

NATIONAL FUTURES ASSOCIATION

# Security Futures

An Introduction to Their  
Uses and Risks



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## Security Futures: An Introduction to Their Uses and Risks

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*Financial markets today offer an ever-widening array of financial products. Among the most recent are security futures, which include futures contracts on common stocks and futures contracts on a narrow-based index of securities.*

*Security futures, which have been authorized by Congress, can be bought and sold for either price risk management or for speculative purposes. For many reasons, security futures may or may not be an appropriate trading vehicle for any given individual. Or they may be appropriate in some circumstances but not others.*

*National Futures Association, a Congressionally authorized self-regulatory organization, has prepared this booklet to provide an introduction to what security futures are, how they work, and how they can be used, as well as their risks and limitations.*

*This booklet is not intended to serve as a formal risk disclosure statement. That document must be provided by the broker offering the product. This booklet is merely intended to be one component of the due diligence individuals are encouraged to undertake prior to making any investment decision regarding security futures.*

*For additional information, refer to NFA's brochure, "Understanding the Opportunities and Risks in Futures Trading" and the security futures risk disclosure statement. Both documents can be found on NFA's web site ([www.nfa.futures.org](http://www.nfa.futures.org)).*

## Introduction

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Security futures trading can provide new opportunities for managing the price risks inherent in volatile equity markets as well as profiting from expected price movements in these markets.

For example, an individual expecting the price of a stock to increase during a particular period of time could seek to profit by purchasing one or more futures contracts on that stock. Profit (or loss) will depend on whether the price increases (or decreases).

Conversely, another individual (or the same individual at some other time) could speculate on an expected price *decrease* by *selling* futures contracts at the current price, with the expectation that they can later be profitably offset by buying a like quantity of these contracts. It is not necessary to own or borrow shares of the underlying stock in order to sell futures contracts.

The foregoing examples involve *speculative* uses of futures contracts. But futures can also be used for the purpose of *managing or limiting price risks*. This is generally referred to as “hedging” and it encompasses a number of possible applications.

In no event though is futures trading for any purpose—either speculative or hedging—appropriate for any individual who does not first have an understanding of the following:

- The risks of futures trading, including the risk that buying or selling futures contracts can result in losses that may substantially exceed an investor’s original outlay. Although the nature and extent of risks vary, all futures trading involves risk.
- The unique terminology and arithmetic of futures trading and how futures contracts differ from other financial products, including expiration and the daily cash settlement of all gains and losses.

- The meaning and significance of “margin” as the term is used in connection with security futures trading as well as the financial obligations it entails.
- The significance of leverage, which can result in substantial futures trading gains or losses from relatively small price changes.

This booklet is divided into three parts:

- Part One. An introduction to futures markets, futures contracts and futures trading—a plain language explanation of how they work and a summary of things you absolutely need to know.
- Part Two. Examples of different uses for security futures for speculation and for hedging, along with the risks and limitations of each.
- Part Three. Due diligence. This particularly important section can help you decide, all things considered, whether security futures may or may not be an appropriate financial product for you. It suggests specific questions whose answers are essential to consider.

## PART ONE: FUTURES MARKETS, FUTURES CONTRACTS AND FUTURES TRADING

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Owning any asset—be it bushels of wheat, barrels of oil, or shares of stock—involves the risk that price changes during the course of ownership may adversely affect its value.

For more than 150 years, licensed and regulated futures exchanges have existed specifically for the purpose of *price risk transfer*. That is, the transfer of price risk from those who seek to *avoid* risk to others who may wish to avoid opposite risks or who, in the hope of profit, are willing to *accept* risk.

Futures markets were initially created for trading in agricultural commodities to allow farmers, processors, exporters and others to limit their vulnerability to constantly fluctuating market prices. Today they have evolved principally into markets for *financial products* as diverse as U.S. Treasury bonds and Eurodollars. There is also futures trading in broad-based common stock indices such as the S&P 500 and the Dow Jones Industrial Average and in an expanding number of non-agricultural physical commodities including petroleum and metals. Successful and expanding futures markets, a number of them linked to U.S. markets, also currently exist in most of the world's developed countries.

