

The Complete IB Handbook

Written by Melinda H. Schramm

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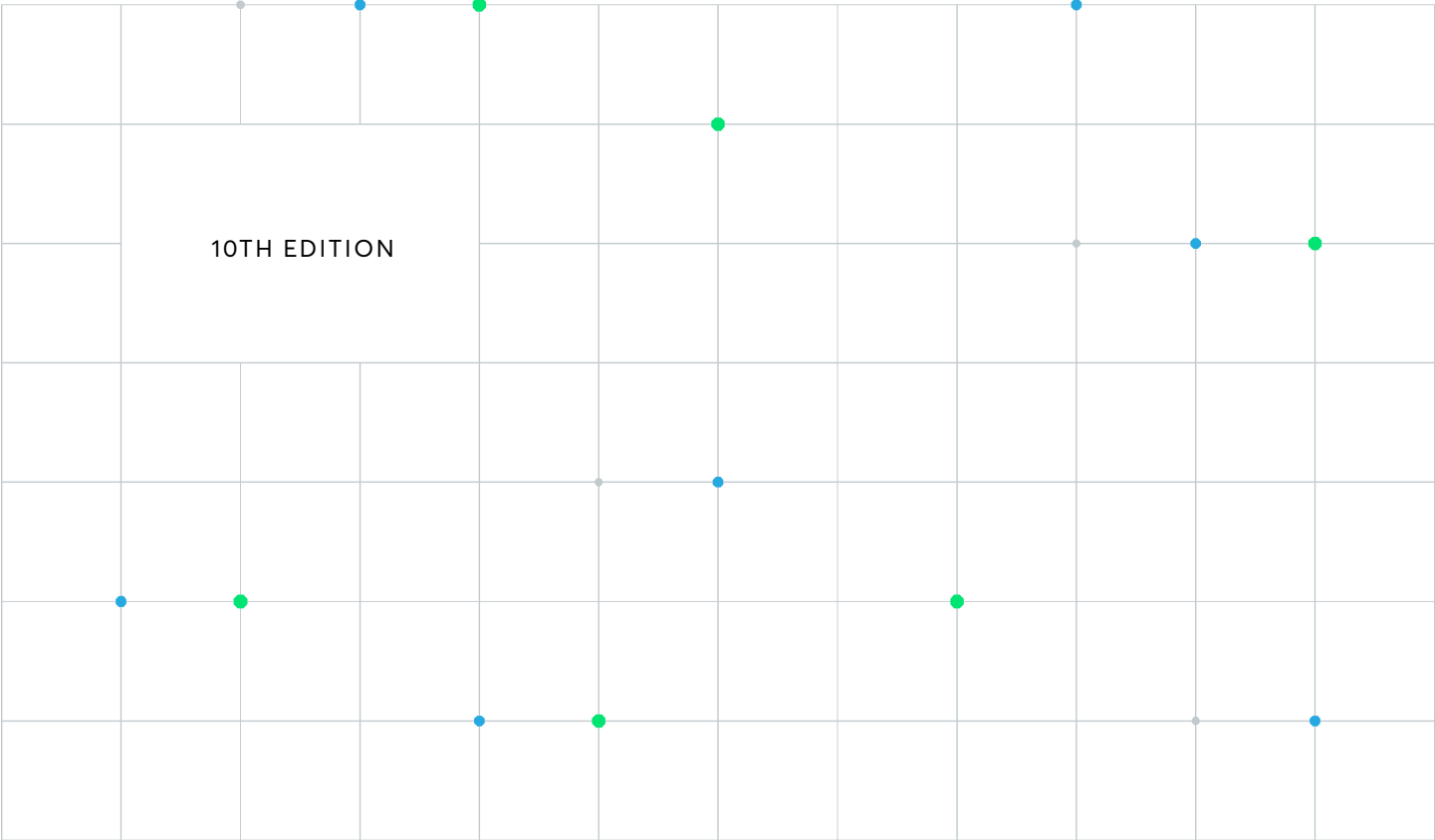


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Introduction

Introducing Brokers (IBs) were first required to be registered with the Commodity Trading Futures Commission (CTFC) and members of the National Futures Association (NFA) in 1984. Since then, the derivatives business has changed. The IB community has anticipated, adapted and implemented those changes. As a result, IBs have helped keep the markets transparent and accessible for everyone.

IBs fill a very important and unique role in the futures industry. The IB connects the customer to the marketplace and, for many market users, the IB with whom they trade is the derivatives professional whom they regularly rely on. IBs offer:

- Professional knowledge about the marketplace, including the rules and regulations.
- Customized trading programs, which fit the needs of each specific customer.
- Access for hedgers and speculators to domestic and global markets.
- Ongoing personal, and often local, relationships, which provide a trustworthy market resource.

Some notable changes have taken place since the first edition of The Complete IB Handbook in 1998.

THEN	NOW
211 Futures Commission Merchants were registered.	NFA records show 62 registered FCMs.
A total of 1,564 IBs were registered; 404 Independent (IIBs), 1160 Guaranteed (GIBs.)	A total of 924 IBs; 458 as IIBs, 466 as GIBs are registered.
Agricultural markets were overwhelmingly the most actively traded by IB customers. Many offices handled ag-related transactions only.	While grain and livestock remain in the top three most frequently traded markets, offices report that their customers trade all markets, including financial products, metals, currencies and markets once considered primarily "professional" or "institutional," as well as non-domestic markets.
Forex, swaps and cryptocurrencies were not available or actively traded by IB customers in 1998.	IB customers trade forex, swaps and cryptocurrencies.

The way the futures and options business is conducted has changed, in part due to:

- Technology – order placement, the costs of data and how it is provided, etc.
- Increased scrutiny on financial firms, including FCMs.
- Accessibility by U.S. market participants to non-domestic markets.
- Regulation changes brought about by Dodd-Frank laws, the failures of two FCMs and the COVID pandemic.

Introducing Brokers have met the challenges of operating a business in a changing world by learning about new products and new marketplaces, learning about the technology which works best for their customers, learning how to comply with regulation updates and by learning how to keep communication open – sometimes virtually!

CME Group supports the Introducing Broker community in many ways. Education, data, research, product and trading information are all found on CME Group website, www.cmegroup.com (see Ch. 8 resources for a more detailed list). CME Group's Product Managers are a terrific and valuable resource. Product Managers can be contacted through the website or at 1(312) 930-1000, and your firm can request to be listed in CME Group's Find a Broker Directory.

NIBA can also help your IB grow. NIBA is a trade association, which I founded in 1991, to provide derivatives professionals with education that supports their efforts to operate a successful business. IBs, Commodity Trading Advisors (CTAs), FCMs and industry service providers are all included in NIBA's membership. The Association holds in-person conferences, webinars and distributes a twice monthly newsletter. Each newsletter and meeting includes articles and presentations by industry experts on regulation, compliance, marketing and products. NIBA's website, www.theniba.com, is free to access and contains current Association news, as well as an archive of in-person conferences and articles. Members can claim their membership, be listed in the NIBA online Broker Directory and access exclusive materials specifically created to keep your business growing.

The information contained in the 10th edition of The Complete IB Handbook is based upon responses to a survey of all NFA-registered Introducing Brokers. It was sponsored by CME Group and MHS Capital Resource, Inc., and conducted in January/February 2024. No individual response has been identified in this Handbook. Graphs, numbers and charts summarize or further detail IB responses. Registration, regulatory and association information was obtained from the agencies or organizations described. Additional materials and assistance can be found on individual websites.

Owning and operating an IB is a business which requires strict compliance with regulation, dedication to your customers' needs and a measure of flexibility in your life. Since my first day on the job in 1976, I've looked forward every day to the industry's challenges – from the markets, from the regulators, from my customers. I hope readers of The Complete IB Handbook, 10th Edition, 2024 will find this guide useful, and will be just as excited about their careers 48 years into the future.

Melinda Schramm

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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, forex, commodity options or swaps, but does not accept money or other assets from customers to support those orders.

Introducing Brokers (IBs) handle transactions for customers trading in the futures and options on futures markets, for managed accounts and in forex, swap and cryptocurrency markets. IBs are the sales force of the industry, acting as an intermediary by dealing directly with the customer. They are in the unique position of connecting the customer to the marketplace and are very often the only futures professional a customer ever has personal contact with.

Total IBs registered:	924
Total IIBs Registered:	458
Total GIBs Registered:	466

Source: NFA Feb. 2024

Every IB must have a relationship with at least one Futures Commission Merchant (FCM). The FCM, referred to as the "clearing firm," handles trade execution and back-office services for the customers IBs "introduce" to that FCM. The IB collects a portion of the total commission on the trades placed for its customers.

IBs do not hold the money or other assets deposited by their customers. They forward all deposits, including checks, bank transfers and other forms of payment, directly to the FCM. All customer accounts introduced by the IB office are carried on the books of the FCM on a fully disclosed basis. "Fully disclosed" means the IB discloses all customer-related data to the FCM, including the customer's personal identifying information, banking data, trade details and other transaction-related information.

FCMs charge IBs a fee for each transaction executed for a customer. IBs set the commission fees charged to each customer and retain a portion of those commissions as their monthly payout.

Introducing Brokers must be registered as a member of the National Futures Association (NFA) in order to do business with the public (with a few exceptions: *Chapter 2: Registration*). IBs register as either an Independent Introducing Broker (IIB) or a Guaranteed Introducing Broker (GIB). The IB designation refers to the registered entity, which can be organized in various legal forms. NFA total membership includes approximately 3,550 firms in all categories, and about 40,800 Associated Persons (APs or individuals).

What an IB offers to customers

Introducing Brokers have the unique role of connecting a customer directly to the marketplace. In that role, the IB offers valuable services to their customers, including:

- Experience necessary to evaluate market moves and spot opportunities for trading.
- Assistance for new market participants who may not fully understand the risks of the markets.
- Order placement and education, which can prevent the customer from making a costly mistake during the order entry process.
- Research, which may not be otherwise easily available.
- Understanding of the regulatory framework and its changes and updates, which may impact a customer’s trading plan.
- An ongoing relationship with the customer, which provides a trustworthy market resource.

IB Registration 1998 – 2024

Introducing Brokers are federally registered with the Commodity Futures Trading Commission (CFTC) and must be members of the National Futures Association (NFA). The necessary registration/membership forms are located on NFA’s website, www.nfa.futures.org.

NFA currently regulates 924 IBs, most of which are located in the United States. The four states with the most IB offices registered are Illinois, New York, Texas and Florida. Locations/Numbers of IB offices are:

Location and Number of NFA-Registered IBs by State		
Illinois	145	New Jersey29
New York	117	Minnesota28
Texas	62	Kansas25
Florida	52	South Dakota20
Iowa	48	Missouri18
Nebraska	39	Connecticut17
California	35	Indiana17
		Tennessee17
		Colorado15
		Wisconsin12
		Massachusetts10
		Georgia9
		Ohio9

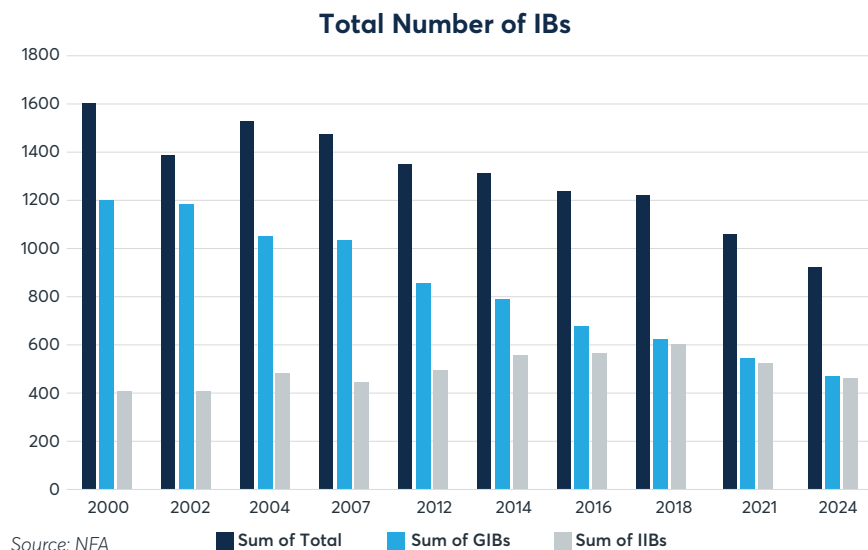
Source: NFA, Feb. 2024; states not represented above had fewer than eight IBs registered; no IB registrations were recorded in Alaska, Delaware, Hawaii, Nevada, New Hampshire, Rhode Island or West Virginia.

IB offices can be located outside the United States. 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 derivatives transaction execution facilities, can “notice register” to become an IB.¹

The customer accounts of GIBs must be carried on the books of their guarantor FCM. Customer accounts of IIBs can be carried on more than one FCM. Each IB, including those who primarily handle forex and swap transactions, must have at least one employee registered as an Associated Person (AP), and approved as a forex AP or swaps AP, respectively.

1 See Ch. 2 Notice Registration for more information

Some IBs transact market related business from the firm's office. The most commonly transacted additional businesses include securities brokerage, accounting services, grain elevator/feedlot operations, insurance of all types and real estate brokerage.



The total number of registered Introducing Brokers has decreased from 1998, the first publication of The Complete IB Handbook. Decreases are due in part to:

- **Cessation of business by four FCMs from 2005 to 2015:**

Refco ceased operation in October of 2005; Iowa Grain sold its FCM operations in September 2006; Alaron took Chapter 7 liquidation in October 2010; Vision Financial Markets withdrew its FCM registration in April 2015. Closing of these firms means fewer FCMs to handle IB-customer business.

- **The collapse of two FCMs in 2011 and 2012:**

MF Global declared bankruptcy in October 2011; Peregrine Financial Group failed in July 2012. The collapse of these two FCMs had severe consequences for IBs who then spent the next few years restoring customer trust and bringing customers back to the markets.

- **Increased costs of doing business:**

Costs of doing business have increased – some significantly. Professional costs of keeping up with compliance and reporting – legal and accounting, cybersecurity monitoring and technology requirements – are all areas in which respondents to the 2024 IB Survey report increased spending.

- **Changes in regulation and accounting:**

Legal liability and financial responsibilities for the IB's actions have made it less likely that some FCMs will enter into a Guarantee Agreement for a GIB.

- **An aging broker community:**

Over 55% of all respondents to the IB Survey report they have owned and operated an IB for over 20 years. Most of those owners spent several years as an AP or in a related business prior to opening the office. Many IB owners are retiring without younger professionals ready to step in to carry on.

- **COVID-Pandemic of 2020:**

At the end of 2019, NFA reported a total of 1,109 registered IBs. Eight months later in August 2021, those numbers had decreased to 1,048 in part because of the challenges IBs faced to meet supervision and audit requirements, and the lack of opportunity for face-to-face contact with their customers. The work-from-home movement has had an effect on Introducing Brokers just as it has in other industries.

Associated Persons (APs) are individuals who work in IB offices and handle communications with customers. Every registered IB office, including those who handle primarily forex and swaps, and broker-dealers who have notice-registered to become IBs, must have at least one NFA-registered AP 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, but must meet swaps proficiency requirements (see NFA website).

In February 2014, AP registrations reached a high of 56,745 individuals. That number was likely the result of NFA swaps registration requirements, which became effective in late 2012. NFA records indicate there are approximately 40,820 registered Associated Persons as of February 2024. That number is significantly down from the about 45,000 we reported in the 9th Edition of The Complete IB Handbook, 2021.

GIB or IIB?

Guaranteed Introducing Broker (GIBs): This registration process requires no capital requirement and less documentation than for an Independent Introducing Broker (IIB). There are no routine financial audits or routine financial filings. However, GIBs must have a NFA Form 1 FR-IB Part B (Guarantee Agreement) completed by an FCM, and can clear customer transactions only through the FCM that holds that guarantee. There is a very close supervisory relationship between the GIB and the FCM.

GIBs have less independence than IIBs – they must follow the FCM's procedures and policies, they rely on the FCM infrastructure including trading platforms, and they can only offer the products or services the FCM offers. GIBs will be closely tied to the FCM's downsides and risks.

NFA Form 1 FR-IB Part B is the only form of Guarantee Agreement the NFA accepts. An FCM that enters into a Guarantee Agreement is subject to discipline for violations of NFA rules by its GIBs. Either party to a Guarantee Agreement can terminate the guarantee by providing written notice of the intent to terminate to the other party, NFA, the CFTC and the FCM's designated self-regulatory organization at least 30 days prior to the planned termination date. On the termination date, the IB must stop doing business as an IB until it files with the NFA either a new Guarantee Agreement or the required financial reports to become an IIB.

A Temporary License (TL) allows Guaranteed Introducing Brokers to conduct business while the NFA is conducting its background checks. To qualify, all filings for the registration must have been made for the GIB and each of its individual principals and the NFA must have determined that the firm and each of those principals meet the eligibility requirements for obtaining the TL. Additionally, the FCM that guarantees the GIB must also file its certification before the TL will be issued.

GIBs, which switch their registration status to IIB, file a financial statement certified by an independent public accountant as of a date not more than 45 days prior to the filing date, or a financial statement as of a date not more than 17 days prior to the filing date and a financial statement certified by an independent public accountant as of a date not more than one year prior to the filing date.

Independent Introducing Broker (IIBs): The registration process for IIB includes all the GIB requirements except the Guarantee Agreement. It also includes several financial records and statements. IIBs are required to maintain an accounting system which records all of the firm's financial activity. The reports must be prepared in accordance with GAAP, must be done on an accrual basis and must be kept current. A Financial Reporting (1-FR) Instruction Guide is found on the NFA's website which details the IIB's reporting requirements, as well as the method for computing the member's minimum net capital requirements. If the IIB's adjusted net capital falls below its minimum net capital requirements, it must immediately notify the appropriate agencies. At that point the IIB may not withdraw capital or pay down a subordinated loan agreement.

Adjusted Net Capital for IIBs is defined by the NFA as equal to, or in excess of, the greatest of:

1. \$45,000.
2. For IIBs with less than \$1 million in Adjusted Net Capital, \$6,000 per office operated by the IB (including the main office).
3. For IIBs with less than \$1million in Adjusted Net Capital, \$3,000 for each AP sponsored by the IB.
4. *See NFA rules for securities brokers and dealers' requirements.*

IIBs file financial reports with the NFA on a periodic basis. All filings are done electronically. If a report is filed late, the IIB is subject to a fine of \$1,000 for each business day it is late. If the IIB fails to pay the late fee within 30 days of the due date, the NFA will treat the tardiness as a request to withdraw from NFA membership.

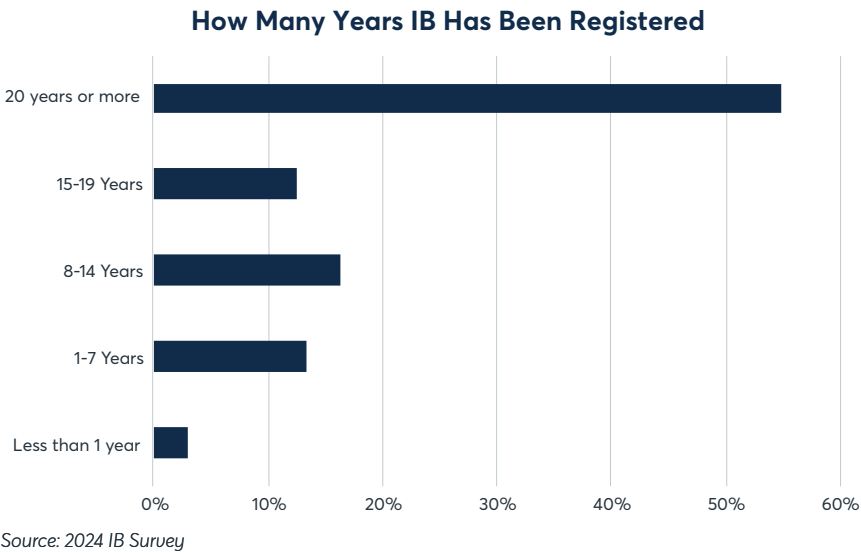
Registrants who are new to operating their own IB often choose the GIB status in order to gain experience and to operate under the supervision and financial umbrella of an FCM. But GIBs can only clear their customers' transactions through their designated Clearing Firm. Conversely, registrants who have experience in the industry, and can operate under the financial and reporting requirements of the NFA, most often choose IIB, since an IIB can enter into clearing arrangements with several Clearing Firms.

Some FCMs prefer clearing for IIBs primarily and accept very few or no GIB arrangements. FCM websites and NFA membership information rolls can help you find the right FCM(s) for your business.

Introducing Brokers pay initial membership dues to the NFA of \$750 and annual dues of \$750. For IB forex or swaps firms, the initial and annual dues are \$2,500 respectively. Electronic payment is available to U.S. firms and foreign firms using banks in the U.S. or by wire transfer. A failure to pay dues on time results in an electronic notice from the NFA detailing that the dues are delinquent and that they must be received within 30 days. NFA reports that the huge majority of firms remedy the delinquency immediately. If no accommodation is made within the 30 days, NFA will notify the firm that it is processing the IB's withdrawal and assess a late-fee. NFA reports that there are few times the late payment process ever gets into this position, but continued non-payment risks termination of the IB's NFA membership and suspension of its ability to do business.

Industry Experience

Over 55% of the Introducing Brokers who responded to the 2024 IB Survey have held the IB registration for more than 20 years – that is a long time! Another 29% report being registered for between eight and 19 years.

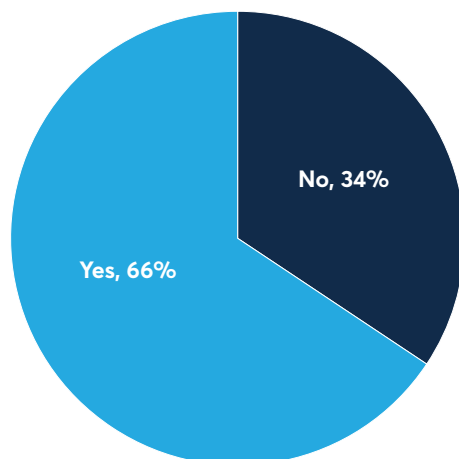


Most owners of IB firms have gained experience in the financial industry or related business before opening their own shop. The trading floor of the exchanges was the top training ground for those whose ultimate goal was an IB. While most colleges offer courses and degrees that apply to the financial industry 2024, IB owners have widely varying backgrounds – teaching, construction, practicing law and military service are just a few. Agricultural operations, including at a grain elevator or cash grain company is common among IB owners. A career in banking or other financial operations, or working for an FCM is also good experience. Owning and operating an Introducing Broker firm is open to all.

Business Plan

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

Do you have a business plan?



