June 7, 2018

<u>Via Federal Express</u>
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: Proposed Amendments to NFA's Interpretive Notice: *NFA Compliance Rule 2-30(b): Risk Disclosure Statement for Security Futures Contracts*

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 NFA's Interpretive Notice entitled *NFA Compliance Rule 2-30(b): Risk Disclosure Statement for Security Futures Contracts*. NFA's Board of Directors ("Board") unanimously approved the proposed amendments at its meetings on February 15, 2018 and May 17, 2018.

NFA is invoking the "ten-day" provision of Section 17(j) of the CEA and plans to make this proposal 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.

PROPOSED AMENDMENTS
(additions are <u>underscored</u> and deletions are ~~stricken through~~)

INTERPRETIVE NOTICES

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NFA COMPLIANCE RULE 2-30(b): RISK DISCLOSURE STATEMENT FOR SECURITY FUTURES CONTRACTS

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2.4. How Security Futures Differ from the Underlying Security

Shares of common stock represent a fractional ownership interest in the issuer of that security. Ownership of securities confers various rights that are not present with positions in security futures contracts. For example, persons owning a share of common stock may be entitled to vote in matters affecting corporate governance. They also may be entitled to receive dividends and corporate disclosure, such as annual and quarterly reports.

The purchaser of a security futures contract, by contrast, has only a contract for future delivery of the underlying security. The purchaser of the security futures contract is not entitled to exercise any voting rights over the underlying security and is not entitled to any dividends that may be paid by the issuer. Moreover, the purchaser of a security futures contract does not receive the corporate disclosures that are received by shareholders of the underlying security, although such corporate disclosures must be made publicly available through the SEC's EDGAR system, which can be accessed at www.sec.gov. You should review such disclosures before entering into a security futures contract. See Section ~~9~~ 8.1 for further discussion of the impact of corporate events on a security futures contract.

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5.2. Settlement by physical delivery

Settlement by physical delivery is carried out by clearing brokers or their agents with National Securities Clearing Corporation ("NSCC"), an SEC-regulated securities clearing agency. Such settlements are made in much the same way as they are for purchases and sales of the underlying security. Promptly after the last day of trading, the regulated exchange's clearing organization will report a purchase and sale of the underlying stock at the previous day's settlement price (also referred to as the "invoice price") to NSCC. In general, if NSCC does not reject the transaction by a time specified in its rules, settlement is effected pursuant to the rules of the exchange and NSCC's Rules and Procedures within the normal clearance and settlement cycle for securities transactions, which currently is ~~three~~ two business days. However, settlement may be effected on a shorter timeframe based on the rules of the exchange and subject to NSCC's Rules and Procedures.

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6.1 Protections for Securities Accounts

If your positions in security futures contracts are carried in a securities account, they are covered by SEC rules governing the safeguarding of customer funds and securities. These rules prohibit a broker~~/~~-dealer from using customer funds and securities to finance its business. As a result, the broker~~/~~-dealer is required to set aside funds equal to the net of all its excess payables to customers over receivables from customers. The rules also require a broker~~/~~-dealer to segregate all customer fully paid and excess margin securities carried by the broker~~/~~-dealer for customers.

The Securities Investor Protection Corporation (SIPC) also covers positions held in securities accounts. SIPC was created in 1970 as a non-profit, non-government, membership corporation, funded by member broker~~/~~-dealers. Its primary role is to return funds and securities to customers if the broker~~/~~-dealer holding these assets becomes insolvent. SIPC coverage applies to customers of current (and in some cases former) SIPC members. Most broker~~/~~-dealers registered with the SEC are SIPC members; those few that are not must disclose this fact to their customers. SIPC members must display an official sign showing their membership. To check whether a firm is a SIPC member, go to www.sipc.org, call the SIPC Membership Department at (202) 371-8300, or write to SIPC Membership Department, Securities Investor Protection Corporation, ~~805 Fifteenth Street, NW, Suite 800~~ 1667 K Street NW, Suite 1000, Washington, DC ~~20005-2215~~ 20006-1620.

SIPC coverage is limited to $500,000 per customer, including up to $100,000 for cash. For example, if a customer has 1,000 shares of XYZ stock valued at $200,000 and $10,000 cash in the account, both the security and the cash balance would be protected. However, if the customer has shares of stock valued at $500,000 and $100,000 in cash, only a total of $500,000 of those assets will be protected.