Recent legislation authorizing security futures trading stipulates that they may be traded on both futures exchanges and securities exchanges. Your broker can tell you specifically where particular contracts may be traded.

### **Futures contracts**

A security futures contract is a legally binding agreement between two parties to purchase or sell in the future a specific quantity of shares of a single equity security or narrow-based securities index, at a certain price. A person who buys a security futures contract enters into a contract to purchase an underlying security.

A person who sells a security futures contract enters into a futures contract to sell the underlying security.

A futures contract specifies:

- The item being bought and sold. In the case of security futures, the specific stock. For example, shares of common stock in XYZ Corporation, or in ABC Corporation.
- The standardized contract size. For example, 100 shares.
- The contract month, such as March, June or September. This is the month during which trading in the contract expires, and futures positions cannot be held beyond the expiration date. There is generally concurrent futures trading in at least several different contract months, usually more than a year into the future. Because positions cannot be held beyond the expiration date, losses during the term of the contract cannot be recouped by gains subsequent to the term of the contract.
- The manner of settlement (e.g., physical delivery of the underlying security on the settlement date or cash settlement).

### **Futures prices**

Security futures prices are determined the same way stock prices are determined—through continuous competitive bidding among buyers and sellers. This may be conducted either by open outcry on a trading floor or through electronic order matching. The current March futures price for, say, shares of XYZ stock might therefore at one moment be quoted at \$50.00 and a moment later at \$50.20. Or at \$49.80. Real time quotations systems normally display current bid and ask prices as well as the most recent trade price.

Security futures prices are principally affected by movements upward and downward in the current cash market price of the stock. Differ-

ences between the current stock price and futures prices quoted for different contract months are primarily due to the interest costs of holding stocks through the settlement date (e.g., the interest rate at which the stock position is financed) and the timing and amount of expected dividend payments. Your broker is the best source for more detailed pricing information.

#### **Gains and losses**

As with any financial instrument, gains and losses in futures trading result from price changes. Buyers benefit from price increases and sellers from price decreases. For example, were someone anticipating a price increase to buy a 100-share March futures contract on the shares of XYZ Corporation at a price of \$50.00 a share and later sell it at a price of \$55.00, the gain would be \$5 a share (\$500 on the contract). On the other hand, if the price had declined to \$45, the result would have been a \$5 a share (\$500 per contract) loss. More illustrations of gains and losses are provided by the examples in Part Two of this booklet.

*Buyers and sellers of futures contracts can elect to realize their current gains or losses prior to the expiration date of a contract simply by executing an offsetting sale or purchase in the same contract.*

#### **Physical delivery and cash settlement**

Any futures contract that hasn't been liquidated by an offsetting transaction prior to the designated final day of trading for that contract will be settled at that day's settlement price. The terms of the contract specify whether a contract will be settled by physical delivery—receiving or giving up the actual shares of stock—or by cash settlement—where no stock changes hands. You should ask your broker which method applies to the particular contract you are considering.



### Daily “mark to market” and settlement

Buyers’ and sellers’ gains or losses are credited or debited to their accounts *on a daily basis*, following the close of that day’s trading activity. For example, if the price of a 100-share March XYZ futures contract were to increase during a given day from \$50 to \$51, a gain of \$100 would be credited to the accounts of buyers and \$100 would be debited to the accounts of sellers, either that same day or the following day. This daily settlement process is conducted by a clearing organization, providing a mechanism that assures the payment of all gains and collection of all losses on a daily basis.

*A distinction between futures contracts and stock ownership is that, because of daily crediting and debiting of gains and losses, futures traders may have access to current profits without having to liquidate the position, subject to applicable margin requirements described below. Conversely, futures traders may have to make additional margin payments on short notice to cover losses on security futures positions.*

### The importance of margin

The term “margin” has an entirely different meaning in the futures industry than it does when purchasing stocks. When purchasing stocks, margin refers to a *partial payment* for the stock being bought (with the balance being financed). In the futures industry, margin is solely a deposit of funds with the brokerage firm to provide a reserve to cover potential losses of up to a certain amount and is sometimes referred to as a “performance bond.” Adverse price movements that reduce the reserve below a specified level will therefore result in a demand that the customer promptly deposit additional margin funds to the account.

