare any promotional materials in any other language, you must keep English-language translations of that material.

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 are 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.

Some records/documents which will generally be examined during the course of an IB audit are:

- Customer statements
- Customer orders
- Operations and activities policies of the IB
- Position limit and reportable position at the IB
- Policies against doing business with non-NFA members
- Customer information, including risk disclosure documents
- Anti-money laundering policy*
- Privacy policy*
- Customer protection information
- Risk management program
- Virtual currency notice
- Discretionary accounts
- Disclosure of costs associated with futures transactions
- Use of third-party providers*
- Ethics training*
- Business continuity and disaster recovery plans*
- General supervision plan, including branch offices
- Cybersecurity*
- Chief Compliance Officer
- Accounting requirements for IIBs
- Financial requirements for IIBs
- Required accounting records for IIBs
- Financial reporting
- Subordinated Loan agreement(s)
- Segregation requirements
- Margins
- Requirements for a Guarantee Agreement
- Termination of a Guarantee Agreement

** NFA suggests an IB review the Appendix or Interpretative Letter which it has published for each of these areas. They can be found on NFA's website, www.nfa.futures.org*

After the Audit

After the audit of the IB is complete, but before the examiners leave your office, they generally meet with you for an 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.

Upon returning to the NFA office or completion of the virtual exam, the auditors will prepare an Exam Report. If no material deficiencies were found, the Exam Report will state just that — the audit is complete, and no material deficiencies were found. If there are deficiencies, the Exam Report will note them and the IB's written response to the Exam Report will likely be required.

NFA prohibits any representation that any member's abilities have been passed upon by the NFA or any federal or state regulatory body. You cannot represent that the IB has been approved or recommended by the NFA.

If the audit indicates serious or repeated violations of NFA rules, the Compliance Department will forward the matter to the Business Conduct Committee (BCC). 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's rules.

If a complaint is issued, the IB is entitled to a hearing and if it is found that NFA rules were violated, the IB can be subject to possible disciplinary action ranging from expulsion from NFA membership to reprimands and/or fines up to \$250,000 per violation. There is an appeals process which is final subject to review by the CFTC.

Special action can be taken by the NFA if an infraction of NFA rules by the IBs is deemed to pose an imminent danger to markets, customers or other NFA members. A Member Responsibility Action (MRI) could require the IB to immediately cease doing business.

General Registration Documents/Records

NFA audit staff will review specific documentation and records in regard to general registration requirements. They include, but are not limited to:

- 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 Office managers must complete the Branch Manager exam.
- That any personnel transacting security futures business has completed specific and additional requirements.
- That your IB is 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 customers.
- That the Guarantee Agreement and/or Termination Notice has been filed with NFA.
- That GIBs have a copy of their Guarantee Agreement on file in the office.

General Supervision Documents/Records

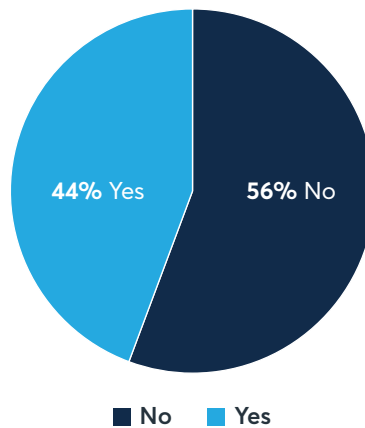
NFA compliance rules put a continuing responsibility on each IB to diligently supervise its employees and agents in all aspects of their futures activities. The exact form of supervision is up to the individual IB so that procedures remain flexible enough to be developed with the IB's own business situation in mind.

Additionally, NFA compliance rules impose additional duties with respect to the supervision of discretionary accounts, written procedures regarding communications with the public (including advance review and approval of all promotional material by a supervisory person, and procedures regarding customer information and risk disclosure.

Supervision of Branch Offices

Introducing Brokers may tailor their supervisory procedures to meet the requirements for Branch offices. NFA suggests adequate procedures should include, but not be limited to: procedures for day-to-day monitoring and surveillance activities at the Branch Office and on-going training for Branch Office personnel. In-person audits of the Branch Office activities may be conducted virtually during COVID-19. The IB's policies and procedures for the supervision of its Branch Offices must be in writing and be on file in each Branch Office.

IBs with Branch Offices



Source: 2021 IB Survey

Day-to-Day Supervision: As a general rule, NFA expects GIBs and Branch Offices to be inspected annually. Accommodations have been made during COVID-19 for virtual inspections and some of those adjustments may carry over post-COVID. After the inspection, a written report is prepared by your FCM or prepared by you if you inspected a Branch Office. Its findings should be discussed with the principals and appropriate supervisors.

