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# Study Outlines for the Futures Industry Examinations

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December 2009

## INTRODUCTION

The following information is intended to serve as an aid for candidates preparing for the futures industry exams. This guide discusses the procedures for signing up for the various exams, general administrative issues about taking the exams, details regarding the various exam types, the topics covered on each exam and references to study materials available for preparing for the exams.

Please note that by simply passing one of the futures industry exams does not allow an individual to act as a registered commodity broker. You must first file an online registration application with National Futures Association (NFA); submit the appropriate fee(s), fingerprint cards and any other necessary filings. To find out more about NFA's online registration process, please click on the following link:

<http://www.nfa.futures.org/NFA-registration/online-registration-system-overview.HTML>

You may also call NFA's Information Center at (800) 621-3570 or (312) 781-1410.

## SIGNING UP FOR THE FUTURES INDUSTRY EXAM

To sign up for any of the futures industry exams, the applicant must submit a Form U10 and applicable fee to the Financial Industry Regulatory Authority (FINRA). The applicant may either mail in a completed Form U10 with a check or money order for the exam fee, or he/she may submit the application online. If an application is submitted online, the applicant must pay the exam fee by credit card. Fees are not refundable. Please note that a sponsor is not required for any of the futures industry exams. An applicant without a sponsor should indicate his/her own name, address and phone number in the section of the Form U10 that asks for the firm's name, address and phone number. If the applicant is mailing a completed Form U10 with applicable fee, it should be mailed to:

FINRA - Field Support  
P.O. Box 5054  
Philadelphia, PA 19175-5054

You may download a copy of the Form U10 or apply online by clicking on the following link:

<http://www.finra.org/Industry/Compliance/Registration/CRD/FilingGuidance/index.htm>

Effective November 2, 2009, candidates that do not pass the exam will be subject to waiting periods before they are allowed to sign up to retake the exam. [Click here](#) for an explanation of these waiting periods.

## SCHEDULING AN APPOINTMENT TO TAKE THE EXAMS

### General Information

After the Form U10 and fee has been submitted to FINRA and confirmation has been received from FINRA, the applicant may schedule an appointment to take the exam. The applicant will have 120 days in which to schedule and take the exam once.

# SCHEDULING AN APPOINTMENT TO TAKE THE EXAMS, CONTINUED

To schedule an individual appointment, you may call either Thompson-Prometric at (800) 578-6273 or Pearson VUE at (866) 396-6273. You may also schedule an appointment at Thompson-Prometric by visiting their website at [www.prometric.com/finra](http://www.prometric.com/finra). For more information, including testing center locations, please click on one of the following links:

<http://www.prometric.com/finra>

<http://www.pearsonvue.com/finra>

Please keep in mind the following tips when scheduling an exam:

- If you are calling to schedule an appointment, call after 10:00 A.M. to avoid any early morning activity that normally takes place at the centers.
- Plan ahead to secure a preferred testing date; allow two to three weeks lead time when scheduling an exam.
- Provide the name exactly as it appears on the Form U10 as the registration validation process matches the first initial of the first name.
- Provide a back-up telephone number in addition to a primary number. Exam staff will attempt to contact the candidate if it is necessary to cancel or reschedule the exam session if the enrollment can not be validated. This number could also be used to notify the candidate of any emergency closings due to weather or a system outage.
- Note the appointment tracking number. This number will be helpful if an appointment needs to be rescheduled or cancelled.
- **Make appointments through the local exam center if scheduling an appointment less than four calendar days from the current date.**

## **Rescheduling for candidates that do not pass the exam**

If the candidate does not pass the exam, he/she will need to re-file another Form U10 and fee with FINRA and then re-register to take the exam. Another exam can not be scheduled until re-registration has taken place.

Effective November 2, 2009 candidates will be subject to the following waiting periods between exams if they have failed the Series 3, Series 30, Series 31, Series 32 or Series 34 within the past two years:

- A minimum of 30 days after failing the first exam before the second taking of the exam can be scheduled:
- A minimum of 30 days after failing the second exam before the third taking of the exam can be scheduled:
- A minimum of 180 days after failing the exam for the third time before the fourth taking of the exam (and each subsequent taking) can be scheduled.

