GLOBAL MARKETS
TECHNOLOGY DRIVEN
DYNAMIC REGULATION

NFA

2016 ANNUAL REVIEW

2016 Annual Review

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A Letter from NFA's President & CEO

Dear NFA Member,

The process of preparing an Annual Review typically involves looking back over the past year to highlight an organization's accomplishments. Given that I announced my plans to retire, I've been rather reflective, looking back over the past several years during my time as NFA's President. This time has been filled with tremendous regulatory challenges, some disappointing setbacks and many gratifying successes.

Our achievements throughout the years have convinced the CFTC to continue to delegate expanding regulatory responsibilities to NFA. We have grown tremendously, not only in the scope of our activities but also in stature within the financial services industry. NFA today is a much different organization than it was just a few years ago.

The main driving forces impacting NFA's growth over the past decade include Dodd-Frank, OTC retail forex, an influx of commodity pool operators (CPO), and technology. Of all the forces that have reshaped NFA, the one with likely the most impact was Dodd-Frank and the regulatory framework put in place to oversee an entirely new category of NFA Members—swap dealers. We also played a significant role in reducing the regulatory gap associated with OTC retail forex trading. NFA, with the CFTC, established registration requirements, developed rules and took a number of significant enforcement actions to further our mission to protect customers. With the influx of CPOs, we embraced technology to minimize the regulatory costs associated with a 50 percent increase in CPOs, a tripling of the number of commodity pools and an increase in net asset value of these pools to more than $2 trillion. Finally, during my tenure as NFA's President, the sophistication, impact and scale of cyber-attacks have evolved significantly resulting in cybersecurity becoming a top priority to ensure our data and systems are protected.

NFA's growth would not have been possible without the hard work of its qualified and experienced staff. Ten years ago we had a staff of about 250; today, as our responsibilities continue to grow, we have a staff of over 500. I've had the honor of spending more than 30 years working with this talented and diverse group of professionals who are dedicated to safeguarding market integrity.

In closing, I'd like to recognize our Members, Board of Directors and Executive Committee who have been instrumental in establishing NFA's goals and direction and contributing to NFA's success. I'm proud of all that NFA has achieved, and look forward to seeing all that NFA continues to accomplish under new leadership.

Thank you,

Daniel J. Roth
President and CEO

A Letter from NFA's Chairman

Dear NFA Member,

As a result of Dan Roth's announcement last spring to retire as NFA's President and CEO, one of my most important responsibilities as NFA Chairman has been to work with the Board to develop and implement a rigorous process to identify a strong successor.

In recognizing our mutual stake in this important undertaking, I wanted to share with you an overview of our search process. The Board's first step was to authorize the formation of a search committee to recommend a candidate to serve as NFA's next President and CEO. The search committee was made up of representatives from each membership category, public directors and former NFA Chairmen and Board members. Each committee member has extensive knowledge of our markets and NFA's important regulatory role.

The committee followed a disciplined, structured and thorough process to evaluate internal and external candidates. The search committee engaged an executive search firm with extensive experience working in the financial services and regulatory sectors to assist in this important task. After a rigorous process that considered many excellent candidates, the search committee unanimously recommended Thomas Sexton to serve as NFA's President and CEO. NFA's Board of Directors unanimously approved this appointment at its November meeting, and Tom's new role will be effective March 1, 2017.

Tom joined NFA in 1991 and has been NFA's General Counsel for the past 15 years. He has been exposed to every facet of NFA's operations. After going through a robust search process, the Board is even more confident that Tom is the right person to ensure that NFA fulfills its expanding regulatory responsibilities and addresses the new challenges in the years ahead. His deep understanding of the derivatives market and its regulatory framework will benefit NFA as it continues to evolve under his leadership. I look forward to working with Tom, and can't think of anyone more qualified for this role.

Finally, I'd like to thank Dan for his more than 30 years of service to NFA. He has been central to NFA's growth and success, and under his leadership, NFA has never been stronger in its regulatory role of safeguarding market integrity and protecting investors. I've been very fortunate to have worked with Dan and wish him all the best in his retirement and wish Tom much success in his new role.

Sincerely,

Michael C. Dawley
Chairman of the Board

Margin for Uncleared Swaps

In January 2016, the CFTC published its margin requirements for uncleared swaps of swap dealers (SD). These requirements allow SDs subject to the CFTC's margin rules (CFTC Covered SD) to choose between using a standardized grid-based calculation for initial margin or an internal risk-based initial margin model approved by the CFTC or NFA.

In order to develop the margin model approval process, NFA had numerous discussions with the CFTC, prudential regulators, ISDA, and SD Member firms. To implement the model approval process, NFA hired senior staff with extensive quantitative skills and engaged an external consultant with experience in risk model evaluation. NFA reviewed margin model proposals for compliance with the relevant CFTC requirements.

