

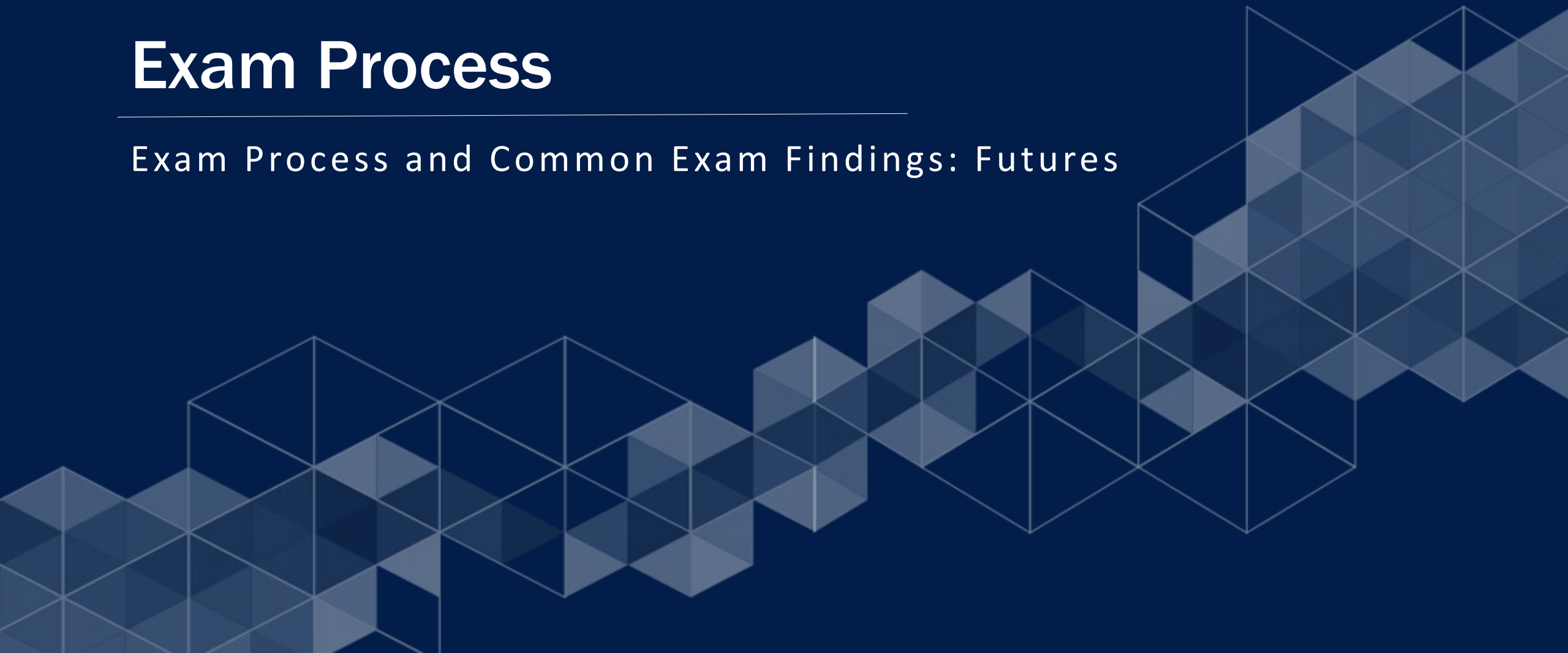
Exam Process and Common Exam Findings: Futures