# SCHEDULING AN APPOINTMENT TO TAKE THE EXAMS, CONTINUED

## Questions Regarding Exam Issues

The FINRA's Field Support Service at (800) 999-6647 is available Monday through Friday from 8:00 AM to 6:00 PM, Eastern Time to assist test candidates with questions pertaining to candidate enrollments, exam delivery policy and procedure, and extensions to a candidate's validation window. Questions may also be addressed by sending an email to [gatewayweb@finra.org](mailto:gatewayweb@finra.org).

## Scheduling Multiple or Group Appointments

A **multiple appointment** is when five or more candidates are being scheduled for multiple exams for various dates and testing center locations. Multiple appointments are handled directly by the exam vendors. Please contact either Pearson Professional Centers at 1-866-396-6273 or Prometric Testing Centers at 1-800-578-6273 to schedule multiple appointments.

A **group appointment** is when five or more candidates are being scheduled to take the exact same exam at the same time at the same testing center location. Procedures for scheduling a **group appointment** can be found by clicking on the following link:

<http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Qualifications/p010923>

## Scheduling an exam in a location outside of the United States

FINRA administers exams abroad in selected foreign cities. For more information on foreign exam locations, phone numbers for scheduling appointments at a foreign location or foreign test center policies and procedures, click on the following link:

<http://apps.finra.org/TestCenter/1/locations.aspx>

## English as a Second Language

If English is your second language, you may request additional time for your session when scheduling your appointment. In addition, when you arrive for your appointment, you must provide the location staff with an original letter from your firm on company letterhead indicating that English is your second language. The letter must also include your name, the date of the exam, the client ID, and the Series ID, or name of the session you are taking, and bear the original signature of your supervisor/manager. Faxed or photocopied letters will not be accepted as authorization. If you do not have a sponsor and English is your second language, you must notify the exam center when you schedule your appointment that English is your second language and you are requesting additional exam time. Then, you must contact FINRA Field Support at (800) 999-6647 and ask for Special Accommodations. This department at FINRA will either grant or deny your request for additional time.

For exams up to 2 hours, an extra 30 minutes will be added to the session. For exams longer than 2 hours, an extra 60 minutes will be added to the session.

Please note: ESL candidates should not schedule their exams online or through a local test center.

# SCHEDULING AN APPOINTMENT TO TAKE THE EXAMS, CONTINUED

Both testing center networks require that ESL candidates schedule their exams through their National Registration Centers. You may reach, Thomson Prometric at 1-800 578-6273 and Pearson VUE at 1-866-396-6273.

## **Special Accommodations**

FINRA in compliance with the provisions of the **American with Disabilities Act (ADA)** provides testing modifications and aids to candidates with **disabilities and/or learning** impairments that substantially limit a major life activity (e.g., learning, speaking, hearing, vision). FINRA makes arrangements to offer examinations/sessions in a place and manner appropriate to persons with disabilities according to the ADA.

Procedures and forms for requesting special accommodations for taking an exam can be found by clicking on the following links:

<http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Qualifications/p010830>

Note: Candidates with transitory or temporary conditions that are not “impairments or disabilities” (e.g., pregnancy, sprains, fractures) are not eligible for special testing accommodations under the ADA. Those in need of accommodations should contact FINRA for information about a possible special testing arrangement that can be handled on a case-by-case basis.

# TAKING THE EXAMS

Please arrive at the exam center about 30 minutes prior to your scheduled appointment time. To gain admission to the center, the applicant will be required to provide a valid form of government issued identification with the applicant's picture and signature. Acceptable forms of identification include a valid driver's license, passport or military ID. **If you do not have the required ID, you must cancel your appointment until you acquire it.** The applicant will also be required to provide his/her signature upon arrival at the exam center, agree to the rules of conduct and provide a finger imprint(s). Calculators may **not** be brought into the exam center. However, the exam center will provide the applicant with a calculator upon request.

**Note: Expired applicant ID will not be accepted under any circumstances.**

Exam sessions are closed-book. When you enter the center, you are not permitted to bring personal possessions, such as books, briefcases, purses, electronic devices, and notes into the testing/training room. You may take only authorized material issued by center staff into the testing/training room. The center staff is not responsible for articles you take to the session. Center staff will provide scratch paper for your use during the session. All materials, including used and unused scratch paper, must be returned to the center staff at the end of the session.

