

December 3, 2015

**Via Federal Express**

Mr. Christopher J. Kirkpatrick  
Secretary  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

Re: National Futures Association: Proficiency Requirements for Security Futures Products – Proposed Amendments to the Interpretive Notice regarding NFA Compliance Rules 2-7 and 2-24 and Registration Rule 401: Proficiency Requirements for Security Futures Products\*

Dear Mr. Kirkpatrick:

Pursuant to Section 17(j) of the Commodity Exchange Act (CEA), as amended, National Futures Association (NFA) hereby submits to the Commodity Futures Trading Commission (CFTC or Commission) the proposed amendments to the Interpretive Notice regarding NFA Compliance Rules 2-7 and 2-24 and Registration Rule 401: Proficiency Requirements for Security Futures Products (Interpretive Notice). NFA's Board of Directors (Board) approved amendments to the Interpretive Notice on August 20, 2014. NFA's Executive Committee, as authorized by the Board, approved additional amendments on October 15, 2015. NFA's Board ratified the Executive Committee's action at its November 19, 2015 meeting.

NFA is invoking the "ten-day" provision of Section 17(j) of the Act and plans to make these proposals effective ten days after receipt of this submission by the Commission unless the Commission notifies NFA that the Commission has determined to review the proposals for approval.

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**PROPOSED AMENDMENTS**  
**(additions are underscoring and deletions are ~~stricken through~~)**

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**INTERPRETIVE NOTICE**

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## **NFA COMPLIANCE RULES 2-7 AND 2-24 AND REGISTRATION RULE 401: PROFICIENCY REQUIREMENTS FOR SECURITY FUTURES PRODUCTS**

The Commodity Futures Modernization Act of 2000 amended the Securities Exchange Act of 1934 to require NFA to "have rules that ensure that members and natural persons associated with members meet such standards of training, experience, and competence necessary to effect transactions in security futures products and are tested for their knowledge of securities and security futures products."<sup>1</sup> ~~NFA is in the process of updating the Series 3 examination to include questions applicable to security futures products. However, current registrants, and persons who become registered before the Series 3 examination is updated, NFA has determined that Members and Associates will be allowed to may meet the proficiency requirements by taking an appropriate training course before they engage in activities involving security futures products. This notice describes the training programs that would satisfy NFA's proficiency requirements. ~~conditions under which Members and Associates can substitute training for testing.~~~~

~~Current~~ NFA Members and Associates will be able to satisfy their proficiency requirements for security futures by taking any training program that covers the subject matter included in a content outline that has been jointly developed by NFA, the Financial Industry Regulatory Authority, and a number of securities and futures exchanges. A copy of that outline can be found on NFA's website at [www.nfa.futures.org](http://www.nfa.futures.org). ~~New registrants can also qualify through training if they take the Series 3 examination and apply for registration before the revised examination becomes available. **THE TRAINING MUST BE COMPLETED BEFORE AN INDIVIDUAL REGISTRANT ENGAGES IN ACTIVITIES INVOLVING SECURITY FUTURES PRODUCTS.** Any registrant who is eligible to qualify through training has until December 31, 2015 before that eligibility lapses. Registrants who subsequently decide to engage in security futures activities will be required to take the relevant examination.~~<sup>2</sup> Additionally, NFA, in partnership with the Financial Industry Regulatory Authority and the Institute for Financial Markets, has developed a web-based training program that will satisfy the training requirement. That program can be accessed at [www.nfa.futures.org](http://www.nfa.futures.org).

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<sup>1</sup> Section 15A(k)(2)(D) of the Securities Exchange Act of 1934.

<sup>2</sup> ~~Securities registrants will be subject to these same standards, although the examinations that qualify them to trade security futures products will be different~~

There is no charge for completing this training program. THE TRAINING MUST BE COMPLETED BEFORE ANY INDIVIDUAL REGISTRANT ENGAGES IN ACTIVITIES INVOLVING SECURITY FUTURES PRODUCTS.

