

November 21, 1985

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
2033 "K" Street, N.W.
Washington, D.C. 20581

Re: National Futures Association Proposed Amendments to Article VI, Section 2; Article VII, Sections 2 and 3; Article VIII, Section 3; Article X, Sections 1 and 2; Article XI, Section 1; Article XVII and Article XVIII, Section (n) of the Articles of Incorporation, and Bylaws 406 and 503.

Dear Ms. Webb:

Pursuant to Section 17(j) of the Commodity Exchange Act ("Act"), as amended, National Futures Association ("NFA") hereby submits to the Commodity Futures Trading Commission ("Commission") proposed amendments to NFA's Articles of Incorporation and Bylaws and requests review and approval of these amendments. The Articles amendments were ratified by the Board of Directors ("Board") on August 15, 1985, and have since been adopted by a majority vote of the Members in each of the Contract Market, FCM and Industry Participant categories. The Bylaw amendments were adopted by the Board on August 15, 1985, to become effective upon membership approval of the Articles Amendments.

I. Amendments to Articles of Incorporation

Amendments to Article VI, Section 2

(Deletions are ~~stricken through~~; additions are underscored.)

ARTICLE VI: MEMBERS

* * *

Section 2: Membership Category.

Each Member which qualifies for membership status in one or more of the following categories--

- (a) FCMs;
- (b) commercial firms;
- (c) CPOs;
- (d) CTAs;



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(e) commercial banks;

(f) IBs

---shall be deemed to be a Member for the purposes of Articles VII, VIII, and X only in that single category to which its business activities primarily relate. Each Member shall have one vote on all matters on which the Member's category is entitled to vote, except that a CPO, or CTA or IB Member shall not be entitled to vote in such category if:

- (a) it is an employee of an FCM Member;
- (b) an FCM Member or employee thereof holds a majority equity interest in the Member; or
- (c) the Member is otherwise directly or indirectly controlled by an FCM Member, except that an IB Member which has entered into a guarantee agreement with an FCM Member shall not be deemed for purposes of this Section to be directly or indirectly controlled by such FCM Member solely by reason of such agreement;

Provided, however, that such CPO, or CTA or IB Member shall be entitled to vote in any one of such other categories (e.g., FCM) in which it qualifies for membership status.

Amendments to Article VII, Sections 2 and 3

(Deletions are ~~stricken through~~; additions are underscored.)

ARTICLE VII: BOARD OF DIRECTORS

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Section 2: Composition of Board.

The Board of Directors shall be comprised as follows:

* * *

- (b) Futures Commission Merchant and Introducing Broker Representatives.
 - (i) ~~Fourteen (14)~~ Fifteen (15) elected representatives of registered Futures Commission Merchant (hereinafter "FCM") Members and registered Introducing Broker (hereinafter "IB") Members, divided into ~~three~~ four categories as follows:



- (A) Four (4) representatives of such FCMs having 1-15 offices.
- (B) Four (4) representatives of such FCMs having 16-50 offices.
- (C) Six (6) representatives of such FCMs having 51 or more offices.
- (D) One (1) representative of such IBs.

An FCM Member's offices shall include the offices of any affiliate through which offices the FCM Member conducts its FCM business.

- (ii) Not more than one-half of the total number of FCM representatives on the Board shall reside (as defined in Article XVIII) in the same NFA region. If more than one-half of the individuals receiving sufficient votes for election to the Board reside in the same NFA region, only the seven such individuals receiving the greatest number of votes among those individuals shall be elected, subject to the category apportionment requirements of paragraph (b)(i) above; the remaining seven FCM representatives on the Board shall be those individuals not within that region who receive the greatest number of votes among such individuals, subject to the category apportionment requirements of paragraph (b)(i) above: Provided, however, the prohibition on more than one-half of the FCM representatives residing in the same region shall not be applied to the extent it would create a vacancy or vacancies on the Board. Ties shall be resolved by the Board by random draw.
- (iii) The IB Director may reside in any NFA region.
- (iv) No FCM or IB shall have more than one representative on the Board at any one time. For purposes of this limitation, a person shall be deemed a representative of an FCM or IB Member if the person is an officer, director, partner, employee or beneficial owner of more than 10% of the equity stock of the FCM or IB, and the person is not a contract market representative.



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Section 3: Nominations; Elections.

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(b) Petition Procedure.

Nominations may be made for elected Director positions by:

- (i) Petition signed by 50 or more NFA Members in the category for which the nomination is made (i.e., FCM; IB; commercial firm; CPO; CTA; and commercial bank); or

* * *

Amendments to Article VIII, Section 3

(Deletions are ~~stricken through~~; additions are underscored.)

ARTICLE VIII: EXECUTIVE COMMITTEE

* * *

Section 3: Composition.