Severe penalties will be imposed on anyone who cheats on a FINRA-administered exam.

Either at the end of the allowed exam time or when the applicant voluntarily stops the exam, the test system will determine the applicant's score and display the grade result. The grade result will show whether the applicant passed the exam. Next, the overall percentage score and the percent of questions answered correctly in each section will appear. The applicant will receive a printout of the exam scores. The exam center will send the exam scores to FINRA which will, in turn, forward them to the name and address listed under the "Firm name and address" section of the Form U-10. The minimum passing score for the futures exams is 70 percent. **On the National Commodity Futures Examination – Series 3, the candidate must receive a score of 70 percent on both parts of the exam (market knowledge and regulations) in order to pass.** It is the candidate's responsibility to keep a record of the exam results. The National Commodity Futures Examination – Series 3 contains (5) additional experimental questions that **do not** count towards the candidate's grade. Extra time is built into the exam to accommodate these (5) questions.

For additional information on the PROCTOR testing system and to view a sample exam question, please click on the following link: [http://www.finra.org/web/groups/rules\\_regs/documents/rules\\_regs/p006143.pdf](http://www.finra.org/web/groups/rules_regs/documents/rules_regs/p006143.pdf)

To access Frequently Asked Questions regarding testing, please click on the following link: <http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Qualifications/p010930>.

# EXAMS

| Exam Name  | Cost           | Number of Questions                | Material Covered                      | Time Allotted                 |
|--|----------------|------------------------------------|---------------------------------------|-------------------------------|
| Series 3/National Commodity Futures Examination    | <b>\$ 105*</b> | 120 True/False and Multiple Choice | Market knowledge and U.S. Regulations | <b>2 Hours<br/>30 Minutes</b> |
| Series 30/Branch Manager Examination               | <b>\$ 70*</b>  | 50 True/False and Multiple Choice  | Supervisory issues                    | <b>1 Hour</b>                 |
| Series 31/Futures Managed Funds Examination        | <b>\$ 70*</b>  | 45 True/False and Multiple Choice  | Managed Funds                         | <b>1 Hour</b>                 |
| Series 32/Limited Futures Examination- Regulations | <b>\$ 70*</b>  | 35 True/False and Multiple Choice  | U.S. Regulations                      | <b>45 Minutes</b>             |
| Series 34/Retail Off-Exchange Forex Examination    | <b>\$ 70</b>   | 40 True/False and Multiple Choice  | Retail Off-Exchange Forex             | <b>1 Hour</b>                 |

Veterans and eligible dependents may use their G.I. Bill benefits to pay the cost of NFA proficiency exams. The reimbursement service is provided by the U.S. Department of Veterans' Affairs.

All of the above listed exams are eligible for reimbursement.

Individuals requesting reimbursement will need to send the following items to their local Veterans' Administration Regional Processing Office:

- An application for benefits (VA form 22-1990 or VA form 22-5490 as appropriate) if they have not done so before. These can be obtained at a local, state or federal VA office.
- A copy of the exam results
- The name of the exam taken
- The name and address of the organization issuing the license or certification (NFA)
- The date they took the exam
- The cost of the exam and proof of payment
- The following statement: "I authorize release of my test information to VA."

Individuals can be reimbursed for the exam up to one year after taking the exam.

For additional information visit the VA's web site at [www.gibill.va.gov](http://www.gibill.va.gov). Click on the link to the Licensing and Certification page.

\* Effective January 2, 2009.

# EXCHANGE RULEBOOKS AND MARKET LITERATURE

In addition to the official rulebooks of the exchanges, literature on trading futures, options on futures, and individual markets is helpful in preparing for the examination. Please contact individual exchanges in order to obtain pricing lists, publication catalogs and order forms. Various departments within each exchange may be of assistance: Public Relations, Marketing, Literature, Member Services and Education.