~~NFA is also in the process of updating the Series 30 examination to include questions regarding security futures for persons who are designated security futures principals under NFA Compliance Rule 2-7. In order to meet the proficiency requirements to qualify as a designated security futures principal through training, current supervisors may take a portion of the must complete a training program that also includes a section devoted to supervisory issues as well as the portions intended for all Associates as long as they do so before the revised Series 30 examination becomes available. After the revised Series 30 becomes available, only individuals who were qualified as branch office managers before that date may qualify as security futures principals by taking the training program in lieu of taking a supervisory proficiency exam, and those individuals must take the training program by December 31, 2015.~~

NFA Members and Associates are not required to notify NFA that they have completed a training program. However, Members must be able to demonstrate to NFA during an audit that those registered individuals who are engaging in security futures activities have completed the necessary training. For example, Members could keep records of Associates who attend internal training programs or require Associates to provide certificates of completion for outside training programs.

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### **EXPLANATION OF PROPOSED AMENDMENT**

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The Commodity Futures Modernization Act of 2000 amended the Securities Exchange Act of 1934 to require NFA to "have rules that ensure that members and natural persons associated with members meet such standards of training, experience and competence necessary to effect transactions in security futures products and are tested for their knowledge of securities and securities futures products."

In 2001, NFA and FINRA (then NASD) adopted temporary relief allowing registrants to qualify to engage in security futures activities by completing a training program rather than taking a proficiency exam. That relief has been extended four times and is currently set to expire on December 31, 2015.

NFA and FINRA proposed the four prior extensions, and the CFTC and SEC agreed to them, because of the relatively low trading volume in security futures products (SFP) and the relatively few registrants engaging in security futures activities. These characteristics made the imposition of a qualifications exam an inefficient option, and the same reasons are equally compelling today.

In 2002 NFA, FINRA and the Institute for Financial Markets partnered together to develop a free web-based training program consisting of a series of modules intended to satisfy the training requirement (SRO Training Modules). From 2002 through May 2015, 15,216 individuals have completed the SRO Training Modules. Of this number, 10,108 individuals are registered with FINRA (including joint registrants) and 5,108 individuals are registered only with the CFTC. Most of these individuals took the SRO Training Modules in the first couple of years after SFPs began trading, and traffic has decreased since then. In 2014, only 180 registered individuals completed the SRO Training Modules (162 CFTC-only registrants). This compares with the approximately 4,000 people who took the Series 3 exam last year.

Additionally, SFP volume is low. In 2014, U.S. futures exchanges traded approximately 3.9 billion contracts, while SFP volume was just over 8 million – approximately 0.21% of the total. Given the limited interest in these products, NFA believes that implementing a testing requirement does not appear to be the most practical solution at this time.

Given the continued low number of registrants engaging in securities futures activities and the low SFP volume, NFA is amending NFA's Interpretive Notice regarding proficiency requirements for Security Futures Products (SFP) to make permanent the provision permitting SFP Associates to satisfy their proficiency requirement through training. In particular, the amendments provide that Associates may satisfy their proficiency requirements through appropriate training and eliminate the three-year sunset provision. The amendments also emphasize that the training must be completed before any individual registrant engages in activities involving SFPs. NFA will continue to monitor the security futures volume and the number of persons taking the SRO Training modules, as well as any disciplinary matters involving SFPs, in considering whether a proficiency test should be developed at a later date.

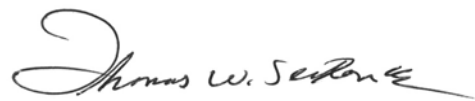
As mentioned earlier, NFA is invoking the “ten-day” provision of Section 17(j) of the Commodity Exchange Act. NFA intends to make the proposed amendments to the Interpretive Notice regarding NFA Compliance Rules 2-7 and 2-24 and Registration Rule 401: Proficiency Requirements for Security Futures Products

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effective ten days after receipt of this submission by the Commission, unless the Commission notifies NFA that the Commission has determined to review the proposal for approval.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas W. Sexton". The signature is fluid and cursive, with a long horizontal stroke at the end.

Thomas W. Sexton  
Senior Vice President and  
General Counsel

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\*The proposed amendments to the Interpretive Notice became effective December 14, 2015.