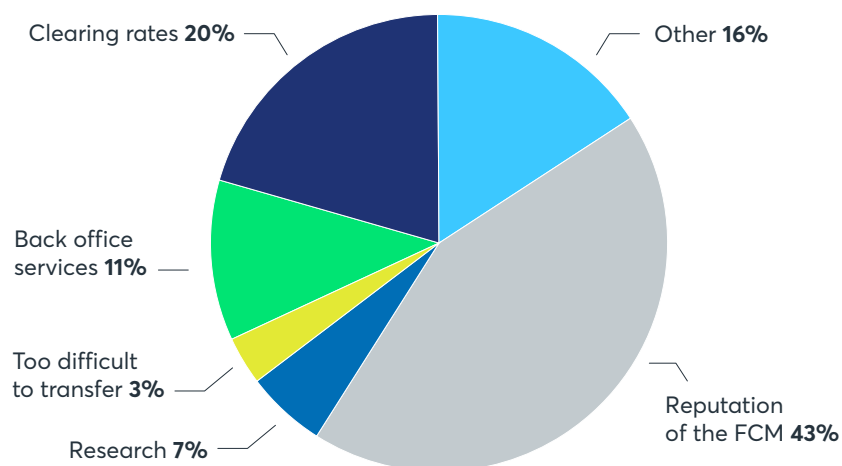
Source: 2024 IB Survey

It is easy to see from the responses to the 2024 IB Survey, that long-lived IB offices have a formal, written business plan in place which extends at least four years into the future. The plan is flexible and includes options for responding to regulatory changes, product development, technology innovation and personal challenges. The business plan for each IB is different. Take a hard look at your unique circumstances – financial, experience, personal – and contact your lawyer, accountant and life-partner to help you develop a successful business plan.

FCMs

Each IB must clear their customers' trades through a clearing firm (FCM). IIBs can clear through several FCMs. We asked IBs who participated in the 2024 IB Survey their top reasons for selecting the FCM with which they currently clear.

Why did you choose your current FCM?



Source: 2024 IB Survey

After the collapse of two FCMs in 2011 and 2012, it became more important than ever to know the reputation of your FCM and to regularly monitor that reputation along with the FCM's financial health. Those two FCM failures were highly unusual. They have resulted in numerous regulatory changes, including more transparent and increased reporting requirements.

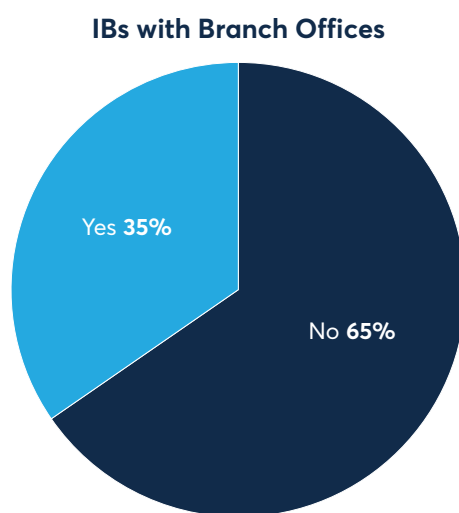
The top reason IBs choose one clearing firm over the others is the reputation of that FCM. What is the FCM's reputation in the industry? What do your customers know about the FCM? The percentage of IBs who chose "Reputation" stayed approximately the same as in the 2021 IB Survey.

Clearing rates are another factor in choosing an FCM, but it is significantly less important to the total of respondents, and fell almost 6% from the 2021 response. Back office services and support remained at about 11%, while the available research percentage increased slightly.

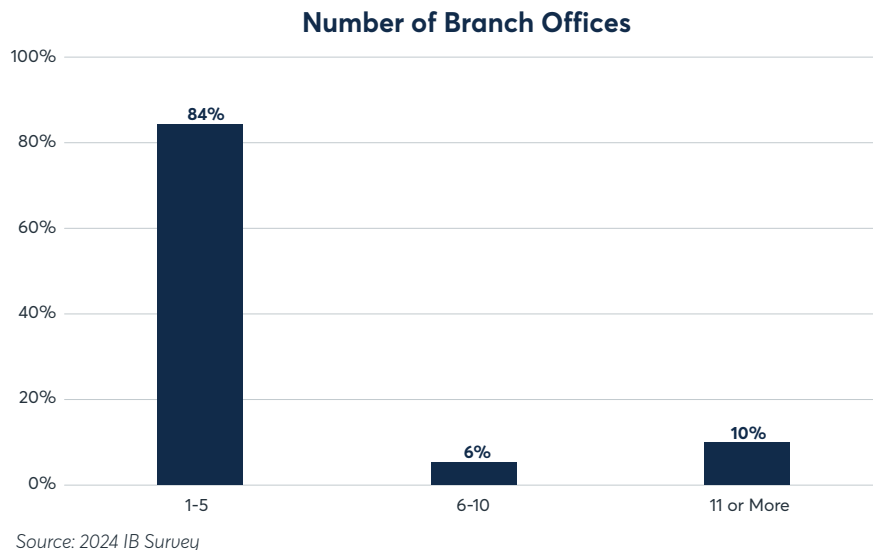
Most IBs stay with their FCM relationship for many years. Although they may consider transferring to another FCM from time to time, about 3% of the survey respondents said it was just too difficult to transfer. That number is down significantly from the 2021 response of 17% which was due, in part, to the difficulties perceived or actually posed by the COVID-19 pandemic. See *Chapter 3: FCMs* for additional information.

Branch Offices/Associated Persons

Almost 35% of IBs who responded to the 2024 IB Survey reported their IB supports Branch Offices. This total number is down from the last IB Survey in 2021.



Source: 2024 IB Survey



84% of IBs having Branch Offices support up to five branches. Another 6% support six to 10 branches; about 10% have 11 or more Branch Offices. Becoming a Branch Office of an established IB is a good way to gain experience for a new-to-the industry registrant and it is a good way for older IB owners to remain active in the industry while the parent IB handles some of the regulatory requirements.

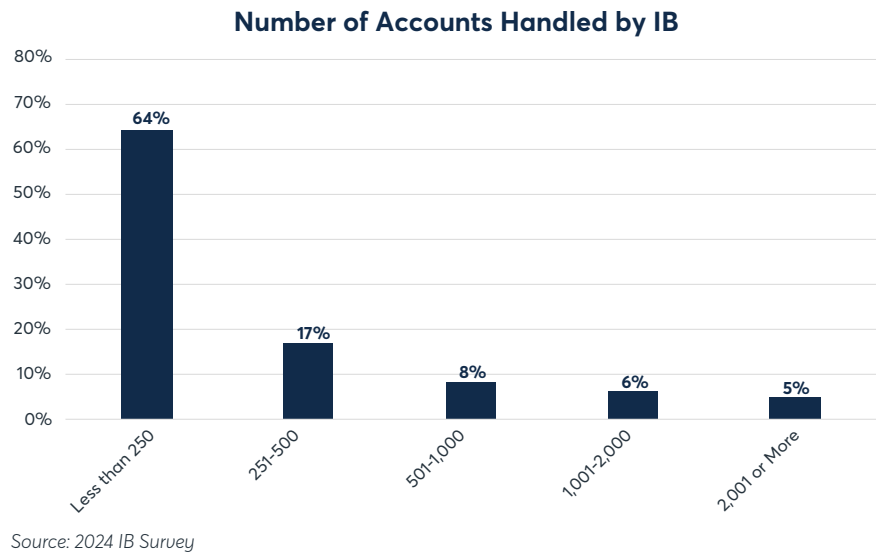
Branch Offices require periodic audits by the IB owner and other supervisory/compliance actions.

Adding a Branch Office is also a good way to grow your IB business. One of the consequences of the COVID-19 pandemic and the work-from-home movement is adjusted NFA regulations, which help clarify the best way to handle supervisory and other requirements related to Branch Offices.

Nearly 60% of all IBs who responded to the 2024 IB Survey reported that one to five Associated Persons (APs) were registered with the IB. 6% reported between six and 10 APs; 5% reported 11-15 APs; and 9% have 16 or more Associated Persons registered, including those who work from Branch Offices.

Accounts

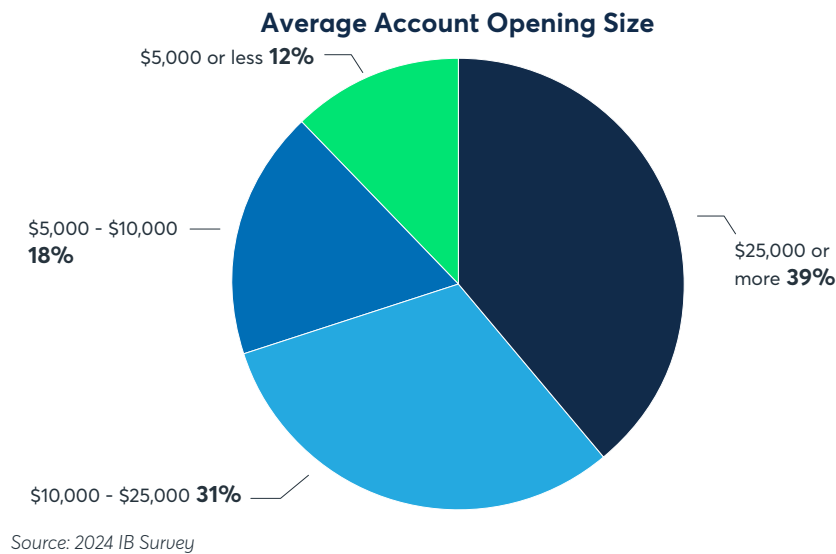
The 2024 IB Survey asked IBs how many accounts were serviced through the IB, including its Branch Offices. Over 64% reported they handle 250 accounts or less.



Many of the offices with 250 accounts or less work primarily with hedging customers or focus primarily on specific customer types who trade only in specific markets.* About 25% of IB firms have 251-1,000 open accounts – up almost 5% from the 2021 Survey results. 6% report 1,001-2,000 open accounts – also up from 2021, and a full 5% of the total IBs responding to the 2024 IB Survey reported their office, including Branch Offices service 2,000 or more accounts among several FCMs.

**In the first IB Survey conducted in 1998 a typical IB office serviced 250-300 clients. Some offices, especially those who handled primarily hedging transactions, had 30-50 accounts.*

In response to the 2024 IB Survey question about account size at opening, IBs responded:



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

Expenses

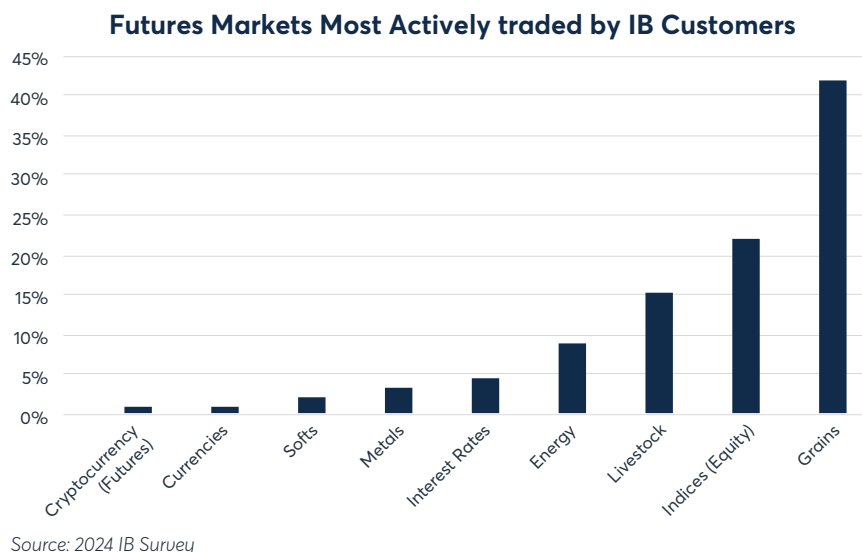
The top five largest monthly expenses for IBs regardless of markets traded, customer types and number of customers' accounts serviced are:

1. Broker Commissions
2. Clearing Costs
3. Data and other Fees
4. Costs associated with compliance requirements
5. Rent/Other Physical Overhead

IB offices are open in "a return to normalcy" following the COVID-19 pandemic. Brokers are returning to the offices as they are required by the IB owner and by customers.

Markets and Exchanges Traded

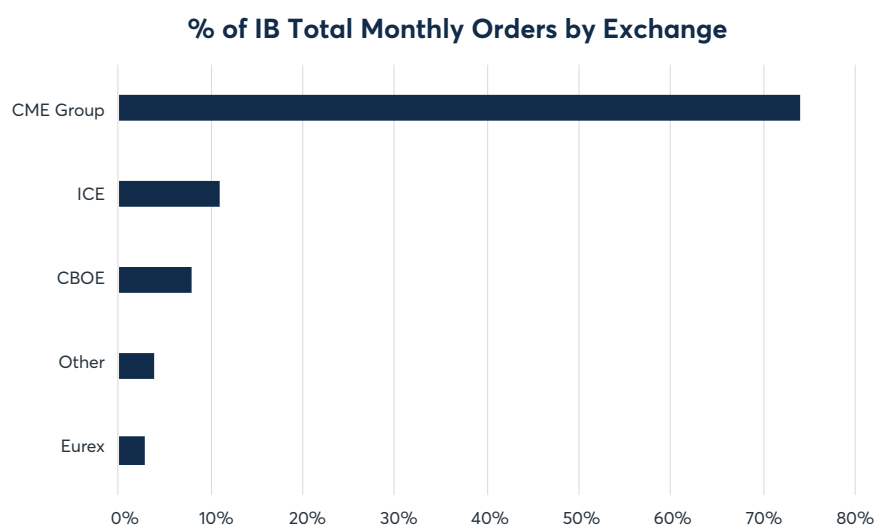
Grains as a market group are the top category traded from IB offices by their customers – a repeat response from the 2021 IB Survey.



Agriculture-related markets once held a super-majority among markets traded by the IB's customers. While grains and livestock still rank in the top three reported in the 2024 IB Survey, Equity Indices and Energy products reported 22% and 9%, respectively. Metals markets, currencies and the softs (sugar, cotton, cocoa and orange juice) each lost some IB-customer participation from 2021. Cryptocurrency was not represented on the 2021 chart because the response was so small it was essentially unmeasurable. In this year's Survey, nearly 1% of IB offices report it is traded by their customers.

Not represented on the above chart, but reported on the IB Survey: Nearly 90% of the firms responding do not offer swaps transactions, 96% do not offer cash forex transactions and 79% do not handle physical commodities. A few offices trade one or two markets almost exclusively, or handle only commercial or institutional accounts.

Increased public access to market information and transparency as a result of increased required reporting and surveillance, offers IB customers increased opportunities to participate in more markets and trade at more exchanges. The Survey shows that an overwhelming majority of IB customers' transactions are placed at CME Group.



Source: 2024 IB Survey

IBs responding to the 2024 IB Survey reported that slightly over 74% of the IB's total customers transactions were placed at the CME Group. Since the top markets traded from IB offices are found at the CME Group, this result makes sense. In comparison, IB customers trading at Chicago Board Options Exchange and the InterContinental Exchange fell slightly from 2021; trading on Eurex slightly increased.

Websites and Social Media

Most IBs maintain a website where customers can learn about the IB and open an account. Its primary purpose is educational. Many IB owners also have a LinkedIn page that acts as their electronic business card.

The Futures Commission Merchant you affiliated with will post links to your office contact information or to your website. Your firm listing on the NIBA online Broker Directory at www.theniba.com will also link directly to your website.

NFA regulates client solicitation of any kind whether it is print, electronic or by social media. Check the NFA requirements for client solicitation and communication before engaging in any social media postings or prior to launching a website. Be sure any web designer you use understands the regulations you must observe.

Trade Associations

Trade Associations are discussed in detail in Chapter 7. IBs are likely to join groups which support their customers' interests and help them keep up with the requirements of the industry. Support takes many forms, including newsletters, conferences and other education forums.

NIBA is the trade association for registered derivatives professionals transacting business for customers in futures, commodity options, forex and swaps markets. Founded in 1991, education is the purpose of the association. Its mission is accomplished with a volunteer board of directors and various other committees made up of IBs, CTAs, FCMs, exchanges and industry service providers actively engaged in the business of our business. NIBA's website is found at www.theniba.com.

Challenges and the Future

Like every other business, Introducing Brokers faced significant challenges during the COVID-19 pandemic. IBs responded and adapted to those challenges – personal as well as professional – quickly and robustly, as many settled into work-from-home scenarios. Working from home often involved limited technology and no colleague comradery, and it limited personal face-to-face contact with their customers. So IBs learned how to Zoom, kept the communication lines with regulators open and relied on flexible business plans.

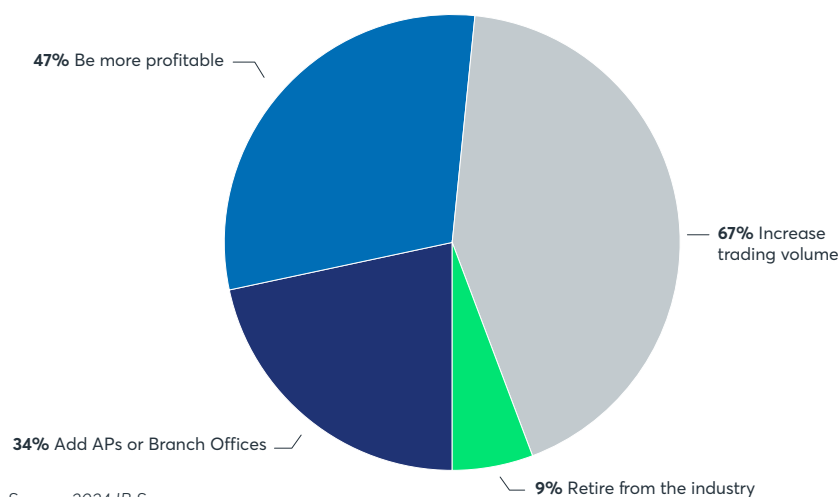
The drop-out rate for registered IBs rose slightly since 2021. IBs believe this is because:

- The cost of doing business (legal, accounting, etc.) is too high and rising.
- Although regulation during COVID-19 was adjusted to fit the circumstances, regulations in general are still overreaching.
- There is no or little interest in working at or operating an IB from "younger" industry entrants.

Source: 2024 IB Survey

The majority of IBs responded optimistically to the question of what do you expect in the next 12 months.

In the next 12 months, what do you expect for you or your firm?



Source: 2024 IB Survey

Note: *Percentages do not add to 100% because some IBs answered with more than one response.

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?
4. Do I have the support of my family?
5. Does the type of business I want to do require an IB registration or should I research a CTA or other type of registration?
6. Do I want to offer managed futures, forex or swaps transactions?
7. Have I fully investigated my FCM choices?
8. How will I build a customer base?
9. How will I find APs and other qualified staff?
10. Do I have a business plan in place that is flexible enough to meet the challenges of the industry?

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 (IBs) 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 – IB introduces forex customers to FCMs or RFEDs (with narrow exceptions).
- Swaps – subject to the jurisdiction of the CFTC.
- Securities-registered – IB limits its futures-related activities to the sale of security futures products on 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 Commission Merchant (FCM).
- Registered as a Commodity Pool Operator (CPO) and only operates pools.
- Registered as a Commodity Trading Advisor (CTA) and either only manages accounts under powers of attorney or doesn't receive per-trade compensation.
- Is a non-U.S. resident or firm with only non-U.S. citizen customers and the firm submits all trades for clearing to an FCM.

All registered IBs must be NFA members.

Total IBs registered:	924
IIBs registered:	458
GIBs registered:	466
Source: Feb. 2024, NFA	

GIB or IIB

In *Chapter 1: Introducing Brokers*, we learned about the differences between Guaranteed Introducing Brokers (GIBs) and Independent Introducing Brokers (IIBs), but let's review a couple of items.

GIBs do not have minimum net capital or financial reporting requirements. They satisfy NFA financial and reporting requirements by executing a Guarantee Agreement with the FCM that carries the IB's customers accounts. NFA Form 1FR-IB is the only form the NFA accepts as a Guarantee Agreement; its language cannot be altered. GIBs can

only be guaranteed by one FCM at a time and must conform to the policies and procedures of that FCM. An FCM-guarantor's situation, such as failing to keep required adjusted net capital or enhanced supervision requirements, will affect the business operation of its GIB network. Either the FCM or the GIB can initiate the termination of a Guarantee Agreement. On the termination date, the IB must cease doing business until it files a new Agreement with the NFA, or it files the required financial reports to become an IIB.

IIBs are required to maintain an accounting system, which records all the firm's financial activity, and to maintain Adjust Net Capital greater than the minimum net capital required for that IIB – \$45,000 or more. IIBs must file financial reports on a periodic basis and are subject to a daily fine for tardiness. An IIB that fails to pay the late fee within 30 days of the due date is deemed by NFA as a request to withdraw from NFA membership.

All Introducing Brokers – GIBs and IIBs – are subject to registration, compliance, supervision and other rules of the NFA. All IBs are subject to being audited by the NFA and, under some circumstances, the CFTC. GIBs must regularly undergo an audit by their guaranteeing FCM.

Registration Requirements and Forms

All registration forms and templates explaining 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 as a guide to registration. Included are some industry definitions along with some tips for filing to help you minimize errors and delays, or even avoid a refusal of registration. Many IB applicants engage an attorney and/or an accountant for assistance in completing and submitting the registration forms. You should rely on the NFA's website and its other information sources.

All Introducing Brokers have the following regulatory obligations:

- **Annual IB Requirements:** including reviewing the IB's written information systems security program (ISSP) and providing training to employees regarding the ISSP; paying dues and the \$100 registration records maintenance fee annually; completing the Annual Questionnaire, the Annual Registration Update and Self-Examination Questionnaire; keeping the IB's Privacy Policy, financial reports and customer information current; supervising operations of any Branch Offices, including an annual onsite inspection; testing the IB's Disaster Recovery Plan; providing Ethics Training; and conducting AML training.
- **Anti-Money Laundering:** is required training for relevant employees. *NFA Self-Exam Questionnaire, Appendix A.*
- **Books and Records:** are required to be kept for five years and be readily accessible for the most recent two years. *NFA Compliance Rule 2.13.*
- **Business Continuity and Disaster Recovery:** is required of every NFA Member in case of an emergency or significant business disruption. *NFA Self-Exam Questionnaire, Appendix B.*
- **Cybersecurity:** awareness and protections are required to prevent cyber breaches that threaten customer data and access to the IB's electronic systems. *NFA Interpretive Notice to Compliance Rules 2-9, 2-36, 2-49.*
- **Educational Visits:** voluntary visits prior to the IB commencing operations. *More information later in this Chapter.*
- **Sales Practice and Promotional Material:** are considered communications with the public and, as such, are regulated. NFA offers a voluntary pre-review program, free of charge to IBs whose promotional material has not yet been used. Among the items covered by NFA rules are general prohibitions, hypothetical results, statements of opinion, audio and video promotional material, and specific requirements for IBs offering security futures products and virtual currencies or their derivatives. *NFA Compliance Rule 2-29.*

- **Security Futures Products:** are considered both a futures and securities contract, and are regulated by both the SEC and the CFTC. *NFA Compliance Rule 2-4, 2-37.*
- **Self-Examination Questionnaire:** is meant to help members recognize potential problem areas and to alert them to procedures that need to be revised or strengthened.
- **Supervision:** is a continuing responsibility on IBs, and includes training and periodic reviews to ensure personnel are following industry rules, properly handling customer accounts and have satisfied the ethics training requirement, among other duties. *NFA Compliance Rules 2-9, 2-23, 2-36.*
- **Third-Party Service Providers:** must be carefully vetted prior to entering a relationship if they are used as to outsource the IB's regulatory obligations. *NFA Compliance Rules 2-9, 2-36; NFA Interpretive Notice 9079.*
- **Virtual Currency:** requires IBs to provide their virtual currency derivatives customers with specific disclosures at or before the time the customer trades. If the IB engages in any type of spot market virtual currency, it is required to provide a standardized disclosure. *NFA Interpretive Notice 9073.*
- Specific Obligations for GIBs and IIBs respectively. *NFA Website.*
- **Member Dues:** \$750 annually; additional amounts due for forex and swaps members.
- **Enhanced Supervisory Requirements:** *NFA Interpretive Notice: Enhanced Supervisory Requirements.*

Each IB will also:

- Designate a Security Manager in order to obtain secure access to NFA's Online Registration System (ORS). The Security Manager will file and update the IB's annual reports and any other updates required during the year.
- Complete Form 7-R, the IB application (online).
- Complete NFA Membership application (online).
- Complete Form 8-R for each principal and AP.
- Submit Fingerprint Cards.
- Satisfy the proficiency requirements for each sole proprietor, AP, forex AP and swaps AP.
- Pay the non-refundable Applications fees 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. One principal of the IB must be an AP.*

IBs with Branch Offices must also submit proof that each Branch Office manager has passed the required exam.