**CME Group**

[www.cmegroup.com](http://www.cmegroup.com)

**ICE Futures U.S.**

[www.theice.com](http://www.theice.com)

**Kansas City Board of Trade**

[www.kcbt.com](http://www.kcbt.com)

**Minneapolis Grain Exchange**

[www.mgex.com](http://www.mgex.com)

**New York Mercantile Exchange**

[www.nymex.com](http://www.nymex.com)

**NASDAQ OMX Futures Exchange**

<http://www.nasdaqtrader.com/Micro.aspx?id=PBOToverview>

**OneChicago LLC Futures Exchange**

<http://www.onechicago.com/>

**CBOE Futures Exchange**

<http://cfe.cboe.com/>

**NYSE Liffe Futures Exchange**

<http://www.nyse.com/futuresoptions/nyseliffe/1211983444453.html>

# OTHER PUBLICATIONS

## NATIONAL FUTURES ASSOCIATION

### NFA MANUAL

The [NFA Manual](#) contains NFA's Articles of Incorporation, Bylaws, Compliance Rules, Code of Arbitration, Member Arbitration Rules, Financial Requirements, Registration Rules, and various interpretations of NFA rules and bylaws.

### REGULATORY GUIDES

NFA publishes several booklets to help its Members meet their regulatory obligations. These include:

- [NFA Regulatory Requirements for FCMs, IBs, CPOs and CTAs](#)
- [A Guide to NFA Compliance Rule 2-29: Communications with the Public and Promotional Material](#)
- [Disclosure Document Guide](#)
- [Self-Examination Checklist for FCMs, IBs, CPOs and CTAs](#)

To order a copy of these publications or to obtain an NFA Publication List, contact NFA's Information Center at (312) 781-1410 or (800) 621-3570 or e-mail NFA's Information Center at [information@nfa.futures.org](mailto:information@nfa.futures.org).

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## THE COMMODITY FUTURES TRADING COMMISSION

The rules and regulations of the CFTC are encompassed in the **Commodity Exchange Act as Amended and Regulations Thereunder**. Updated periodically. Current editions may be ordered directly from the publisher:

Commerce Clearing House  
4025 West Peterson Avenue  
Chicago, Illinois 60646  
(773) 583-8500  
(800) 248-3248

Fee may be applicable

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# EXAMINATION SUBJECT AREAS

## NATIONAL COMMODITY FUTURES EXAMINATION

### SERIES 3

The following is a general listing of the major subject areas covered by the examination and does not represent an exhaustive list of the actual test questions.

#### PART 1

### FUTURES TRADING THEORY AND BASIC FUNCTIONS TERMINOLOGY

#### A. General Theory

1. Development of futures markets
2. Futures and securities compared
  - Rights
  - Obligations
  - Transfer of ownership

#### B. The Futures Contract

1. Futures and forward contracts compared
2. Offset provisions
3. The clearinghouse function
  - Clearing members
  - Non-clearing members
4. Delivery provisions
  - Basis grade
  - Premiums
  - Discounts

#### C. The Structure of Futures Markets

1. Normal markets
  - Carrying charges
  - "Full carry" markets
2. Inverted markets
  - Supply shortages
  - Other factors

#### D. Hedging Theory

1. Risk reduction
  - Unhedged position
  - Effect on pricing of cash markets
2. Short hedging
  - Typical short hedgers: farmers, producers, holders of inventory
  - Effect on pricing of cash markets
3. Long hedging
  - Typical long hedgers: processors, manufacturers, exporters
  - Protection against price rise

#### E. Speculative Theory

1. Leverage
2. Risk
3. Market liquidity
4. Price volatility

#### F. General Futures Terminology

|                    |                    |
|--------------------|--------------------|
| Associated Person  | Floor Broker       |
| Basis              | Floor Trader       |
| Bucketing          | Forward contract   |
| Carrying charges   | Introducing broker |
| Churning           | Inverted market    |
| Clearinghouse      | Limit up/down      |
| Convergence        | Lock limit         |
| Commodity Pool     | Long               |
| Operator           | Normal market      |
| Commodity Trading  | Pit                |
| Advisor            | Position Trader    |
| Deferred           | Retender           |
| Discount           | Scalper            |
| Expit              | Short              |
| Futures Commission | Spot               |
| Merchant           | Variation call     |
| First Notice Day   | Warehouse receipt  |