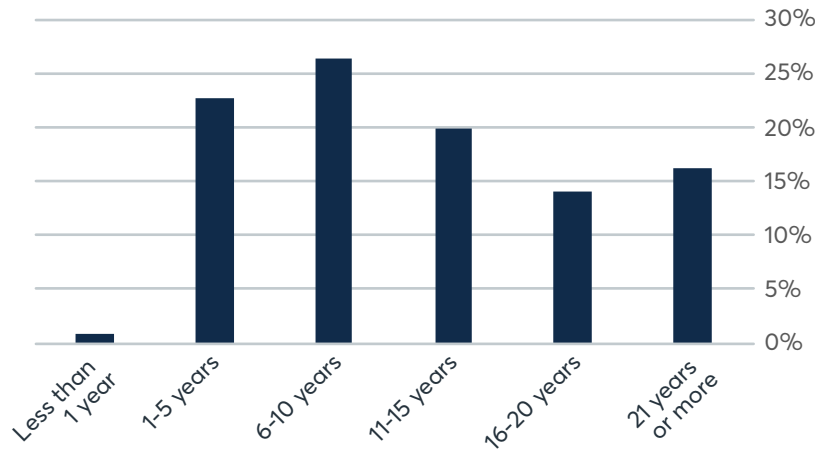
Procedures to review the day-to-day activities of your IB should include the following:

Hiring: IBs must conduct thorough screening procedures for prospective employees to ensure they are qualified and to determine the extent of supervision required. If a prospective AP answers "yes" on the registration form, you must obtain the supporting documentation and review for any disqualifying information. Check with the NFA for any futures-related disciplinary proceedings against the AP or her/his prior employers by reviewing the candidate's history on BASIC.

Registration: CFTC records generated by the IB or GIB should be broken down by AP and should frequently be 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 IB, and any branch office. The documentation should be reviewed to ensure the account was appropriately approved and the customer received the appropriate risk disclosures. It might be necessary to contact your customer directly to verify that these disclosures were provided and that the customer understood its (their) meaning. Customer identification includes identification of beneficial account owners.

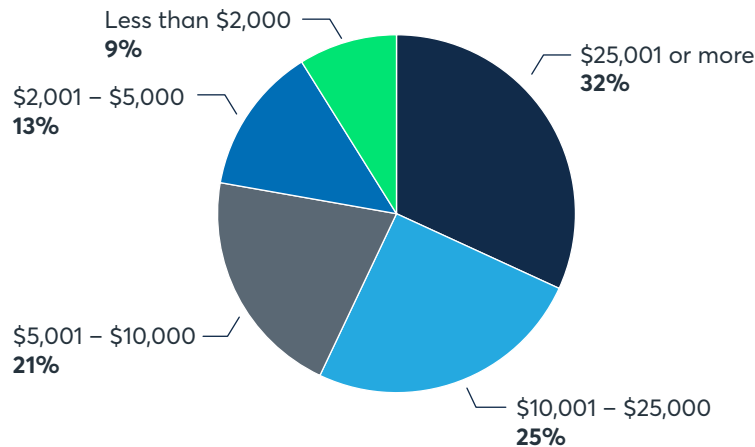
Approximate Account Lifetime



Source: 2021 IB Survey

Account Activity: Trading activity in customer and AP personal accounts should be reviewed and analyzed periodically to discover if that account warrants further scrutiny. Reviewing order tickets and trade registers as well as talking with the AP or broker for the customer account, or even talking directly to the customer may be necessary.

Average Account Opening Size



Source: 2021 IB Survey

Discretionary Accounts: NFA requires supervision and review of discretionary accounts. Review NFA compliance rules and check NFA BASIC to ensure the AP handling these accounts have had the proper registration for the required two-year minimum prior to opening and serving the accounts.

Promotional Material: All promotional material should be submitted by the Branch Manager or GIB to the home office or FCM for review and approval prior to its first use. Review and approval of the material must be documented.

Customer Complaints: A written record of all customer complaints must 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/FCM is required to review the complaint for possible rule violations and similarity to other complaints which may indicate a pattern of abuse.

On-Going 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 so that APs receive adequate training to understand industry rules and obligations, and to properly handle customer accounts. The form of training is left up to each IB and should reflect the unique characteristics of the IB including the size and nature of the business.

Chief Compliance Officer: IBs are not required by the CFTC to designate an individual as the firm's COO. But if the firm does appoint a COO, 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 "financial institution," which means that significant responsibilities were placed 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 a 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 discusses certain minimum standards which must be part of any AML program. IBs may tailor their AML program based on the type of business, the size and complexity of operations, the IB's customer base, the number of APs and other employees in the IB's office and the firm's resources.

Several compliance companies offer professionally developed and presented AML programs which meet the standards of the NFA. Whether an IB uses a third-party program, one that is provided by an FCM or develops its own, an IB's AML 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 who work in areas susceptible 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 the AML procedures which require the 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 must 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. Required to be included in the program at a minimum 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 believe you have detected suspicious activity in your IB office, 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 obviously illegal activity.
- 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 its operations. Carefully consider the following questions when you are designing your plan. These areas address minimums which your IB's program must include:

- Where are the IB's backup facilities - are they located in a separate geographical area than your primary office?
- What are the IB's procedures for backing up or copying essential documents and data?
- Does the IB store 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 been involved and reviewed the plan?
- Have you updated the NFA with emergency contact information if it has changed?