Subsequent to a margin model's approval, NFA will oversee CFTC Covered SDs by, at a minimum, reviewing the overall governance around the model and its use, analyzing margin model back-tests, and monitoring for compliance with margin regulations.

To help Members understand the review and approval process for margin models, NFA held a webinar on May 3, 2016. To view the recorded webinar, download the presentation slides, or download a transcript, please visit NFA's website, www.nfa.futures.org.

Streamlining the Section 4s Review Process

As part of the SD registration process, each SD must submit documentation demonstrating the ability to comply with CFTC Regulations Implementing Section 4s of the Commodity Exchange Act (4s submissions). These 4s submissions are voluminous and often include hundreds or thousands of pages of detailed policies and procedures.

Reviewing each set of policies and procedures numerous times is a lengthy process. Therefore, this year, NFA worked closely with the CFTC to modify the review process to bring efficiencies and reduce the review time. These modifications, which were implemented in January, are intended to reduce the number of re-submissions, which will streamline the review process for both NFA staff and SDs without any corresponding loss of regulatory benefit.

Swap Valuation Disputes

In January 2016, the CFTC issued an Order delegating to NFA certain responsibilities related to swap valuation disputes in excess of $20 million. Under the Order, NFA is authorized to receive, review, maintain, and serve as custodian of record for these swap valuation dispute notices. NFA began receiving swap valuation dispute filings in March 2016.

In order to prepare for the receipt of swap valuation dispute filings, NFA issued three Notices to Members detailing the filing requirements and the filing logistics.

Enforcement Actions

Enforcement of NFA rules is critical to the effectiveness of the self-regulatory process. In the past fiscal year:

- NFA's Executive Committee issued two member responsibility actions/associate responsibility actions to protect investors.
- NFA's Business Conduct Committee issued 21 Complaints against 39 respondents. A number of these cases involved Members and Associates who failed to cooperate with NFA, failed to maintain an adequate risk management program, or lied to NFA.
- NFA's disciplinary panels issued 28 Decisions, and ordered 22 expulsions and 11 suspensions.
- NFA collected nearly $700,000 in fines.

NFA regularly meets with the U.S. Department of Justice's Securities and Commodities Fraud Working Group, local law enforcement, the U.S. Attorney's Office, the Federal Bureau of Investigations, the U.S. Postal Inspector's Office, the CFTC regional office, and the Illinois Department of Securities. In the last five years, NFA's work with these agencies has resulted in significant prison sentences for nearly 25 individuals, including sentences of 20 years.

Market Regulation

Electronic Audit Trail Review Program

The CFTC's core principles for both designated contract markets (DCM) and swap execution facilities (SEF) require that DCMs and SEFs enforce their audit trail and recordkeeping requirements through, at a minimum, annual reviews of all market participants. As part of NFA's Market Regulation services, both DCMs and SEFs may request that NFA perform audit trail and recordkeeping reviews. In Fiscal Year 2016, NFA sought input from the CFTC and a number of exchanges, and developed the systems and procedures needed to begin these reviews. ■

Modified FCM Examination Program

Amendments to CFTC Regulation 1.52 require NFA and CME Group's examination program for futures commission merchants (FCM) to meet applicable standards set by the Public Company Accounting Oversight Board. During the past year, the proposed examination standards were accepted by the CFTC and the FCM examination program was updated using these standards. CFTC Regulation 1.52 also requires an examination expert to prepare a report evaluating the updated FCM examination program. The examination expert reviewed the final FCM examination program and determined that it addressed all of the necessary requirements. The CFTC reviewed the examination expert's report and accepted the updated FCM supervisory program for use. ■

To help FCM Members understand the modifications to the FCM examination program, NFA held Member workshops in Chicago and New York in June 2016.

On-Site Examinations in the U.K.

Over the past three years, the number of non-U.S. NFA Members has grown steadily to approximately 600 Members, the majority of which are commodity pool operators (CPO) and commodity trading advisors (CTA). One major impetus for this growth is the CFTC's 2012 rescission of certain exemptions from CPO and CTA registration. Since approximately one-third of these non-U.S. Members are located in the U.K., NFA completed its first set of on-site CPO and CTA examinations in the U.K. Historically, NFA has performed remote off-site examinations of these firms, but as these Members grow in number and size, NFA determined on-site examinations would be more effective.

International Education

NFA provided training to Members and other regulators in London, Malta, Amsterdam, Dublin and Madrid. Topics covered a variety of areas. For example, in Malta, NFA staff delivered a two-day forex training seminar to the Malta Financial Services Authority, covering the history of retail OTC forex regulation, CFTC registration and NFA membership, regulatory requirements, oversight programs, and disciplinary actions. At the International Organization of Securities Commissions' (IOSCO) annual training program in Madrid, NFA staff addressed investor education and protection topics to over 100 international regulators. In addition, NFA delivered presentations regarding NFA's regulatory responsibilities to more than 60 international delegates who visited NFA throughout the year.