*It is important, therefore, to remember that an individual who buys and pays in full for shares of stock has no further financial obligation regardless of what happens to the stock price. However, buyers and sellers of*

*futures contracts make only good faith deposits known as "margin" and, depending mainly on price movements, may be required to make additional margin deposits at any time. Moreover, there is no guarantee that futures traders will recover their initial margin outlay or any additional maintenance margin payments made to cover losses on futures contracts, or that losses will not exceed margin payments made.*

It is important to emphasize that *sellers of futures contracts have the same margin obligations as buyers*. Whereas buyers may be called on to deposit additional margin when prices *decline*, sellers may be called on to deposit additional margin when prices *increase*.

Minimum margin requirements for security futures are set by law at 20 percent of the contract's value, calculated daily, although exchanges can increase this level or adopt different margin requirements based on risk. In addition, brokers can and sometimes do establish margin requirements higher than these minimums. Discuss this with your broker.

*Discuss not only the amount of margin the broker requires for the particular transaction you are considering but also what types of financial assets can be utilized for margin purposes. Be sure you thoroughly understand how rapidly and in what manner demands for additional margin deposits must be met. You should also know that a broker can at any time change its margin requirements and that, if raised, this may necessitate the deposit of additional funds even in the absence of any price change.*

Because of the always present possibility of margin calls, stock futures contracts should be regarded as an inappropriate financial vehicle for any individual who is unable or unwilling, on short notice, to access other financial assets in order to meet margin calls on open futures positions.

Failure to meet a margin call within the time period allowed can, and generally will, result in the broker liquidating a customer's open futures positions at the current price, with or without prior notice. If this were to result in losses greater than the amount of margin available in the account, the customer would be responsible for covering those losses. Because a broker is not required to consult with the customer prior to liquidating open positions, it has discretion over which positions are liquidated, regardless of the impact on the customer's financial status or trading objectives (e.g., hedges against security positions, tax considerations).

### Leverage

An important feature of futures trading for many market participants is the leverage that futures trading can provide. Leverage is also possible in securities trading, but to a more limited extent.

*Leverage is a feature whose risks are the mirror image of its potential benefits. Leverage is frequently, and accurately, described as a "two-edged sword."*

Leverage exists because the margin deposit needed to buy or sell a futures contract is only a portion of the current market value of the contract—e.g., 20 percent. Any change in the share price can consequently result in a much larger *percentage* gain or loss on the funds deposited as margin.

Example: Assume you make a margin deposit of \$1000 to purchase a stock futures contract worth \$5000. The margin in this instance is 20 percent of the current market value of the contract. Were the current market value of the contract to climb to \$5500, the \$500 gain is only 10 percent of the current market value of the contract, but it's a much more significant 50 percent of the margin deposit.

Or consider it this way. If one individual spends \$5,000 to buy 100 shares of stock at \$50 a

share and another individual deposits \$5,000 in margin to buy five 100-share futures contracts each with a current market value of \$5,000, a \$5 increase in the stock price would yield the stock buyer a profit of \$500, while a corresponding \$500 increase in the current market value of the futures contracts would yield the buyer of the futures contracts a profit of \$2,500. *Conversely, if the stock price were to decline rather than increase by \$5 a share (with a corresponding \$500 decrease in the current market value of the futures contracts), the stock buyer would lose only \$500 while the buyer of the futures contract would lose \$2,500. That's a loss of 50 percent of his margin deposit. This is the two-edged sword's other edge!*

#### **Clearing and financial protections**

As previously described, all futures positions are marked to the market by a clearing organization at the close of each trading day and there is daily cash settlement of any differences in the current market value of the contract.

