

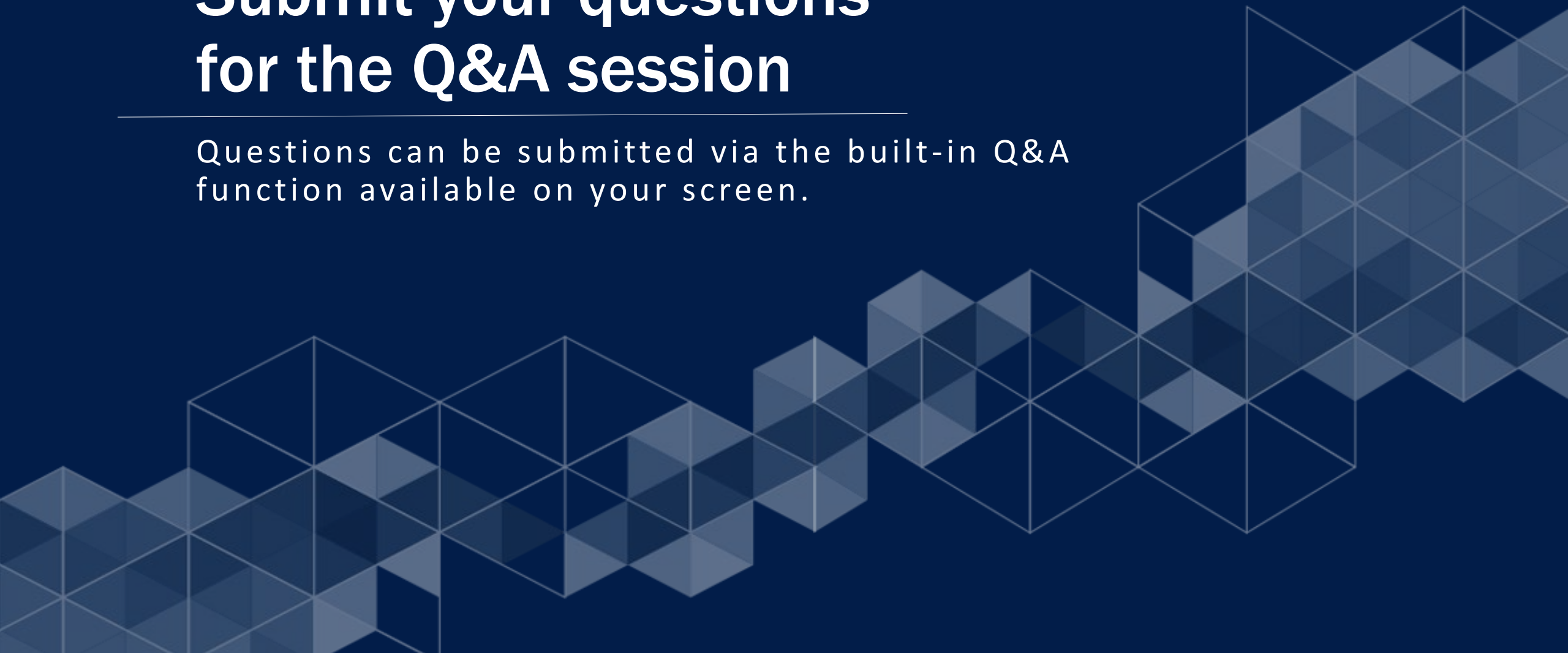
Futures: Common Exam Findings & Reminders

June 1, 2022




Submit your questions for the Q&A session

Questions can be submitted via the built-in Q&A function available on your screen.