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

Notice Registration

The Commodity Futures Modernization Act of 2000 allows 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 B-D. The two-page registration form is available on the NFA website.

Existing Introducing Brokers, which are registered with the CFTC and members of the NFA, can offer clients security futures contracts by notifying the NFA and completing certain NFA requirements. IBs who complete the NFA process are exempt from the 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*.

Security Manager

Introducing Brokers, including those registered as Sole Proprietors, are required to designate a Security Manager. The Security Manager has complete authority and the responsibility to establish and maintain any additional security accounts for other users at the firm. The Security Manager has access to the Online Registration System (ORS) – the electronic filing system used by the NFA.

The NFA recommends that every firm designate more than one individual as a Security Manager in the case the firm experiences an event that requires the NFA to be notified and the sole Security Manager is unavailable.

The NFA website lists complete requirements regarding Security Managers and Accounts. A few explanations/examples are:

- The Security Manager will use ORS credentials to access EasyFile Systems – the system NFA recognizes to enter and submit your firm's financial data.
- All 1-FR-IB filers must be a principal of the firm and meet all other requirements of CFTC regulation.
- All Forex filers 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 ORS if they are designated by the Security Manager.

Who Must be Listed as a "Principal"

One of the most common mistakes IBs make on their NFA registration forms is to omit the listing of a required principal. The Form 7R template available on NFA's website is very helpful when you are deciding who needs to be registered. 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.

Examples of individuals required to be registered with your IB are:

- A sole proprietor
- A general partner
- A director, the president, CEO, COO, CFO or person in charge of a business unit or division that is subject to regulation by the CFTC
- A manager or managing member
- The owner of 10% or more of the outstanding shares of any class of the IB's equity
- Anyone entitled to vote 10% or more of the outstanding shares of the IB
- Anyone empowered to sell or direct the sale of 10% or more of the outstanding shares of the IB
- Anyone empowered to exercise a controlling influence over the IB
- Anyone entitled to receive 10% or more of the IB's net profits

Examples of 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 Found on the NFA Registration Forms

Check the NFA website or contact them directly if you are confused about any terms or other items appearing on the registration forms. Here are a few definitions for some frequently used terms:

- **10% or more interest:** direct or indirect ownership of 10% or more of an IB's stock; or entitlement to vote or empowerment to sell 10% or more of an IB's voting securities; or contributing 10% or more of an IB's capital; or entitlement to 10% or more of an IB's net profits.
- **Adjudication:** a determination by a court that the defendant is guilty or not guilty in a criminal action.
- **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," which is 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:** includes the commodities, securities, accounting, banking, finance, insurance, law or real estate industries.
- **Found:** disposition of any type, including consent decrees or settlements in which the findings are neither admitted or denied, or in which the findings are for settlement or record purposes only.
- **Other Name:** any other name that the firm, including sole proprietors, uses or has used in the past, but not the name of any other legal entity that the firm has an affiliation or association with (see DBA). For individuals, any name the person is or has been known by, including a maiden name, an alias name you use or are known by or a previous name if you changed your legal name.
- **Self-Regulatory Organization (SRO):** a private, non-governmental organization authorized to set and enforce standards for conduct for an industry such as the NFA, FINRA and U.S. securities and futures exchanges.

Some Disclosure Tips

The failure to disclose a disciplinary matter on your IB application or in subsequent updates can be costly. NFA can assess late fees or deny the registration. Here are some examples of frequent errors with regard to the need for disclosure on the IB application:

- The sole proprietor fails to disclose personal disciplinary action on both the NFA Form 7-R (firm registration) and Form 8-R (individual registration).
- Not answering "yes" to disciplinary questions even if there was no adjudication or finding of guilt or the guilty plea was vacated or set aside or the matter was dismissed upon completion of the required diversion program.

- Not disclosing all criminal matters even if a matter is unrelated to the futures industry, unless the case was decided in a juvenile court or under a Youth Offender Law.
- Not disclosing bankruptcy proceedings.
- Not providing a written explanation detailing any "yes" answer.

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 (firm and individual history).

The 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 and name of the staff person with whom you spoke, as well as a description of the matter and the advice received.

Fingerprint Cards

An individual applying to register as a principal of your IB must submit a completed Fingerprint Card to the NFA along with the application. NFA only accepts a completed and signed FBI applicant card, which can generally be obtained at your local city hall or county courthouse, a police or sheriff's office or a bonding company, as well as at a futures or securities exchange and at U.S. embassies.

Completed Fingerprint Cards should be sent to the NFA Chicago office, Attention: Registration Dept., 320 So. Canal, Ste. 2400, Chicago, IL 60606. The NFA will submit the images to the FBI to determine if the applicant has a criminal record. IBs are encouraged to submit three Fingerprint Cards with their applications in case the cards are damaged or otherwise unreadable. This small step could avoid delay in processing the application.

No Fingerprint Cards are needed if:

- The individual applicant is currently registered with the CFTC or is listed as a principal of a current CFTC registrant and fingerprint cards have been received by the NFA.
- Fingerprint Card results have been received from the FBI within 90 days preceding the date the individual's Form 8-R is filed.
- The individual has registered with FINRA within the previous 90 days and a Fingerprint Card was included with that registration.
- The individual is a foreign natural person. *CFTC regulation 3.21(e)(1)(i)*.
- The individual is an outside director and the application includes the required notice. *CFTC Regulation 3.21(c)*.

Swaps Registration

Every IB that is registered and engages in activities involving swaps subject to the jurisdiction of the CFTC must be approved by the NFA 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. All forex firms must have at least one principal who is registered as an AP and is approved as a forex AP.

FAQs about the IB Registration Process

How long does the registration process take?

It generally takes six weeks at a minimum to complete all background checks before NFA grants full registration to IB applicants. GIBs that are eligible can receive a temporary license as soon as all required filings have been made for the firm and the principals. If an individual is already registered or listed as a principal, it is possible to obtain registration in a new category as soon as the application is filed. Similarly, a registered firm may be able to add an additional registration category the next day.

Does the NFA accept credit cards?

No. There are three options for payment of registration fees and/or membership dues.

- Online payment request – currently only available to U.S. firms and non-U.S. firms using banks in the U.S.
- Wire transfer
- Check made payable to the National Futures Association and mailed to Box 98383, Chicago, IL 60693-0001

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

No.

Do I need an additional registration to offer virtual currencies?

No, but additional disclosure information is required for each of the IB's customers who intend to trade in the virtual currency markets.

Proficiency Requirements

Every individual who applies for NFA membership as an Introducing Broker or Associated Person of the IB is required to satisfy certain proficiency requirements. In most cases those requirements can be satisfied by taking and passing the National Commodities Futures Exam (NCFE), commonly referred to as the "Series 3" exam, within two years preceding the application for membership.

The exams listed below are administered by FINRA. The application forms are found on FINRA's website. FINRA has resumed in-person exam requirements across the country following the COVID-19 pandemic. Under very limited conditions, such as health considerations or living 150 miles or more from a testing center, remote testing is still available. Check the FINRA website at www.finra.org if you believe you qualify.

You will receive evidence from FINRA that you have passed the exam. If you do not pass, you may take that specific exam after 30 days. FINRA does not publish pass rates for these exams.

National Commodities Futures Exam (NCFE or Series 3)

Total APs Registered	40,819
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Source: NFA, Feb. 2024

The Series 3 exam was created by the NFA in order to assess an applicant's knowledge and ability to perform well in the futures and options industry. Individuals do not need a sponsoring firm to take the Series 3 exam, but you will need a sponsoring firm to apply for registration as an IB or to be employed at an NFA registered firm. Because the Series 3 is the most common way to meet proficiency requirements, we'll spend a little bit more time discussing it than the others.

The exam consists of two main parts, each containing several categories. Included in the Market Knowledge portion are questions regarding:

- General Futures Trading Theory and Terminology, including hedging and speculative theory, structure of the futures markets and general futures and options terminology
- Futures Margining, Option Premiums, Price Limits and Futures settlements, delivery, exercise and assignment
- Types of orders, customer accounts and price analysis
- Basic hedging and basis calculations
- Spreading theory

Part two of the exam focuses on Regulation, including:

- CFTC Commodity Exchange Act registration and enforcement
- NFA membership and disciplinary procedures
- FCM/IB regulations, including financial reports, collection of margins and promotional materials
- CPO/CTA disclosure documents, including fees and records which need to be maintained.
- Account opening procedures
- Position reporting requirements, including speculative position limits

On the day of the exam, you should arrive about 30 minutes before the scheduled exam time at the testing center because late arrivals will not be able to take the exam. You will need to provide a valid, government-issued photo ID. If you forget to bring your ID or it is invalid, you will not be able to take the exam. You'll be directed to leave all personal items in a secure locker at the testing center before you enter the testing room. The center will provide you with headphones to cancel out any disruptive noise, along with the instruction and anything else you need to take the exam.

Each version of the Series 3 exam is different. You must score at least 70% of the total correctly. If you pass one part of the exam, but fail the other, you will not pass the exam.

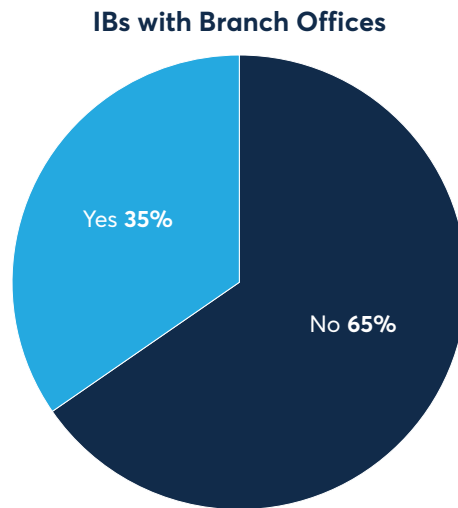
Number of Questions: 120

Format: Multiple Choice

Cost: \$140

Length of Exam: 2 1/2 hours

NFA Branch Manager Exam (Series 30)



Source: 2024 IB Survey

Each individual who is the designated Branch Officer 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.
- Your sole activity is soliciting and accepting orders for swaps subject to the jurisdiction of the CFTC and you have taken and passed NFA's Swaps Proficiency Requirements.

Number of Questions: 50

Passing Score: 70%

Format: Multiple Choice

Cost: \$90

Length of Exam: 60 minutes

Retail Off-Exchange Forex Exam (Series 34)

NFA bylaws require 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 customers. Keep in mind that the NFA also requires forex firms to have at least one principal who is registered as an AP and approved as a forex AP. Check NFA rules if you believe you qualify for their approved narrow exceptions to taking this exam.

- Number of Questions: 40
- Passing Score: 70%
- Format: Multiple Choice
- Cost: \$90
- Length of Exam: 60 minutes

Futures Managed Funds Exam (Series 31)

This is an alternative exam to the Series 3 limited to individuals 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, or solicit discretionary accounts, which are managed by Commodity Trading Advisors (CTAs), or supervise persons who perform either of these activities.

- Number of Questions: 45
- Passing Score: 70%
- Format: Multiple Choice
- Cost: \$90
- Length of Exam: 60 minutes

Limited Futures Exam – Regulations (Series 32)

This is an alternative exam to the Series 3 limited to individuals who have registered or licensed to solicit customer business 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
- Passing Score: 70%
- Format: Multiple Choice
- Cost: \$90
- Length of Exam: 45 minutes

Foreign Countries With NFA-Registered IBs			
United Kingdom:	27	Chili, Mexico, Switzerland:	3 each
Canada, Hong Kong,		Columbia, South Korea, Tokyo:	2 each
Singapore, United Arab Emirates:	6 each	Brazil, Denmark, Ireland,	
France:	5	Israel, Puerto Rico, Spain, Sweden	1 each
Source: NFA, Feb. 2024			

Swaps Proficiency Requirements and Other Possible Exemptions

Individuals are not required to take the Series 3 exam if their sole activity is and will continue to be limited to soliciting or accepting orders for swaps subject to the jurisdiction of the CFTC. However, the NFA requires that each individual seeking approval as a swap firm or swap AP must satisfy its Swaps Proficiency Requirements unless:

- The individual has filed evidence of passing the requirements within two years of the date of the application, OR
- The individual has continuously been registered with an NFA member swap firm with no more than a period of two consecutive years unregistered.

Individuals registered with FINRA as a General Securities Representative with a FINRA firm, which is also an NFA IB member firm, are exempted from taking the Series 3 exam. These individuals 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.

Some individuals who are associated with Commodity Pool Operators (CPOs) who are required to register solely because they operate commodity pools principally engaged in securities transactions and/or who are associated with CTAs that are required to register solely because their securities advisory services include advice on the use of futures and options for risk management purposes, are also exempt from the exam requirement.

Educational Visits:

NFA offers voluntary educational visits – free of charge. These visits are particularly helpful for members that have personnel who are new to the futures and derivatives industry. The visit is typically conducted prior to the IB beginning operations. During the visit, NFA staff will:

- Review your firm's operations
- Address questions and concerns
- Suggest areas for improvements
- Provide educational resources

New Member Orientation:

Once your IB's membership has been approved, you must designate an Executive Representative. NFA's New Member Orientation web page will lead you through the steps. Your Executive Representative is the person at the IB office who will receive all notices concerning NFA elections, who is authorized to cast votes on the IB's behalf for positions on the NFA's board of directors and who votes on behalf of the IB on amendments to NFA's Articles of Incorporation.

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

- Accounting
- Arbitration
- Compliance
- Fee Assessment
- Membership
- Registration

Once the IB begins operations, you will update the Annual Questionnaire so that NFA has the most current information about the firm's business.

NFA has helpful general resources:

- Registration Video Tutorials: the videos, located on the NFA’s website, help applicants with the registration process.
- Background Affiliation Status Information Center (BASIC): BASIC, also located on NFA’s website, contains registration history and disciplinary information about firms and individuals.
- NFA’s Information Center: the information system is open from 8:00 a.m. to 5:00 p.m. CT during the business week for phone calls concerning any NFA-related topic. 1(800) 621-3570 or 1(312) 781-1410.

Grounds for Denial of IB Registration

Approval for IB registration is not automatic. Individuals whose CFTC registration has been revoked or suspended may be disqualified. Individuals who have been refused CFTC registration, individuals who have been enjoined by court order from doing business as financial professionals and individuals who have been convicted of a felony or of certain misdemeanors involving cash or other funds may be denied registration. A list of grounds for denial of registration are found in the NFA Manual.

Making Changes on your Paperwork

Changes and additions to your initial application paperwork are made electronically by submitting NFA Form 3-R (Part 1).

Terminating the Registration

You must notify the NFA in order to terminate your IB registration. If a GIB’s Guarantee Agreement is terminated by the FCM and no new Guarantee Agreement or required financial reports to register as an IIB are filed within 30 days of Guarantee Agreement termination, the NFA will automatically terminate the IB registration. If an IIB is unable to fulfill its mandatory minimum requirements, the NFA may automatically terminate the IB registration.

Registration as a CTA

A Commodity Trading Advisor (CTA) is an individual or organization which, for compensation or profit, advises others either 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.

Commodity Trading Advisors NFA-Registered	1,253
<i>Source: NFA, Feb. 2024</i>	

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. NFA records show that the number of CTA registrants has dropped by about 100 registrants since the 2021 IB Survey.



Registration as a CTA is not required if:

- You have provided advice to 15 people or less during the past 12 months and you do not generally hold yourself out to the public as a CTA.
- The entity is CFTC registered and the advice is solely incidental to its business or profession.
- The advice provided is not based upon knowledge of or tailored to a customer's particular trading account or trading activity.

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

**Associated Persons (APs) of IBs can promote programs of a CTA which is a separate entity from the IB. This requires the AP to hold registration status with both the IB and the CTA. The NFA refers to this as "dual registration." Check with NFA for further clarification.*

Consideration of IIB vs. Non-clearing FCM Registration

An FCM can be either a clearing member of an exchange (clearing FCM) or a non-clearing member of an exchange (NC-FCM). Clearing FCMs have substantial funds on deposit with one or more exchanges. A NC-FCM requires a relationship with a clearing FCM in order to have its customers' trades cleared and must comply with all CFTC guidelines, including:

- Maintenance of minimum of \$1,000,000 in adjusted net capital vs. \$45,000 for an IIB*
- Segregation of customers funds from the FCMs funds
- Reporting, recordkeeping and supervision of employees and affiliated brokers
- Monthly submission of financial reports to the CFTC

**Firms that guarantee IBs and/or handle forex transactions or swaps may require additional capitalization.*

Registration and other information for a whitepaper on the the subject of IIB vs. non-clearing FCM status was sourced primarily from the CFTC and the NFA and from interviews with currently registered IIBs. Melinda Schramm (the author of this Handbook) conducted the interviews during August and September 2023. The information in the paper is meant to be practical and useful and to provide insight into why an IIB might – or might not – change its registration status. The interviews were not scientifically conducted.

Findings:

- Taking the step from IIB to Non-clearing Futures Commission Merchant requires more than just additional capital.
- Finding, hiring and training personnel familiar with the futures and options business is not always easy in many communities.
- The ongoing cost of compliance is substantial.
- The IIB's accounting department will have to be expanded.
- The resulting NC-FCM may need a new banking relationship.

All the Independent Introducing Brokers I interviewed clearly understood the requirements of registration and operation of a Non-clearing FCM, but only about 50% had given it more than "a passing thought." While it takes many things to make the change worthwhile, two items really stand out:

1. Interest Rates: *CFTC Regulation 1.29* permits an FCM to receive and retain as its own, any increment or interest resulting from a permissible investment of customer funds. Interest rates from those permitted investments haven't been high enough during the past several years to compensate for the additional cost of operation of a NC-FCM.
2. Volume: consistent high volume is necessary to meet the costs of operating a NC-FCM. IIBs who primarily handle seasonal hedging clients or commercials' accounts might find it difficult to meet a higher NC-FCM month-to-month operating budget. IIBs who transact primarily for high volume speculators often charge low commission rates, which may not total up to fund the operating costs of a NC-FCM.

Specifics:

While many NFA/CFTC compliance, accounting, reporting and recordkeeping requirements apply to both IIBs and NC-FCMs, NC-FCMs have many additional requirements, which result in higher operating needs and costs. Some of those are:

Legal and Accounting Expenses: filing costs of registration documents and the ongoing legal fees for support operations can be significant. NC-FCMs, which hold customer funds, are required to maintain and enforce a system of risk management policies and procedures (RMP) and file the RMP when applying for registration. NC-FCMs can be subsidiaries of larger financial firms, or they can be smaller, independent firms. In recent years, especially since the enactment of Dodd-Frank legislation and the extended period of low interest rates, the total number of all FCMs has declined. The decline is due, in part, to the heavy cost of regulatory burdens and the expenses surrounding those regulatory obligations.

General Personnel Requirements: expanding the existing staff of the IIB will be an immediate expense for the new NC-FCM – the additional reporting and compliance requirements will most certainly be too much for the existing IIB staff to handle. In cities like Chicago and New York, finding individuals familiar with the futures and options industry, hiring and training them, may not be too difficult. But in smaller communities, qualified personnel may be difficult to recruit. Individuals already employed in the industry will likely command "industry standard" salaries, which can be substantial.

Compliance Staff and Back Office/Accounting System: NC-FCMs are required to designate a Chief Compliance Officer (CCO). The CCO must be a listed principal of the firm. One of the most important duties of the CCO is to prepare and sign off on an annual report of the firm's most recent fiscal year. The report is filed with the NFA. There is increasing conversation in the legal community about the boundaries of liability of a CCO, including resulting legal consequences. NC-FCMs are also required to designate a point-of-contact person to handle matters that relate to issues surrounding FinCEN's recordkeeping and reporting requirements.

Backoffice/Accounting issues include:

- Transmission and retention of daily and monthly trade confirmations
- Retention of customer orders
- Reporting accounts in which position limits are equal to or exceed reportable limits
- Collecting and maintaining customer account information
- Computation and completion of daily capitalization and segregations reports and filing such with NFA
- Monthly preparation of the firm's NFA 1-FR financial form
- Reconciling collected clearing, exchange and NFA fees
- Sending year end 1099s to customers

Public Disclosure Issues: NC-FCMs are required to provide a Disclosure Document to each customer prior to opening an account – IIBs typically use the Document provided by their FCM. The Disclosure Document must be displayed on the website of the NC-FCM and updated as needed. The following documents are also required to be displayed on that website:

- Summary schedule of month end net capital, adjusted net capital and excess net capital for the 12 most recent months.
- The most current certified financial statement of the NC-FCM, including all applicable footnotes.
- A link to the CFTC's financial web page for additional financial information about the NC-FCM and a link to the NFA's BASIC system for more information about how the firm invests and holds its customers' funds.

Banking Issues: changing registration status from IIB to NC-FCM also means the resulting firm will become a "fiduciary" for customer funds, which requires a commercial banking relationship with a clearing bank. Clearing banks must be able to handle wire-in/wire-out issues, which are often not available in many IIB business banking relationships. Clearing banks usually have higher fees for doing business, sometimes significantly higher. Additional NC-FCM personnel, such as a "balancer" and a "trade checker," will likely be needed to ensure that monies and positions are reconciled daily before the markets open.

Summary of Comparison IIB vs. NC-FCM

It is fair to say that the move from registered Independent Introducing Broker to Non-clearing FCM registration status is a big move. It should not be undertaken without serious analysis of the IIB's current and future business strategy, credit standing and its customer base and needs. Consultation with an attorney and an accountant familiar with the futures industry is highly recommended.

**The discussion points raised in this paper are not meant to be all-inclusive. Additionally, CFTC/NFA rules change periodically, as does the state of the U.S. economy, including interest rates and the use of futures and options markets. All of these can affect the considerations undertaken and summarized in the foregoing whitepaper.*

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 – do I have the experience, financial requirements, a clear understanding of the industry and do I have the supervision skills?
3. Have I done due diligence on FCMs I wish to have relationships with?
4. Have I contacted my attorney and accountant with regard to the documents 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 are required 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 requirement includes sole proprietor filers.
8. Do I have Ethics, AML and cybersecurity training programs in place?
9. Do I have a banking relationship in place?
10. Do I need to register as a CTA?

Chapter 3

FCMs

Futures Commission Merchant (FCM): is 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.

Every Introducing Broker (IB) must have a contractual arrangement with one or more Futures Commission Merchants (FCMs). The FCM bears the ultimate responsibility of clearing the IB’s customers’ transactions and for collecting margins for those positions. All registered FCMs must be NFA members with at least one principal registered as an Associated Person (AP).

