

Developing an Effective Supervisory Program

Member Regulatory Workshop

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Developing an Effective Program



- Tailor supervisory procedures for your operations
- Update supervisory procedures and processes as necessary – in other words be prepared to pivot for changes
 - New systems or lines of business
 - New Branches or employees
 - Remote/Hybrid Operations
 - Turnover
 - What you can actually accomplish ²



Developing an Effective Program



Maintain records to demonstrate supervision

- Logs
- Emails
- Spreadsheets
- Correspondence relating to any inquiry



WRITTEN SUPERVISORY PROCEDURES

Procedures Commonly Reviewed



- Cybersecurity/ISSP
- Promotional material
- Broker communications
- Registration of APs
- Bylaw 1101
- Customer complaints
- Third Party Service Providers
- Orders related to:
 - Trade communications
 - Order placement
 - Trade Transfers

Written Supervisory Procedures

Based on requirements plus firm's unique risks

Clearly define employee roles

- Who is responsible for the review?
- Is it reasonable based on title and experience?

Written Supervisory Procedures

Supervisory Reviews

- How frequently is the review conducted?
- How is the review documented?
- Is the firm following its procedure?
- What is the escalation process?

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

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SUPERVISION OF REMOTE OPERATIONS

Branch Office Exclusions

Any remote working location or flexible shared workspace where one or more APs from the same household reside would not be required to be a listed branch office, provided:

- The location is not held out publicly as the NFA Member's office;
- Customers are not met with, or customer funds are not physically handled at the location; and
- Any CFTC or NFA-required records are accessible at the firm's main office

Risk Assessment

Determine if an AP is permitted to work remotely.

- Scope of activities and responsibilities
- AP's background
- Risks of the AP's remote location

Supervision of Remote Operations



- Written supervisory policies and procedures
- Initial and ongoing training on regulatory requirements and policies and procedure
- Tailor your supervisory system and structure:
 - Address any additional or enhanced reviews for remote APs
 - Consider changes to scope or frequency of reviews
 - Documented reviews of order handling and trading, escalation and resolution of potential issues

Reminders



- Members with remote operations remain responsible for all recordkeeping requirements
- Records need to be accessible from regular business office
- Required communications should be carried out on equipment and through applications that Member can capture and retain
- Consider additional training regarding increased cyber risks in a remote work environment



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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

Trade Communications and Recording

Failure to properly record communications

- Not recording all lines
- Not recording personal cell phones
- Not recording particular chat services

Trade Communications and Recording



Supervisory Failures

- No written procedures to review communications
- Not reviewing communications
- Not testing that you have the recordings, chats, etc.
- Not maintaining documentation to demonstrate supervision of trade communications



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COMMON SUPERVISORY DEFICIENCIES

Registering APs

- Due diligence of new employees
- Tailoring supervisory program based on experience level
- Enhancing reviews based on disciplinary background

Bylaw 1101



- Initial due diligence
- On-going due diligence
 - Annual exemption affirmation



Cybersecurity



- Not following your procedure
- Training "upon hire"
- Annual Training

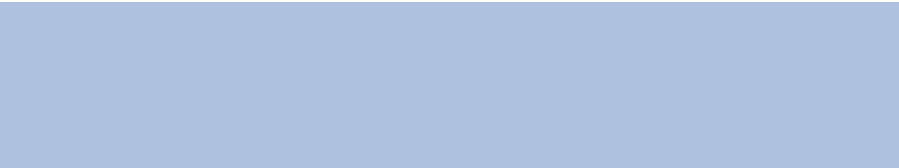


Third Party Service Providers

- Initial and Ongoing Due Diligence
- Supervising performance of the outsourced function
- Back-up plans
- Security of Data



OPERATIONAL CHANGES



Keeping up with Changes

- Increase/decrease in staff
- Purchasing new technology
- Entering new markets
- Opening a new branch

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

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