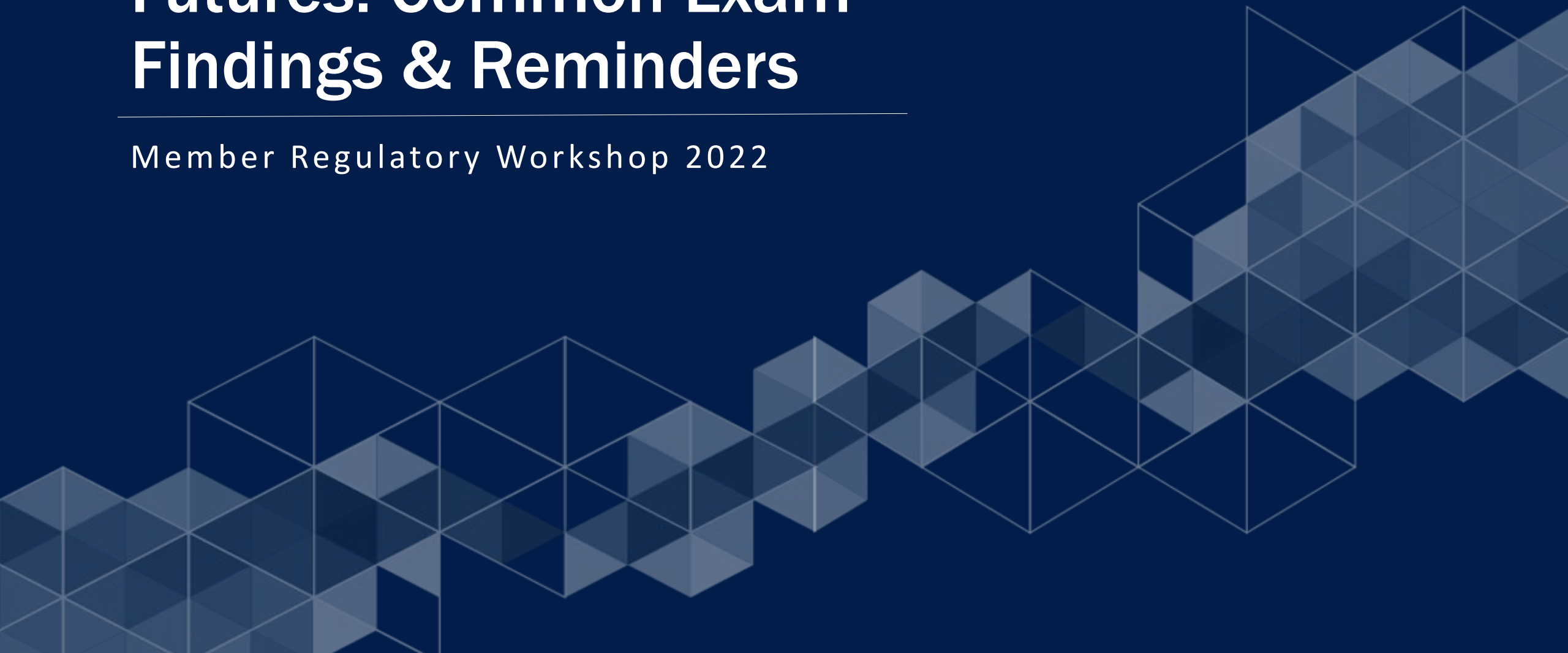
Futures: Common Exam Findings & Reminders

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Futures: Common Exam Findings & Reminders

Member Regulatory Workshop 2022



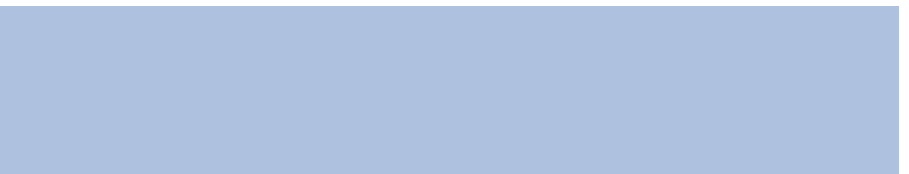
Topics for CPOs, CTAs, IBs, & FCMs



- Supervision and related documentation
- Trade communications and recordkeeping
- CPO/CTA financial ratios
- Avoiding common exam deficiencies
 - Promotional material
 - Cybersecurity
 - Due dates
 - Pool account statements



Supervision



Written Supervisory Procedures



- Procedures commonly reviewed
 - Promotional material
 - Broker communications
 - Registration of APs and Bylaw 1101
 - Customer complaints
 - Orders related
 - Trade communications
 - Order placement
 - Error account activity

Written Supervisory Procedures

- Clearly define employee roles
 - Who is responsible for the review?
 - Is it reasonable based on title and experience?
- Supervisory Reviews
 - How frequently is the review conducted?
 - How is the review documented?
 - Is the firm following its procedure?