Cybersecurity

NFA 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. The Notice applies to all NFA members including IBs.

The Notice adopts a principles-based risk approach to allow firms a degree of flexibility when they determine what their policies will include which takes into account the differences in the size and complexity of operations of the IB, the make-up of customers and counterparties, and the extent of the IB's inter-connectedness.

An IB's cybersecurity ISSP should contain at a minimum:

- 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, the process used to understand its potential impact and the process to take appropriate measures to contain and mitigate the breach.
- a description of the IB's on-going 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 is accessed through its website.

Use of Third-Party Service Providers

Effective September 2021, each NFA member including IBs must adopt a written supervisory framework over outsourcing of regulatory obligations to third-party service providers. As of the writing of this handbook, NFA has developed an Interpretive Notice to help firms design that framework which will be posted on its website and included in the self-examination questionnaire. Some of the questions that must be addressed about your outsourcing process are:

- How does the IB determine whether a regulatory function is appropriate to outsource?
- What risks were evaluated during that determination?
- Is the IB able to adequately manage risks associated with outsourcing any particular function?
- How are employees that are involved in the risk assessment process made aware of NFA's Interpretative Notice and future updates?

Once the initial risk assessment is made, the IB will be required to develop a process for on-boarding and continued due diligence with regard to the third-party service provider. Those standards will also be included in the NFA's self-examination Questionnaire.

Ethics Training Policy

Each NFA member, including Introducing Brokers, 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 completely with outside providers. Whether you decide to use a third-party provider or develop your own program, the following questions are a minimum 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, taped program, in-person?
- How frequently must APs of the IB complete the training?
- How long is the program for new NFA registrants? For 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 regulations which apply those laws to futures registrants. CFTC regulations require that customer information be protected. Each IB's privacy policy must be described in a privacy notice given to customers when the account is opened. There must also be a separate written document describing an IB's policy for protecting customer records and information. The policy must be updated periodically.

FCMs will most often provide the approved policy and notice to GIBs. NFA's website includes general guidelines to 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 submit promotional matter directly to the NFA's Chicago office.

In addition to your FCM(s) and the NFA, both the CFTC and exchanges have the right to examine the activities of your IB by performing an audit. If you are registered to handle securities or cash commodities transactions, those industry regulators may audit your office activities.

Exchanges generally limit their reviews to member firms such as FCMs because they can discover information about the FCM's IB system and individual IBs through their examination of the FCM's books and records.

The CFTC will audit or review an IB if that office has a number of customer complaints or if there is reason to believe the IB is using questionable sales practice techniques. In recent years the CFTC has pursued more investigations into IB activities than in years previous and some of those investigations have resulted in legal actions.

If you are notified by any regulatory agency or agent of the law that your IB will be audited, you must notify your FCM. If your documentation and all other required records are kept up-to-date and in compliance with all NFA rules and other applicable regulations, you should not fear an audit. I think you will find NFA staff to be knowledgeable and willing to respond to inquiries you have about operating your IB and your audit. Reach out for help if you need to.

Checklist for Chapter 6: **First Audit**

1. Have I designated a Compliance Officer?
2. Have I reviewed the NFA Checklist periodically and prior to my audit date?
3. Are the IB's policies and procedures in all required areas updated and being kept when I can access them easily?
4. Have I notified my FCM(s) of the upcoming NFA audit date?
5. Have I prepared my employees and staff (and physical office space if the audit is to be in-person) prior to the audit?
6. Do I have a copy of my IB's Guarantee Agreement and is it easily accessible?
7. If I moved my office location or have made other changes at the IB, have I notified the NFA, and updated my Business Continuity and Disaster Recovery Plan?
8. Following my audit, did I do the necessary follow-up with the NFA and FCM?

Chapter 7

Resources

Resource: A source or support that helps you achieve your goal more effectively.

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

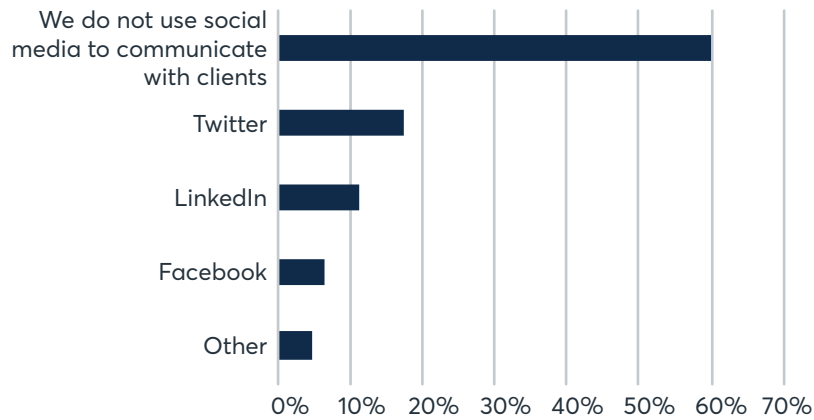
Websites and networking group communications are regulated by NFA Compliance Rules 2-9 and 2-29. Linking to another site, developing your own site or using information from an established site or source – all fall under NFA rules. Some requirements are to:

- 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 derivatives 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 AP's may use to attract business to the firm.