For purposes of SIPC coverage, customers are persons who have securities or cash on deposit with a SIPC member for the purpose of, or as a result of, securities transactions. SIPC does not protect customer funds placed with a broker~~/~~-dealer just to earn interest. Insiders of the broker~~/~~-dealer, such as its owners, officers, and partners, are not customers for purposes of SIPC coverage.

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8.2. Position Limits and Large Trader Reporting

All security futures contracts trading on regulated exchanges in the United States are subject to position limits or position accountability limits. Position limits restrict the number of security futures contracts that any one person or group of related persons may hold or control in a particular security futures contract. In contrast, position accountability limits permit the accumulation of positions in excess of the limit without a prior exemption. In general, position limits and position accountability limits are beyond the thresholds of most retail investors. Whether a security futures contract is subject to position limits, and the level for such limits, depends upon the trading activity and market capitalization of the underlying security of the security futures contract.

Position limits ~~apply~~ are required for security futures contracts that overlie a security that has an average daily trading volume of 20 million shares or fewer. In the case of a security futures contract overlying a security index, position limits are required if any one of the securities in the index has an average daily trading volume of 20 million shares or fewer. Position limits also apply only to an expiring security futures contract during its last five trading days. A regulated exchange must establish position limits on security futures that are no greater than 13,500 (100 share) contracts, unless the underlying security meets certain volume and shares outstanding thresholds, in which case the limit may be increased to 22,500 (100 share) contracts.

For security futures contracts overlying a security or securities with an average trading volume of more than 20 million shares, regulated exchanges may adopt position accountability rules. Under position accountability rules, a trader holding a position in a security futures contract that exceeds 22,500 contracts (or such lower limit established by an exchange) must agree to provide information regarding the position and consent to halt increasing that position if requested by the exchange.

Brokerage firms must also report large open positions held by one person (or by several persons acting together) to the CFTC as well as to the exchange on which the positions are held. The CFTC's reporting requirements are 1,000 contracts for security futures positions on individual equity securities and 200 contracts for positions on a narrow-based index. However, individual exchanges may require the reporting of large open positions at levels less than the levels required by the CFTC. In addition, brokerage firms must submit identifying information on the account holding the reportable position (on a form referred to as either an "Identification of Special Accounts Form" or a "Form 102") to the CFTC and to the exchange on which the reportable position exists within three business days of when a reportable position is first established.

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EXPLANATION OF PROPOSED AMENDMENTS

NFA Compliance Rule 2-30(b) requires NFA Members and Associates who are registered as brokers or dealers under Section 15(b)(11) of the Securities Exchange Act of 1934 to provide a disclosure statement for security futures products ("SFPs") to a customer at or before the time the Member approves the account to trade SFPs. The risk disclosure statement for SFPs is a uniform statement that was jointly developed in 2002 by NFA, FINRA and a number of securities and futures exchanges. The statement discusses the characteristics and risks of standardized security futures contracts traded on regulated U.S. exchanges. Among other things, the statement contains a section on settlement by physical delivery, which indicates that the normal clearance and settlement cycle for securities transactions is three business days.

On September 5, 2017, the securities industry moved from a T+3 settlement cycle to T+2 settlement cycle for in-scope securities trades, including U.S. equity trades. Accordingly, NFA is recommending this amendment to update the risk disclosure statement for SFPs to reflect the shortened settlement cycle from T+3 to T+2. At its February 15, 2018 meeting, NFA's Board unanimously approved the proposed amendments to the Interpretive Notice to update the risk disclosure statement for SFPs to reflect the shortened settlement cycle.

Thereafter, based on discussions with FINRA staff, the risk disclosure statement was further amended to update the contact information for the Securities Investor Protection Corporation ("SIPC") provided on the risk disclosure statement in Section 6.1 and to incorporate a few additional non-substantive changes. At its meeting on May 17, 2018, NFA's Board unanimously approved the proposed amendments to the risk disclosure statement to reflect the updated contact information for SIPC and other non-substantive stylistic changes. FINRA intends to make the same modifications to its risk disclosure statement to cover its members.

As mentioned earlier, NFA is invoking the “ten-day” provision of Section 17(j) of the CEA. NFA intends to make the proposed amendments to NFA's Interpretive Notice entitled *NFA Compliance Rule 2-30(b): Risk Disclosure Statement for Security Futures Contracts* 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,

Carol A Wooding

Carol A. Wooding
Vice President and General Counsel