A FCM’s responsibilities include:

- Maintaining segregated customer funds
- Providing clear financial disclosure statements
- Securing customers’ proprietary trading information
- Enforcing restrictions meant to prevent churning, spoofing and other disruptive practices
- Documenting complaints and conflicts of interest between customers and employees
- Submitting information to the CFTC which states the true condition(s) of the FCM

Total FCMs registered	62
Total RFEDs registered*	4
Total Swaps Dealers Registered	107

Source: NFA, Feb. 2024

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

The total number of FCMs registered has decreased from 211 firms since the first printing of The Complete IB Handbook in 1998. They have remained stable since 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

During 2011 and 2012, the industry saw the unprecedented failure of two FCMs. 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 between existing customers and the FCM structure in addition to rebuilding confidence in the integrity of the industry. The 2012 FCM collapse resulted in a criminal action with the person most responsible continuing to serve a 50-year prison sentence.

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

A combination of rising costs of technology, cybersecurity compliance and personnel, along with low interest rates for deposited funds contributed, in part, to the decrease in FCM registration from 2012 to the present.

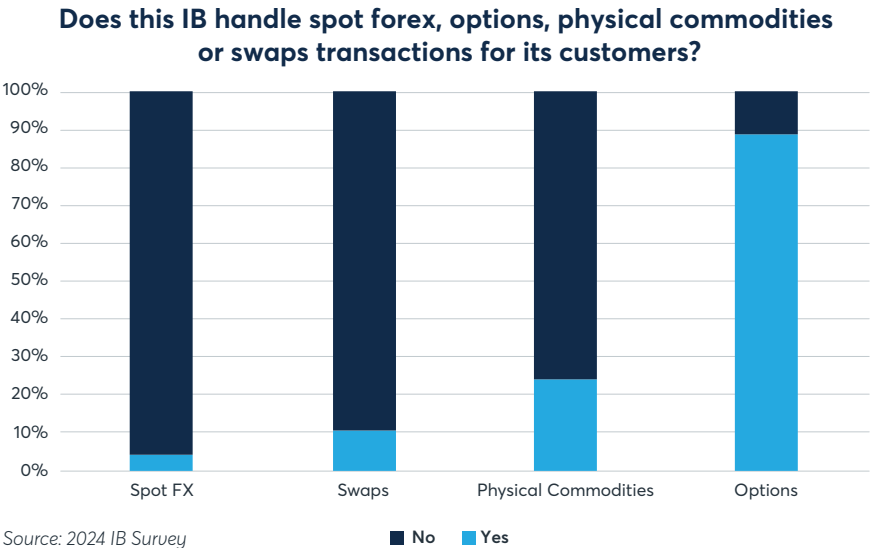
Many of the largest registered FCMs are banks or other financial institutions, which do not offer IB relationships or only offer them to IIBs or only offer them on a limited basis. Of the 62 FCMs currently registered, 12-15 handle nearly the entire total of customer transactions placed from IB offices.

Some FCMs who do handle business for IB firms do not accept Guaranteed Introducing Broker (GIB) arrangements. In general, FCMs who are members of the NIBA welcome IB business and have extensive support systems in place. Check NIBA's website, www.theniba.com for a list of firms and the appropriate contacts at those firms.

FCMs may be a clearing firm member of one or more exchanges, or a non-clearing firm. Clearing member FCMs are required to hold substantial deposits with the clearing house of any exchange of which it is a member. Non-clearing FCMs must clear their customers' trades through a clearing member FCM. Both types of FCMs can have IB relationships. More information on CME Group's clearing members can be found at <https://www.cmegroup.com/clearing/financial-and-regulatory-surveillance/clearing-firms.html>

Swaps Dealers 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 February 2024, there are 107 Swaps Dealer members of the NFA. Registration procedures and forms for all FCMs, including RFEDs and Swaps FCMs are posted on the NFA website.

The 2024 IB Survey confirmed that Introducing Brokers' offices handle very little forex, swaps and cryptocurrencies customer transactions. This chapter focuses primarily on the traditional FCM and its relationship with the traditional IB.



Some FCMs are organized for the purpose of transacting business in the futures and options markets only. But the FCM can also be a division of a national or regional brokerage company and can offer securities products. Several of the largest registered FCMs have a parent company, such as 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 it must provide proof it is subject to a CFTC-comparable regulatory structure with a foreign regulator, which has been recognized by the CFTC. It is also required to appoint an authorized U.S. agent for service of process and notify the NFA.

SEC-registered broker-dealers can be FCMs. If the broker-dealer limits futures-related activities to the sale of security products on contract markets or derivative transaction execution facilities, it can file the appropriate notices with the NFA to register. Those FCMs remain primarily subject to SEC oversight.

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

FCMs must maintain an accounting system that complies with U.S. Generally Accepted Accounting Principles (GAAP), completed on an accrual basis and kept current. NFA financial requirements and *CFTC Reg. 1.17* provides for some rules which are more stringent than GAAP, specifically in the area of classification of current and noncurrent assets. These stringent requirements are meant to safeguard market participants who are users of the FCM.

Adjusted net capital is a basic and essential element of an FCM's accounting system. It must be maintained as a measure of financial resources available to cover contractual obligations and to ensure the safety and soundness of the FCM. If the level falls below the required amount, the FCM is required to immediately notify the appropriate agencies of the deficiency. This notification is commonly referred to as an "early warning" notification. Additional reporting requirements may be imposed if the FCM falls below the early warning capital level and can lead to prohibitions on guaranteeing IBs. If the adjusted net capital falls to a restrictive level, some actions by the FCM, such as withdrawal of capital or repayment of subordinated loan agreements, may be prohibited because the FCM must maintain an equity capital minimum standard. An FCM who files the required financial reports at the NFA and CFTC later than the filing date are subject to late filing fees for each business day the required report is late.

The rules related to segregated funds are perhaps the most sacred in the industry. They were first enacted by Congress in the Commodity Exchange Act of 1936. FCMs must segregate all customer funds received, and account for them separately from the FCM's own funds. There are additional rules for foreign futures and options customer funds, and cleared swaps customer collateral. FCMs must complete a "seg funds" calculation for each business day by noon of the following day.

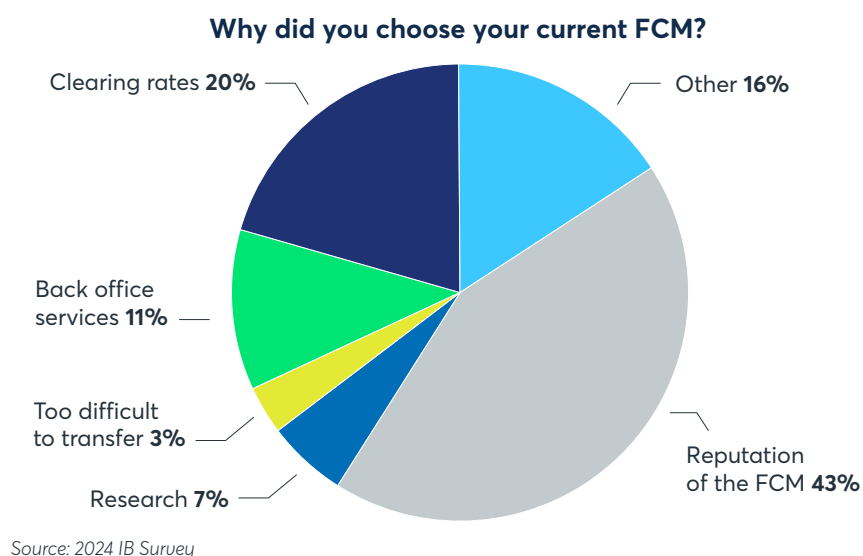
FCMs must support an appropriate back office system to account for customer equities and for handling customers' funds in an appropriate manner and inform NFA of its intent to accept customer funds prior to doing so.

Customer funds in segregation have a bankruptcy preference in the event of an FCM insolvency. To the extent that customer funds would not be sufficient to pay customer claims in the bankruptcy, the remainder of what customers are owed participates pro rata in any distributions to unsecured creditors of the FCM. FCMs do not extend margin credit or loan money directly to customers for use in futures trading.

FCMs must establish and follow a Risk Management Program that meets the requirements of *CFTC Reg. 1.11*. The system of policies and procedures must identify any potential risk that the FCMs may encounter, which need to be monitored and managed. The Risk Assessment Report includes such items as a copy of the firm's organizational chart, financial and operational policies and procedures documents and fiscal year-end consolidated financial statements. Also required are any material changes made to those items within 60 days after the end of the fiscal quarter where the change occurred.

FCMs, RFEDs and Swaps FCMs are all regulated by the CFTC and subject to their enforcement jurisdiction. Disciplinary history of each firm and individuals can be found online at NFA's BASIC search site, www.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 that offers the lowest clearing rates. Perform your own thorough due diligence on every part of the FCM's history and operation including reputational, disciplinary and financial.



Before deciding on your FCM(s) relationship, make sure the firm has the following required procedures/programs in place:

- Anti-Money Laundering Procedures
- Business Continuity and Disaster Recovery Plan
- Cybersecurity: Information Security Systems Program
- Security Futures Products Procedures
- Sales Practices and Promotional Materials Procedures
- Supervision Procedures
- Third-Party Service Providers Policies
- Virtual Currency Notice Policies
- 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. FCMs who meet the criteria must, among other things: (1) maintain enhanced capital requirements, (2) make complete audio recordings of all telephone conversations occurring between their APs and existing and potential customers and (3) file all promotional materials with NFA at least 10 days prior to its first use.

The number one reason an IB chooses one FCM over the others is the reputation of that FCM. This has been true for IB Survey respondents since the failure of MF Global in 2011 and Peregrine Financial Group in 2012. Reputation is defined generally as the “way(s) others think about you or your actions or beliefs.” FCMs who have a public reputation for good business practices and fair-dealing are the firms IBs choose to deal with.

Bank-owned FCMs are generally not a realistic choice for IBs, particularly IBs just opening their businesses. Over the past several years, many banks have off-loaded customers, including IBs, as they deal with constricting balance sheet capital. Conversely, a smaller FCM may not be able to accommodate the trading and capital needs of your customers or their changing needs as your IB grows.

Although 2024 IB Survey respondents do not include back office personnel and services in the top two reasons to select an FCM, the back office is essential to being able to adequately service your customers. Review the policies of the FCM back office procedures relating to opening accounts, bank wire transfers and check or electronic money requests as FCMs leverage different back office systems with varying technology capabilities.

Research of all types is now available online; some is exclusively online. For example, CME Group produces a wide array of research in all its traded markets. IB offices who work with customers who have particular needs, such as cash commodity prices or specific corporate data, should look for FCMs who produce or have easy access to that research. Ask the FCM if what you need is available, how you can access it and if there are any fees charged to your IB for accessing it.

FCMs for whom an exchange is the Designated Self-Regulatory Organization (DSRO) pay initial NFA membership dues of \$1,500. Their annual dues are also set at \$1,500. FCMs for whom NFA is the DSRO, pay initial NFA dues of \$5,625 and annual dues of the same amount. Swaps FCMs pay \$7,375 and respectively. RFEDs pay \$125,000 initially and a scaled amount dependent upon their gross annual revenue, which could be as high as \$1 million in dues each year.

Negotiating the Terms of your Clearing Agreement

Clearing Agreement refers to the contract between your IB firm and the FCM. In this agreement, the FCM is the clearing firm for your customers’ transactions. The agreement is a legally binding contract that details clearing rates, additional fees and services, restrictive agreements, interest payments on balances in customers’ accounts, account transfer procedures and security deposit requirements, if any. The clearing agreement is negotiable and will be prepared by the FCM to reflect each IB relationship.

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

- Volume of business transacted: many FCMs write a sliding scale rate provision in the clearing agreement, which decreases the cost per transaction as the volume of business from your IB grows.
- Markets traded: some FCMs charge clearing rates based on which exchanges or platforms are traded, including whether the IB’s customers need non-domestic market access.
- Products traded: clearing costs often differ for traditional futures and options on commodities transactions and managed or CTA-directed trades. Forex, swaps, cryptocurrencies all have a separate pricing schedule.
- Order entry platform: many FCMs require IBs to use the platform(s) they provide or endorse for order placement. IIBs, which clear through multiple FCM(s), will likely need to use multiple platforms. Understand the limitations and fees associated with each one.

- **Customer balances:** because interest rates on customer deposits have remained so low for many years, the interest on funds deposited by your customers has returned little to the FCM. As interest rates increase, IBs can negotiate for some portion of that interest.
- **Compliance or disciplinary issues:** if your IB has customer complaints or other disciplinary issues, you'll find it difficult to obtain and keep an FCM relationship. Your Clearing Agreement will include a provision for termination in the event of IB disciplinary problems.

Some FCMs require IBs to fund a security deposit or escrow account as part of the clearing arrangement. The account is established as a sit-aside fund in the event of errors, customer debits or circumstances that affect the IB's monthly commission payout from the FCM. The account could be funded with an initial amount determined by the FCM and added to monthly from the IB's monthly gross revenue. If the FCM you choose does not require an escrow account, it is a good idea to establish one for yourself for those just-in-case situations.

What FCMs look for in an IB Clearing Relationship

FCMs thoroughly vet Introducing Brokers prior to contracting for a clearing arrangement. They monitor the IB closely throughout the relationship. The FCMs compliance and legal departments are involved before any other steps are taken toward the relationship, as they check BASIC and review your business history and documents. FCMs may even take a look at your social media presence. FCMs are liable for the acts of IBs which they guarantee, so they require comprehensive background checks for any IB requiring their guarantee.

For many FCMs, their IB network is their main or only sales force. There is no need for the FCM to hire brokers and other employees and to maintain physical work space when they support a robust IB system. A local IB office will likely know the local customers personally and understand their specific needs. The established reputation of the local IB provides a bridge for the customer to the FCM and the marketplace.

A clearing relationship is not exclusively the IB's to choose. Each FCM has specific criteria for entering into the relationship and looks for the style of business and of the overall operation. The FCM may even identify specific characteristics in the IB owner, which fit into the FCM's business style.

All FCMs who clear IB customers agree that they value long term relationships with IB owners and they will work hard to keep those relationships.

Some items an FCM generally reviews prior to entering an IB clearing agreement are:

- **Compliance with Regulations and Financial Requirements:** Compliance with the rules and regulations of the industry and the policies set by your FCM, including financial requirements, is expected of an IB. Your FCM(s) will evaluate for compliance throughout the relationship.

Any action that causes the NFA to impose enhanced surveillance of your IB's activities will cause FCMs to hesitate to do business with you. Enhanced supervision can include additional audits, recording of all your APs dealings with customers or even heavy monetary requirements or fines. In general, FCMs don't want to work with IBs who add a level of supervision and liability.

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

- **Risk Management Technique:** Each customer's capacity for risk and capital management must be evaluated by your office before the account is opened and it needs to be re-evaluated from time-to-time. Evaluation is done both on a trade-by-trade basis and by viewing the customer's overall account balance in relation to the trading practices used, among other criteria. Several software packages are available to help with risk management decisions in addition to the filters the FCM has in place.

You are responsible for discussing a risk management plan with your customers. You are responsible for monitoring the trading in the account and adjusting both the trading plan and the risk management plan with your customer as needed. Your Clearing Agreement will generally detail the circumstances in which you will be responsible for any debts or errors that occur in your customers' accounts and when, or if, the security account you have established with the FCM can be used to cover those debts. Being able to identify risk and manage it is a top factor in maintaining your IB in good standing with your FCM(s) and the regulators.

- **Your Business Plan:** *Chapter 4* of this Handbook focuses on some ways to identify the business plan that is right for you and how to develop and implement it. A methodical scheme – even a very basic business plan – is essential for a successful IB. Just a few of the items you'll want to include are:
 - How the IB will be funded initially.
 - How APs and other knowledgeable employees will be recruited.
 - How the IB will solicit customers.
 - How big is your nest egg?
 - Will you specialize in specific market or customer types?
 - Do you have the necessary licenses for the products offered?
 - Who will develop the firm's website and maintain it?
 - What are the costs of compliance?
 - What are the costs of technology?
- **Are Both Parties Making Money?** Most FCMs will negotiate a sliding scale scheme which lowers clearing costs as the IB's trading volume and account balances grow. Conversely, the FCM may raise the clearing rate if the IB does not generate anticipated profits within a reasonable time during the clearing arrangement.

If the FCM/IB relationship is not profitable, you can expect a re-negotiation of Clearing Agreement terms. If you add Branch Offices, if you add products, such as managed account programs or forex or swaps, if your IB experiences compliance issues or customer complaints, you can expect a re-negotiation of the Clearing Agreement.

IBs may request a re-negotiation or valuation of the Agreement. Many IBs request an annual review to discuss such items as the security deposit amount or accrual or to preview plans such as expansion into Branch Offices or the addition of CTA registration, which could materially affect the FCM/IB agreement.

Any time the FCM/IB relationship is one-sided or ceases to be profitable for both sides, it should be reevaluated and re-negotiated.

- **Mutual Trust:** Before entering into a Clearing Agreement, both parties must understand and trust that the business relationship will be handled professionally and that each side will fulfill the terms upon which they have agreed. Investigate the capabilities, the disciplinary history and the personnel of each FCM before you commit to a clearing firm.

About 3% of the IBs responding to the 2024 Survey said they stay with their current FCM because it is simply too difficult to transfer their customers' accounts.

Source: 2024 IB Survey

Transferring customer accounts from one FCM to another is a big deal and a rare event. Mutual trust and respect are necessary on both sides in order to create a long term, profitable arrangement and to maintain a business relationship through the rough spots, such as a slow down in your business or a crisis in your personal life.

Meet with your attorney and accountant to be sure your business plan is solid and that you can fulfill the legal and accounting requirements of the industry prior to signing a Clearing Agreement. I encourage IB owners to visit the FCM's home office to meet the risk management supervisor, the compliance managers, the IB service director, the new accounts supervisor, the research department personnel and the information managers. Your personal observations of the FCM's operation are important. Understand the trading platform(s) your IB will be using. Fully discuss all costs associated with your Clearing Agreement. You will be glad you took the time to make personal contact with the FCM's representatives and employees before committing to the clearing arrangement with any FCM. The FCM is your business partner in a very real sense.

Checklist for Chapter 3: FCMs

1. What is the FCM's reputation in the financial industry?
2. What do my customers know about the FCM?
3. Have I reviewed the CFTC and NFA websites for information on the FCM's financial and disciplinary health?
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 the IB be using and what are the associated costs?
7. Is the research my customers need available and what are the associated costs?
8. Does the FCM require a security deposit?
9. Will I be required to pay for some portion or all of the costs of my FCM audit?
10. Do I like what I see?

Chapter 4

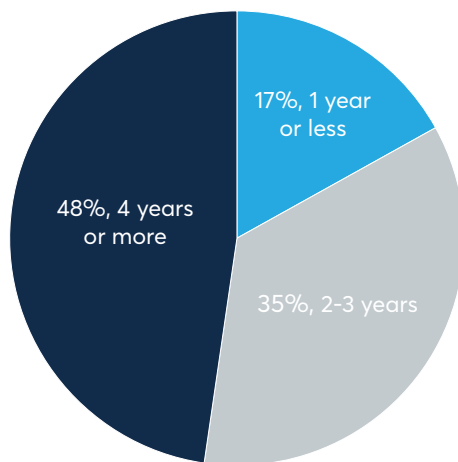
Business Plan

Business Plan: document setting out a business' future objectives and strategies for achieving them.

10 reasons why you need a Business Plan:

1. To prove to yourself that you are committed to operating an Introducing Broker office
2. To understand and analyze your expectations for the business
3. To assess your revenue model and determine your financial needs
4. To show to your banker, accountant and FCM
5. To attract employees and a management team
6. To provide a roadmap for short-term strategies which help you achieve your long-term ones
7. To minimize the risk of wasting time and money
8. To guide you through a crisis
9. To document and review your marketing plan
10. To judge your success

How many years in the future is your business plan?



Source: 2024 IB Survey

About 65% of the respondents to the 2024 IB survey reported they had a business plan in place. About 48% of those said the plan was for four years or more into the future.

IB offices who had a plan were able to handle the challenges during and resulting from the COVID-19 pandemic because they had long-term goals for their businesses founded in a flexible scheme.

The process of writing a business plan is a valuable exercise. Starting a new business is not just about funding. As you pull your plan together, you will discover what your goals actually are and learn what it will take to achieve them. You have to be able to explain your ideas for the future and for your business before you can explain them to others. You're going to need the support of your family, your partners, your lender and your FCM(s) in order to operate a successful IB.

The old-school rigid business plan template is not what we're going to explore in this chapter. Let's start with the KISS admonition – Keep It Simple Silly. Focus on distilling your strategy into simple, concise statements, which help to set goals and track progress. Build in flexibility for changes in direction and responses to any crisis along the way. Think in bullet points and short sentences.

Can you describe your business in one sentence? Financial professionals are often labeled brokers or bankers or analysts. IB owners are a bit of each of those – with a touch of “handler of all normal business needs” and “comforter-in-chief” on disappointing market days plus “maker of the coffee” all rolled into one. Describing your business in one sentence is harder than you think.

Your Trading Plan is NOT Your Business Plan

Do not believe that because you are pretty good at trading that you can operate an Introducing Broker office. Soliciting and serving customers, watching markets, working with your FCM(s) and staying in compliance are all your job as the owner of an IB. Take time to explore and evaluate your professional and personal goals. Maybe you just want to trade and do not need to go through the registration process.

Which Business Plan is Best for Me?

A good Business Plan may take you some time to put together. It is a tool to help you build a better IB. It will require that you return to it on a regular basis, and update from time-to-time.

Whether a plan is called strategic, expansion, operational, investment or annual, 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 using it for a bank loan presentation or to establish a relationship with an FCM. A description of your management team and how the team and your IB helps the customer manage risk and make good trading decisions is the most important part of the plan when you talk to potential customers. If you are reviewing the plan for internal purposes, such as a possible merger or expansion, financial considerations and operational details will be the top considerations.

Start your planning by deciding what focus your business plan will take:

1. **The Start-Up Plan:** define the steps necessary for a new business venture. Who are the principals, what type of customer will your IB service, what services will the IB offer, how will the IB solicit business, what are the anticipated costs, who is on the management team and what is the IB's basic relationship with its FCM?
2. **The Growth or Expansion Plan:** focus on a specific area of your business plan. Include and explain the cost of adding APs in your home office or the methods and costs of upgrading your technology or the reasons for expanding your cybersecurity program. Detailed forecasts of expenses of the planned expansion are included in this plan.
3. **The Feasibility Plan:** once the IB is operating, take a hard look at whether it is on the right path to meet your business goals. You may need to add a CTA registration, offer forex transactions to meet your customers' needs or establish another FCM relationship.

Some Business Plan Basics

Nearly 65% of IB owners responded to the 2024 IB Survey by answering "Yes" to the question of whether they had a business plan in place for their firm. Over 48% of those respondents said the plan was for at least four years into the future. Successful plans have a degree of flexibility and are able to respond to regulatory change, product development and personal challenges.

The futures industry – the business itself – experiences both bullish and bearish years just like the markets we trade. Paying strict, focused attention to your projected income and expenses for the first year will help you weather any rough spots and plan for the future. Calculate expected revenue for each month by analyzing, among other things, the number of customer transactions completed, the commission rate(s) charged, your clearing rate and all other fees along with any other anticipated expenses, such as technology and broker payouts.