Member Regulatory Workshop

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Exam Process

Exam Process and Common Exam Findings: Futures

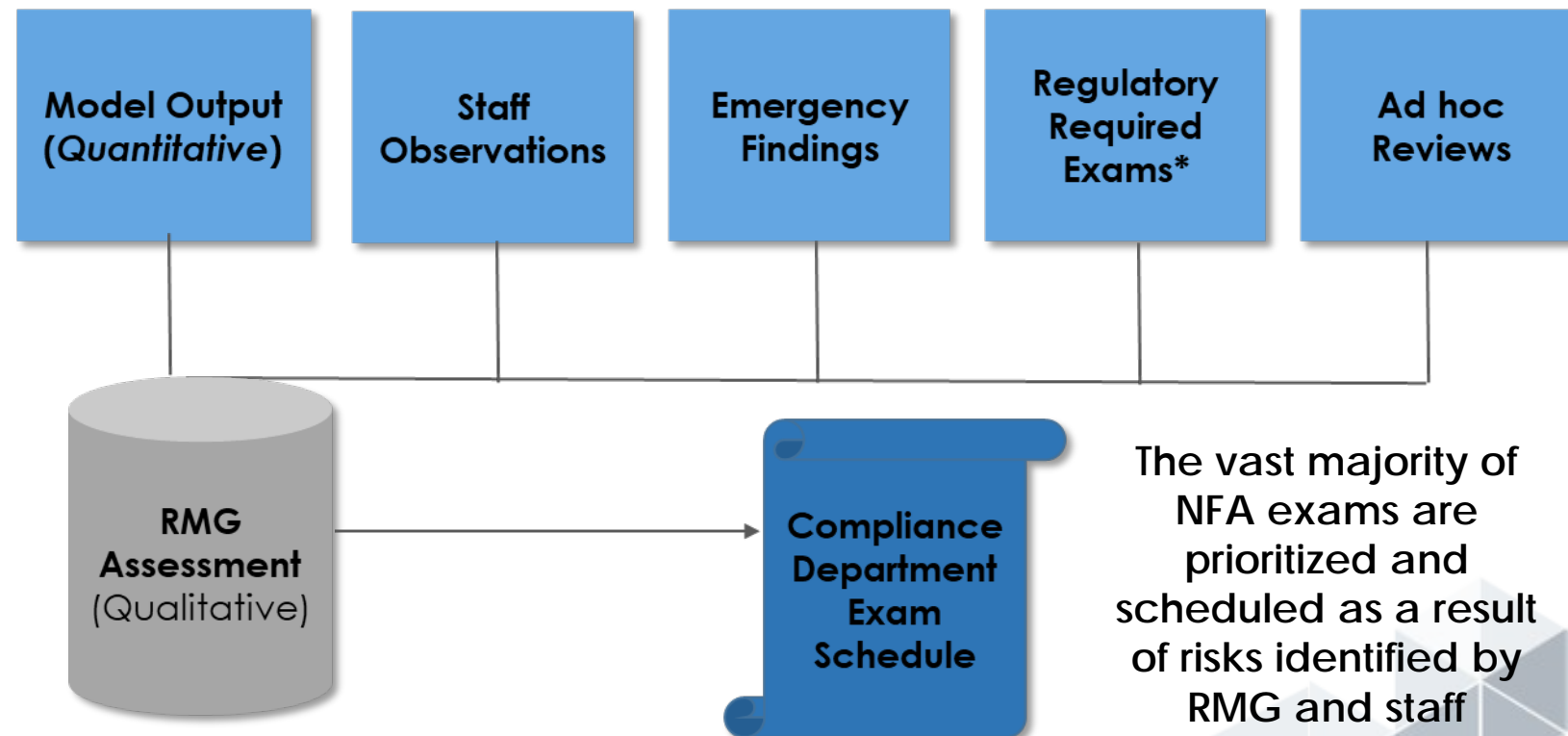


Risk-Based Examination Approach



1. Prioritize list of candidate firms
2. Schedule based on prioritized firms, available resources, and logistical constraints
3. Relay pertinent risk information to exam teams

Approach to scheduling is influenced by the following sources:



The vast majority of NFA exams are prioritized and scheduled as a result of risks identified by RMG and staff

Pre-Exam Work



- Exam Announced
 - Pre-Exam Questionnaire
 - Internal Controls Questionnaire
- Operations Call
 - Document Request List
- Regulatory Filing System (RFS)
 - Secure File-Sharing Site
 - Tracking Requests and Due Dates

Hybrid Exam Approach



- Initial Exam Meetings
 - Virtually via Teams or Zoom
- On-Site Fieldwork
 - Interviewing Key Personnel
 - Observing Internal Control Processes
 - Reviewing Firm Records
 - Observing Supervisory Processes