NFA also continues to be increasingly involved in the work of IOSCO. NFA was recently appointed to the role of Vice Chairman of IOSCO's Affiliate Members Consultative Committee (AMCC). The AMCC is comprised of 65 members, representing securities and derivatives markets and other market infrastructures, self-regulatory organizations, investor protection funds, compensation funds and trade associations. In its capacity as a consultative committee, it provides input into the IOSCO policy and standard-setting work. NFA contributed to a number of IOSCO reports during the year, with topics ranging from fintech to retail forex.

NFA Dashboard

To enhance both usability and efficiency, in February 2016, NFA launched the NFA Dashboard, the new entryway to NFA's Online Registration System (ORS). ORS is one of NFA's largest and most critical applications, which allows firms and individuals to register with the CFTC and apply for NFA membership.

The NFA Dashboard is the first deliverable in a multi-year, multi-phase rebuild of ORS. The Dashboard serves as the initial launch point for the new ORS, and replaces the old ORS homepage. The single screen summarizes a firm's periodic and outstanding registration and compliance filing requirements so firms can quickly see what is required and address open items more directly. The new Dashboard also provides easy navigation to other electronic filing systems. To guide the development of the Dashboard, NFA collected feedback from various user groups, most notably NFA Members.

The day before the Dashboard launched, NFA held a webinar for ORS users. More than 800 people participated in the webinar and participants submitted nearly 75 questions, which NFA answered live during the presentation or by email after the program.

FACTS Rebuild

NFA continued the multi-year rebuild of its FACTS system, which is NFA's primary analytical system used to monitor a number of regulatory requirements and the cornerstone application for both futures and swaps compliance. To date, NFA has completely rebuilt the system infrastructure that supports various financial filings and has extended this infrastructure to also address new swaps-related items such as swap valuation disputes and margin model approvals. In addition, NFA developed an entirely new subsystem to facilitate the organization of open regulatory issues so they can be more effectively tracked and remediated.

Governance: Amendments to NFA's Articles of Incorporation

NFA amended its Articles of Incorporation to change the structure and composition of NFA's Board of Directors, reducing the size of the Board from 37 to 29 Directors. These amendments were approved by the CFTC in October 2015 and the new Board structure was put in place in February 2016, at the Board's regular annual meeting. This streamlined Board structure will allow NFA's Board of Directors to continue to function both efficiently and effectively.

Cybersecurity Guidance for Members

Given the sensitive nature of customer data that Member firms possess and the growing risks associated with cyber breaches, NFA worked closely with its Board and the CFTC to develop guidance requiring Members to adopt and enforce procedures to secure both customer data and access to their electronic systems. In March 2016, NFA's Cybersecurity Interpretive Notice became effective and applies to all membership categories. This Notice requires Member firms to adopt and enforce written policies and procedures to secure customer data and access to their electronic systems.

NFA recognizes that a one-size-fits-all approach will not work for the application of these requirements. The Cybersecurity Interpretive Notice adopts a principles-based risk approach to allow Member firms some degree of flexibility in determining what constitutes "diligent supervision," given the differences in Members' size and complexity of operations, the make-up of customers and counterparties serviced by Members, and the extent of Members' interconnectedness. However, the Cybersecurity Interpretive Notice does require each Member to adopt and enforce an information systems security program (ISSP) appropriate to its circumstances.

To assist Members as they develop and implement their ISSPs, NFA held three regulatory workshops in early February 2016 in Chicago, New York and Los Angeles. The half-day workshops, presented by NFA staff, cybersecurity experts, and other derivatives professionals, focused on NFA's Interpretive Notice, ISSP development, lessons learned from a panel of experts, and what to expect during NFA's examination process. A recording of the Chicago workshop can be found on NFA's website. NFA also added a new Cybersecurity section to the Self-Examination Questionnaire to assist Members in developing and implementing a written ISSP that complies with the Cybersecurity Interpretive Notice.

Cybersecurity at NFA

Cybersecurity threats continue to advance at a seemingly alarming rate. As cyber threats evolve, NFA continues to implement major initiatives to ensure that NFA's defenses are dynamic, agile and proactive. Cybersecurity is of primary importance to NFA. To safeguard important Member information and its systems, NFA deploys defenses and trains staff on the importance of cybersecurity vigilance. Given the general escalation in security threats and the challenges they pose, NFA annually engages an independent third-party examiner to perform an in-depth review of NFA's security operations and infrastructure. This security assessment evaluates the effectiveness of ongoing security efforts, and most importantly, helps identify areas of improvement. ■

Registration

NFA screens all firms and individuals wishing to register with the CFTC and become NFA Members. In Fiscal Year 2016, NFA's Registration Department processed more than 540 firm registrations and approximately 9,600 individual registrations.