A basic balance sheet detailing your present financial position includes, among other items:

- Income from all sources – savings, salary you pay yourself, 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

The components of the structured business plan will likely include:

- **An Executive Summary:** this is the introduction to you and your business. It should include goals or forecasts or business highlights if the IB already exists.
- **A Company Description:** describe the legal organization of the IB, including the start-up plan or history of the firm if the IB is already in existence.
- **Market Focus of the Business:** describe whether the IB will trade primarily traditional futures and options on commodities contracts, whether it will handle managed or CTA-traded accounts, whether it will offer forex, swaps or cryptocurrencies.
- **An Analysis of Customer Demographic:** who are your customers, what are their specific needs. Include a description of how you will reach-out to new customers.
- **Strategy and Implementation:** include management responsibilities and specific dates and budget for completion. Build your spreadsheet with capability to track the results.

- **Web/Media Strategy:**

Your website is considered promotional material by the NFA, and as such, is regulated. Know the rules for communications with the public.

Websites are a valuable education tool that draws customer attention to the uniqueness of your IB office and services. They help to maintain your customer relationships. Include the costs of initial development, maintenance and regular updates to the website and to any other social media, such as LinkedIn or X your firm uses.

- **Management Team:** include information about your business partner, compliance officer, sales manager and research department – in a smaller or start-up IB, some of these positions are likely to be filled by the same person.
- **Financial Analysis:** how much capital do you need to start-up including the costs of attorneys, accountants, registration and NFA requirements. Where will start-up money come from?

Legal Organizational Methods

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

Your lawyer and accountant should be consulted when you are considering which legal business entity is best for you. The FCM(s) you choose to work with will require documentation describing your legal organization. The NFA will require disclosure of the form of organization of the IB and will also require certain of the principals and others in control of the business to be disclosed or registered. More about these requirements is found in *Chapter 2: Registration* and on the NFA website, www.nfa.futures.org.

Sole Proprietorship: in 2024, there are still Introducing Brokers organized as sole proprietorships. It is the easiest and often the least costly way to structure your firm. 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. The owner of the IB has absolute authority over all business decisions. Attorney's fees for documenting a sole proprietorship are typically less than other forms of set-up partially because there is less documentation preparation.

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 partnership. All partners manage the business and are personally liable for its debts. It can be formed by oral agreement, but a more formal agreement drawn up by an attorney is preferred and will be required to apply for a business loan. A partnership is a favored form of organization for many IBs since it spreads the responsibilities of financing, supervision and other operational duties among responsible parties. 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):** essentially a general partnership with protection for each individual partner against personal liability for certain partnership liabilities. The limit of an individual partner's liability depends on 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 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 register as LLPs. You will most likely need an attorney to form the LLP. The LLP documentation will be reviewed by the NFA during an audit.

Limited Liability Company: LLCs are just another form of partnership. They are organized with Articles of Organization or Rules of Organization, which are specific to the individual state's requirements. Owners of the LLC are all 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 decide to register as an LLC, you should consult an attorney because there are widely varying requirements between states. LLC documentation will be reviewed 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. This separation gives the corporation unique standing that other legal entities lack. The extent of the corporation's status and capacity is determined by the law of the place of incorporation. Corporations can be more costly to organize than other legal structures because the 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 corporations, which is 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 informally, but recordkeeping cannot be eliminated. Officers of a corporation can be held liable to stockholders for improper actions or conduct. An incorporation can be accomplished without using an attorney, but it is not recommended. Incorporation documents will be reviewed by the NFA during an audit.

A few Items to Include in an IB Business Plan

Some considerations apply to all business plans, others are unique to the derivatives industry or to the Introducing Broker.

Introduction should be a detailed description of the IB and its goals, which includes:

- Ownership and legal structure of the firm
- List of skills and experience you bring to the business
- Advantages you have over possible competitors

Marketing includes:

- Identifying your customer audience – type of trader, markets traded
- Identifying your geographical restrictions, if any
- Explaining your advertising and marketing plan
- Explaining your commission structure

Financial includes:

- Source and amount of your initial equity capital
- Monthly operating budget for the first 12 months of operations
- Anticipated return on the initial investment and monthly cash flow for at least the first year of operations
- Understanding your break-even point
- Identifying the person(s) who will maintain accounting records and method(s)
- Identifying and accounting for costs associated with your ISSP
- Anticipating costs of alternative approaches to handle any disruption in the operation of the IB

Operations includes:

- Identifying the day-to-day manager of the IB office and management procedures
- Identifying your Compliance Officer, Risk Management Officer, Sales Supervisor, Information Systems Supervisor, New Accounts Supervisor, AML and Cybersecurity Contacts/Supervisors
- Identifying your hiring and other personnel procedures
- Understanding the insurance, lease and rental agreements for equipment, data, physical space, etc.

Concluding Statements:

Concluding Statements should summarize your business goals and objectives. Take into account considerations, such as your physical, mental and emotional health and attitudes. Understand clearly what your spouse or partner understands about your business plans.

On completion of the Business Plan, review it with your accountant and attorney. Seek out a trusted business associate who will talk with you candidly about your plans. And review your plans with your family again.

Using Your Business Plan

Your business plan is a living document. Use it for its three most basic purposes – communication, management and planning.

1. **Communication:** the business plan is most often used to attract investment capital, secure business loans, attract employees to hire on and assist in attracting strategic business partners, including FCMs. The development of a comprehensive plan helps you communicate to others that your business has the potential to make a profit. Use the plan to demonstrate your strengths and offer alternatives when flexible options are needed to meet with unexpected challenges and opportunities.
2. **Management:** the business plan helps you track, monitor and evaluate your progress. The plan must be continually modified as you gain experience and knowledge and as your business grows. Gauge progress by establishing milestones and timelines, compare actual accomplishments to the projections and modify or move "the goal line."
3. **Planning:** the business plan can guide your IB through various phases of its life. The thoughtful plan identifies roadblocks and obstacles. Alternative, flexible plans for IB growth and methods and procedures for change should be part of your business plan.

Tips To Help You Write a Better Business Plan

- **Summarize your business activity concisely.** Try to describe the nature of the business (options only, hedging primarily, traditional futures markets, etc.) and your goals in a single sentence.
- **State your objective clearly.** What do you want the business to accomplish in the first 12 months of operations? In the first three years? What do you personally expect to accomplish as an owner/operator of an IB?
- **Anticipate trends that may affect your IB's growth.** Talk to your FCM and your APs about changes that may have an impact on your IB and its customers. Attend conferences, industry meetings/webinars and subscribe to newsletters, alerts and market advisories to learn how your colleagues are handling industry issues. Keep up on compliance updates, new technology, enforcement trends and taxation changes. 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 a Branch Office.
- **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.
- **Inventory your resources:**
 1. How much cash and other assets do you have easily accessible?
 2. How long could you operate unprofitably without changing your lifestyle?
 3. Evaluate your skills and knowledge level realistically.
 4. Understand how many, if any, APs and support staff will be needed to operate your firm and how you will recruit, train and supervise them.
 5. Understand the necessary technology and how it works and how to contact service providers who are knowledgeable and have experience in the futures industry.

- **Set some realistic immediate objectives.** This is called “the baby-step approach” and I recommend it. Set one or two goals which are achievable within a few weeks or months of getting started – a certain number of new accounts or a certain amount of new customer equity in a stated certain time. Achieving those first objectives will help you get into the routine of setting goals, meeting them and setting new ones. This process makes it easier to tackle larger or long-term projects by breaking them up into smaller doable tasks and achievements. Accomplish a baby-step – check it off. Move on to the next item feeling good about what you’ve done and knowing that you can do more.
- **Write down your longer-term objectives** for the IB and the steps necessary to meet those objectives. Reaching a new group of customers or adding new products to the IB’s offerings, requires planning, including the cost of any equipment or additional training you might need.
- **Your IB must be an NFA member before it solicits customers.** Advertisement, 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 accessible on their website. *NFA Compliance Rule 2-29.*
- **Work on your plan.** Once the objectives for your IB are set and your resources are evaluated, take the actions necessary to move forward. Physically write down or enter those things you want to accomplish into your calendar. Break down the larger projects into baby-steps.
- **Update or revise your business plan,** including the IB’s objectives periodically. Those IBs who reported they have been registered for 20 or more years, have learned that periodic revisions and flexible business plans are necessary to weather such unexpected crises as the MF Global and Peregrine Financial Group failures of 2011 and 2012 and the more recent COVID-19 pandemic.

Challenges and Concerns

As part of the 2024 IB Survey, IBs were asked to list some of their biggest concerns and challenges for the business in the upcoming year.

Top challenges faced by Introducing Brokers

Higher outside vendor costs
(legal and accounting)

Increasing regulation and
cost of compliance

Finding new clients
(particularly in smaller
communities)

Attracting new APs and
qualified employees

Lack of new “younger”
interest in the IB business

Fewer FCMs
to clear business

Source: 2024 IB Survey

Increasing regulation was uppermost in the minds of IB owners along with the higher costs of compliance with those regulations. Accountants, attorneys and experienced employees are all needed to operate a successful business – and the rising cost of all of them is of great concern to IB owners.

Mergers and buy-outs of FCMs mean IBs have fewer choices for their customer business.

Closure of the trading pits has resulted in closing off a source of training and of new APs and IB owners. For many IBs, brokers are aging along with their customers, as fewer young people step in to operate the businesses.

Finding new customers is a general concern for all IBs and has been reported in the top concerns of IB owners in every survey we have conducted for The Complete IB Handbook since its initial printing in 1998.

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 easily accessible list of all my bank accounts and business investments, including the access information for each account?
7. Do I have a complete and easily accessible list of all my promotional materials, including client communications, website/media 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, to register as an IB and operate that business – or do I really just want to trade?

Chapter 5

The Regulators

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

Introducing Brokers (IB) are required to register with the Commodity Futures Trading Commission (CFTC) and be members of the National Futures Association (NFA) in order deal with the public concerning derivatives markets (i.e., futures contracts, options on futures contracts, forex, swaps).

Your 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	928
Total # CTAs registered	1,253
Total # CPOs registered	1,193
Total # FCMs registered.	62
Total # RFEDs registered.	4
Total # Swaps Dealers registered.	107
Total # Exchanges registered	6
<hr/>	
Total # Associated Persons registered	40,819*
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Source NFA Feb. 2024	

**The IB, Swaps Dealers and AP categories are down from those reported by NFA in August 2021, the last update to The Complete IB Handbook. CTAs and CPOs are up slightly; FCMs up one registrant and exchanges unchanged.*

The majority of your regulatory and compliance contacts will be with the NFA, but the CFTC is the top regulator for the industry. From its creation in 1974, until it approved the formation of the NFA in 1981, the CFTC was the primary agency for regulation of both individuals and firms that transacted 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 your firm's daily business. The individuals who work at the CFTC and NFA are professionals, many with several decades of experience, who should be among your first contacts when you have questions about rules or compliance.

If the firm, you or your employees 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 introduces. FCMs will not take the risk, or the ultimate liability, of working with any firm that has a history of disciplinary problems.

In the aftermath of the 2008 financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank or the Act), was passed by Congress and signed into law in July 2010. The Act was a response, in part to the recession of the late 2000s 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 markets. The reports, including new rules 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 the regulation of the financial markets and its professional participants, bringing derivatives on exchanges and, for the first time, including Introducing Brokers in the definition of financial institutions. By including IBs, many of the resulting rules and their obligations apply directly to the IB, not just indirectly through the FCM or an exchange.

Initially 38 areas were identified as those in which new regulation was contemplated. Those areas included data collection regarding specific products, review of position limit regulation and review of public reporting. The review and updates continue today.

The CFTC has often viewed swaps, which were not regulated in the U.S. prior to Dodd-Frank, as being at the center of the 2008 financial crisis. That information helps to explain why such great emphasis on swaps registration, regulation and enforcement has been placed on that part of the industry. The CFTC has enacted rules that require swaps dealers to meet recordkeeping and recording requirements as well as meet robust business conduct standards, in addition to being subject to capital and margin requirements developed 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 markets. Standardized derivatives are required to be traded on regulated exchanges or swap execution facilities. Increased transparency should have the effect of increasing competition in the marketplace, thereby bringing better pricing, which in turn, results in lower costs of participation for end-users.

A Short History of Futures Regulation (and a Couple Interesting Stories)

Pre-CFTC, organized trading and regulations of that trading existed. From the early 1880s to about 1920, over 200 bills were introduced in Congress with the purpose of regulating, banning or taxing futures trading in the U.S. From the founding of the Chicago Board of Trade (1848) as a cash market for grain and the establishment of the Kansas City Board of Trade in 1856, trading rules existed. The New York Cotton Exchange, The Butter and Cheese Exchange of New York, the Minneapolis Grain Exchange and the Chicago Butter and Egg Board (predecessor to the Chicago Mercantile Exchange) were all founded before the turn of the 20th century.

In August 1921, the Futures Trading Act was enacted. It provided for the regulation of trading in corn, wheat, oats, rye and other grains, and included a prohibitive tax of 20 cents per bushel on all Grain futures trades that were not executed on a designated contract market. Not even a full year later, that Act was struck down by the U.S. Supreme Court ruling that Congress's taxing power in the Act was unconstitutional. In only 13 months after that, the Grain Futures Act of 1922 – predecessor to the Commodity Exchange Act – was found to be constitutional by the Supreme Court. The predecessor agency to the CFTC, which included the Secretaries of Agriculture and Commerce and the Attorney General, was formed to administer the Act.

In 1936, the Commodity Exchange Act (CEA) replaced the Grain Futures Act and extended federal regulation to commodities including cotton, rice, butter, eggs and Irish potatoes. It also required futures commission merchants to segregate customer funds, prohibited fictitious and fraudulent transactions like wash sales and banned all commodity option trading. The option ban was not lifted until 1981.

In 1955, onions were added to the list of regulated commodities and just one year later a complaint charged the National Produce Distributors with attempted manipulation of that market. The March 1956 futures contract – the

subject month of the alleged downward manipulation, fell from near two dollars per 50 lb. bag in late 1955 to 15 cents on the last trading day in March 1956. The USDA found that National Produce Distributors had attempted stabilization, but Congress went on to hold hearings to consider Onion futures trading. Onions are no longer traded.

December of 1963 brings us to what is known as the Great Salad Oil Swindle. The owner of a vegetable oil refining corporation was indicted for creating phony warehouse receipts for non-existent soybean oil and using those receipts as loan collateral to finance his heavy trading of soybeans, soybean oil and cottonseed oil. The 1963 scandal caused 16 firms, including a subsidiary of American Express, to go bankrupt and led to calls for increased regulation of the futures markets. The defendant was convicted and sentenced to ten years in prison.

The CEA was amended in 1968 to add livestock and Livestock products to the list of regulated commodities in the first major commodities legislation since 1936. It also established minimum net financial requirements for FCMs, enhanced reporting requirements and increased criminal penalties for market manipulation.

In 1973, Grain and Soybean futures prices reached record highs. There were allegations of market manipulation and excessive speculation. Congress decided to revisit the regulatory scheme for commodities. The result was the Commodity Futures Trading Commission Act (CFTC Act).

During October of 1974, Congress passed and President Gerald Ford signed the CFTC Act. The bill created the CFTC as an independent agency with exclusive jurisdiction over futures trading in all commodities. In April, 1975, William Bagley, a former Republican California State Assembly member, was sworn in as the first Chairman of the CFTC. Later that same year, the first futures contract on U.S. government debt – the Chicago Mercantile Exchange 90-day U.S. Treasury bill futures contract was approved.

The 1980s saw the NFA approved by the CFTC as a Self-Regulatory Organization, and it began operations in October 1982. The Shad-Johnson Act was also announced. It is the jurisdictional agreement on the regulatory responsibilities for some financial instruments, particularly Stock Index futures.

In August, 1982, the first options on futures contracts were approved by the CFTC. Soon after, new registration categories for IBs, CPOs and CTAs were finalized, and NFA took over registration processing functions.

On October 19, 1987, the biggest one-day plunge in stock market history was recorded, but no CFTC-regulated systems failed and no firms defaulted on their obligations. Trading began on Chicago Mercantile Exchange Globex, the first international electronic trading system in 1992.

On February 26, 1993, I was having lunch at the Palm restaurant in Chicago and watched the television in horror as a bomb placed in a van by terrorists exploded in the basement of the World Trade Center (WTC). The bomb killed six people and injured 1,042. Customer trading on the exchanges located in the WTC resumed almost immediately.

The CFTC launched its website, www.cftc.gov, in 1995 while it approved a record number of new futures and options contracts – 92 in total.

The Commodity Futures Modernization Act of 2000 was signed into law by President Bill Clinton in December of 2000. It reauthorized the Commission, overhauled the CEA to create a more flexible structure, clarified CFTC jurisdiction over certain foreign currency transactions and repealed the ban on the trading of single stock futures. This update to the CEA was the result, in part, of several years of review, including testimony before Congress in which I participated.

The terrorist acts of September 11, 2001, destroyed the trading floor of the New York Board of Trade and the offices of the CFTC along with many other firms located in the World Trade Center. Significant changes followed those attacks. CFTC restructured its staff, anti-money laundering legislation was proposed and the markets themselves saw increased globalization.

In October of 2005, Refco, Inc. filed for Chapter 11 bankruptcy – it was the parent company of Refco, LLC, a large FCM, which was subsequently sold to Man Financial. The CFTC confirmed that the FCM's customer funds on deposit remained uncompromised and that the capital requirements of the FCM continued to be met.

In 2007, the Chicago Mercantile Exchange and the Chicago Board of Trade announced the completion of their 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. Also in 2007, the CFTC began publishing a newly revised Commitment of Traders (COT) report showing aggregate futures and options positions of index traders, in addition to non-commercial and commercial traders in 12 selected agricultural commodities. Many futures professionals find the COT to be the best indicator of market status of all the reports the CFTC publishes.

President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in 2010. 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 MF Global in October 2011 and again in July 2012 by Peregrine Financial Group. 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. In 2013, the CFTC filed and settled charges against MF Global and its former CEO Jon Corzine. The settlement directed payment of all funds still owed to customers and imposed a \$100 million penalty against the company. Russ Wauson, the CEO of Peregrine Financial Group, was found criminally liable and sentenced to 50 years in prison.

CME Group acquired the Kansas City Board of Trade in 2012.

The first whistleblower award under CFTC's new program was issued in 2014. It totaled \$240,000 for providing information about violations of the CEA. Also in 2014, swaps regulation took effect, creating a large pool of new registrants. The CFTC brought its first legal action against "spoofing" in 2015 and issued guidance for the regulation of bitcoin.

CME Group and CBOE Futures both self-certified new contracts for Bitcoin futures products, the first futures contracts on virtual currency on the same day in 2017 as the Cantor Exchange self-certified a new contract for Bitcoin binary options.

When COVID-19 struck officially in 2020, the CFTC initiated teleworking. They issued a number of no-action letters targeted to IBs and other registrants, with temporary relief in the areas of compliance with some CFTC requirements that proved challenging or nearly impossible during the period of social distancing and other measures. They continued to hold open meetings as well as Advisory Committee meetings by teleconferencing and issued customer advisories in response to frauds, which sprang up during the pandemic.

By September of 2021, CFTC actions involving the traditional commodities, such as agriculture and metals, were eclipsed by those against cryptocurrency derivatives trading platforms and unregistered digital asset exchanges. Unapproved communication methods, such as text messages and WhatsApp, were the subject of millions of dollars of civil monetary penalties.

Which brings our history lesson to December of 2022, when the CFTC filed a complaint against Sam Bankman-Fried and two other defendants charging all three with fraud and material misrepresentations in connection with the sale of digital commodities in interstate commerce. The complaint asserted that defendants' actions caused the loss of over \$8 billion in customer deposits. In March 2024, Mr. Bankman-Fried was sentenced to 25 years in prison. What a journey since manipulation of the onion market!

The Commodity Futures Trading Commission (CFTC)

Main Office	Central Region	Southwestern Region	Eastern Region
Three LaFayette Centre 1155 21st Street, NW Washington, DC 20581 (202)-418-5000 (202)-418-5521 (fax)	77 West Jackson Blvd Suite 800 Chicago, IL 60604 (312)-596-0700 (312)-596-0716 (fax)	2600 Grand Boulevard Suite 210 Kansas City, MO 64108 (816)-960-7700 (816)-960-7750 (fax)	290 Broadway 6th Floor New York, NY 10007 (646)-746-9700 (646)-746-9888 (fax)

www.cftc.gov

The Commodity Futures Trading Commission (CFTC or Commission) was created by Congress in 1974. It is an independent agency whose original purpose was to regulate futures and options markets in the United States.

The mission of the CFTC is to protect market users and the public from fraud, manipulation and abusive practices related to the sale of commodity futures, options and swaps, and to foster open, competitive and financially sound commodity futures, options and swaps markets.

Source: Summary of CFTC Mission Statement, President's Budget 2022

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.

In 2024, the CFTC employed 636 permanent and 63 temporary workers, up slightly from 2023. The 2024 Funding Request was 411 million, about 12.6% above the request for 2023. \$70 million is allocated to the CFTC Department of Enforcement.

Among other requirements, the CFTC requires:

- 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
- 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 NFA at their Chicago office.

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 the regulation of Bitcoin and other cryptocurrency trading

Organizational Structure of the CFTC

The Office of the Chairman oversees the Commission's principal divisions and offices that administer and enforce the CEA and its regulations, policies and guidance. The Chairman, along with their staff, directs the day-to-day management of the agency 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 confirmed by the Senate and they 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.

The full group of five Commissioners is serving at the time of writing of this Handbook, but in recent times it has not been unusual to have less than the full number doing the work of the Commission. 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 and should be regarded as excellent sources concerning rules, regulation and policy.

Commissioners serving as of February 2024:

Chairman, Rostin Behman (term began 1/2022 after serving as a Commissioner since 9/2017)

Mr. Behman's experience includes serving as Senior Counsel to Senator Debbie Stabenow and working as a proprietary equities trader in New York City. He also worked with the New Jersey Bureau of Securities. He sponsors the CFTC's Market Risk Advisory Committee and created the Climate-Related Market Risk Subcommittee to examine climate-related impact on the financial system. Mr. Behman holds a law degree from Syracuse University College of Law.

Commissioner Kristin Johnson (term begin 2/2022)

Ms. Johnson taught at both Emory University and Tulane University Law Schools prior to joining the CFTC. She is a nationally recognized expert on financial markets risk management law and policy. Prior to her CFTC confirmation, she testified numerous times before the House of Representatives with regard to banking charters, disintermediation and exploring the implications of integrating artificial intelligence in Fintech platforms. Ms. Johnson holds a law degree from the University of Michigan Law School.

Commissioner Christy Goldsmith Romero (term began 3/2022)

Ms. Goldsmith Romero had led the Treasury Department's Troubled Asset Relief Program (TARP) for a decade before she was nominated for the CFTC. She was on staff at the Securities and Exchange Commission and for four years she served as senior counsel in SEC's Enforcement Division.

Commissioner Summer Mersinger (term began 3/2022)

Prior to her appointment, Ms. Mersinger was the Chief of Staff to CFTC Commissioner Stump, and the director of the Office of Legislative and Intergovernmental Affairs under former Chairman Heath Tarbert. From 2004-2016, Ms. Mersinger was DC Chief of Staff for U.S. Representative John Thune. She has 20 years of Capitol Hill and government relations experience. Ms. Mersinger holds a law degree from the Catholic University's Columbus School of Law.