#### G. General Options Terminology

|                 |                  |
|-----------------|------------------|
| At-the-money    | Out-of-the-money |
| Call            | Premium          |
| Conversion      | Put              |
| Delta           | Spread           |
| Exercise        | Straddle         |
| Expiration      | Strangle         |
| Grantor         | Synthetic        |
| In-the-money    | Options/Futures  |
| Intrinsic Value | Time value       |
|                 | Writer           |

## Series 3 (continued)

# FUTURES MARGINS, OPTION PREMIUMS, PRICE LIMITS, FUTURES SETTLEMENTS, DELIVERY, EXERCISE, AND ASSIGNMENT

### A. Margin Requirements

1. The nature of futures margin
  - Performance bond
  - Comparison with securities margin
  - Authority of exchanges to establish and revise requirements
  - Initial and maintenance requirements
  - Documentation: margin agreement, transfer of funds agreement
2. Margin calculations
  - Initial
  - Maintenance/variation
  - Effects of substantial price movement
  - Effects of change in requirements on new and existing positions
  - Withdrawal of excess equity
3. Alternative calculations
  - Hedge margin
  - Spread margin

### B. Option Premiums

1. Intrinsic value
  2. Time value
  3. The delta
  4. Premium quotations
- Note: where different from underlying contract (e.g., T-Bonds and municipals)

### C. Price Limits

1. Effect of limit-up/down price change
2. Expanded limits
3. Effects on margin of limit moves
4. Lock limit
5. Circuit breakers

### D. Offsetting Contracts, Settlements, Delivery

1. Liquidating long and short positions
2. First notice day
3. Trading in the spot month
4. The clearinghouse role in the delivery
5. Delivery notices
6. Retenders/stopped notices
7. Physical delivery, warehouse receipts
8. Cash settled contracts; how settlement is computed
  - Stock indices
  - Municipal bonds
  - Eurodollars
9. EFP's

### E. Options Exercise, Assignment, Settlement

1. Process of assignment
2. Margin requirements upon exercise
3. Final trading/exercise dates

# TYPES OF ORDERS, CUSTOMER ACCOUNTS, PRICE ANALYSIS

### A. Basic Characteristics and Uses of

1. Market orders
2. Stop orders
3. Stop-limit orders
4. Market-if-touched orders
5. Orders on electronic markets

### B. Additional Orders

1. Good till canceled (GTC)
2. Fill-or-kill
3. On close
4. One cancels the other (OCO)

### C. Technical Price Analysis

1. Charts: bar, point and figure
2. Trendlines
3. Support/resistance levels
4. Congestion areas

5. Gaps
6. Triangles: ascending and descending
7. Double tops and bottoms
8. Volume and open interest
9. Liquidating markets

### D. Fundamental Price Analysis

1. Effects of economic or political instability
2. Supply and demand elasticity
3. U.S. agricultural policies
4. Crop years
5. Hog/corn ratio

### E. Interest Rate Analysis

1. Yield curves: positive, inverted, flat
2. Effects of governmental policies
  - Tax policy
  - Monetary policy

## Series 3 (continued)

### BASIC HEDGING, BASIS CALCULATIONS,

#### HEDGING FUTURES

##### A. Short Hedging and Long Hedging

1. Anticipatory hedges
2. Long the basis/short the basis

##### B. The Basis

1. How determined
2. Effect of basis charge on
  - The short hedger
  - The long hedger
3. Effect on price of commodity actually delivered or purchased
  - Transportation costs
  - Variation in deliverable grades

4. The basis in financial markets

- Short-term rates vs. long-term rates
- "Implied repo rate"

##### C. Hedging Calculations

1. Net result of hedge
2. Net price received upon purchase or sale

*Examples:*

|            |                      |
|------------|----------------------|
| Grains     | T-Notes, T-Bonds     |
| Livestock  | T-Bills, Eurodollars |
| Foodstuffs | Municipals           |
| Metals     | Currencies           |
| Energy     | Stock indices        |
| Lumber     |                      |

### SPREADING

##### A. Spread Trading

1. Order execution
2. Expectations
  - Narrowing or widening basis
  - Normal or inverted market strategies

##### B. Common Types of Spreads

1. Carrying charge or limited risk spreads
  - Intra-market
  - Inter-delivery
2. Bull and bear spreads
3. Intermarket spreads