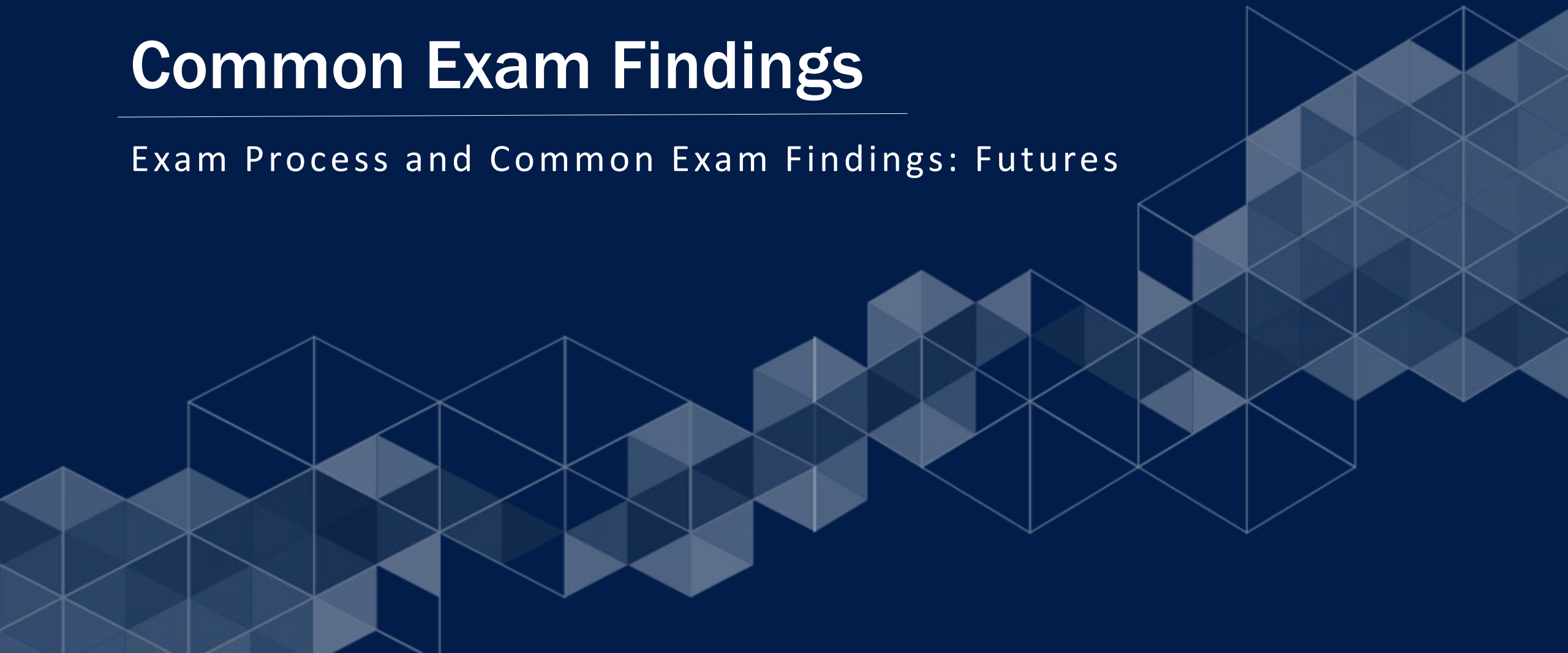
End of Exam Process



- Exit Interview
 - Summarize Exam Findings
 - Discuss Status of Corrective Action
- Exam Report
- Firm Response
 - Circumstances That Led to Each Finding
 - Corrective Action Implemented
 - Changes to Internal Controls

Common Exam Findings

Exam Process and Common Exam Findings: Futures



Registration



Principals

- Individuals who indirectly owns the Member through a trust or holding company

Associated Persons

- Individuals who supervise APs must also be registered as APs

Registration



Branch Office

- Any location, other than the main business address that employs one or more persons engaged in activities requiring registration as an AP, excluding any location where one or more APs from the same household live or rent/lease provided the location is not held out to the public as an office of the Member (remote location).
- The AP(s) does not meet in-person with customers or physically handle customer funds at the location.
- Any CFTC or NFA required records created at the non-branch office location are accessible for inspection at the Member firm's main or applicable listed.

CPO and CTA Financial Ratios



- 12-month time period for revenues and expenses
- Ratios based on firm itself
- Accrual accounting
- Ratio support



Pool Financial Reporting



- Account statement requirements
- Incomplete or missing oath/affirmation
 - Signature of someone duly authorized to bind the CPO
 - Signatory's name and capacity
 - CPO's name
 - Pool Name
- Liabilities not properly accrued

Exemptions



Maintain support to demonstrate compliance with the criteria for any pool exemption.



Net Capital

- Current vs Non-Current Assets
 - Secured receivables
 - Commissions received from FCMs
 - Prepaid assets
 - Proper charges
 - Aging receivables re-classified from a current asset to a non-current
 - Liabilities not properly accrued

Promotional Material



- Relationship between possibility of profit and risk of loss discussions
- Misstatements or omissions of fact should not be included on promotional material
- Clearly label hypothetical performance
- Disclaimers regarding past performance



Inadequate Procedures and Supervision



Supervision:

- Clearly defined roles
- Supervisory Reviews
- Entity Wide Policies—procedures of a parent or affiliated entity



Inadequate Procedures and Supervision



- Supervision of APs
 - Branch Offices
 - Remote Locations
- Third-Party Service Providers
- ISSP Procedures
- Internal Controls
- Trade Communications



Common Overdue Items

- Cybersecurity Training
- ISSP Annual Review
- Ethics training
- Annual AML training
- Annual independent AML audit
- Annual branch office audits
- Financial statement filings
- Self-examination checklist

How to Avoid Common Deficiencies

Completing the Self-Examination Questionnaire annually will assist in creating:

- AML
- BCDR
- Ethics
- Privacy Policy
- Third-Party Service Providers

Q&A Session

NFA Information Center

8:00 a.m. to 5:00 p.m. CT, Monday - Friday

312-781-1410 or 800-621-3570

information@nfa.futures.org