Commissioner Caroline Pham (term began 4/2022)

Ms. Pham was the managing director at a large global financial institution prior to being appointed to the CFTC. She also served as the Special Council to CFTC Commissioner Scott O'Malia, and in enforcement at the CFTC, the SEC and Office of the Comptroller of the Currency (OCC). Ms. Pham is the sponsor of the CFTC's Global Markets Advisory Committee. She holds a law degree from George Washington University Law School.

The Operating Divisions and Offices of the CFTC

The CFTC is led by the Chairman of the Commission in his/her capacity as the agency's Chief Executive.

- Office of the Chairman: this office consists of the Chair/Chief Executive and staff who direct the day-to-day management of the agency, coordinate its business and shape the regulatory and enforcement agenda of the Commission.
- Executive Leadership Team: this team is made up of the heads of each operating division in addition to the Commission's Chief of Staff/Chief Operating Officer and the CFTC Chairman. Together they are responsible for carrying out the administrative, regulatory and enforcement agenda of the CFTC.
- Operating Divisions and Offices:
 - Clearing and Risk (DCR): oversees derivatives clearing organizations, such as futures commission merchants, swap dealers, major swap participants and large traders.
 - Enforcement (DOE): investigates and prosecutes alleged violations of the CEA and Commission regulations. Violations can include fraud, manipulation and other actions, which harm market integrity, its participants or the general public. The Whistleblower Office is within DOE.

In its FY2023 Enforcement Results Report, the Commission reported that it filed 96 enforcement actions charging fraud, manipulation and other significant violations in diverse markets, including digital assets and swaps markets, resulting in over \$4.3 billion in penalties, restitution and disgorgement.

Source: CFTC FY2023 Enforcement Results, November 2023

- Market Oversight (DMO): reviews new applications for designated contract markets, swap execution facilities, swap data repositories and foreign boards of trade, as well as examining existing trading platforms and swap data repositories. This is in order to ensure compliance with core principles and other regulatory requirements, in addition to reviewing system safeguards.
- Market Participants Division (MPD): oversees derivatives market intermediaries, including IBs, CTAs, CPOs and FCMs, as well as designated self-regulatory organizations.
- Division of Data (DOD): responsible for the CFTC's data strategy and governance approach, including the intake of data from registered entities.
- Division of Administration (DA): directs the internal management of CFTC's business, personnel, financial, technological, security and strategic operations resources.
- Office of the Chief Economist (OCE): provides economic support and advice to the Commission, conducts various research and trains the CFTC staff.
- Office of the General Counsel (OGC): provides the legal services and support as necessary to the Commission and all its programs, including representation in appellate and bankruptcy litigation and interpreting the CEA.

- Office of International Affairs (OIA): advises the Commission on international regulatory issues and initiatives.
- Office of Public Affairs (OPA): provides timely information across communication platforms to reach all market stakeholders with education and awareness of the CFTC and its mission.
- Office of Legislative and Intergovernmental Affairs (OLIA): provides support to the CFTC on matters before the U.S. Congress and acts as its official liaison with members of Congress and other federal agencies.
- Office of Minority and Women Inclusion (OMWI): leads the Commission's civil rights, equal employment opportunity and diversity and inclusion programs.
- Office of Technology Innovation (OTI): is the CFTC's financial technology innovation hub which advocates for the advancement of responsible innovation, industry collaborations and public outreach and education.
- Office of Customer Education and Outreach (OCEO): develops and administers the CFTC's customer and public education initiatives.

Reparations Program

The Reparations Program at the CFTC provides an inexpensive and expeditious forum to resolve disputes between derivatives customers and registered derivatives trading professionals. A complaint that cannot be solved by other means can be decided by a CFTC Administrative Judge who specializes in commodity derivatives law.

Complaints can be filed by email. Fees related to a proceeding may be submitted electronically. An Administrative Judge will determine which documents will be used in the case.

Violations eligible to be heard in the Reparations Program include transactions that involve futures contracts, options, physical commodity and leverage contracts. Types of violations include fraud, breach of fiduciary duty, unauthorized trading, misappropriation, churning, wrongful liquidation, failure to supervise and nondisclosure.

To qualify, the claimant must file the complaint within two years after the date of the wrongdoing is known or should have been known, and cannot file against a respondent who is in bankruptcy or cannot concurrently pursue a claim based on the same set of facts in arbitration or a civil court.

To determine if your specific case meets the program's requirements, understand which type of proceeding is best and submit a Reparations Complaint Form. All of this information is found on CFTC's website www.cftc.gov. The website answers most questions about the Reparations Program and other procedural questions such as whether the filer needs an attorney, how long the process is likely to take and how to check the status of the case.

Whistleblower Program

The Whistleblower Program provides monetary incentive to individuals who report possible violations of the CEA that lead to a successful enforcement action. In 2023, there were 96 enforcement actions brought under the Whistleblower Program, up from 82 in 2022. The award is approximately 10-30% of the monetary sanction collected. The program, which began in 2014, has awarded over \$365 million to Whistleblowers. In just one example, a Whistleblower was awarded over \$18 million in October 2023. CFTC's web page regarding the Whistleblower Program lists the Final Order/Award Determination of these actions.

Market Data, Reports and Analysis

The CFTC publishes a number of reports that are available to the public on their website, www.cftc.gov. These free, easily accessible reports are a good way to keep up with the trading and financial information collected by the Commission. IBs use the reports to access information about the financial health of their FCM(s), to update knowledge of open and trade interest in various markets and to develop, support, and document trading strategies. A complete list of available reports is found on the CFTC website at www.cftc.gov/MarketReports. A sampling of the reports published by the CFTC is found in *Chapter 8: Resources*.

The National Futures Association (NFA)

320 South Canal Street	One New York Plaza	Information Center
Suite 2400	Suite 4300	
Chicago, IL 60606	New York, NY 10004	1-800-621-3570
		1-312-781-1410
(312) 781-1300	(212) 608-8660	

www.nfa.futures.org

The National Futures Association (NFA) is the independent self-regulatory organization for the U.S. futures and derivatives. After being designated by the CFTC in 1981 as a registered futures association, the NFA began operations in October 1982.

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.

The NFA's mandate is to safeguard the integrity of the derivatives markets, protect investors and ensure the members fulfill their regulatory obligations. A member's failure to comply with the rules of the NFA can result in fines or revocation of NFA membership.

The Association is self-funded. NFA is primarily financed by membership dues, fees and assessments paid by members and other users of the derivatives markets.

During the COVID-19 pandemic, NFA initiated a number of changes in order to operate more effectively and continue to perform its regulatory oversight of members. Like many IBs, NFA pivoted to a work-from-home structure for many employees for most of 2020 and well into 2021. During those years, NFA adopted many rules which addressed supervision obligations to suit the remote working environment. It also held virtual member meetings, including board and advisory committee meetings. IBs and other registrants feel the NFA adapted well to pandemic-caused real-world issues and that communication with NFA and its employees was handled efficiently.

As of January 31, 2024, the NFA had 541 employees. Its main office is located in Chicago. It regulates 924 IBs, most of which are in the U.S.; approximately 86 offices are non-domestic. States with more than eight IBs currently registered are listed in Chapter 2: Registration. In addition to the U.S., countries where IB firms are registered are:

Location and Number of NFA-Registered IBs by Country

United Kingdom	27	Mexico	3	Ireland	1
Canada	6	Switzerland	3	Israel	1
Hong Kong	6	Columbia	2	Puerto Rico	1
Singapore	6	South Korea	2	Spain	1
United Arab Emirates	6	Tokyo	2	Sweden	1
France	5	Brazil	1		
Chile	3	Denmark	1		

Source: NFA, January 2024

As of January 2024, the NFA had 3,553 Members (this number does not include 40,819 Associated Persons). All futures professionals required to register must undergo a background check before they may register. As a self-regulatory organization, the NFA has the power to search for and implement what it believes are best practices for the industry. It creates the rules its members must follow, has the power to impose fines or revoke membership status and offers an arbitration process for customers and businesses in order to settle their disputes on allegations.

All futures professionals who do business with the public, including IBs, must join the NFA. Once you become a registrant, you may not accept orders from 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 at the CFTC.

Policy implementation is handled by NFA officers and staff. As of February 2024, NFA Officers and key personnel include:

Tom Sexton, III	President, CEO
Dan Driscoll	Special Policy Advisor
Edward Dasso, III	Senior V.P., Market Regulation
David Hawrysz	Senior V.P., CFO, Treasurer
Tim McHenry	Senior V.P., Information Systems
Michael Otten	Senior V.P., OTC Derivatives
Regina Thoele	Senior V.P., Compliance
Carol Wooding	Senior V.P., General Counsel, Secretary
Karen Wuertz	Senior V.P., External Affairs, Communications
Nancy Bohanon	Vice-President, Human Resources
Lauren Brinati	Vice-President, Chief Strategy and Risk Officer
Yvette Christman	Vice-President, Registration
Dale Spoljaric	Vice-President, Capital, Exams

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. The board meets quarterly. The majority of BoD members are currently or have been registered as Associated Persons. In 2023, the NFA reduced the size of its board from 29 to 21 members citing efficiency in governing. Introducing Brokers have one board representative. The results of the 2023 election/appointments are:

Chairman:	Gerry Corcoran, R.J. O'Brien & Associates, LLC
FCM Representatives	Scott Andersen, SG Americas Securities, LLC Gerry Corcoran, R.J. O'Brien & Associates, LLC Alicia Crighton, Goldman Sachs Tom Kadlec, ADM Investor Services, Inc.
Swap Dealers/Major Swap Participants:	Seth Bender, HSBC Bank USA, NA Mark Maurer, StoneX Markets, LLC Charlotte McLaughlin, PNC Capital Markets, LLC Don Thompson, JPMorgan Chase & Co.
CPOs & CTAs:	Ernest Jaffarian, Efficient Capital Management, LLC Martin Lueck, Aspect Capital Limited Constance Wick, Crabel Capital Management, LLC
IBs:	Mike Burke, HighGround Trading, LLC
Contract Markets:	Trabue Bland, Intercontinental Exchange, Inc. Julie Holzrichter, CME Group
Public Representatives:	Ana Beskin, Amazon People Experience and Tech Michael C. Dawley, Bluefin Partners, LLC Ronald Filler, New York Law School Art Hahn Mary McDonnell, McDonnell & Associates Ron Oppenheimer Todd Petzel, Offit Capital Advisors, LLC
Permanent Special Advisor to the Executive Committee and Board of Directors:	Leo Melamed, CME Group

NFA issues a financial report to members annually and holds an annual membership meeting in February at the Chicago office in-person or virtually. All members of the Association are eligible to attend. NFA also posts a quarterly video report on its website following its Board of Directors meeting.

IBs and other registrants and non-registrants may be appointed to the various committees of the NFA. These committees meet periodically to advise NFA staff on proposed regulation and to respond to CFTC requests, along with other membership issues. I have been a member of the Hearing Committee and the Special Advisor to the IB Advisory Committee for many years and find it very worthwhile. I am also an NFA Arbitrator.

Current NFA Committees include:

- Advisory (FCM, 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

Among NFA's responsibilities are 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. Registration forms, explanatory materials and dues/fees schedules are online at NFA's website, www.nfa.futures.org. Annual registration updates are required for IBs and can be filed electronically. You will be notified of your update deadline date by the NFA.
- **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 IB-registrant daily activities, including the way you interact with your customers. Each IB is subject to an audit performed by the NFA staff approximately every three years. One of the many changes NFA made in response to the COVID-19 pandemic was to perform the majority of the audits virtually. In 2024, in-person audits will generally resume.
- **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 attorneys, accountants and other industry participants. The hearing, if needed, is conducted in-person or by having each party submit documents for review to the hearing officer or panel.
 - During FY 2023, seven new customer cases were filed for arbitration. Those cases involve situations where at least one party to the arbitration is a public customer. The total cases are down from 20 in 2022, 19 in 2021 and 45 in 2020. A total of 89 cases were closed after hearings or otherwise in FY 2023, 85 of those categorized as customer claims. That number is up from 77 in 2022, 31 in 2021 and 88 in 2020. *Source: NFA Website, 2024.*
- **Education:** NFA provides education resources to both members and investors. It conducts in-person member workshops through the U.S., which continued virtually throughout the COVID-19 pandemic. Audio recordings of the meetings are posted online at the NFA's website, www.nfa.futures.org.

NFA also provides print and electronic education materials for investors. Topics include the basics of trading and forex, a glossary of basic market terminology and issues surrounding digital assets. A listing of these publications can be found on NFA's website, www.nfa.futures.org – they are updated quarterly.

Things to Know About the NFA

NFA is the regulatory agency your IB will have primary contact with. From your initial registration to submitting advertising materials, the NFA has a significant role in overseeing an IB office's operations.

BASIC: BASIC is a free tool that both investors and NFA members can use to research the background of derivatives industry professionals. Introduced in 1998 and accessed through the NFA website, the Background Affiliation Status Information Center (BASIC) is an online clearing house of disciplinary information about firms and Associated Persons. NFA reports that more than 850,000 individual BASIC searches occur each year.

BASIC includes current and historical registration information about all current and former CFTC registrants and the business address and principles of the firm. Information can be searched by individual name or firm name. Disciplinary actions taken by the NFA, CFTC and U.S. futures exchanges are found with each listing.

Prior to associating with any FCM, CPO/CTA or IB, or prior to hiring any AP, check BASIC to review work history and disciplinary actions. Once registered and doing business, it's a good idea to check your BASIC listing periodically to ensure the information displayed there about you and your IB is reported correctly.

Business Conduct Committee: NFA has the authority to take disciplinary action against members or associated persons (APs) who violate its rules. If a member or AP engages in conduct that puts customers, the futures markets or other members at risk, a BBC action can be taken. The committee is made up of members of the association which serve for three years and must recuse themselves if a proposed action presents a potential conflict. During 2023, the BBC issued 13 complaints, and along with NFA hearing panels, issued 15 decisions. Those decisions imposed fines totaling more than \$2.5 million, suspended one individual and ordered two individuals and one firm to never reapply for NFA membership or principal status.

Cybersecurity: NFA requires members to adopt and enforce written policies and procedures to secure customer data and the access to their own electronic systems. In addition to NFA's Interpretive Notice to Compliance Rules 2-9, 2-36 and 2-49, NFA's Self-Examination Questionnaire contains a cyber-section that is a good cybersecurity resource for IBs.

Given the various business models of IB firms, the NFA has adopted a principles-based risk approach to Information Security Systems Policy (ISSP) requirements, which allows IBs flexibility to determine what constitutes diligent supervision, taking into account differences in the size and complexities of their operations.

Each IB is required to adopt an ISSP appropriate to its circumstance. The written program must be maintained with the firm's written procedures and it must be implemented, followed and reviewed at least annually to keep it current and complete. The Interpretive Notice also requires members to notify NFA of certain cybersecurity incidents related to the IB's business. Additional information, including instructions on how to file the required notice electronically, are found on NFA's website.

Digital Assets: beginning in May 2023, NFA members that engage in digital asset commodity activities must comply with *NFA Compliance Rule 2-51* regarding anti-fraud, just and equitable principles of trade, disclosure and supervision requirements. In conjunction with *NFA Interpretive Notice 9073*, the NFA specifically extended its oversight of members' digital asset commodities activities in the digital asset commodity spot markets.

The NFA is allowed to enforce market conduct rules and sets out certain disclosure obligations of IBs engaging in virtual currency derivatives and transactions. The disclosures are meant to further a customer's understanding of virtual currency trading and its risk prior to or at the time the customer places a trade. More about this is found on NFA's website, www.nfa.futures.org.

Enhanced Supervision: every IB has a continuing responsibility to diligently supervise all aspects of their futures activities, including the sales practices of their employees and agents. NFA Members 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 materials may be required to adopt enhanced supervisory requirements (ESR) to prevent sales practice abuse. Firms whose principals were previously principals of firms subject to ESR may also be required to adopt ESR.

A disciplined firm is one that has been sanctioned by the NFA or 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 and digital asset commodity spot transactions. A firm that qualifies may petition the NFA for a waiver from those requirements.

IBs that meet the criteria for ESR and do not receive a waiver must, among other things:

1. Maintain enhanced capital requirements.
2. Make complete audio recordings of all telephone conversations that occur between their APs and both existing and potential customers.
3. Maintain electronic communications that occur between their APs and both existing and potential customers.
4. Have procedures in place to monitor AP telephone recordings and electronic communication on an ongoing basis.
5. File all promotional materials with NFA at least 10 days prior to its first use.

Electronic Filing: IBs can use the NFA's electronic filing system to meet nearly all of its regulatory filing requirements. You can 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 the website using EasyFile or WinJammer.

IBs access their annual questionnaire and submit required regulatory documentation electronically. You will also find information on the NFA website to help you develop your AML procedures, receive notice of member meetings and cast your vote for the NFA Board of Directors.

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 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 at 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? Have my APs been trained properly?
8. Do I have an appropriate AML program in place? Do I have written procedures regarding the program? Have my APs been trained?
9. Have I reviewed CFTC's market reports to see which ones will be useful to my IB?

Chapter 6

First Audit

Audit: an examination or inspection of accounts, records and documents to determine their accuracy.

NFA members are required to comply with all NFA rules and CFTC requirements. As a member, your IB will be monitored for compliance by the NFA with periodic examinations. The exams are commonly referred to as audits by NFA members. During the COVID-19 pandemic audits were conducted virtually, but in-person exams have resumed for most entities.

Your FCM(s) also has the responsibility to supervise all aspects of your futures and derivatives activities. NFA interpretive notices have suggested that it is appropriate for FCMs to inspect IBs onsite periodically and that procedures detailed for that visit will help ensure that the review is performed in a consistent manner throughout the system.

The CFTC and self-regulatory organizations, such as CME Group, can conduct audits, although that practice is less common. Exchanges generally limit their review to member firms – FCMs – because they can discover information about the FCM's IB network, as well as individual IBs, through examination of the FCMs books and records.

The CFTC will audit or examine an IB if that firm has had a number of customer complaints or if there is reason to believe the IB is using questionable sales practice techniques. The CFTC has pursued more investigations into IB businesses in the last few years than in the years previous and several of those have resulted in legal action including significant fines. For more information on CFTC examinations and enforcement, see the CFTC website, www.cftc.gov.

If your firm is notified by a regulatory agency (or agent of the law) that your IB will be audited, you are required to notify your FCM(s).

All members are subject to periodic NFA examinations, but the timing and frequency of the exams vary depending upon:

- Customer complaints
- Net capital history
- Prior exam findings
- Concerns noted during the review of financial statements or other NFA filings

The NFA conducts over 300 IB examinations each year. An IB can expect to be audited within one year after the IB registration is approved. Depending on a risk-based analysis of the IB's operations, you can expect an audit every three to four years.

NFA audits have two major objectives:

- 1. To determine whether the firm is maintaining records in accordance with NFA rules and CFTC regulations.**
 - 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 practices.**
-

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

NFA examinations are typically conducted in three phases:

1. **Planning:** with a few exceptions, NFA will contact you about two weeks prior to announce an upcoming audit. Following that phone call, a formal notice will be sent 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 office such as customer complaints or other issues noted during the review of the IB's financial statements.

The NFA has several resources available to help you prepare for an audit. The Self-Examination Checklist at www.nfa.futures.org/members/self-exam-questionnaire.html is my favorite because it is comprehensive and very easy to understand. It is posted on the NFA website. NFA staff will provide you with a preliminary list of records and documents needed when the audit is initially announced. Additionally, NFA personnel will be in contact with the individual that is most knowledgeable about the firm's business operations. If you are the IB's Compliance Officer, or you are a Sole Proprietor, that individual will be you. Questions could include what types of customers the IB has, solicitation methods used by the IB, registration status of all APs and principals, and supervision policies. A pre-audit conversation helps to determine what additional documentation or personnel may be needed and how long it will take to complete the exam process.

2. **Fieldwork:** During this phase of the exam, the NFA will:

- Review reports and documents
- Interview key personnel
- Monitor the firm's operation
- Conduct an exit interview

Fieldwork may be conducted in-person – the NFA exam staff are physically present at the IB office or entirely virtual – the exam staff conduct all aspects of the examination remotely from the NFA's office. The length of in-person fieldwork varies depending on the nature of the exam. It could be as short as two days for a guaranteed introducing broker with minimal promotional material and no customer complaints. Factors such as additional registrations or other concerns could prolong the fieldwork portion of the exam and additional work may be conducted from NFA's offices.

3. **Reporting:** After the fieldwork is completed, the NFA will:

- Contact the member for any follow-up questions or requests
- Inform the member of any additional findings
- Issue a written examination report

The NFA requires that audit records be maintained and be readily available.

During the Audit Process

On the first day of an IB audit, a member of the NFA's exam team will explain the purpose and scope of the audit, as well as 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 the documents include:

- Account opening documents
- Bank records
- Bunched order allocations
- Corporate records
- Customer order tickets
- Disclosure Documents
- Internal controls
- Margin policies
- Promotional Material
- Sales practices
- Supervisory procedures
- Anti-money laundering policies and practices*
- Business continuity and disaster recovery plan*
- Cybersecurity program and practices*
- Ethics training*
- Privacy policy*
- Use of third-party providers*

**NFA suggests an IB review the appropriate Appendix or Interpretative Letter for each of these areas. They can be found on NFA's website.*

NFA staff may conduct interviews with your personnel. They may ask to copy certain documents or to take documents back with them 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 can be stored with an electronic media storage system. Any digital storage system which preserves information in a permanent format, that can index and record 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.

NFA auditors communicate with the firm throughout the exam process. If they note any testing discrepancies or compliance deficiencies, they immediately discuss them with the firm so that the IB member can work to correct the problem.

After the Audit

The examiners will generally meet with you for an exit interview. The purpose of the interview is to discuss the findings of the exam, particularly any deficiencies which were noted and the ways in which they can be corrected.

When the auditors return to the NFA office or complete the virtual exam, they prepare an Exam Report. If no material deficiencies were found, the Exam Report states just that – the audit is complete and no materials deficiencies were found. If there are deficiencies, the Exam Report will note them and the IB's written response to the report will likely be required.

NFA does not allow any registrant to represent that its abilities have been passed upon by the NFA or any federal or state regulatory body. You may not represent that the IB has been approved or recommended by the NFA.

If the exam indicates serious or repeated violations of NFA rules, the compliance department may 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. 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 subject to final review by the CFTC.