### SPECULATING IN FUTURES

##### A. Profit/loss calculations for speculative trades (including spreads)

1. Gross profit on speculative trades: single or multiple contract positions
2. Effect of commissions on gross profits
3. Return on (margin) equity calculations

*Examples:*

|           |                      |
|-----------|----------------------|
| Grains    | T-Notes, T-Bonds     |
| Livestock | T-Bills, Eurodollars |
| Foodstuff | Municipals           |
| Metals    | Currencies           |
| Energy    | Stock indices        |
| Lumber    |                      |

##### B. Trading Applications

1. Recommend appropriate speculative trades given certain economic or technical circumstances
2. Use appropriate orders both to initiate and protect position

## Series 3 (continued)

# OPTION HEDGING, SPECULATING, SPREADING

### A. Option Theory

1. Long
  - Limited risk
  - Increased leverage
  - Total loss of investment (premium) possible
2. Short
  - Increased risk
  - Earn premium
  - Loss may exceed premium received

### B. Option Hedge Strategies/Calculations

1. Long put as alternative to short futures hedge
2. Long call as alternative to long futures hedge
3. Allows for increased profit once breakeven point is reached

### C. Option Speculative Strategies/Calculations

1. Long call as substitute for long futures
  - Risk limited to premium
  - Breakeven point
  - Profit and return on equity
2. Long put as substitute for short futures
  - Risk limited to premium
  - Breakeven point
  - Profit and return on equity
3. Long call to protect short futures (synthetic long put)
4. Long put to protect long futures (synthetic long call)
5. Long futures-short call (covered call)
6. Conversions
7. Reverse conversions (reversals)

### D. Option Spread Strategies/Calculations

1. Call bull spreads
  - Spread to widen
  - Maximum profit/loss
2. Call bear spreads
  - Spread to narrow
  - Maximum profit/loss
3. Put bull spreads
  - Spread to narrow
  - Maximum profit/loss
4. Put bear spreads
  - Spread to widen
  - Maximum profit/loss
5. Calendar spreads
6. Arbitrage spreads

## Series 3 (continued)

### PART 2

## REGULATIONS

### A. General

1. NFA/CFTC registrations
  - Floor Broker (FB)
  - Floor Trader (FT)
  - Associated Person (AP)
  - Commodity Pool Operator (CPO)
  - Commodity Trading Advisor (CTA)
  - Introducing Broker (IB)
  - Futures Commission Merchant (FCM)
  - Exemptions from registration
2. Futures account opening requirements
  - Know Your Customer (NFA Compliance Rule 2-30)
  - Verbatim risk disclosure statement
  - Commodity customer agreement
  - Discretionary accounts
    - Written authorization
    - Account supervision and review
    - AP minimum experience requirement
3. Position reporting requirements
  - Set by CFTC or exchanges
  - Daily reports
  - Applicable to both speculators and hedgers
4. Speculative position limits
  - Maximum net long or short position specified by CFTC or exchanges
  - Bona fide hedgers' exemption

### B. FCM/IB Regulations

1. Guaranteed and independent IBs
  - Responsibilities of guarantor FCM
  - Rules for acceptance of customer funds

2. Net capital requirements
3. Financial reports
4. Collection of margin deposits
5. Customer complaints
  - Options-related complaints
  - Adjustments to accounts
6. Time-stamping requirements
7. Promotional Material (NFA Compliance Rule 2-29)
8. Disclosure by FCMs and IBs required for costs associated with futures transactions

### C. CPO/CTA

1. Disclosure documents
  - Upfront fees
  - Performance records
  - Disclosure statements
  - Trading program
  - Five-year business background of principals
  - Conflicts of interest
2. Records to be maintained
  - Bunched orders
3. Promotional Material (NFA Compliance Rule 2-29)

### D. Arbitration Procedures

### E. NFA Disciplinary Procedures

1. Formal complaints
2. Warning letters
3. Hearings
  - Offers to settle
  - Appeal process
4. Member responsibility actions (MRA)
5. Penalties for violators
  - Fine
  - Cease and desist order
  - Expulsion

# BRANCH MANAGER EXAM—FUTURES

## SERIES 30

The following is a general listing of the major subject areas covered by the examination and does not represent an exhaustive list of the actual test questions.