The Executive Committee shall be comprised of the following:

- (a) NFA's President, and
- (b) Nine (9) Directors, as follows:
 - (i) The Chairman of the Board of Directors, and
 - (ii) Eight (8) other Directors, as follows:
 - (A) Two (2) Directors representing contract markets:
 - (1) One (1) representative of a contract market with two (2) Directors on the Board; and



- (2) One (1) representative of a contract market that has one (1) Director on the Board and that is in a different region from the contract market represented in paragraph (1) above: Provided, however, if no contract market has two Directors on the Board, there shall be two Directors on the Committee from contract markets with one Director on the Board. Such Directors shall be from contract markets residing in different regions;
- (B) Three (3) Directors representing FCMs or IBs, except that no more than two (2) of the Directors may represent FCMs residing in the same region;
- (C) Two (2) Directors representing Industry Participants other than commercial banks, except that the Participants so represented must be from different categories of eligible Industry Participants (see Section 2(c)(i)(A)-(C) of Article VII) and must reside in different regions; and
- (D) One (1) Director who is a Public Representative.

Amendments to Article X, Sections 1 and 2

(Deletions are ~~stricken through~~; additions are underscored.)

ARTICLE X: NOMINATING COMMITTEE

Section 1: General.

There shall be a Nominating Committee, composed of ~~five (5)~~ six (6) Sub-Committees, one for each of the following categories of Members: FCMs; IBs; commercial firms; CPOs; CTAs; and commercial banks. Each Sub-Committee shall nominate one candidate for each position to be filled on the Board in the Sub-Committee's category, in accordance with the eligibility requirements of Article VII.



Section 2: Composition; Term of Members.

- (a) Each Sub-Committee of the Nominating Committee shall be composed of three (3) representatives of the Sub-Committee's category, except that:
- (i) The FCM Sub-Committee shall be composed of one (1) representative of FCMs with 1-15 offices, one (1) representative of FCMs with 16-50 offices, and one (1) representative of FCMs with 51 or more offices; and
 - (ii) The IB Sub-Committee shall be composed of three (3) representatives, including at least one (1) representative of IBs required to maintain minimum adjusted net capital and at least one (1) representative of IBs not required to maintain minimum adjusted net capital.
- (b) Each member of the Nominating Committee shall serve for a term of one year, or until the Annual Election in which there is at least one position to be filled on the Board in the category of the Sub-Committee on which such member serves.

Amendment to Article XI, Section 1

(Additions are underscored.)

ARTICLE XI: BYLAWS

Section 1: Adoption, Amendment and Repeal.

Bylaws of NFA may be adopted, amended or repealed by a majority of all Directors in office at the time, except that:

- (a) Category Voting.

The Board shall not take the following actions unless a majority of all Directors in each of the membership categories set forth in Section 2(a)-2(c) of Article VII (contract markets, FCMs and IBs, and Industry Participants) approves:



- (i) Delegating or otherwise granting authority to any NFA Committee, officer, employee or agent, or any other person, to adopt, amend or repeal any Bylaw.
 - (ii) Adopting, amending or repealing any Bylaw regarding dues or assessments; and
- (b) Contract Market Dues and Assessments.

No Bylaw regarding dues, assessments or similar charges imposed on contract market Members may be adopted, amended or repealed without the consent of all Directors representing contract markets.

Amendment to Article XVII

(Additions are underscored.)

**ARTICLE XVII: ADOPTION, AMENDMENT AND
REPEAL OF ARTICLES**

No provision of these Articles may be adopted, amended or repealed except in the manner prescribed in this Article. Each such proposed change to the Articles shall be reviewed by the Board, and shall be submitted to the Members of NFA only upon ratification of the proposal by two-thirds of the Directors in the category set forth in Section 2(a) of Article VII (contract markets), and a majority of the Board members in each of the two categories set forth in Sections 2(b) and 2(c) of that Article (FCMs and IBs, and Industry Participants). If any such proposed change relates to Article III, Section 2, such proposed change shall not be considered by the Board for ratification unless at least 60 days written notice of the proposed change has been given to each contract market Member. Upon such ratification, the proposal shall be submitted to a ballot vote of the Members and shall be adopted upon the affirmative vote of a majority of Members in each of the categories set forth in Sections 2(a) through 2(c) of Article VII.



Amendment to Article XVIII, Section (n)

(Additions are underscored.)

ARTICLE XVIII: DEFINITIONS

As used in these Articles-

* * *

- (n) "Introducing Broker" or "IB" - means an introducing broker as that term is used in the Commodity Exchange Act, and that is required to be registered as such under the Act and Commission Rules.

Amendments to Bylaws 406 and 503

(Additions are underscored.)

**CHAPTER 4
MEMBER MEETINGS AND ELECTIONS**

* * *

Bylaw 406. Elections.