Information Center

During the past fiscal year, NFA's Information Center—a service NFA offers to Members and the investing public—received more than 27,000 calls.

Fitness Investigation Cases

NFA's Fitness Group opened more than 1,780 cases in the past year. These fitness investigation cases are due to fingerprint card results, answers to a disciplinary history question on the application, or regulatory information obtained during NFA's background checks.

Restitution

NFA's restitution program disbursed more than $750,000 to more than 1,800 harmed investors in Fiscal Year 2016. Because NFA does not charge fees for administering this restitution service, fraud victims are returned the maximum amount of money possible. Over the life of the restitution program, NFA has distributed more than $33 million to over 12,000 harmed investors.

BOARD OF DIRECTORS

Michael C. Dawley*
Chairman of the Board
Managing Director
Goldman Sachs & Co.

Maureen C. Downs*
Vice-Chairman of the Board
President
Rosenthal Collins
Group LLC

Leo Melamed
Permanent Special Advisor to the Executive Committee & Board of Directors
Chairman Emeritus
CME Group, Inc.
Chairman & CEO
Melamed & Associates

Futures Commission Merchants

Gerald F. Corcoran*
Chief Executive Officer
R.J. O'Brien &
Associates LLC

Scott A. Cordes
President
CHS Hedging LLC

Michael C. Dawley*
Managing Director
Goldman Sachs & Co.

Maureen C. Downs*
President
Rosenthal Collins
Group LLC

Antonio Reyes Miras
Managing Director Americas
Head-Futures, Clearing and Collateral
Citigroup Global Markets, Inc.

Commodity Pool Operators & Commodity Trading Advisors

Douglas L. Bry*
Senior Strategist
Welton Investment
Partners LLC

Adam C. Cooper
Senior Managing Director and Chief Legal Officer
Citadel

Ernest L. Jaffarian*
CEO/CIO
Efficient Capital
Management LLC

Brendan R. Kalb
Managing Director and General Counsel
AQR Capital Management LLC

Contract Market Directors

Mark G. Bagan
President and Chief Executive Officer
Minneapolis Grain Exchange

David S. Goone*
Senior Vice President and Chief Strategic Officer
IntercontinentalExchange, Inc.

John F. Sandner*
Special Policy Advisor
Retired Chairman of the Board
CME Group, Inc.

Public Representatives

Andrea M. Corcoran
Principal
Align International LLC

Ronald H. Filler*
Professor of Law
New York Law School

Douglas E. Harris*
Managing Director
Promontory Financial Group LLC

Jim Marshall
Washington, D.C.

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Founder and Chief Executive Officer
McDonnell & Associates

Michael H. Moskow*
Vice Chair and Distinguished Fellow
The Chicago Council on Global Affairs

Charles P. Nastro
New York, N.Y.

Ronald S. Oppenheimer*
Senior Vice President and General Counsel
Vitol, Inc.

Todd E. Petzel*
Chief Investment Officer
Offit Capital Advisors LLC

Michael R. Schaefer
New York, N.Y.

Swap Dealers & Major Swap Participants

Robert P. Burke
Managing Director
Bank of America Merrill Lynch

Charlotte B. McLaughlin*
President and Chief Executive Officer
PNC Capital Markets LLC

Philip A. Olesen
Managing Director and Global Head of Credit Trading
UBS Securities LLC

Don Thompson*
Managing Director and Associate General Counsel
JPMorgan Chase & Co.

Sheryl M. Wallace
Corporate Vice President, Global Leader Risk Management Group
Cargill, Incorporated

Introducing Brokers

Michael T. Burke
Chief Executive Officer
HighGround Trading LLC

Paul J. Georgy
President
Allendale, Inc.

**Member of the Executive Committee*

2016 FINANCIALS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
National Futures Association

We have audited the accompanying financial statements of National Futures Association, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of unrestricted revenues, expenses and changes in unrestricted net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Futures Association as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois
October 26, 2016

National Futures Association

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

Assets	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 18,053,071	$ 57,226,266
Short-term investments	79,858,500	59,170,028
Assessments receivable	2,651,454	2,325,461
Other current assets, net	2,450,326	1,657,953
Total current assets	**103,013,351**	**120,379,708**
FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE, NET	17,008,124	17,737,624
LONG-TERM INVESTMENTS	15,013,470	
OTHER ASSETS	13,875	800,601
TOTAL ASSETS	**$135,048,820**	**$138,917,933**

Liabilities And Unrestricted Net Assets		
CURRENT LIABILITIES		
Unearned dues and fees	$ 4,338,364	$ 5,741,830
Accounts payable, accrued expenses and other current liabilities	5,124,512	4,280,275
Total current liabilities	**9,462,876**	**10,022,105**
DEFERRED RENT CREDIT	5,090,486	5,924,457
OTHER LONG-TERM LIABILITIES	8,437,632	7,894,575
Total liabilities	**22,990,994**	**23,841,137**
UNRESTRICTED NET ASSETS	112,057,826	115,076,796
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	**$135,048,820**	**$ 138,917,933**

The accompanying notes are an integral part of these statements.