### A. General

- Books and records, preparation and retention
- Order tickets, preparation and retention
- Written option procedures
- Handling of customer deposits
- NFA Compliance Rule 2-9, supervision of employees
- Business Continuity and Disaster Recovery Plan
- Registration requirements—who needs to be registered, sponsor verification, NFA Bylaw 1101, AP termination notices, temporary licenses
- NFA disciplinary process
- Reportable positions
- NFA Arbitration Rules
- On-site audits of branch offices
- Bona fide hedging transactions
- Trading on foreign exchanges

### B. CPO/CTA General

- Registration requirements
- Books and records to be maintained
- Reports to customers
- Bunched orders

### C. CPO/CTA Disclosure Documents

- Management and incentive fees
- Performance records
- How long a CPO or CTA can use a disclosure document
- Conflicts of interest
- Pool units purchased by principals
- Business backgrounds of principals
- Amendments to disclosure documents
- Disclosure of disciplinary actions
- NFA review of document before each use

### D. NFA Know Your Customer Rule

- Client information required
- Responsibility to obtain additional client information
- Risk disclosures

### E. Disclosure by CPOs and CTAs Required for Costs Associated with Futures Transactions

- Disclosure of upfront fees and expenses
- Effect of upfront fees and organizational expenses on net performance

### F. Disclosure by FCMs and IBs Required for Costs Associated with Futures Transactions

- Explanation of fees and charges to customers

### G. IB General

- Accepting funds from customers
- Guarantee agreements
- Responsibilities of guarantor FCM
- Minimum net capital requirements
- Timestamping of order tickets
- Books and records to be maintained

### H. General Account Handling and Exchange Regulations

- Risk Disclosure Statement
- Margin requirements
- Stop loss orders
- Preparing orders
- Proprietary accounts
- Positions limits and reporting requirements
- Trade confirmations

## Series 30 (continued)

### BRANCH MANAGER EXAM—FUTURES

#### I. Discretionary Account Regulation

- Requirements relating to discretionary accounts
- Supervision and review of discretionary accounts

#### J. Promotional Material (Compliance Rule 2-29)

- Definition of promotional material
- Standardized sales presentations
- Use of a third-party consulting or advertising firm
- Reprints of articles from industry publications
- Recordkeeping of promotional material
- Past performance
- Hypothetical trading results
- Written procedures for promotional material
- Supervisory review of promotional material

#### K. Anti-Money Laundering Requirements

- Developing policies, procedures and internal controls
- Customer identification program and recordkeeping
- Detection and reporting of suspicious activity
- Training staff to monitor trading activity
- Recordkeeping
- Designation of individual or individuals ("compliance officer") to be responsible for overseeing the program
- Employee training program Independent audit function

# FUTURES MANAGED FUNDS EXAMINATION

## **SERIES 31**

The following is a general listing of the major subject areas covered by the examination and does not represent an exhaustive list of the actual test questions.

### **A. General market knowledge**

1. Definition and significance of
  - Margin
  - Futures and forward contracts
  - Price limits
  - Open interest
  - Offsetting contracts
  - "Marking-to-market"
  - Settlement
  - Spread trades
  - Basis
  - Hedging
  - Yield curve
  - Cost of carry
  - Leverage
  - Price volatility

### **B. General Regulation**

- Arbitration claims and awards
- NFA disciplinary process
- NFA Compliance Rule 2-9, supervision of employees
- "Qualified Eligible Participant"
- Registration requirements
- Trading on foreign markets
- Books and records to be maintained

### **C. CPO/CTA Regulations**

- Reports to customers
- Exemptions from registration
- Records to be maintained
- Limited partnerships
- Accepting funds from customers

### **D. CPO/CTA Disclosure Documents**

- Management and incentive fees
- Performance records
- Conflicts of interest
- How long a CPO or CTA can use a disclosure document
- Pool units purchased by principals
- Disclosure statements
- Business backgrounds of principals
- NFA review of document before use
- Disclosure of disciplinary action

### **E. Know Your Customer Rule**

- Client information required
- Risk disclosures

### **F. Disclosure by CPOs and CTAs Required for Upfront Fees**

- Disclosure of upfront fees and expenses
- Effect of upfront fees and organizational expenses on net performance

### **G. Promotional Material (Compliance Rule 2-29)**

- Definition of promotional material
- Standardized sales presentations
- Use of a third-party consulting or advertising firm
- Reprints of articles from industry publications
- Recordkeeping of promotional material
- Past performance
- Hypothetical trading results
- Written procedures for promotional material
- Supervisory review of promotional material

# LIMITED FUTURES EXAMINATION—REGULATIONS

## SERIES 32

The following is a general listing of the major subject areas covered by the examination and does not represent an exhaustive list of the actual test questions.