Thus, if you were to realize a gain of some amount on a Tuesday, the money would be deposited to your account and, if adequate margin remains in the account, available for withdrawal after Tuesday's close of trading, or by no later than Wednesday. This will depend on the exchange and/or the clearing organization where the futures contracts are traded.

Funds and positions in futures accounts are protected by the requirement—which is strictly audited and strictly enforced—that all customers' funds be at all times maintained in *segregated accounts*, totally separate from any other funds of the firm. In securities accounts, customers' money deposited as margin for security futures positions is covered through the Securities Investor Protection Corporation, the same as other cash and securities held in stock and bond accounts. The security futures disclosure document describes in greater detail the protections provided in

futures accounts and securities accounts, the differences between the protections offered by each type of account and the relative benefits and disadvantages of each. Your broker can tell you which method is used to protect your account. However, neither of these safeguards protects you against losses due to market movements.

#### **Stock index futures**

In addition to single stock futures, Congress has authorized futures trading in what are called “narrow-based” stock indices—indices that generally consist of a relatively small number of stocks within the same industry or meeting certain other criteria. These futures contracts are traded in the same way and may be settled in the same way (in cash) as broader based stock indices such as the S&P 500 and the Dow Jones Industrial Average. As with futures on single stocks, futures on indices can be employed for either risk management or speculation. Check with your broker for information about the indices currently being traded as well as contract specifics.

#### **Distinctions between futures and other financial products**

While the possible uses of stock futures are numerous and varied, their purchase should under no circumstances be considered the same as owning shares of the stock. Buyers of futures contracts have no ownership interests or voting rights and receive no dividends.

Moreover, on a stated date during the contract month, futures contracts *expire* and any gains or losses not already realized will be realized at that time. Unlike shares of stock, an unprofitable futures position cannot be held indefinitely in the hope of an eventual price recovery. Futures contracts accordingly should be viewed as short-term trading instruments—whether for speculation or for risk management.

Neither should security futures be confused with exchange-traded *options* on common

stocks. In some circumstances, futures and options may offer alternative strategies for achieving similar goals, but with different risk and reward characteristics. Experienced investors can also employ futures in *combination* with options to create customized financial instruments.

## PART TWO: SECURITY FUTURES ILLUSTRATIONS – OPPORTUNITIES, RISKS AND LIMITATIONS

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Security futures can be employed in ways that range from highly speculative to others that are intended to manage and limit price risks.

Among these:

- To speculate on anticipated increases or decreases in the price of the underlying stock;
- To speculate on a particular stock's performance relative to another stock;
- To “hedge” current holdings of a particular stock against the risk of an adverse price change;
- To establish, in advance, a definite purchase price or selling price for stocks that will not be actually bought or sold until some time in the future;
- To temporarily alter a stock portfolio's composition—as, for example, between different industry sectors—without having to acquire or liquidate shares of stock; and
- To create investments with specific risk and reward characteristics by combining stock futures with exchange-traded equity options (i.e., puts and calls).

The paragraphs that follow provide brief illustrations of how investors may use security futures, along with specific risk considerations and strategy limitations that are important to recognize and understand. For the sake of simplicity, the illustrations do not reflect brokerage and other transaction costs. Obviously, these need to be considered.

### **Speculating on an expected stock price increase**

Since only a margin deposit is required to buy futures contracts, it is possible to acquire a position—and thereby profit dollar for dollar from stock price increases—by depositing substantially less than the down payment required

to purchase and hold shares of the stock. The risk, of course, is that a stock price *decrease* will result in a dollar-for-dollar *loss*. As discussed, losses may exceed funds currently available in your margin account and therefore require additional deposits.