Email Communications are also regulated by the NFA. As the IB operator, it is your responsibility to 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 reasonable 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.

Most Used Social Media Websites By IB



Source: 2021 IB Survey

IBs should not use any materials found on any website or other source of information in your solicitation or promotional information without first checking with your compliance officer and, for GIBs, with your FCM. Electronic solicitation is regulated by the NFA in the same manner as print or telephone solicitations, 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 retained in your records. These materials are subject to NFA review.

Listings in this chapter do not constitute or imply endorsement by the author or by CME Group. Any examples in this chapter are hypothetical interpretations and are used for explanation purposes only. The views in the listings reflect solely those of the author of thst listing 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.

Regulatory, Government and Association Sites:

American Finance Association (AFA)
afajof.org

American Petroleum Institute (API)
api.org

Association for Financial Professionals (AFP)
afponline.org

Bank for International Settlements
bis.org

Briefing.com
briefing.com

Chartered Market Technicians
cmtassociation.org

Commodity Futures Trading Commission
cftc.gov

Commodity Markets Council (CMC)
commoditymkts.com

Energy Information Administration
eia.gov

Energy Institute
emi.org

Farm Credit Administration
fca.gov

Federal Reserve System
federalreserve.gov

Financial Industry Regulatory Authority (FINRA)
finra.org

Financial Management Association, Intl.
fma.org

Futures Industry Association (FIA)
fia.org

Gallup Organization, The
gallup.com

Global Association of Risk Professionals (GARP)
garp.org

International Swaps and Derivatives Association (ISDA)
isda.org

Managed Funds Association (MFA)
managedfunds.org

National Cattlemen's Beef Association (NCBA)
ncba.org

National Futures Association (NFA)
www.nfa.futures.org

National Grain & Feed Association (NGFA)
ngfa.org

National Introducing Brokers Association (NIBA)
theniba.com

Office of the Comptroller of Currency (OCC)
occ.gov

Securities Exchange Commission (SEC)
sec.gov

Securities Industry and Financial Markets Association
sifma.org

U.S. Department of Agriculture (USDA)
usda.gov

U.S. Department of Commerce
commerce.gov

U.S. Treasury
treas.gov

Women in Listed Derivatives (WILD)
womeninlistedderivatives.org

Women in Technical Analysis (WTA)
cmtassociation.org

News and Market Commentary:

A Commodity Trading World
acommodity.com

Advantages in Options
trdecaddie.com

Ag Resource
agresource.com

Agricultural Marketing Services
ams.usda.gov

Bank Credit Analyst
bcaresearch.com

Barclay Hedge
barclayhedge.com

Barrons
online.barrons.com

Bloomberg
bloomberg.com

Chartist, The
thechartist.com

Cheese Market News
cheesemarketnews.com

Chicago Sun-Times
suntimes.com

Chicago Tribune
chicagotribune.com

CIS, Inc.
cis-okc.com

CNBC.com
cnbc.com

CNN
cnn.com

Consensus
consensus-inc.com

Commitment of Traders Report (COT)
cftc.gov/MarketReports/CommitmentsofTraders/index.htm