National Futures Association

STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND CHANGES IN UNRESTRICTED NET ASSETS

Years ended June 30, 2016 and 2015

	2016	2015
UNRESTRICTED REVENUES		
Assessments	$ 27,337,946	$ 33,200,717
Membership dues	39,895,220	43,687,984
Registration and other fees	2,558,593	4,659,711
Regulatory services outsourcing	9,024,525	10,347,300
Investment income	827,606	913,458
TOTAL UNRESTRICTED REVENUES	**79,643,890**	**92,809,170**
UNRESTRICTED EXPENSES		
Salaries, wages and employee benefits	59,844,094	56,465,441
Space rental and related expenses	3,487,807	3,280,979
Travel and meetings	3,132,028	3,086,588
Computer expenditures	2,112,794	1,905,103
Depreciation and amortization	7,252,628	6,074,577
Outside consulting fees and services	3,160,990	2,791,455
Supplies, postage and telephone	252,042	304,774
Outside printing and publications	52,418	83,591
Board and committee fees and expenses	774,159	659,085
Insurance, recruiting, education, dues and other	2,593,900	1,996,272
TOTAL UNRESTRICTED EXPENSES	**82,662,860**	**76,647,865**
CHANGE IN UNRESTRICTED NET ASSETS	**(3,018,970)**	**16,161,305**
Unrestricted net assets at beginning of year	115,076,796	98,915,491
Unrestricted net assets at end of year	$112,057,826	$115,076,796

National Futures Association

STATEMENTS OF CASH FLOWS

Years ended June 30, 2016 and 2015

	2016	2015
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	$ (3,018,970)	$ 16,161,305
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Net unrealized gain on investments	(135,966)	(289,939)
Depreciation and amortization	7,252,628	6,074,577
Changes in assets and liabilities		
Assessments receivable	(325,993)	2,152,531
Other assets	(5,647)	2,536,808
Unearned dues and fees	(1,403,466)	(2,992,198)
Accounts payable, accrued expenses and other liabilities	1,387,294	(810,966)
Deferred rent credit	(833,971)	(813,618)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**2,915,909**	**22,018,500**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets and software	(6,523,128)	(6,934,164)
Purchase of investments	(35,565,976)	(6,192,304)
NET CASH USED IN INVESTING ACTIVITIES	**(42,089,104)**	**(13,126,468)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(39,173,195)**	**8,892,032**
Cash and cash equivalents at beginning of year	57,226,266	48,334,234
Cash and cash equivalents at end of year	$ 18,053,071	$57,226,266

The accompanying notes are an integral part of these statements.

NOTE A

ORGANIZATION

The Commodity Futures Trading Commission has designated National Futures Association (the Association) as a registered futures association. Among the Association's activities are qualification screening and registration, financial and trade practice surveillance, enforcement of customer protection rules and uniform business standards, arbitration of disputes and educational activities. The Association is primarily financed through the payment of assessments and dues by its members and registration fees by registrants.

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Rules

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, as a new topic, Accounting Standards Codification (ASC) Topic 606. The objective of ASU No 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new standard, companies will perform a five-step analysis of transactions to determine when and how revenue is recognized. ASU No. 2014-09 applies to all contracts with customers, except those that are within the scope of other topics in the FASB ASC. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of ASU No. 2014-09 by one year. ASU No. 2015-14 is effective for the Association for fiscal year 2019 and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is not permitted. The Association is currently evaluating the new guidance and has not determined the impact that this standard may have on the financial statements or decided upon the method of adoption.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Association for fiscal year 2021. Early adoption is permitted. The Association is currently evaluating the new guidance and has not determined the impact that this standard may have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment return, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires a not-for-profit to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for the Association for fiscal year 2019. Early adoption is permitted and entities are required to adopt the guidance retrospectively, but, if comparative financial statements are presented, they have the option to omit certain information for any periods presented that are prior to the period of adoption. The Association is currently evaluating the new guidance and has not determined the impact that this standard may have on the financial statements.

Use of Estimates

The financial statements of the Association have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Assessments

Assessments are reported monthly and are due within 30 days. Assessments are recognized as revenue in the month to which they apply. Amounts reported but not yet collected are recognized as assessments receivable on the accompanying statements of financial position.

Membership Dues

Membership dues are non-refundable and are recognized as revenue on a pro rata basis over each member's membership year. Amounts received but not yet earned are recognized in unearned dues and fees on the accompanying statements of financial position.