*Example: Stock XYZ in January is priced at \$49 a share and you expect it to increase. To profit if you are right, you purchase a 100-share May futures contract at a price of \$50.00 a share. Assuming the required initial margin deposit is \$10 a share, your initial outlay is \$1,000. Your gain or loss will depend on what happens to the futures price.*

<i>If May futures price when contract is sold is:</i>	<i>Your gain or loss on the 100-share contract will be:</i>
<i>\$40.00</i>	<i>\$1,000 loss</i>
<i>\$50.00</i>	<i>break even</i>
<i>\$60.00</i>	<i>\$1,000 profit</i>

In this and other futures trading, you can attempt to limit risk by employing a “stop order.” This is a type of limit order placed in advance to liquidate your position at the best available market price once the price has moved to some pre-selected level. Bear in mind, though, that there is no guarantee that your broker will be able to liquidate the position at any specific price. That will depend on market conditions at the time.

#### **Speculating on an expected stock price decrease**

Selling futures contracts on a stock that is expected to decline can provide a less cumbersome and usually less expensive alternative to establishing a short position in the stock itself (i.e., by acquiring and selling shares of borrowed stock.) The decision could also be influenced by how rapidly, at any give time, your broker may be able to accommodate a short stock sale for your account. Short futures positions do not require the broker to locate and borrow the underlying stock prior to execution.



Whereas buyers of futures contracts seek to benefit from price *increases*, sellers of futures contracts seek to benefit from price *decreases* and stand to incur losses if the futures price rises rather than falls.

*Example: In January the price of XYZ stock is \$49 a share and the May futures price is \$50.00. Expecting the price to decline, you sell a 100-share futures contract at \$50.00 and make a margin deposit of \$1,000.*

*If futures price when contract is bought is:      Gain or loss on the 100-share futures contract will be:*

*\$40.00                      \$1,000 profit*  
*\$50.00                      break even*  
*\$60.00                      \$1,000 loss*

**Speculating on a change in a stock price relationship**

You may believe that regardless of overall market direction during the coming months, the stock of XYZ will gain in value *relative to the stock of ABC*. To profit if you are right, you could purchase futures contracts on XYZ stock and sell futures contracts on ABC stock. For each dollar the price difference between the two stocks moves in the direction you anticipate, profit on every 100-share contract is \$100. For each dollar it moves in the *opposite* direction, the *loss* is \$100. The following illustrates how this type of strategy works:

Opening Position	If Price Difference Widens		If Price Difference Narrows	
	Price at Liquidation	Gain or Loss	Price at Liquidation	Gain or Loss
Buy XYZ at 50	\$53	\$300	\$53	\$300
Sell ABC at 45	\$46	-\$100	\$50	-\$500
Net Gain or Loss		\$200		-\$200

Check with your broker for more details and examples, including possible variations of the strategy just described.

### **“Hedging” against a stock price decline**

What is referred to as hedging involves establishing a position in the futures market that is equal and opposite your position in the cash market, *so that any loss incurred in one market will be offset by a gain in the other.* It has been the principal reason for the existence of futures markets since their creation and can be employed with equal effectiveness for insulating stock portfolio holdings against adverse price movements.

Protection against a possible decline in the price of a stock can be achieved by selling futures contracts representing the number of shares to be hedged. Should the price subsequently decline, the decrease in the value of the shares will be approximately offset by an increase in the value of the futures contracts.

*Example: You own 1,000 shares of XYZ that have appreciated since you bought them and while you'd like to sell them at the current price of \$50 a share, there are tax reasons for holding them until August. By selling futures contracts, you can delay the sale of the stock without the risk of a decline in its price. To accomplish this, you sell 10 100-share XYZ futures contracts priced at \$50. When the shares of stock are sold in August, you buy back the futures contracts. As the table below illustrates, the total value of your hedged stock holdings remains unaffected by either a price decline or a price increase.*

<i>Price in August</i>	<i>Value of 1,000 shares</i>	<i>Gain or loss on futures</i>	<i>Total value</i>
<i>\$40</i>	<i>\$40,000</i>	<i>+\$10,000</i>	<i>\$50,000</i>
<i>\$50</i>	<i>\$50,000</i>	<i>0</i>	<i>\$50,000</i>
<i>\$60</i>	<i>\$60,000</i>	<i>-\$10,000</i>	<i>\$50,000</i>

As the illustration clearly shows, an individual who hedges stock against an *unfavorable* price change also *forges the opportunity to benefit from a favorable price change.*

Although the example on the previous page illustrates a “perfect” hedge, there are limitations associated with hedging. You should discuss these with your broker.