Written Supervisory Procedures



- Entity-wide policies – procedures of a parent or affiliated entity
 - Registrant is specifically included in the procedures
 - Procedures adequately address the supervision of the registrant's operations
 - Supervisory personnel is appropriate based on NFA's rules

Supervision of Remote Operations



- Update supervisory procedures and processes based on current work environment
- Maintain records to demonstrate supervision
 - Logs
 - Emails
 - Spreadsheets
 - Correspondence relating to any inquiry

Supervision of Branch Offices



- Annual inspection of each branch offices; use a risk-based approach to determine review scope
 - Under certain circumstances on-site inspections may be performed every other year, as long as an inspection from a remote location is performed in the off year
 - Promptly perform an on-site inspection if the firm becomes aware of any indications of irregularities (e.g., disciplinary actions, customer complaints, red flags from ongoing monitoring)



Trade Communications & Recordkeeping

Regulatory Requirements



- Keep full, complete and systematic records of all transactions, including all pertinent data and memoranda
- Keep all oral and written communications provided or received concerning quotes, solicitations, bids, offers, instructions, trading and prices leading to the execution of a transaction
 - Special attention needed for emails accessed through encrypted or secured email system

- Failure to properly record communications
 - Not recording all lines
 - Not recording personal cell phones
 - Not recording particular chat services
- Failure to maintain records
 - Phone records, chat logs, confirmations not maintained
 - Oral records deleted before one year

- Inadequate supervision
 - Failure to recognize when recording systems are not functioning properly or records are not maintained
 - Failure to adopt and implement written procedures to review communications
 - Frequency of review
 - Person(s) responsible for review
 - How review will be documented
 - Identification of any issues discovered and how those issues were addressed

- Not maintaining documentation to demonstrate supervision of trade communications
- Improperly providing name of counterparty prior to execution
- Not maintaining proper registrations
 - Associates brokering trades for a U.S. entity on a U.S. exchange not registered as APs

CPO/CTA Financial Ratios

CTA/CPO Financial Ratios



Ratios regarding a CPO's or CTA's financial condition reported on quarterly Forms PQR and PR

- Current Assets/Current Liabilities (CA/CL) Ratio
- Total Revenue/Total Expenses (TR/TE) Ratio



CTA/CPO Financial Ratios



Firm owned assets

Ratios are intended to capture the financial condition of the CPO or CTA – NOT the pool or clients



CTA/CPO Financial Ratios



Calculate using the accrual method of accounting

Accrual method recognizes revenues and expenses in the accounting period in which they are earned or recognized as opposed to when they are received or paid



CTA/CPO Financial Ratios



Current Assets:

Cash or any asset that can be readily converted to cash within one year. Current assets for a CPO or CTA may include, but are not limited to, cash, marketable securities, short-term investments, accounts receivable, and a general partner's investment in its pool

CTA/CPO Financial Ratios



Total revenue/total equity ratio

- Calculate using the revenue and expenses incurred during the prior 12 months
 - NOT quarterly
 - NOT year-to-date
 - Q1 PQR Filing covers April 1, 2021 – March 31, 2022
 - Q2 PQR Filing covers July 1, 2021 – June 30, 2022

CTA/CPO Financial Ratios



- Prepare financial statements, cash receipts/disbursement journal or simple calculations to support financial ratios reported in quarterly filings
- Maintain documentation to support your calculations



Avoiding Common Exam Deficiencies

Self-Examination Questionnaire



- Designed to help a firm self-identify potential deficiencies and alert them to processes and procedures that need to be revised or strengthened
- Complete annually
- Questions frequently updated– access the most recent questionnaire on NFA’s website

Self-Examination Questionnaire



- Includes a general section for members of all registration categories
- Includes supplemental section for FCM, IB, CPOs and CTAs
- Includes appendices to assist with development of policies:
 - Business continuity and disaster recovery plan;
 - Ethics training procedures;
 - Anti-money laundering procedures;
 - Privacy policy; and
 - Use of third-party service providers procedures

Promotional Material



- Hypothetical performance needs to be clearly labeled
- Assumptions: initial investment, fees, settlements, entry and exit criteria need to be disclosed
- All performance must be shown net of commissions, fees and expenses



Promotional Material



- Discussions regarding possibility of profit must include equally prominent statements of risk of loss
- Promotional material should not include any misstatements or omissions of fact that render the material misleading
- Actual past performance must be accompanied by disclaimer that past performance is not necessarily indicative of future results