Registration Renewal Fees

Registration renewal fees are non-refundable and are recognized as revenue on a pro rata basis over each registrant's renewal period. Amounts received prior to the event are recognized in unearned dues and fees on the accompanying statements of financial position.

Regulatory Services Outsourcing

Regulatory services outsourcing revenue relates to the Association's trade practice and market surveillance services. This revenue consists of non-refundable start-up fees and monthly maintenance fees for ongoing services for each customer. Fees are used by the Association to purchase hardware and software necessary toperform surveillance services for a given customer and are recognized as revenue when paid by the customer. Monthly fees for ongoing surveillance and other regulatory services are recognized as revenue on a monthly basis as services are performed.

Furniture, Fixtures, Equipment & Leasehold Improvements

The Association capitalizes individual purchases greater than $1,000 and group purchases greater than $10,000.

Furniture, fixtures, equipment and leasehold improvements are depreciated over three to seven years or the term of the lease, if applicable, on a straight-line basis. The Association uses the half-year convention so that the first and last years of depreciation and amortization are one-half the straight-line amount and all middle years are in direct proportion to the useful life of the capitalized item. Additionally, the Association has artwork that is considered non-depreciable, included in note E, valued at $296,680 for 2016 and $286,830 for 2015.

Purchased Software

Purchased software is included in fixed assets and is capitalized and amortized over three years on a straightline basis using the half-year convention.

Software Design and Development Costs

Software design and development costs consist of salaries and benefits of the Association's personnel involved in projects to develop software for internal use. Software design and development costs incurred in the preliminary stage of a project, as well as training and maintenance costs, are expensed as incurred. Software design and development costs associated with the application development stage of software projects are capitalized until such time as the software is substantially complete and ready for its intended use. Capitalized software design and development costs are amortized over three years on a straight-line basis using the halfyear convention.

Deferred Rent Credit

Due to the terms of the Association's primary office space leases, a deferred rent credit was generated. The deferred rent credit is amortized over the remaining terms of the respective leases, which range from one to twelve years. The Association has computed an average monthly rental for the entire term of each lease and charges this amount to rental expense each month. The difference between the average monthly rental and the actual monthly rental payment is accounted for as either an increase or reduction of the deferred rent credit on the accompanying statements of financial position.

Allowance for Doubtful Accounts

The allowance for doubtful accounts, which is related to membership dues receivable, registration revenue receivable and regulatory fines, is maintained at a level that management deems adequate to provide for estimated uncollectible receivables and is based on the length of time receivables have been outstanding, historical experience and an assessment of business economic conditions. At June 30, 2016 and 2015, the allowance for doubtful accounts is $62,725 and $82,695, respectively. This allowance is a reduction of receivables, which are included in other current assets, net on the accompanying statements of financial position.

Fair Value Measurements

The FASB has issued guidance that defines fair value, establishes a framework for measuring fair value, stablishes a fair value hierarchy based on the inputs used to measure fair value and specifies disclosure requirements for fair value measurements. This guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1—Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2—Pricing inputs are other than quoted prices in active markets for identical assets or liabilities, which are either directly or indirectly observable as of the report date. These securities include investments for which quoted prices are available but are traded in an inactive market or investments that are fairly valued using other securities, the inputs for which can be directly observed.

Level 3—Securities that are valued using significant unobservable inputs. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

NOTE B (continued)

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable requires significant judgment by the Association. The Association considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based on the pricing transparency of the instrument and does not necessarily correspond to the Association's perceived risk of that instrument.

All of the Association's investments have values that are based on quoted market prices in active markets and are therefore classified as Level 1. These investments include equity and fixed income mutual funds. The Association does not adjust the quoted price for such instruments, even in situations where the Association may hold a large position and a sale could reasonably impact the quoted price.

Federal Income Taxes

The Association has received a favorable determination letter from the Internal Revenue Service (IRS) stating that the Association is exempt from federal income taxes under the provisions of Section 501(c)(6) of the Internal Revenue Code of 1986, except for income taxes pertaining to unrelated business income. The FASB issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined that there are no material uncertain positions that require recognition in the financial statements, and has properly accrued a provision for excise taxes. There is no interest or penalties recognized in the statements of unrestricted revenues, expenses and changes in unrestricted net assets. The tax years ended 2012, 2013, 2014 and 2015 are still open to audit for both federal and state purposes.

NOTE C

CASH AND CASH EQUIVALENTS

The Association considers investments with an original maturity of less than three months to be cash equivalents. The Association maintains cash balances at financial institutions insured by the Federal Deposit Insurance Corporation up to $250,000. At times, the balances in these accounts may exceed the insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

NOTE D

INVESTMENTS

The Association's investment portfolio is classified on the statements of financial position as short-term and long-term investments. Short-term investments consist of securities with maturity dates of one year or less. Long-term investments consist of securities with maturity dates greater than one year. Also included as shortterm investments is the Association's investment in equity and fixed income mutual funds.