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

During 2023 –

- 13 Complaints issued by BBC
- 15 Decisions issued (along with NFA Hearing Panels)
- 1 Individual suspended
- 2 Individuals and 1 Firm ordered to never reapply for NFA membership
- \$2.5 million fines imposed as a result of the Decisions

Source: NFA 2024

General Registration Documents/Records (abbreviations used): Regulation Rule – (Reg.R.); Compliance Rule – (Comp. R.); Interpretative Notice – (Interp. Not.); Commodity Exchange Act – (CEA)

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 who are required to be listed as principals are listed (*Reg. R. 208 and 101(t)*)
- that all entities who are required to be listed as principals are listed (*Reg. R. 208 and 101(t)*)
- that all branch office locations and branch office managers are listed (*Interp. Not. 9002*)
- that all branch office managers have passed the branch office managers proficiency exam (*Comp. R. 2-7*)
- that the IB prohibits individuals who are not registered as APs from soliciting or accepting customers orders (except in a clerical capacity), or from supervising those individuals (*CEA Sec. 47*)

- that the information provided on the IB's form 7-R is accurate and complete, including names, addresses, phone numbers, e-mail addresses, etc.
- that the IB has reviewed commission payouts and other disbursements to ensure that only NFA members are being paid for customer business (*NFA Bylaws 301, 1101*)
- that the IB has reviewed all parties it does business with to ensure those that are required to be registered are registered, and if required to be an NFA member, are NFA members (*Comp.R. 2-36(d)*)
- that if the IB and any of its APs engage in retail forex transactions, the IB has designated itself a forex firm and designated the AP(s) a forex AP (*NFA Bylaw 301(j)*)

Supervision Documents/Records: refer to NFA Comp. R. 2-4, 2-8, 2-9, 2-30 and 2-36; Interp. Not. 9019 and 9053.

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 flexible and can be developed with the circumstances of the individual IB's business in mind (type of business, size, etc.).

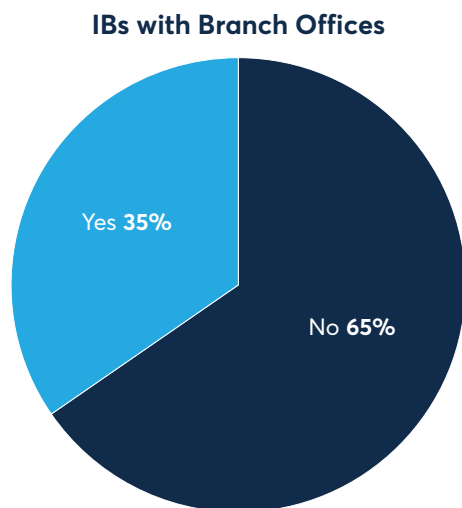
NFA's compliance rules place additional duties with respect to the supervision of discretionary accounts, as well as written procedures regarding communications with the public and procedures regarding customer information and regarding customer information.

An Introducing Broker audit will review the following activities common in your day-to-day routine:

- **Hiring:** IBs should be conducting screening procedures for prospective employees to ensure they are qualified and to determine the extent of supervision they require. If a prospective AP has answered "Yes" to a question on the registration form, you must obtain the supporting documentation and review it for any disqualifying information before you hire. Check NFA BASIC to see any futures-related disciplinary proceedings against the AP or her/his prior employers by reviewing the candidate's history.
- **Written procedures must be in place so that APs receive adequate training** in order to understand industry rules, obligations and to properly handle customer accounts. The form of the training is left up to each IB and should reflect the unique characteristics of the IB, such as the size and nature of the firm and must include a plan for ongoing/updated training.
- **Registration:** CFTC records, which are generated by the IB, should be maintained 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 the FCM, as well as, the IB and any branch office. The documentation should be reviewed to ensure the account was appropriately approved, and that the customer has received the appropriate risk disclosures. Customer identification includes the identification of beneficial account owners.

NFA audit teams will review the following documentation with regard to supervision obligations:

- The IB has a compliance procedures manual or other written documentation that outlines the IB's policy with respect to handling compliance matters.
- The IB has written policies and procedures designed to ensure that a robust due diligence review is performed when it establishes or modifies a branch office relationship.

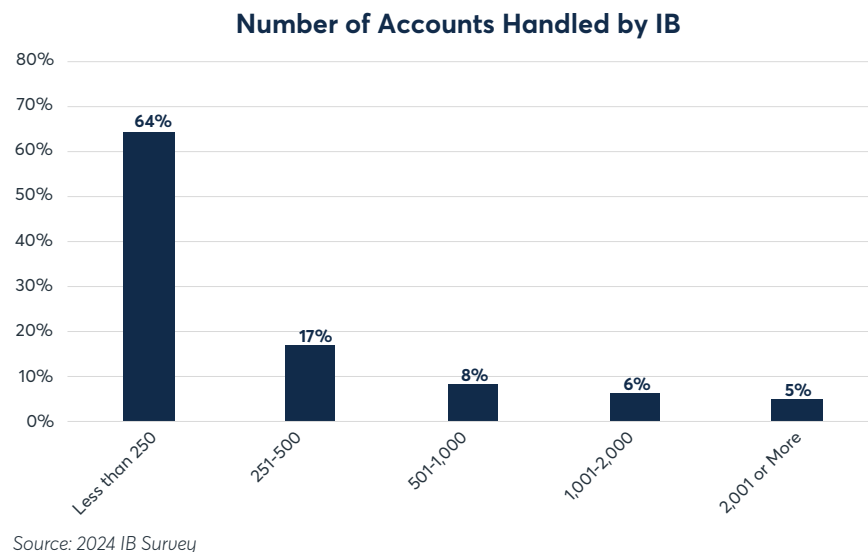


Source: 2024 IB Survey

The IB supervises sales solicitations by direct listening, reviewing taped solicitations, silent phone monitoring and/or customer contact.

- Members who engage in retail forex have procedures to screen prospective APs to ensure they are qualified and to determine the extent of supervision they will need if hired.
- The IB provides its APs with training on proper sales solicitations for transactions in the forex, futures and options markets.
- The IB ensures that its APs are properly trained to perform their duties.
- The IB maintains records that clearly identify which customer accounts are discretionary.
- The AP(s) handling discretionary accounts has been continuously registered for a minimum of two years prior to handling those accounts.

- An IB which imposes fees and/or charges that are not determined on a per-trade or round-turn basis provides customers with a complete written explanation of those charges.
- The IB has examined a potential customer's creditworthiness, business reputation, market knowledge and anticipated trading patterns before authorizing the customer to begin trading.
- IBs which trade one or more proprietary accounts have clearly defined trading objectives and loss limits or risk guidelines consistent with those objectives.



Anti-Money Laundering Program (Comp.R. 2-9(a), Interp. Not. 9045, Appendix A):

In 2001, the International Money Laundering Abatement and Anti-Terrorist Financing Act was signed into law as a direct result of the attack on the United States on September 11, 2001. For the first time, Introducing Brokers were included in the definition of financial institution, which meant that significant responsibilities were placed directly on the IB. As a result, the NFA required all IBs to adopt a written Anti-Money Laundering (AML) program. Guaranteed IBs are generally provided with a program by their guaranteeing FCM. IIBs can find guidance for developing a program on the NFA's website or from their own attorneys.

IBs can tailor their AML to fit their business – *NFA Compliance Rule 2-9* discusses minimum standards that must be a part of any AML program. Several compliance service providers offer professionally developed and present AML programs, which generally meet the NFA's standards and include:

- That the firm has a policy statement clearly stating it is against money laundering and terrorist financing and that it will follow all applicable laws to ensure that its business is not used to facilitate such activities.
- That the policy is in writing and that the firm provides training at least every 12 months to all of its employees who work in areas susceptible to money laundering.
- That the program is subject to an independent review at least every 12 months and that the firm has designated a specific person to oversee the program.
- That the program includes a customer identification program (CIP).

Additional information regarding CIPs can be found on the NFA's website. The firm must be able to form a reasonable belief that it knows the true identity of each customer. It must include procedures that enable firm personnel to recognize suspicious customers and transactions. Any suspicious or unusual activity or transactions must be reported to the appropriate supervisory personnel and to FinCEN when required. Additionally, the IB is required to maintain an adequate audit trail to assist law enforcement should an investigation become necessary.

The minimal identifying information a firm must obtain from a new customer includes:

- 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

Suspicious activity that must be reported to your FCM could 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, your IB or your employees in a criminal activity.

Business Continuity and Disaster Recovery Plan (NFA Appendix B Questionnaire):

Each IB must have a written business continuity and disaster recovery plan. The firm must maintain the plan with other firm procedures, implement and follow the written policy, and communicate it to your employees. The plan should be tailored to your firm's operations. Some items that must be included are:

- Where the IB's backup facilities, including systems and personnel are located. Are they in a separate geographical area from the primary facility? On a different power grid? Use a different telecommunications vendor?
- What are the IB's procedures for backing up or copying essential documents and data, and how often is this done?
- If the IB stores information in hard copy, where is the backup information stored?
- If the IB stores information in electronic format, where is the backup information stored?
- Which staff duties are critical to continuing your operations and how has the firm duplicated the staff/duties in order to continue operation if the primary staff is lost?
- What specific steps does the IB have in place to minimize the impact of any business interruption encountered by third parties including banks, carrying brokers, order routers and data providers?
- How often is the plan reviewed and tested?
- Contact information for one or more individuals provided to the NFA who are authorized to make key decisions in the event of an emergency.

Cybersecurity (Interpretative Notice 9070):

The NFA interpretative notice entitled Information Systems and Security Programs (ISSPs) requires IBs to have and enforce written policies and procedures to secure customer data and access to their electronic systems. The NFA adopts a principles-based approach in the notice that allows firms a degree of flexibility when they determine what the policies will include, such as taking into account the size and complexity of the firm's operations, the make-up of its customers and counterparties, and the extent of the firm's inter-connectedness.

At a minimum, an IB's ISSP must contain:

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

Your firm's ISSP must be approved by an executive-level employee. It requires monitoring and regular review at least every 12 months. Your firm must provide employees a copy of the ISSP upon being hired and periodically update and re-train. Your ISSP must also address risks posed by any critical third-party service providers.

Find more information on an IB's Cybersecurity obligations on the NFA website.

Ethics Training (Comp.R. 2-9, Interp.Not. 9051):

Each NFA member must adopt a written Ethics Training policy tailored to its operations. The training format is flexible and can be fulfilled entirely with outside providers. Whether the firm uses a third-party provider or develops its own program, the following questions are a minimum guide:

- Does the IB have policies and procedures regarding ethics training requirements for APs that detail content, frequency and format (internet, taped programs, in-person?)
- Have all of the IB's APs received ethics training and has the firm maintained records documenting compliance with these procedures, which include the dates and providers of training and materials used or distributed?
- Is the ethics training provider qualified to conduct the training and have three years of relevant industry or similar experience?

Consult with your FCM to see if they have arrangements with a third-party to provide ethics training for their entire network of employees and IBs.

Privacy Policy (CFTC Reg. 160, Comp.R. 2-4, Appendix D – Questionnaire):

The CFTC has issued regulations which apply federal privacy laws to futures registrants. CFTC regulations require that the firm has policy and procedures for protecting customer records and information, that it is in writing separate from the privacy notice and that it be maintained with the rest of the firm's written procedures. Although an IB is not technically required to have a separate document describing every aspect of its policy and procedures, the written policy must be comprehensive and provided to firm personnel. It must also be updated periodically.

Some of the items IBs should consider are:

- What types of nonpublic personal information the IB collects from customers (account numbers, trading history, social security numbers, financial institutions used, etc.).
- What the firm does administratively, technically and physically to maintain the confidentiality and security of customer information, such as safeguarding paper and electronic documents and limiting access to nonpublic personal information.
- Under what circumstances the firm discloses information to nonaffiliated third parties.

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

Promotional Materials (Comp.R. 2-29, 2-36):

Promotional Materials are reviewed during an IB's audit. All GIBs must submit promotional material to their FCM for review and approval prior to its first use. That review and approval of the materials must be documented. All registrants can submit promotional materials directly to the NFA's Chicago office.

Promotional materials must be maintained along with written approvals for five years from the date last used. The procedures to supervise the preparation and use of promotional material must be written and approved by someone other than the person who created it.

Additionally:

- Promotional material must include all material information necessary to ensure that it is not misleading.
- The IB must include the reference that past results are not necessarily indicative of future results when past performance is mentioned.
- Promotional material cannot include any guarantee against loss.
- Any reprints of articles must have proper disclaimers and sourcing information.
- Leads cannot be purchased from nonmembers who are required to be registered and/or using fraudulent advertising practices.

Use of Third-Party Service Providers (Interp.Not. 9079; Comp.R. 2-9, 2-10, 2-36, 2-49):

Many IBs outsource some responsibilities to third-party service providers. Currently, the NFA only requires the IB to develop and maintain a written supervisory framework over the outsourcing process with regard to service providers who provide required regulatory functions. The IB's written policy should cover an Initial risk assessment, the process for conducting due diligence on the provider, the process for ongoing monitoring and the process for termination of the outsourcing.

During the initial risk assessment, your IB should determine whether the function is appropriate to outsource and whether it is able to manage risks associated with outsourcing.

The due diligence process includes:

- Knowing whether the third-party is aware of NFA and CFTC requirements and has the regulatory experience and operational capabilities to carry out the outsourced function.
- Whether the third-party will subcontract any outsourced regulatory function and what the scope of those services are.
- Which IB personnel are permitted to enter into the agreement to outsource and monitor.

The ongoing monitoring process should include:

- Description of how often the IB reviews to ensure the third-party service provider is adequately performing the outsourced function.
- What the process is if the service provider fails to perform the outsourced function or when its risk profile materially changes.

Included in your written supervisory documents will be items that address termination of the outsourcing, such as:

- What process does the IB have in place for obtaining records from the third-party provider at the termination of the outsourcing arrangement?
- Has the IB ensured that a terminated third-party service provider no longer has access to confidential information and data once the service agreement has terminated?

Other Areas of Audit Review

During an NFA examination, the audit team may also review other areas of the IB's business. Check the NFA's website and its Checklist for IBs for information on:

1. Automatic Order Routing System
2. Conflicts of Interest
3. Forex Electronic Trading Systems
4. Post-Execution Allocation of Bunched Orders
5. Security Futures Products
6. Virtual Currency
7. Website

Common Areas of Deficiencies

Examinations of IB offices reveal areas where deficiencies are most often found. You'll want to review the NFA Checklist prior to your audit – it is worthwhile to pay extra attention to the following items:

- AML Procedures, including the Annual Review Requirement
- Disaster Recovery Plan, including required periodic testing
- A Completed Annual Self-Exam Checklist
- A Complete List of all Principals
- Registration Documents for all APs, including Updates

NFA holds periodic workshops to update members on regulatory changes, new rules and other areas of concern to all registrants. It also sends updates and alerts to members to help them fulfill their regulatory obligation. I have found the NFA staff to be very knowledgeable and very ready to respond to any inquiry about the rules or audits. Consider them a resource.

Checklist for Chapter 6: **First Audit**

1. Have I reviewed the NFA Checklist prior to my first audit?
2. Are the firm's policies and procedures in all required areas updated, in written form and being kept where I can access them easily?
3. Have I notified my FCM(s) of the upcoming NFA audit date?
4. Have I prepared my employees and staff, including the physical office space necessary (if the audit is to be in-person) prior to the audit?
5. Do I have a copy of my IB Guarantee Agreement and is it easily accessible?
6. Do I have copies of any third-party outsourcing agreements and are they easily accessible?
7. Is my Promotional Materials file up-to-date?
8. Are my firm's records updated with the NFA?
9. If any changes have been made (moved locations, changed security manager, etc.), have my Business Continuity and Disaster Recovery Plans been updated?
10. Following my audit, have I done the follow-up, including any necessary changes recommended by the auditors?

Chapter 7

Industry Associations

Industry Association: a group of like-minded individuals with expertise in a specific business gathered together to promote common interests and participate in activities, such as education, lobbying, collaboration or standardization.

Industry Associations are some of the best tools an Introducing Broker (IB) can use to build business. In addition to the NIBA, IBs belong to diverse groups reflecting specific interests, such as the National Feed and Grain Association (NFGA), the Futures Industry Association (FIA) and the Derivatives & Futures Law Committees of various state bar associations. In-person conferences, webinars and newsletters are some of the ways associations support and communicate with their members.

The Industry Associations listed in this chapter are sometimes referred to trade or business associations. They all have several things in common, such as creating community, helping to set the standards for excellence in the industry and promoting professional development.

As a small business owner, you want to constantly be growing yourself, your team and the business. What do you want to get out of membership in an Industry Association – education, networking, lobbying? Just a few of the benefits of belonging are:

Advocacy: being part of the group means you become an active advocate for the industry. Making your voice heard as part of a collective turns one voice into a persuasive, collective shout. Because the association is dedicated to protecting and advancing the needs of your industry as a whole, each member benefits.

Compliance: if there is one concern that is always top-of-mind for IBs, it is compliance. Regulation in the derivative industry can sometimes be complex. It can change rapidly. By joining an industry association, you can keep up and influence regulatory changes.

Education: industry associations are clearing houses of information. Through benefits such as general workshops, newsletters, webcasts, industry-specific training and in-person conferences, IB owners and their teams can grow personally and grow the business in the process.

Networking: you will find members at every stage of their career in an industry association. Expand your circle of business colleagues at all levels and you will create alliances or partnerships, which ultimately enhance your bottom line, such as advice or support from colleagues and potential branch office relationships – things that can help you grow as a business owner.

Professional Development: improving your marketing skills and learning how to use new technology or products helps you stay on top of emerging trends while keeping your finger on the pulse of how the industry is growing and changing.

NIBA The Association for Derivatives Professionals



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Mike Burke: mikeb@highgroundtrading.com

NIBA, based in Chicago, Illinois is a not-for-profit membership organization focused on the needs of derivatives professionals. Founded in 1991, NIBA includes Introducing Brokers (IB) and Commodity Trading Advisors (CTA) among its members, along with Futures Commission Merchants who clear IB business. NIBA enjoys 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. The mission is accomplished through in-person conferences, webinars in partnership with other industry participants and a twice-monthly electronic newsletter. Committees and working groups, such as the Compliance Officers' Group (COG) and the Toolbox Council, help the membership respond to the latest changes to regulation and developments in the industry.

The Association's business is done by its Board of Directors and Associate Board, which is 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 in order to advocate for its members and ensure their interests are protected. Many NIBA members are active in NFA committees, including the IB Advisory Committee. The Association's membership conferences and newsletters focus on continuing education, networking, marketing and updates from industry regulators, as well as experts and professionals in the business. DePaul University and Kansas State University are among NIBA's education partners.

All registered IBs and CTAs may claim a free membership by going to NIBA's website, www.theniba.com.

Each firm must review their listing for accuracy and may select an enhanced, paid level of membership.

The 2024 Board of Directors, Associate Board and Working Committees are:

Board of Directors

Founder/Chairman of the Board:
Melinda Schramm, MHS Capital Resource, Inc.
melinda@futuresrep.com

President:
Mike Burke, HlghGround Trading
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Vice-President/Secretary/Newsletter:
Ryan Griffeth, AgOptimus
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Treasurer:
Mike Coglianese, Michael Coglianese, CPA, PC
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American Petroleum Institute (API)

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API represents all segments of the U.S. oil and natural gas industry. Formed in 1919, its nearly 600 corporate members include producers, refiners, suppliers, pipeline operators and marine transporters, as well as service and supply companies. The API's mission is to promote safety across the industry globally and to influence public policy in support of a strong, viable U.S. industry.

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

API organizes seminars, workshops, conferences and symposia on public policy issues. Through API-U, it provides training materials to help meet regulatory requirements and industry standards. Information about 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 SE
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Kevin Batteh kevin.batteh@commoditymkt.com

Commodity Markets Council (CMC) is an industry association for commodity exchanges and their industry counterparts. Many commercial users of the futures markets are members, including representatives from agricultural, energy, finance, infrastructure and transportation industries.

CMC advocates for an open, competitive marketplace by combining the expertise, knowledge and resources of its members to develop and support market-based policy. CMC initiatives have included capital requirements of swaps dealers and major swap participants; ensuring that end-users are able to use markets for risk management that are safe, stable and liquid; and obtaining legislative and regulatory relief from burdensome regulations.

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 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, as well as market specific conferences, such as those on energy and grain. Information on current and planned events and dues structure can be found from their website, www.commoditymkt.com and from CMC directly.

Chartered Market Technician Association (CMT)

Office: 115 Broadway
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(646) 653-3300

Website: www.cmtassociation.org

Primary Contact: Stanley Dash stan@cmtassociation.org

Chartered Market Technician Association (CMT) is a global credentialing body with over 4,500 members worldwide. The main objective of CMT is the education of the public, the investment community and its membership regarding the theory, practice and application of technical analysis to the markets. In 2018, CMT recognized its first office outside of their New York office in Mumbai, India.

CMT began in New York in 1967 with a small group of technical analysts. In the mid to late 1980s, the organization authorized a certification program and began developing and administering exams. A candidate for certification must complete a three-level exam process and abide by the Association's Code of Ethics.

CMT designation can be helpful when you are applying for a research position. Affiliate member status is open to anyone who is interested in learning technical analysis. Students may also apply to join. Membership information as well as details about certification is found on their website, www.cmtassociation.org.

Derivatives and Futures Law Committees

Office: American Bar Association (various cities) Chicago: 321 South Plymouth Court
State Bar Association (various cities) Chicago, IL 60604

Website: www.americanbar.org, www.chicagobar.org

Primary Contacts: See the chosen venue website

Chicago:	Chair - Conor Weber	conor.weber@cmegroup.com
	Vice-Chair – Dan Reicher	dpreicher@gmail.com
	Vice-Chair – Michael Frisch	mfrisch@crokefairchild.com
	Vice-Chair – William Costello	costellowilliamb1@gmail.com

The American Bar Association, as well as state bar associations, offer membership in committees focused exclusively on federal regulation of futures, swaps and other derivatives markets. The committees offer interaction among practitioners in the area and serve as a resource of expertise for the regulatory community and the public. It organizes member meetings and other programs that address topics and issues of interest to practitioners in the futures industry.

These committees review the present status of developments in futures and derivatives law; conduct continuing education and monthly programs on various aspects of futures and derivatives; and review and comment upon proposed legislation and rule changes.

Futures and Derivatives Law Committees are great ways to meet other attorneys who work as Chief Compliance Officers of IBs and other firms. Meetings are often conducted by webinar, as well as in person, and generally meet the requirements for Continuing Education. Check each Bar Association's website for meeting times and any financial requisites.

Futures Industry Association (FIA)

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The Futures Industry Association (FIA) is an industry association for futures, options and centrally cleared derivatives markets. Its membership includes over 85 percent of all registered FCMs. Those FCMs include the top 20 firms in terms of customer equity who are responsible for nearly 90 percent of the customer business transacted on U.S. futures exchanges.

The mission of FIA is to support open, transparent and competitive markets, protect and enhance the integrity of the financial system, as well as promote high standards of professional conduct. It provides 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 members are from both the buy-side and the sell-side, with several divisions focused on specific industry or regulatory issues. Some of those divisions are:

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

FIA Events Include:

1. Annual Expo held in Chicago in the fall, which focuses on technology and software. This is the largest trade show of its kind in the U.S. and usually draws big attendance.
2. Annual Law and Compliance Workshop held in Baltimore, MD. This two-day event includes regulatory updates, proposed changes and trends for all categories of NFA registrants.
3. Annual three-day Membership Meeting held in Boca Raton, FL. Open to all FIA members, this meeting features speakers from all parts of the futures and options industry, as well regulators and political commentators.
4. Various meetings throughout the year in Japan, New York, Houston, Geneva, Singapore, London, Chicago and other venues, in addition to webinars.

FIA membership fees vary based on the applicant's organization structure and/or registration status. Once a parent entity becomes a member, individual employees may join the various divisions.

Global Association of Risk Professionals (GARP)

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Global Association of Risk Professionals (GARP) was founded in 1995 to advance the risk profession through education, training and promotion of best practices globally. GARP works to help build a more sustainable future for its network of risk management professionals and employees with research, benchmarking activities, education, webinars and certification programs.