- Inadequate employee training (All employees need training upon hire and annually)
- Inadequate ISSP
 - Procedures to restore compromised systems and data, communicate with appropriate stakeholders and regulatory authorities and incorporate "lessons learned". Specifically needs to address how the firm will notify NFA of a cyber event
 - Inventory of all hardware technology with network connectivity and critical software with applicable versions
 - Description of training topics needs to be included in ISSP
- Failure to review and approve ISSP in writing annually

Common Overdue Items

- Ethics training
- Branch office inspections
- PQRs, PFS or liquidation statement
- IB financial filings
- AML training and annual audit
- Cybersecurity training
- Self-examination questionnaire

Pool Account Statements

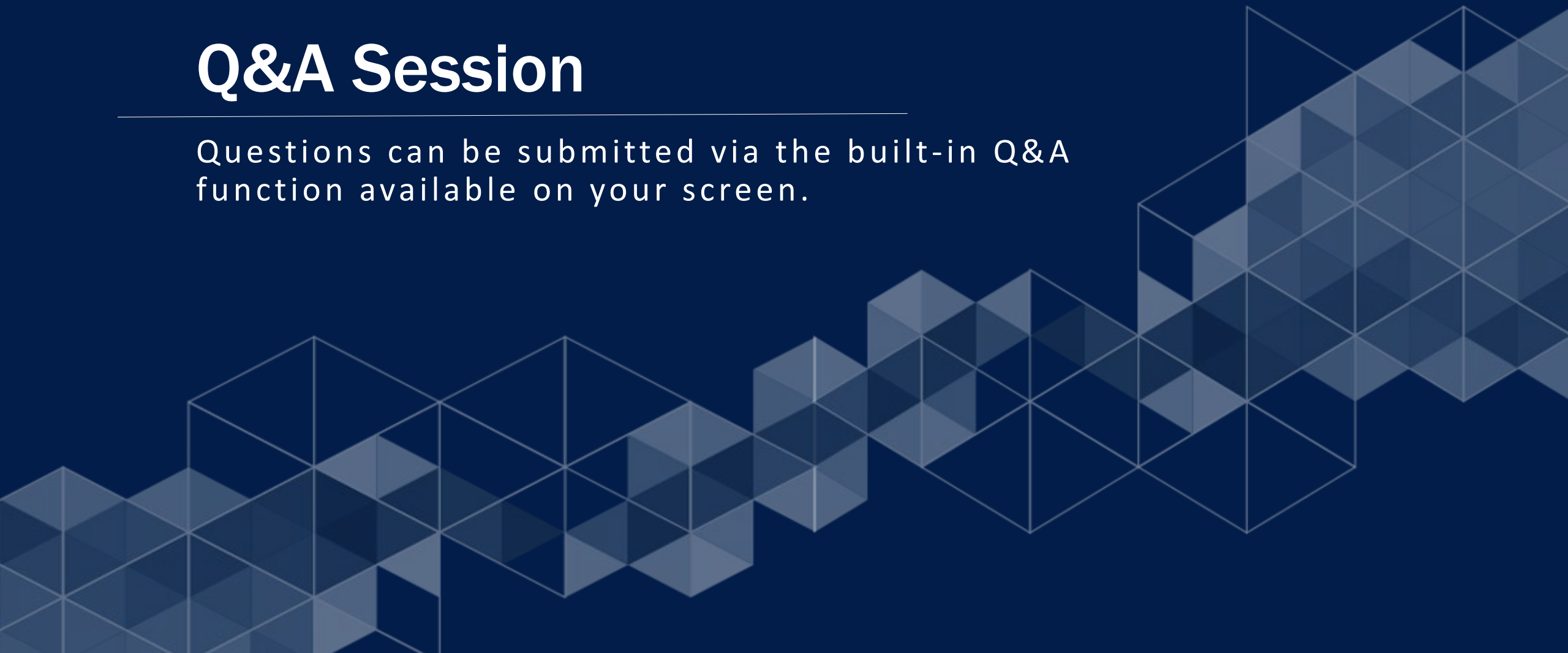


- Monthly or quarterly statements provided to pool participants must be presented for the pool in its entirety
- NAV per unit or individual ownership interest also required
- Oath and affirmation must include:
 - Signature of someone duly authorized to bind the CPO
 - Signatory's name and capacity
 - CPO's name
 - Pool name



Q&A Session

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Member Regulatory Workshop – Next Session

Cybersecurity will begin tomorrow, Thursday, June 2 at 10:00 a.m.
CT/11:00 a.m. ET.