Beginning with the calendar year of 1983, the Annual Election shall be held on the second Tuesday in January, at which the vacancies on the Board and Nominating Committee shall be filled. Before the October 15 preceding the election, the Secretary shall (i) notify all members in the FCM and IB and Industry Participant categories of the elected Directors and the members of the Nominating Committee whose terms will expire at the Annual Election and (ii) request the submission to the Nominating Committee of the names of eligible persons to fill those positions. Before the November 20 preceding the election, the Nominating committee shall submit its list of nominees for the positions to the Secretary, who shall promptly notify the Members of the nominations. Other nominations may be made by petition, as prescribed in the Articles. Each petition must identify the position to which the nomination pertains. Petitions must be received by the Secretary within 21 days of the issuance of the Secretary's notification of the candidates proposed by the Nominating Committee. Promptly after the expiration of the period within which petitions may be submitted, the Secretary shall cause written ballots to be sent to all FCM, IB and Industry Participant Members.



**CHAPTER 5
BOARD OF DIRECTORS**

* * *

Bylaw 503. Removal of Directors.

Any FCM, IB or Industry Participant Director may be removed by a majority of the Members eligible to elect the Director whenever, in their judgment, the best interests of NFA will be served thereby. Any Public Representative Director may be removed by a majority of the Board, under the same standard.

II. Explanation of the Articles and Bylaw Amendments

The purpose of the Amendments is to expand NFA's Board by the addition of one Introducing Broker ("IB") Director. When the CFTC originally approved NFA's Articles, the IB registration category had not yet been implemented. Although agents of FCMs existed at the time, it was not deemed necessary to allocate specific Board representation to such agents in view of the relationship such agents had to their FCMs. (There are 14 FCM Directors on the Board.) To the extent that that IB registration category (especially the category of guaranteed IB) is analogous to the prior "agent" category the FCM Directors could also be said to represent a segment of the IB membership as well. In addition, Directors who represent Industry Participants such as CPOs and CTAs may also be connected with IB Members. However, in view of the substantial role IB Members play in NFA's affairs the Board decided that it would be appropriate to add a Director who would specifically be elected from and by the IB Members.

In order to accomplish this, amendments to seven Articles and two Bylaws have been adopted:

Article VI: The amendment creates the IB membership category for voting purposes.

Article VII: The amendment expands the FCM category of Directors, which will now become the FCM and IB category and will include 15 representatives (14 FCM and 1 IB). The IB Director can be an independent or guaranteed IB and will be elected by the IB Members.



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- Article VIII: The amendment makes the IB Director eligible for membership on the Executive Committee.
- Article X: The amendment creates an IB Sub-Committee of the Nominating Committee.
- Article XI: The amendment places the IB Director in the FCM and IB category for category voting purposes, when category voting is required for the adoption, amendment or repeal of a Bylaw.
- Article XVII: The amendment conforms this Article to the categories established under Article VII. The IB Director will vote in the FCM and IB category on any future proposed change to the Articles, and IB Members will vote in the FCM and IB category if such a change is submitted for a ballot vote of the membership.
- Article XVIII: The amendment to this definitional section includes the abbreviation "IB" for Introducing Broker.
- Bylaw 406: The amendment conforms this Bylaw to the categories established under Article VII.
- Bylaw 503: The amendment conforms this Bylaw to the categories established under Article VII.

NFA respectfully requests the Commission to declare the proposed amendments effective upon approval by the Commission, as authorized by Section 17(j) of the Act.

Very truly yours,

Joseph H. Harrison
Vice President, General Counsel
and Secretary

kd/kp(d4-f2)

cc: Chairman Susan M. Phillips
Commissioner Kalo A. Hineman
Commissioner Fowler C. West
Commissioner William E. Seale
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UNITED STATES OF AMERICA
COMMODITY FUTURES TRADING COMMISSION

2033 K Street, N.W.
Washington, D.C. 20581



February 10, 1986

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General Counsel
National Futures Association
200 West Madison Street
Chicago, Illinois 60606

Re: Amendments to National Futures Association Article VI, Section 2; Article VII, Sections 2 and 3; Article VIII, Section 3; Article X, Sections 1 and 2; Article XI, Section 1; Article XVII; Article XVIII, Section (n); and Bylaws 406 and 503

Dear Mr. Harrison:

This is to inform the National Futures Association that on February 7, 1986, the Commission approved the captioned NFA rule proposals, which all relate to representation of introducing broker-members in the governance of NFA. These proposals were submitted for Commission review and approval pursuant to Section 17(j) of the Commodity Exchange Act by a letter from you dated November 21 and received by the Commission on December 2, 1985.

Very truly yours,

Jean A. Webb
Jean A. Webb
Secretary of the Commission

COPY TO:

OFFICERS
LEGAL STAFF
L. NORDSTROM