GARP reports a worldwide membership in over 190 countries with offices in London and Hong Kong, as well as its home office in New Jersey. It holds membership and regulatory meetings in several venues including Chicago, Dubai, Singapore 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 Dairy Foods Association

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Website: www.idfa.org

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International Dairy Foods Association (IDFA) represents the nation's dairy manufacturing and marketing industry. Membership includes dairy companies and cooperatives, food retailers and those in the supply chain. It works closely with government, academia and business leaders, including the brokerage industry.

IDFA's mission is to make sure its members have the tools and resources they need to innovate and thrive. Marketing and risk management, including access to the marketplace, is an important part of IDFA's strategy for member success.

IDFA provides data and analysis about the dairy industry, hosts conferences and provides learning and training opportunities. Information can be found on their website, www.idfa.org.

Institute for Financial Markets

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The Institute for Financial Markets (IFM) is a nonprofit, educational foundation. Established in 1989, IFM engages in research and provides books, e-learning, instructor-led courses and sponsored conferences for all categories of derivatives professionals. The IFM is an independent affiliate of FIA.

IFM's course offering is wide-ranging and includes a number of e-training classes, such as Initial Ethics Training, Anti-Money Laundering for IBs and a class to prepare candidates for taking the Series 3 exam. These classes are very helpful for IBs with new Associated Persons in the office and to boost knowledge of the industry for all employees. Members of NIBA are eligible for course discounts.

International Swaps and Derivatives Association (ISDA)

Office (DC): 600 13th Street NW
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Website: www.isda.org

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Founded in 1985, the International Swaps and Derivatives Association works to make the global derivatives markets safer and more efficient by advancing the understanding and treatment of derivatives as a risk management tool.

ISDA has over 1,000 member institutions from 77 countries, including commodities and energy firms, investment managers and international and regional banks. Derivatives market participants include exchanges, clearing houses and intermediaries, such as IBs.

ISDA focuses on three key areas – reducing counterparty credit risk, increasing transparency and improving the industry's operation infrastructure. It holds several conferences throughout the year and presents webcasts focused on ideas that promote stable financial markets and a strong regulatory framework.

Membership fees are dependent on the membership level chosen. Full information on membership and events is found at www.isda.org

MFA

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MFA (previously Managed Funds Association) is an advocacy, education and communications industry organization for the global alternative asset management industry. Its mission is to advance the ability of alternative asset managers to raise capital, invest and generate returns for their beneficiaries.

MFA's membership includes more than 175 firms across a diverse group of investment strategies. Some of MFA's initiatives include working to make the swap markets fair and stable, as well as other targeted enhancements to CFTC regulations.

Member benefits include Washington representation, in-person conferences in Washington, New York, London and Brussels, an electronic newsletter, as well as research and discounts on meetings and publications. Membership information for MFA is found on their website, www.mfaalts.org.

National Cattlemen's Beef Association (NCBA)

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Primary Contacts:	Mark Eisele Kim Brackett	meisele@ncba.org kbrackett@ncba.org	

National Cattlemen's Beef Association (NCBA) is a national trade association that represents more than 175,000 U.S. cattle producers and feeders. The association is producer-directed and focused on industry advocacy, education and research. Founded in 1898, NCBA is widely recognized as the voice of the American cattle industry.

Included in NCBA's education initiative is information on how to use the commodity markets for risk management and hedging purposes. NCBA holds in-person conferences, as well as regional webinars and meetings.

Membership in NCBA is organized by geographical region for producers and dues are levied according to product levels or a flat fee for anyone without a live herd. Member benefits include a weather blog and discounts from other NCBA members, such as the Caterpillar and John Deere companies. More information on events and membership is found at www.ncba.org.

National Grain and Feed Association (NGFA)

Office: 1400 Crystal Drive
Suite 260
Arlington, VA 22202
(202) 289-0873

Website: www.ngfa.org

Primary Contacts: Greg Beck gbeck@ngfa.org
Rebecca Grubs rgrubs@ngfa.org

National Grain and Feed Association (NGFA) focuses on enhancing the growth and economic performance of U.S. agriculture. Founded in 1896, the membership consists of nearly 1,000 companies and encompasses all sectors of the industry.

Membership includes commodity futures brokers and FCMs providing hedging services through the markets, in addition to cash grain and feed merchandisers who buy and sell grain, oilseeds and other grain products throughout the U.S. and to foreign customers.

NGFA is affiliated with 27 state and regional associations whose members include more than 10,000 grain and feed companies nationwide. In addition to national conferences, these groups hold educational meetings and workshops throughout the year. Contact information for the regional chapters, event information and annual fee details are found on the NGFA website, www.ngfa.org.

United States Department of Agriculture

Regional Offices: askusda@usda.gov

(833) ONE-USDA

Office (IL): 3500 Wabash Avenue
Springfield, IL 62711
(217) 241-6600

Main Website: www.usda.gov (including individual state contact information)

The U.S. Department of Agriculture (USDA) is a great resource for all types of information related to food, agriculture, natural resources, rural development and nutrition. It is made of 29 agencies and offices with more than 4,500 locations across the country and abroad. Each office holds conferences and workshops with emphasis on production and risk management. As a derivatives professional, membership/attendance is a win-win relationship – you are a resource for market/hedging information; the working group is a resource for research and potential customers.

Check the main USDA website, www.usda.gov, for national conferences and webinars, research and other information. Check your regional office for local meetings.

Women in Listed Derivatives (WILD)

P.O. Box: P.O. Box A3111
Chicago, IL 60690

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 mission is to highlight and learn from industry role models, encourage career development and support the advancement of women in listed and over-the-counter derivatives.

WILD's network includes more than 1,000 women globally from such diverse backgrounds as management, technology, sales and marketing, customer support, and trading and clearing. WILD provides networking opportunities, promotes career advancement through knowledge sharing and mentorship programs, and helps women develop skill and relationships in the derivatives industry.

Membership information about WILD and event announcements can be found at 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 CMT. Its purpose is to provide a forum for women who are focused on market analysis, to provide a place to network and exchange ideas and to further the profession with diverse opportunities for women in the derivatives industry with continuing education, advocacy and ethics awareness.

WTA presents webcasts and in-person events. For details, check the CMT website, www.cmtassociation.org.

Checklist for Chapter 7: **Industry Associations**

1. What value do I receive directly by belonging to an industry association?
2. What type of professional support am I looking for – 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?
5. Will I benefit from advocacy with my regulators?
6. Periodic review: remind yourself why you joined the association and ask yourself if it is still meeting your expectations and needs.

Chapter 8

Resources

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

This chapter is a quick reference listing of resources particularly helpful for Introducing Broker (IB) applicants and for newly registered firms. Resources are listed in two parts: regulatory references and other industry resources. The listings in this chapter are selective based on the 2024 IB Survey and IB interviews and are meant to provide a starting place.

The regulatory listings include an index to specific CFTC and NFA rules, which should be reviewed and understood by every IB.

Industry resources include websites that help all registrants to find out more about the markets and to connect with professionals qualified to provide the support services needed to operate an IB office.

It is important to remember that solicitation related to derivatives trading, which is meant to attract business to the IB, is regulated for all Introducing Brokers. Your website is regulated by NFA *Compliance Rules 2-9 and 2-29*. Linking to other sites, developing your own site or using information from an established site or source all fall under NFA rules. Email communication, electronic solicitation, audio and visual advertisements are regulated in the same manner as print or telephone solicitation and are subject to the same rules.

Do not link to any site without prior permission of the site operator, your compliance officer and for GIBs, your FCM. Any materials approved and used for communication with prospective or existing customers must be sourced and retained for your records. Those materials are subject to NFA review.

It is your responsibility to thoroughly vet any third-party provider before entering into a relationship to build your website or provide other professional services, such as legal, accounting or data information. Your due diligence should include review of the history of the firm and its employees (including any disciplinary history), as well as knowing the provider's level of understanding of the industry and its regulatory and compliance obligations.

Introducing Brokers are required to:

- Have written procedures that govern the preparation and use of websites, linking to websites, and email and electronic communication.
- Monitor the general content of each communication method.
- Make your Associated Persons aware of their obligations regarding communications with the public.
- Review and update your procedures from time-to-time.

Listings in this chapter do not constitute or imply endorsement by the author or by CME Group. The views in the listings are reflections solely of the author of that listing and not necessarily those of the Handbook author or 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 References

Commodity Exchange Act (CEA): www.cftc.gov

The CEA is the statute that regulates the trading of Commodity futures in the U.S. and under which the CFTC operates. The CFTC is the regulatory agency of the derivatives industry. The entire Act is available on their website.

The CFTC: www.ecfr.gov/current/title-17

This link opens to the pages of the Code of Federal Regulations, Title 17, which contains CFTC Regulations.

The NFA: www.nfa.futures.org

The National Futures Association is the self-regulatory agency of the derivatives industry. The entire NFA Rulebook is available on their website. The following Compliance and Registration rules are particularly important for IBs to review and understand. Interpretative Notices explain or expand specific rules in easy-to-understand language.

Compliance:

- Rule 2-4: Just and Equitable Principles of Trade
- Rule 2-5: Cooperation in NFA Investigations and Proceedings
- Rule 2-7: Branch Office Managers and Designated Security Futures Principals
- Rule 2-9: Supervision
- Rule 2-10: Recordkeeping
- Rule 2-24: Qualification Testing of Associated Persons
- Rule 2-26: FCM and IB Regulations
- Rule 2-29: Communications with the Public and Promotional Material
- Rule 2-30: Customer Information and Risk Disclosure
- Rule 2-38: Business Continuity and Disaster Recovery Plan
- Rule 2-49: Swap Dealers and Major Swap Participants Regulations
- Rule 2-51: Requirements for Members and Associates Engaged in Activities Involving Digital Asset Commodities

Registration:

NFA Rulebook, Parts 100 – 800: Registration through Withdrawal

Interpretive Notices:

- #9002: Registration Requirements for Branch Offices
- #9003: Compliance Rule 2-29: Communications with the Public and Promotional Material
- #9004: Compliance Rule 2-30: Customer Information and Risk Disclosure
- #9005: Compliance Rule 2-4: Guidelines for FCM and IB Disclosure of Costs Associated with Futures and Cleared Swaps
- #9007: Compliance with NFA Bylaw 1101: Prohibition on Doing Business with Non-Members
- #9009: Compliance Rule 2-29: Review of Promotional Material Prior to its First Use
- #9013: Compliance Rule 2-30: Customer Information and Risk Disclosure

#9019: Supervision of Branch Offices and Guaranteed IBs
#9020: Compliance Rules 2-9, 2-36: Self-Exam Questionnaires
#9021: Compliance Rules 2-9, 2-36: Enhanced Supervision Requirements
#9028: Financial Requirements; Electronic Filing of Financial Reports
#9033: Compliance Rule 2-29: Deceptive Advertising
#9037: Compliance Rules 2-9, 2-10, 2-29, 2-36 and 2-39: Use and Supervision of Websites, Social Media and other Electronic Communications
#9038: Compliance Rule 2-29: High Pressure Sales Tactics
#9039: Compliance Rules 2-29, 2-9: Review and Approval of Audio and Video Advertisements
#9045: Compliance Rules 2-9: Anti-Money Laundering Program
#9047: Compliance Rule 2-37: Fair Commissions
#9051: Compliance Rules 2-9, 2-36: Ethics Training Requirements
#9052: Compliance Rule 2-38: Business Continuity and Disaster Recovery Plan
#9070: Compliance Rules 2-9, 2-36, 2-49: ISSPs
#9073: Disclosure Requirements: Virtual Currency Activities
#9079: Compliance Rules 2-9, 2-36: Use of Third-Party Service Providers

The following publications and site links are found on the NFA's website, www.nfa.futures.org

- **NFA Regulatory Requirements for FCMs, IBs, CPOs and CTAs:**
This guide details many of the things you will learn from the above references and includes:
 - Self-Examination Questionnaire
 - Appendix A: Anti-Money Laundering Questionnaire
 - Appendix B: Business Continuity and Disaster Recovery Questionnaire
 - Appendix C: Ethics Training Policy Questionnaire
 - Appendix D: Privacy Policy Questionnaire
 - Appendix E: Use of Third-Party Service Providers
- **NFA Guide to Communications with the Public and Promotional Material for FCMs, IBs, CPOs and CTAs**
This 45-page guide is very helpful, available on the NFA website and can be downloaded as a pdf.
- **NFA Forex Transactions Regulatory Guide:**
A guide detailing the regulatory requirements that govern retail off-exchange foreign currency transactions.
- **NFA Online Registration System (ORS):**
The electronic entry portal for firms and individuals to register with the CFTC and apply for NFA membership. You will update or withdraw your registration with ORS.
- **NFA Registration Video Tutorials:**
These teaching videos provided by the NFA supplement information found in *Chapter 2: Registration* and will help with questions you may have about the registration process.

- **NFA Background Affiliation Status Information Center (BASIC)**

BASIC contains CFTC registration and NFA membership information on individuals and firms, including disciplinary history. Check this before you hire and from time-to-time to make sure your personal and firm's information is correct.

- **NFA Information Center:**

NFA's information center is available from 8:00 a.m.-5:00 p.m. CT, Monday through Friday. You can ask any question related to any NFA topic, including rules and policies.
(312) 781-1497 or (800) 621-3570

CFTC Published Reports

Commitments of Traders: a breakdown of each Tuesday's open interest for markets in which 20 or more traders hold positions equal to or above the established reporting levels. (My first job in the futures and options business was as a Registration and Compliance Department Manager. Filing this report was my responsibility. I still think of it as my favorite report and believe that a great deal about the markets and its participants can be intuited from this information.)

Released: Friday, 3:30 p.m. EST

Bank Participation: monthly reports containing aggregate large-trader positions of banks participating in various financial and non-financial Commodity futures.

Released: Monthly (Friday), 3:30pm EST

Cleared Margin Reports: summary information for certain derivatives clearing organizations from daily initial margin data filed with the CFTC.

Released: Monthly, within 10 business days of the end of the month

Cotton On-Call: a weekly report showing the quantity of call cotton bought or sold for which the price has not been fixed.

Released: Thursday, 3:30 p.m. EST

FCM Financial Data: selected financial information from FCMs and RFEDs' monthly financial reports.

Released: Monthly, 12 business days after the filing deadline

Staff Reports: Reports on Market Events from the CFTC staff.

Released: As needed

Weekly Swaps: A compilation of swap market data.

Released: Monday, 3:30 p.m. EST

Futures, Stocks, Options, Forex and Swaps Facilities

CME Group cmegroup.com

- Create an account to get access to content, alerts, services, etc.: <https://login.cmegroup.com/sso/register/>
- Contact CME Group to imbed free content from their Course Catalog on your website to further educate clients/staff on CME Group products and services: <https://www.cmegroup.com/education/courses.html>
- Stay informed on latest news from their market insights and don't forget to ask how to display this free content on your website: <https://www.cmegroup.com/insights.html>
- Check out all the different ways you can interact with and access CME Group Market Data: <https://www.cmegroup.com/market-data.html>
- Learn about CME Group services and solutions from clearing, risk management, technology and margining: <https://www.cmegroup.com/solutions.html>
- NFA-registered IBs can request to be listed in CME Group's find-a-broker directory: <https://www.cmegroup.com/tools-information/find-a-broker.html>

Australian Securities Exchange
www.asx.com.au

Bourse de Montreal
www.m-x.ca

Chicago Board Options Exchange
www.cboe.com

Dubai Gold & Commodities Exchange
www.dgcx.ae

Eurex Group
www.eurex.com

Euronext
www.euronext.com

Frankfurt Stock Exchange
www.boerse-frankfurt.de

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

InterContinental Exchange
www.ice.com

Johannesburg Stock Exchange
www.jse.co.za

Korea Exchange
www.krx.co.kr

London Metals Exchange
www.lme.com

London Stock Exchange
www.londonstockexchange.com

Mexican Derivatives Exchange
www.mexder.com.mx

Minneapolis Grain Exchange
www.miaxglobal.com

Moscow Exchange
www.moex.com

NADEX
www.nadex.com

New York Stock Exchange
www.nyse.com

Singapore Exchange, Ltd.
www.sgx.com

Taiwan Futures Exchange
www.taifex.com.tw

Tel Aviv Stock Exchange
www.tase.co.il

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

Educational Institutions

State universities and other educational institutions often post whitepapers and other research about various areas of the derivatives industry. They are generally available free-of-charge. They also offer classes in financial risk management, which can be a good place to continue your education. Many universities provide intern programs or job outreach – a good way to find younger people interested in all aspects of the futures and options business. Be sure to check out NIBA's Education Partners for class offerings and events open to IBs.

DePaul University, Chicago
www.depaul.edu

Kansas State University
www.k-state.edu

Ethics, Anti-Money Laundering and Cyber Security Providers

Center for Futures Education
www.thectr.com

Futures Industry Association
www.fia.org

Compliance Supervisors, Inc., Robert DeMuria
www.compliancesupervisors.com

Institute for Financial Markets, Trish Foshee
www.theifm.org

Exchange Analytics, Joe Adamczyk
www.exchangeanalytics.com

JFX, LLC, John Falck
John.falck@jfxllc.com

FINRA
www.finra.org

vSEC, LLC, Mike Phillips
vsecllc.com

Data Vendors and Equipment

Barchart, Mark Water
www.barchart.com/solutions

NOAA Climate Prediction Center
www.cpc.ncep.noaa.gov

Bloomberg, LP
www.bloomberg.com

QST
qstrp.quicksuitetrading.com

CME Direct
www.cmegroup.com/cme-direct.html

QT Info Systems
www.qtinfo.com

Commodity Systems, Inc
www.csidata.com

Reuters Data
www.reuters.com

CQG, Pat Kenny
www.cqg.com

S & P Global
www.spglobal.com/commodityinsights

DTN
www.dtn.com

Tick Data, Inc.
www.tickdata.com

MarketView
www.marketview.com

Trading Technologies
www.tradingtechnologies.com

Accountants, Compliance, Other Professional Services Providers

ACA Global
www.acaglobal.com

Compliance Supervisors, Inc., Rob DeMuria
www.compliancesupervisors.com

Michael Coglianese CPA, PC, Mike Coglianese
www.cogcpa.com

Eventus, Joe Schifano
www.eventus.com

Formidium, Niles Sudrania
www.formidium.com

Futures Accounting & Compliance, Jas Chawla
www.futuresaccounting.com

Liccar, CPA, Tom McCarthy
www.liccar.com

Equity IRA, Brad Janitz
www.midlandtrust.com

Turnkey Trading Partners, Susan Osmanski
www.turnkeytradingpartners.com

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jbarclay@howardandhoward.com

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braden@kennyhertz.com

Ruddy Gregory Law, Mark Ruddy
mruddy@ruddylaw.com

Marketing and Web Design

16 Wells, Skip Shean
www.16wells.com

Gate39 Media, Shane Stiles
www.gate39media.com

Glossy Development, Adam Aronoff
www.Glossydev.com

Propel Growth, Candyce Edelen
www.Propelgrowth.com

Print and Electronic Publications

In this year's edition of The Complete IB Handbook, I have done away with the usual listing of books and electronic publications in favor of a listing of publications I've found useful in the nearly 50 years I've been a derivatives professional. There are a couple of oldies but goodies that are still worth a read and you'll see that there are plenty of very recent books that I think you'll like. None of these suggestions are intended to make you a great trader and only one is even about putting on your sales hat. Each author has a unique connection to the industry – historically or otherwise.

Most of the following are available for purchase online in hardcopy or for an electronic reader.

Anything by Leo Melamed, and especially his memoir, ***Man of the Futures*** (2021).

Mr. Melamed, initiator of Globex, the world's first global electronic trading system and most often considered the founder of financial futures, is a Holocaust survivor, attorney and former Chairman of the CME Group.

Anything by Dr. Richard Sandor, including ***Electronic Trading and Blockchain: Yesterday, Today and Tomorrow*** (2018) "Doc" (as everyone in the industry knows him), relates how a September 1969 California Commodity Advisory Research Project was about 20 years ahead of the first widely used electronic trading exchange.

Back to the Futures: Crashing Dirt Bikes, Chasing Cows and Unraveling the Mystery of Commodity Futures Markets, Scott Irwin and Doug Peterson (2023)

Mr. Irwin, an agricultural economist, explains why it is essential to understand futures markets through a vivid re-accounting of his personal adventures with motorcycles, race cars, farm equipment and renegade cows. He and Mr. Peterson also bring in other experts, such as Mr. Melamed (mentioned above) and Terry Duffy, CEO of CME Group.

Biography of Rakesh Jhunjhunwala, Daniella Dawson (2022)

Mr. Jhunjhunwala was often referred to as India's Warren Buffett. Although he made his fortune – roughly estimated at a net worth of \$5.8 billion dollars – in the Indian stock market and innovative financing (such as for Akasa Airlines) and not in the futures markets, his biography is a fascinating tale of entrepreneurship.

A Bull in China, Jim Rogers (2007)

Jim Rogers, considered one of the world's most successful investors, has been tracking the Chinese economy since he went to China in 1984 as part of preparing for his round-the-world motorcycle trip. This book is primarily directed to investors, but it explains his view of why opportunities in the Power, Energy and Agricultural markets were set for "the greatest economic boom since England's Industrial Revolution." Mr. Rogers' book provides historical perspective helpful to recognizing the opportunities in today's markets.

Five Minutes to Post: My Days in Commodities, F.P. Harris (2013)

In this book, Mr. Harris tells his personal story about his time on the exchange floor. He explains the ways clerks, brokers, firms, pricing and errors were handled during his time, along with his relationships with co-workers, employees and his employers. Not for everyone, this is a very personal – sometimes harrowing tale.

My Word is My Bond: Voice from Inside the Chicago Board of Trade, Arlene Bronstein (2008)

Ms. Bronstein collected interviews with about twenty members of the former Chicago Board of Trade. Although it was written over 23 years ago, each of the interviews gives the reader a view into what being on the exchange floor was like during the CBOT's heyday, as well as providing personal insight to traders. A memoir of the trading floors as they were.

World for Sale, The: Money, Power and the Traders Who Barter the Earth's Resources, Javier Blas and Jack Farchy (2022)
Mr. Blas and Mr. Farchy write about the billionaire commodity traders who buy, hoard and sell the earth's resources (commodities themselves). I'm not sure I've ever met one of the billionaire traders, but this is a quick and entertaining read.

And finally, two resources that never fail to instruct and entertain:

Greatest Salesman in The World, Og Mandino (1968)

This is an old school review of the principles of salesmanship interwoven in a fascinating story of moral and ethical guidance, and source of comfort and inspiration we sales folk sometimes need.

Trading Places – 1983 film starring Eddie Murphy as a "bum" and Dan Aykroyd, a wealthy trader whose positions are reversed in a scheme set in motion by two greedy, commodity-trading brothers. The scene set on the exchange floor in the orange juice pit is worth the price of the rental.

Checklist for Chapter 8: **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. Have I properly sourced any materials or other information used from any website or publication?
4. Have I contacted any website before I link to it?
5. Have I created a Solicitations folder in order to retain any materials from outside sources used as communications between my IB and the public?
6. Will I develop my own AML policy, ethics training program or ISSP?
7. Should I contact a third-party provider for regulatory compliance?
8. How much time can I afford to research outside sources to help build the IB's business – should those functions be assigned to an employee?