Crain's Chicago Business
chicagobusiness.com

Derivatives Intelligence
globalcapital.com/derivatives

Dow Theory Letters
adenforecast.com

Economist, The
economist.com

Elliott Wave International
elliottwave.com

EQ Derivatives
eqderivatives.com

Farm Week
farmweeknow.com

Fast Company
fastcompany.com

Feedstuffs
feedstuffs.com

Financial Times
ft.com

Fitch Solutions
fitchsolutions.com

Fox Business News
foxbusiness.com

Futures and Options World
fow.com

Futures Trading Charts
futurestradingcharts.com

Futures Truth
thefinancials.com

Grant's Interest Rate Observer
grantspub.com

Hightower Report, The
futures-research.com

inFocus Newsletter
cmegroup.com/activetrader

Insider Markets Newsletter
newsletter.businessinsider.com

Institutional Investor
institutionalinvestor.com

Investor's Business Daily
investors.com

John Lothian News
johnlothiannews.com

Large Trader Net Position Changes
cftc.gov/MarketReports

Lowry's Market Trend Analysis
lowryresearch.com

Market Watch
marketwatch.com

Mergers & Acquisitions
themiddlemarket.com

Modern Trader
modernt trader.com

Moore Research Center
mrci.com

Morningstar Mutual Funds
morningstar.com

MSNBC
msnbc.com

NFA Member Education
nfa.futures.org/members

National Hog Farmer
nationalhogfarmer.com

Natural Gas Intel
naturalgasintel.com

Nerd Wallet
nerdwallet.com

New York Times
nytimes.com

NIBA Journal, The
theniba.com

Opalesque.com
opalesque.com

OptionWorks
optionworks.com

ProFarmer Ag Trader
agweb.com

QuikStrike
cmegroup.com/tools-information/quikstrike

Reuters
reuters.com

Technical Analysis, Stocks & Commodities
traders.com

Traders' Edge
atradersedge.com

U.S. News & World Report
usnews.com

USA Today
usatoday.com

Wall Street Journal, The
wsj.com

Wall Street & Technology
wallstreetandtech.com

Waters Technology
waterstechnology.com

Futures, Stocks, Options, Forex and Swaps Facilities:

American Financial Exchange
ameribor.net

Australian Securities Exchange
asx.com.au

BSE
bseindia.com

Bourse de Montreal
m-x.ca

Chicago Board Options Exchange
cboe.com

CME Group
cmegroup.com

Dubai Gold & Commodities Exchange
dgcx.ae

Eris Clearing, LLC
erisx.com

Eurex Group
eurexchange.com

Euronext
euronext.com

Frankfurt Stock Exchange
deutsche-boerse-cash-market.com

Hong Kong Exchange & Clearing, Ltd.
hkex.com.hk

InterContinental Exchange
theice.com

Japan Exchange Group
<https://www.jpx.co.jp/english>

Johannesburg Stock Exchange
jse.co.za

Korea Exchange
krx.co.kr

London Metals Exchange
lme.com

London Stock Exchange
londonstockexchange.com

Mexican Derivatives Exchange
mexder.com.mx

Minneapolis Grain Exchange
mgex.com

Moscow Exchange
moex.com

NADEX
nadex.com

NASDAQ
nasdaq.com

New York Stock Exchange
nyse.com

Singapore Exchange, Ltd.
sgx.com

Small Exchange, The
smallexchange.com

Taiwan Futures Exchange
taifex.com.tw/enl/elIndex

Tel Aviv Stock Exchange
tase.co.il/eng

Tokyo Stock Exchange, Inc.
www.jpx.co.jp

Educational Institutions:

Alaska, University of - Anchorage
uaa.alaska.edu

Arizona, University of - College of Agriculture & Life Sciences
cals.arizona.edu

Auburn University
auburn.edu

Arkansas, University of
uark.edu

California, Berkeley, University of
berkeley.edu

Clemson University
clemson.edu

Connecticut, University of
uconn.edu

Colorado State University
colostate.edu

Delaware, University of
udel.edu

DePaul University
depaul.edu

Florida, University of
ufl.edu

Georgia Institute of Technology
gatech.edu

Hawaii, University of
hawaii.edu

Idaho, University of
uidaho.edu

Illinois, University of - Agriculture College
aces.illinois.edu

Illinois State University
illinoisstate.edu

Iowa State University
iastate.edu

Kansas State University
k-state.edu

Kentucky, University of
uky.edu

Louisiana State University
lsu.edu

Massachusetts at Amherst, University of
umass.edu

Michigan State University
msu.edu

Minnesota, University of
umn.edu

Mississippi State University
msstate.edu

Missouri, University of
missouri.edu

Montana State - Bozeman, University of
montana.edu

Nebraska, University of
nebraska.edu

New Hampshire, University of
unh.edu

New Mexico State University
nmsu.edu

North Carolina State University
ncsu.edu

North Dakota State University
ndsu.edu

Ohio State University Extension
extension.osu.edu

Oklahoma State University
osuoka.edu

Oregon State University
oregonstate.edu

Pennsylvania State University
psu.edu

Purdue University, Department of Agriculture
ag.purdue.edu

Rice University, Department of Economics
economics.rice.edu

South Dakota State University
sdstate.edu

Southern Illinois University
siu.edu

Tennessee, University of
tennessee.edu

Texas A & M University
tamu.edu

Utah State University
usu.edu

Vermont, University of
uvm.edu

Virginia Tech
vt.edu

Washington State University
wsu.edu

Wisconsin, University of
wisc.edu

Wyoming, University of
uwo.edu

Ethics, Anti-Money Laundering And Cyber Security Providers:

Center for Futures Education
thectr.com

Compliance Supervisors, Inc.
compliancesupervisors.com

Exchange Analytics
exchangeanalytics.com

FINRA
finra.org

Futures Industry Association
fia.org

Institute for Financial Markets
theifm.org

United Lex
unitedlex.com

vSEC, LLC
vsecllc.com

Data Vendors and Equipment:

Argus
argusmedia.com/en/metals

Barchart
barchartmarketdata.com

Bloomberg, LP
bloomberg.com

Commodity Systems, Inc.
csidata.com

CQG
cqq.com

DTN/The Progressive Farmer
dtnprogressivefarmer.com

eSignal
esignal.com

Exegy
tradevela.com

MarketSource Online
marketsourceonline.com

MarketView
marketview.com

QT Info Systems
qtmarketcenter.com

Reuters Data
metastock.com

Schneider Electric
schneider-electric.com

Thomson Reuters
thomsonreuters.com

Tick Data, Inc.
tickdata.com

Trading Technologies
tradingtechnologies.com

Accountants, Compliance, Other Professional Services Providers:

Advanced Regulatory Compliance, Inc.
advreg.com

Compliance Supervisors, Inc.
compliancesupervisors.com

Michael Coglianese CPA, PC
cogcpa.com

DeMarco, Sciacotta, Wilkens & Dunleavy, LLP
dscpagroup.com

Futures Account & Compliance
futuresaccounting.com

Great Lakes Credit Union
glcu.org

Michael Liccar, CPA
liccar.com

Midland IRA
midlandira.com

Millennium Trust Company
mtrustcompany.com

Sudrania Fund Management
sudrania.com

Turnkey Trading Partners
turnkeytradingpartners.com

Lawyers:

Mayer Brown, Matt Kluchenek
matt.kluchenek@mayerbrown.com

Gekas & Associates, Chris Gekas
CIG@gekaslaw.com

Funkhouse, Vegosen, Liebman & Dunn, Ltd., Bill Bolotin
bbolotin@fvld.com

Greenburg Traurig, LLP, Jeff Henderson
hendersonj@gtlaw.com

Kennyhertz Perry, LLC, Braden Perry
braden@kennyhertzperry.com

Howard & Howard Attorneys, Jeff Barclay
(312) 456-3433

Ruddy Gregory Law, Mark Ruddy
mruddy@ruddylaw.com

Ulmer & Berne, LLP, Ken Berg
ulmer.com

Web Design and Marketing:

16 Wells
16wells.com

Blue Fountain Media, Inc.
bluefountainmedia.com

Financial Brand, The
thefinancialbrand.com

Gate39 Media
gate39media.com

GlossyDevelopment
glossydev.com

Lida Citron
lida360.com

Propel Growth
propelgrowth.com

QuickSilver Studios
quicksilvernow.com

Print and Electronic Publications:

Most of the publications listed below are available for purchase online in hardcopy or for an electronic reader.

Bornacin, Brandon: ***Whatever It Takes: Master the Habits to Transform Your Business, Relations and Life***
Paperback and Kindle Editions, 2021

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

Clifford, Christine and Harry Beckwith: ***You, Inc., The Art of Selling Yourself***
Hardcover, Paperback, Audio Book and Kindle Editions, 2011

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

DuRocher, David: ***HTML and CSS: Quickstart Guide***
Paperback and Kindle Editions, 2021

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

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

Li, Charlene and Josh Bernoff: ***Groundswell, Expanded & Revised Edition: Winning in a World Transformed by Social Technologies***
Paperback and Kindle Editions, 2020

Morin, Amy: ***13 Things Mentally Strong People Don't Do***
Hardcover, Paperback, Audio Book and Kindle Editions, 2014

Palmer, Melina: ***What Your Customer Wants and Can't Tell You***
Paperback Edition, 2021

Robbins, Jennifer: ***Learning Web Design, 5th Edition***
Paperback and Kindle Editions, 2018

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

Ve, Jimmy and Travis Miller: ***Gravitational Marketing: The Science of Attracting Customers***
Hardcover and Kindle Editions, 2015

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. Does my trade association offer support or assistance to help me locate third-party vendor professional services?
4. Have I properly sourced any material or information used from a website or publication?
5. Have I contacted any website before I link to it?
6. Have I created a "Solicitations" folder in order to maintain any materials from outside sources used when my IB communicates with the public?
7. Will I develop an AML policy, ethics training program or ISSP for my IB, or should I contact an third-party provider?
8. How much time can I afford to research outside sources to help build the IB's business or should that be assigned to an employee or contracted to a third-party provider?

Chapter 8

Trade Associations

Trade Association: An association of people or companies in a particular business organized to promote their common interest.

Trade Associations are one of the tools an Introducing Broker can use to build business. IBs belong to diverse groups such as the National Cattlemen's Beef Association (NCBA), the Futures Industry Association (FIA) and the American Petroleum Institute (API), as well as NIBA, the association for derivatives professionals. In-person conferences became webinars in 2020-21 as each association continued to reach out with a new kind of support for their members.