The aggregate fair value of short-term investments by major type as of June 30, 2016 and 2015, is as follows:

	2016	2015
SHORT TERM INVESTMENTS		
U.S. Treasury securities	$19,992,640	
Developed Markets Index Fund	2,564,510	2,804,313
Extended Markets Signal Index Fund	2,935,830	3,103,809
Short Term Treasury Fund	47,846,813	46,992,283
S&P 500 Index Mutual Fund	6,518,707	6,269,623
Total short-term investments	**79,858,500**	**59,170,028**
LONG TERM INVESTMENTS		
U.S. Treasury securities	15,013,470	
TOTAL INVESTMENTS	**$94,871,970**	**$59,170,028**

For its four mutual funds, the Association immediately reinvests all interest income, dividend income and capital gains back into the funds. U.S. Treasury securities are held to maturity.

For the years ended June 30, 2016 and 2015, the activities in the funds and the self-directed securities were as follows:

	2016	2015
Interest income	$691,634	$623,479
Net unrealized gain	135,966	289,939
TOTAL INVESTMENT RETURN	**$827,600**	**$913,418**

NOTE E

FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE

At June 30, 2016 and 2015, furniture, fixtures, equipment, leasehold improvements and software, and the related accumulated depreciation and amortization, are as follows:

	2016	2015
Furniture and fixtures	$ 2,280,505	$ 2,278,210
Equipment	6,757,688	6,376,406
Leasehold improvements	11,510,581	11,508,909
Software	13,467,008	10,682,835
Total furniture, fixtures, equipment, leasehold improvements and software	**34,015,782**	**30,846,360**
Less accumulated depreciation and amortization	17,007,658	13,108,736
FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE, NET	**$17,008,124**	**$17,737,624**

NOTE F

COMMITMENTS AND CONTINGENCIES

The Association leases office space in Chicago and New York. The current Chicago lease expires on August 31, 2023. The new lease for the New York office expires on June 30, 2023.

The following is a schedule of future payments under both of the operating leases and the disaster recovery service contract that have remaining non-cancellable payment terms as of June 30, 2016:

Years ending June 30	
2017	$ 2,874,943
2018	2,912,157
2019	2,950,339
2020	3,288,482
2021	3,508,882
Thereafter	9,147,116
TOTAL OPERATING LEASE COMMITMENTS	**$24,681,919**

In the normal course of business, the Association is, at times, involved in pending legal proceedings. Management, after consultation with outside legal counsel, believes that the resolution of current proceedings will not have a material effect on the Association's net assets.

EMPLOYEE BENEFIT PLANS

The Association sponsors an Employee Retirement Savings Plan (the Savings Plan). Contributions to the Savings Plan of up to 100% of employees' compensation can be made through payroll deductions, subject to IRS elective deferral limits. The Association will match employee contributions up to 6% of the employee's eligible compensation. The Association may also contribute to the Savings Plan an additional profit-sharing contribution expressed as a percent of the calendar year's compensation of participants who are employed on the last day of the calendar year. A profit-sharing contribution for 2015 of $2,035,202 was made in 2016. A profit-sharing contribution for 2014 of $1,864,445 was made in 2015. Employees are eligible to participate in the Savings Plan upon their date of hire. Employee contributions and any vested employer contributions are payable upon termination or retirement as stipulated in the Savings Plan.

The Association also sponsors the National Futures Association Retiree Medical Benefits Plan (the Plan) for the benefit of the Association's retirees and their eligible spouses/domestic partners and dependents. Effective January 1, 2016, employees who retire from the Association on or after attaining age 55 and who have at least 10 years of full-time service with the Association since their 45th birthday are entitled to receive benefits from the Plan.

For eligible retirees, automatically upon retirement, the Association will establish a Retiree Health Reimbursement Account (HRA). A retiree's spouse or domestic partner at the time of retirement will also be eligible to receive an HRA of equal value to the retiree's HRA (a partner HRA). The Association will make a one-time, notional contribution to the HRA and partner HRA. The amount allocated to the HRA and the partner HRA, if applicable, is based on years of service (YOS) with the Association after age 45 and the indexed credit for the year of retirement.

The HRA benefit is calculated as follows:

[Indexed Credit $ Amount] x [NFA YOS after age 45 (maximum of 20)] = HRA Account Value

Prior to 2016, eligible retirees received reimbursement for the cost of medical coverage orMedicare supplement coverage, limited by an indexed YOS percentage.