#### **Using futures to establish the price for a later purchase or sale**

This variation of hedging can be useful in a variety of possible situations. For instance, suppose you’d like to buy shares of XYZ because you expect it to appreciate, but the funds needed to acquire the stock won’t become available for several months (e.g., money you expect to receive from a real estate closing or maturing investment holding). Buying a futures contract provides a way to establish the ultimate purchase cost at today’s price.

Or, as another possibility, assume you expect to acquire shares of a particular stock three months from now—perhaps from an estate distribution—but by then you are afraid the price may have declined. Selling futures contracts provides a way to lock in today’s price. In both of these instances, however, you must have the funds necessary to meet any margin calls that may occur.

#### **Buying and selling futures to alter the composition of a stock portfolio**

Based on market expectations, you may wish to temporarily increase the weighting of health care stocks in a portfolio while reducing the weighting of energy stocks—or vice versa. Rather than liquidate actual shares of stock, which might have adverse cost and tax considerations, it may be possible to achieve similar results by employing security futures contracts. This obviously involves some fairly complex calculations to determine which contracts and how many to purchase or sell to achieve the desired portfolio composition. This type of trading strategy needs to be monitored continuously for changes in the portfolio composition.

## PART THREE: ARE SECURITY FUTURES FOR YOU? A BRIEF GUIDE TO DUE DILIGENCE

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Futures trading in common stocks or any other type of futures trading is not appropriate for all individuals. The only funds that should ever be used to speculate in stock futures, or any type of highly speculative investment, are funds that represents *risk capital*—i.e., funds you can afford to lose without adversely affecting your financial health. Individuals should not risk any funds that they cannot afford to lose, such as retirement savings, medical and other emergency funds, funds set aside for purposes such as education or home ownership, proceeds from student loans or mortgages, or funds required to meet living expenses.

Furthermore, there are other reasons futures trading may or may not be appropriate for any given individual. Investment *temperament* is among them.

Individuals who've reeled from the dizzying volatility of equity markets in recent years should understand that the leverage in futures trading can magnify the impact of that volatility. Even individuals who understand this and can afford the risks may lack the comfort level. Only you can determine that for yourself.

Other questions whose answers should be an important part of your personal due diligence include:

### **Are you willing and able to closely follow your open futures positions?**

Think of futures as a “pay attention” financial instrument. Unlike stocks, bonds and mutual funds that many individuals may not wish to closely follow on a daily basis, *open futures positions need to be monitored*. Futures are intended to be used as relatively short-term trading vehicles and require ongoing scrutiny to assure that they are continuing to *fulfill* your short-term objectives. And, of course,

*margin calls* on an open futures position require an immediate decision to either meet the call (i.e., deposit more money) or liquidate the position.

**What agencies or organizations have the responsibility for regulating trading in security futures contracts?**

Both the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) have and exercise broad regulatory authority, including oversight of the regulatory responsibilities of the futures and securities exchanges where stock futures contracts and narrow-based stock index contracts are traded.

In addition, firms and persons that conduct business in security futures must register with and comply with the rules of applicable industry self-regulatory organizations. Both National Futures Association (NFA) and NASD Regulation, Inc, (NASDR), as well as the securities and futures exchanges, have specific regulatory responsibilities and authority over their members. In addition, these organizations are themselves subject to federal oversight.

**Where can you get detailed information about the risks involved in security futures trading?**

Brokerage firms are required to provide all customers with a comprehensive risk disclosure document. It should be read carefully and anything that isn't completely clear should be a signal to ask your broker for clarification.

Equally important, you should settle for nothing less than a clear, current, and complete understanding of the risks of the *specific strategy* you may be considering. A useful approach is to formulate a list of "what if" questions: For example, what if the price does this? Or does that? It may be helpful to work through a few examples on paper. If the answers aren't evident or lack certainty, pose the questions to your broker.