All associations listed in this chapter create community, help to set standards for excellence in the industry and promote professional development. Before you join any group ask yourself what you want to get out of membership - education, networking, lobbying? Some benefits of belonging to a trade association include:

- **Advocacy:** Advocacy is an often 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 your industry. Being part of the group means making your voice heard by raising the image and influence of the entire community, turning one voice into a persuasive, collective shout.
- **Compliance:** Regulation and how to comply with it, is one of an IB's biggest concerns. Belonging to a trade association will help you keep up with rapidly changing industry regulation and keep you in compliance.
- **Education:** Trade associations are literally clearing houses of information. Workshops, newsletters, webcasts and in-person conferences offer opportunities to share fresh ideas, discuss common concerns and learn best practices.
- **Personal Connections:** Your circle of business colleagues will expand by belonging to a trade association and you may even create alliances or partnerships which ultimately enhance your bottom line, such as potential branch office relationships.
- **Professional Development:** Improve your marketing skills. Learn how to use new products or technology. Develop a more effective website. Hire an intern. You can benefit from a trade association membership by finding whatever you are looking for to grow your industry experience and market knowledge.

44% of Respondents to the 2021 IB Survey expect (or hope) to attend in-person events in 2021 (following the appropriate COVID protocols.)

NIBA

Office: 1730 No. Clark, Ste. 302
Chicago, IL 60614
(312) 498-3518

Website: www.theniba.com

Primary Contacts: Melinda Schramm: melinda@futuresrep.com
Mike Burke: mikeb@highgroundtrading.com

NIBA, based in Chicago, IL is a not-for-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 IB business. NIBA has the support of service providers in the industry as well as domestic exchanges.

NIBA's mission is to provide education to registered derivatives professionals to help them grow their businesses while staying in compliance. That is accomplished through in-person conferences in Chicago and New York, webinars in partnership with other industry participants and a twice-monthly electronic newsletter. 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 holds regularly scheduled meetings with the CFTC and NFA. The association's membership conferences emphasize continuing education, networking, marketing and updates from industry regulators. Member events are also held in partnership with DePaul University, Illinois Institute of Technology and various other industry participants.

All registered IBs and CTAs may claim their free membership by going to NIBA's website, theniba.com. Each firm must review their listing for accuracy and to add contact information or to add a listing. FCMs and other industry professionals can also join in supporting categories.

The 2021 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@gmail.com

Treasurer:
Mike Coglianese: mike@cogcpa.com

Past Pres/ Serv Pro Members:
Steve Petillo: spetillo@tradovate.com

Member/IB & CTA Members:
Brad Janitz: bjanitz@midlandira.com

Member/AG Committee:
Rodney Dow: rodney@rwdowcorp.com

Member/NY Conference:
Howard Rennell: hrennell@e-windham.com

Member/DePaul Liaison:
Mark Shore: mshore@shorecapmgmt.com

Member/Conf Communications:
Katie Tervin: ktervin@zaner.com

Member/Conf Communications:
John Roe: jroe@btrtrading.com

Member/FCM Issues:
Danny Dorman: ddorman@dormantrading.com

Member/FCM Issues:
Tom Mitchell: tmitchell@gaincapital.com

Member/FCM Issues:
Jeff Gilfilian: jgilfilian@phillipcapital.com

Member/Exchange Issues:
Barbara Schmidt-Bailey:
barbara.schmidt-bailey@cmegroup.com

Legal Advisor:
Matt Kluchenek: matt.kluchenek@mayerbrown.com

American Petroleum Institute (API)

Office: 200 Massachusetts Avenue, N.W.
Washington, DC 20001
(202) 682-8000

Website: www.api.org

Primary Contact: Robin Rorick: rrorick@api.org

The American Petroleum Institute (API) represents all aspects of the oil and natural gas business in the U.S., and promotes public policy in support of a 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 for all types of U.S. 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 its goals. More information on API's current initiatives, event schedule and membership requirements are found on their website, www.api.org.

Commodity Markets Council (CMC)

Office: 600 Pennsylvania Avenue, S.E.
Washington, DC 20003
(202) 842-0400

Website: www.commoditymkts.com

Primary Contacts: James Newsome: james.newsome@commoditymkts.com
Kevin Battah: kevin.battah@commoditymkts.com
Allison del Rosario: allison.delrosario@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.

CME advocates for an open, competitive marketplace by addressing issues focusing on agriculture, infrastructure, transportation, energy and finance. Some CDC initiatives include that end-users are able to utilize markets for risk management that are safe, stable and liquid; capital requirements of swaps dealers and major swaps participants; and obtaining legislative and regulatory relief from burdensome regulations on commodity end-users.

CMC was established 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. Members of CMC are regular users of the CME Group, ICE Futures and other exchanges.

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 grain. Contact CMC directly to learn about their dues structure.

Chartered Market Technician Association (CMT)

Office: 115 Broadway
New York, NY 10006
(646) 652-3300

Website: www.cmtassociation.org

Primary Contact: 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 objective is the education of the public, the investment community and its membership regarding the theory, practice and application of technical analysis to the markets.

Certification as a CMT is offered through the association. A candidate must complete a three-level examination process 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. Student may also apply to join the association. Membership information is found on their website, www.cmtassociation.org.