At June 30, 2016 and 2015, the actuarial and recorded liabilities for the Plan, none of which has been funded, and the net periodic post-retirement benefit cost and benefits paid for the Plan that are included in other longterm liabilities, were as follows:

	2016	2015
AMOUNTS RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION		
Accumulated post-retirement benefit obligations	$(7,451,499)	$(6,179,188)
Unrecognized prior service cost	(2,458,295)	(2,763,787)
Unrecognized net loss	1,548,842	1,051,389
Unrecognized transition obligation		
ACCRUED POST-RETIREMENT BENEFIT COST	**$(8,360,952)**	**$(7,891,586)**

The estimated net periodic post-retirement benefit cost for the Plan for the year ended June 30, 2016, is $548,128. The breakdown of the cost is as follows:

Net periodic post-retirement benefit cost	
Service cost	$ 533,638
Interest cost	271,359
Amortization of transition obligation	(305,492)
Net loss amortization	48,623
TOTAL NET PERIOD POST-RETIREMENT BENEFIT COST	**$ 548,128**

The accumulated post-retirement benefit obligation was determined using an assumed weighted-average discount rate of 3.25% at June 30, 2016, and 4.10% at June 30, 2015. The rate of increase in the gross cost of covered health care benefits was assumed to be 6.00% for fiscal year 2016. The rate of increase is assumed to decline by 0.25% for each year after 2016, to 5.00% in 2020 and after.

The Association also participates in the purchase of life insurance on behalf of certain executive officers (Executives) as part of the National Futures Association split-dollar life insurance plan (the Split-Dollar Plan). The purpose of the Split-Dollar Plan is to provide participating Executives with an insured death benefit during employment and after retirement. The insurance policy also allows for capital accumulation through the buildup of cash value. Upon termination of employment, death or maturity of the policy, the Association receives cash value equal to the cumulative premium paid by the Association. As of June 30, 2016 and 2015, the cumulative premium paid on behalf of the Executives is $572,237 and $786,726, respectively, and is classified in current receivables and other assets respectively, and on the accompanying statements of financial position.

NOTE H

DEFERRED RENT CREDIT

Effective January 2008, the Association executed a 12-year operating lease for office premises in Chicago. In December 2011, the Association extended its Chicago lease by 44 months, through August 2023. The Association's New York office relocated in November 2013 and a new lease has been entered into for this space through May 2023. The leases include rent incentives and, accordingly, the Association recognizes such abatement as an adjustment to a deferred rent credit over the terms of the lease on a straight-line basis. The total deferred rent credit at June 30, 2016 and 2015, was $5,924,458 and $6,689,069, respectively, of which $833,972 and $764,612, respectively, are included in accounts payable, accrued expenses and other current liabilities on the accompanying statements of financial position.

For the years ended June 30, 2016 and 2015, the Association's rent expense was as follows:

	2016	2015
Cash payments for rent	$3,812,043	$ 3,571,299
(Less) add amortization of deferred rent credits	(764,612)	(756,587)
RENT EXPENSE	**$3,047,431**	**$2,814,712**

NOTE I

SUBSEQUENT EVENTS

The Association evaluated its June 30, 2016, financial statements for subsequent events through October 26, 2016, the date the financial statements were available to be issued. The Association is not aware of any subsequent events that require recognition or disclosure in the financial statements.

Officers

Daniel J. Roth*
President & CEO

Daniel A. Driscoll
Exec. Vice-President &
Chief Operating Officer

Thomas Sexton III
Sr. Vice-President
General Counsel & Secretary

Regina Thoele
Sr. Vice-President
Compliance

Karen K. Wuertz
Sr. Vice-President
Strategic Planning &
Communications

David Hawrysz
Sr. Vice-President &
Chief Financial Officer
Treasurer

Edward J. Dasso
Vice-President
Market Regulation

Jamila Piracci
Vice-President
OTC Derivatives

Timothy J. McHenry
Vice-President
Information Systems

Yvette Christman
Vice-President
Membership & Registration

Member of the Executive Committee

About NFA

NFA is the industrywide, self-regulatory organization for the U.S. derivatives industry, providing innovative and efficient regulatory programs. Designated by the Commodity Futures Trading Commission as a registered futures association, NFA strives every day to safeguard the integrity of the derivatives market, protect investors and help Members meet their regulatory responsibilities. NFA is completely self-financed with funds derived from membership dues and fees, and from assessments paid by Members and users of the derivatives markets.

NFA Membership

At the end of Fiscal Year 2016, NFA had 3,942 Members and more than 53,000 Associate Members. Here is a breakdown of NFA's membership:

Swap Dealers:	**105**
Retail Foreign Exchange Dealers:	**3**
Futures Commission Merchants:	**60**
Introducing Brokers:	**1,225**
Commodity Pool Operators:	**1,595**
Commodity Trading Advisors:	**948**
Exchanges:	**6**

Total Employees

(as of June 30, 2016):
528

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