**What should you know in advance about rules or procedures that may differ depending on the exchange where your order will be executed?**

The most important differences to understand, if there are differences, are those having to do with the futures contracts themselves. And you should have at least a general understanding of how orders are received, routed, executed, and confirmed on the exchange. You will also want to know how and when trading gains and losses are credited and debited to your account, and whether positions initiated on one exchange can be liquidated on another exchange.

**Do you have sufficient knowledge about the individuals and the firm you would be doing business with?**

A useful component of due diligence is to contact the appropriate futures industry or securities industry self-regulatory organization, NFA or NASDR. Both can be contacted on-line: NFA at [www.nfa.futures.org](http://www.nfa.futures.org) and NASDR at [www.nasdr.com](http://www.nasdr.com). These sites can provide, at no cost, a wealth of useful information, including:

- If a firm represents itself as conducting public business in security futures, whether the firm and its employees are currently registered with and are members of the required industry self-regulatory organization. With few exceptions, registration, membership and compliance with the organization's rules of financial and business conduct are made mandatory by law.
- Does a firm or individual have a record of disciplinary actions taken against them? When? Where? And what for?
- Lists of publications that you might find helpful.

You should also contact the exchange or clearing corporation through which particular security futures products are traded and cleared for additional information.

**What types of information will the brokerage firm provide you regarding order confirmations and account status?**

Chances are the broker may be able to provide an advance sample of the forms and statements it uses along with item-by-item explanations. You'll also want to know whether the broker provides on-line access to current account information. Be certain also that you fully understand *what your own responsibilities are* for promptly reviewing the information that's provided to you and for notifying your broker of anything you think is—or even might be—in error.

**If a dispute should arise involving security futures, how can it be resolved?**

In any industry, disagreements are bound to occur from time to time. The first step toward a resolution should be to assure that you've made every reasonable effort to reach a settlement through direct discussions with the other party. Failing that, there are a variety of available alternatives to litigation (unless you have committed in advance to a particular method of dispute resolution).

All of the exchanges where futures contracts on stocks are traded, as well as NFA and NASDR, offer one or more resolution alternatives—including mediation and/or arbitration. These generally provide the fastest, least formal, and least expensive approaches to resolving disagreements. Another alternative may be the CFTC reparations program. See page 25 of this booklet for a list of regulatory organizations' mailing addresses, phone numbers and Internet addresses.

## NFA Information and Resources

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**Information Center:**

800.621.3570

**World Wide Web:**

[www.nfa.futures.org](http://www.nfa.futures.org)

NFA's web site offers information regarding the Association's history and organizational structure. NFA Members also will find the current issues of the Member newsletter and Activity Report, Notices to Members and rule interpretations. The investing public can download publications to help them understand the commodity futures industry as well as their rights and responsibilities as market participants. All visitors to NFA's web site can ask questions, make comments and order publications via e-mail.

**BASIC:**

[www.nfa.futures.org/basic/about.asp](http://www.nfa.futures.org/basic/about.asp)

Anyone with access to the Internet is able to perform online background checks on the firms and individuals involved in the futures industry by using NFA's Background Affiliation Status Information Center (BASIC). NFA, the CFTC and the U.S. futures exchanges have supplied BASIC with information on CFTC registration, NFA membership, futures-related disciplinary history and non-disciplinary activities such as CFTC reparations and NFA arbitration.



## Additional Resources

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Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581  
202.418.5080  
[www.cftc.gov](http://www.cftc.gov)

Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, DC 20549  
Office of Investor Education and Assistance  
202.942.7040  
[www.sec.gov](http://www.sec.gov)

NASD Regulation, Inc.  
1735 K Street, NW  
Washington, DC 20006-1500  
202.728-8000  
[www.nasdr.com](http://www.nasdr.com)

*Security Futures: An Introduction to Their  
Uses and Risks* has been prepared as a service  
to the investing public by:

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