Futures Industry Association (FIA)

Office: 2001 K Street, N.W.
Ste. 725, North Tower
Washington, DC 20006

Website: www.fia.org

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

Futures Industry Association (FIA) is a trade association representing the cleared derivatives industry. Its membership includes over 85 percent of all 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
- Japan Chapter
- Law and Compliance Division
- Market Technology Division
- Operations Division

FIA Events include:

- 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.
- Annual Law and Compliance Workshop held in Baltimore, MD.
- Annual 3-day Membership Meeting held in Boca Raton, FL.
- Various meetings throughout the year in global venues including Japan, New York, London, Geneva and Chicago.

Membership benefits include Washington representation, division membership, conferences, 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 applicant's organization structure and/or registration status. Once the parent entity becomes a member, individual employees may join the various divisions.

Global Association of Risk Professionals (GARP)

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

Website: www.garp.org

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

Global Association of Risk Professionals (GARP) was founded in 1995. 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 risk management certification programs for the Financial Risk Manager (FRM) and the Energy Risk Professional (ERP). Both certifications require an exam which covers the major disciplines of either the financial risk or the energy related practice.

GARP has a worldwide membership in over 190 countries and holds membership and regulatory meeting locally which includes Chicago, Singapore, Dubai, London and Houston.

GARP website registration is free and includes access to articles from its magazine and research webcasts. Membership fees depend on the category of membership chosen.

International Swaps and Derivatives Association (ISDA)

Office (DC): 600 13th St., N.W.
Washington, DC 20005
(202) 683-9330

Office (NYC): 10 East 53th Street
New York, NY 10022
(212) 901-6000

Website: www.isda.org

Primary Contacts: Scott O'Malia: somalia@isda.org
Steven Kennedy: skennedy@isda.org
Tara Kruse: tkruse@isda.org

Founded in 1985, the purpose of the International Swaps and Derivatives Association (ISDA) is to foster safe and efficient derivatives markets to facilitate effective risk management for all users of derivatives products. ISDA has over 960 member firms in 78 countries which include representatives from a broad range of participants - corporations, investment managers, government entities, insurance companies, energy and commodity 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 through the year and presents webcasts intended to promote stable financial markets and a strong regulatory framework.

Membership fees are dependent on membership level chosen. Full information is on their website at www.isda.org.

Managed Funds Association (MFA)

Office (DC): 600 14th St., N.W.
Washington, DC 20005
(202) 730-2600

Office (NYC): 546 5th Avenue
New York, NY 10036
(646) 542-8460

Website: www.managedfunds.org

Primary Contacts: Bryan Corbett: bcorbett@managedfunds.org
Peter Donovan: pdonovan@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.

MFA's global membership includes FCMs, banks, hedge fund advisors, IBs, CTAs and CPOs, in addition to pension plans, university endowments and other charitable organizations. Some of MFA's 2021 initiatives include promoting fair and stable swaps markets through additional targeted enhancements to the CFTC's swaps trading framework.

Member benefits include an electronic newsletter, Washington representation, in-person conferences in various cities, research and discounts on meetings and publications. Membership information for MFA is found on their website.

National Cattlemen's Beef Association (NCBA)

Office (CO): 9110 E. Nichols Avenue
Centennial, CO 80112
(303) 694-0305

Offices: Regional throughout the U.S.

Website: www.ncba.org

Primary Contacts: Jerry Bohn: jbohn@ncba.org
(National) Joe Guild: jguild@ncba.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 producers or a flat fee for anyone without a live herd. Member benefits include a weather blog as well as discounts from other NCBA members such as the Caterpillar and John Deere companies.

National Grain and Feed Association (NGFA)

Office: 1400 Crystal Drive, #200
Arlington, VA 22202
(202) 289-0883

Website: www.ngfa.org

Primary Contacts: JoAnn Brouillette: jbrouillette@ngfa.org
Greg Beck: gbeck@ngfa.org

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 businesses.

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 state and regional association chapters account for more than 10,000 grain and feed companies nationwide. Contacts for the regional chapters and annual fee information is found on their website, www.ngfa.org.

Women in Listed Derivatives (WILD)

Mailbox: P.O. Box 06085
Chicago, IL 60606

Website: www.womeninlistedderivatives.org

Primary Contact: info@womeninlistedderivatives.org

Women in Listed Derivatives (WILD) promotes networking and relationship building among women in the derivatives industry through social and educational events. The group focuses on learning from industry role models, encourages career development and support the advancement of women in listed and over the counter derivatives. Over 1,000 women working globally in the industry belong to chapters in the U.S., London and Latin America.

Information on events and membership can be found on their website, www.womeninlistedderivatives.org

Women in Technical Analysis (WTA)

Office: 115 Broadway
New York, NY 10006
(646) 652-3300

Website: www.cmtassociation.org

Primary Contact: admin@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 exchange ideas, and to further the profession with diverse opportunities in continuing education, advocacy, and ethics awareness.

WTA presents webcasts and in-person events. Check the CMT for membership information.

Checklist for Chapter 8: Trade Associations

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