### A. General

1. NFA/CFTC registrations
  - Floor broker (FB)
  - Floor Trader (FT)
  - Associated person (AP)
  - Commodity pool operator (CPO)
  - Commodity trading advisor (CTA)
  - Introducing broker (IB)
  - Futures commission merchant (FCM)
  - Exemptions from registration
2. Futures account opening requirements
  - Know Your Customer (NFA Compliance Rule 2-30)
  - Verbatim risk disclosure statement
  - Commodity customer agreement
    - Written authorization
    - Account supervision and review
    - AP minimum experience requirement
3. Position reporting requirements
  - Set by CFTC or exchanges
  - Daily reports
  - Applicable to both speculators and hedgers
4. Speculative position limits
  - Maximum net long or short position specified by CFTC or exchanges
  - Bona fide hedgers' exemption

### B. FCM/IB Regulations

1. Guaranteed and independent IBs
  - Responsibilities of guarantor FCM
  - Rules for acceptance of customer funds
2. Net capital requirements
3. Financial reports
4. Collection of margin deposits
5. Customer complaints
  - Options-related complaints
  - Adjustments to accounts
6. Time-stamping requirements
7. Promotional Material (NFA Compliance Rule 2-29)
8. Disclosure by FCMs and IBs required for costs associated with futures transactions

### C. CPO/CTA

1. Disclosure documents
  - Upfront fees
  - Performance records
  - Disclosure statements
  - Trading program
  - Business backgrounds of principals
  - Conflicts of interest
2. Records to be maintained
3. Promotional Material (NFA Compliance Rule 2-29)

### D. Arbitration Procedures

### E. NFA Disciplinary Procedures

1. Written complaints
2. Warning letters
3. Hearings
  - Offers to settle
  - Appeal process
4. Member responsibility actions (MRA)
5. Penalties for violators
  - Fine
  - Cease and desist order
  - Expulsion

# RETAIL OFF-EXCHANGE FOREX EXAMINATION

## SERIES 34

The following is a general listing of the major subject areas covered by the examination and does not represent an exhaustive list of the actual test questions.

### A. Definitions and Terminology

- American terms, European terms
- Base currency, quote currency, terms currency, secondary currency
- Bid/ask spread
- Collateral, security deposit, margin
- Counterparty, dealer: Futures Commission Merchant, Retail Foreign Exchange Dealer, other regulated entities listed in the Commodity Exchange Act
- Cross rates
- Currency crosses
- Currency pairs
- Direct quotes, indirect quotes
- Exchange rate
- Exotic options: barrier, double barrier, knock in, knock out, compound options
- Forward points
- Forward rate, bid forward rate
- Interest rate differential
- Interest rate parity
- Mark-ups, mark-downs
- PIPs
- Rollovers
- Spot rate, spot price
- Tom-next and spot-next
- Trade date and settlement date
- Swaps

### B. Forex Trading Calculations

- Cross rate transactions
- Effects of leverage calculations
- Netting of positions
- Open trade variation
- Profit & loss calculations
- Pip values, price after pips
- Option and exotic option profit & loss calculations
- Return on collateral, security deposit, margin
- Transaction costs

### C. Risks Associated with Forex Trading

- Country or sovereign risk
- Credit risk
- Exchange rate risk
- Interest rate risk
- Liquidity risk

- Market risk
- Operational risk
- Settlement risk, Herstatt risk

### D. Forex Market - Concepts, Theories, Economic Factors and Indicators, Participants

- Balance of payments
- Balance of trade
- Bank for International Settlements (BIS)
- Capital account and current account
- Central bank activities, intervention, sterilized intervention, interference
- Clearing House Interbank Payment System (CHIPS)
- Discount rate
- Economic indicators: employment, consumer spending, income, industrial and inflation indicators
- Elasticity of exchange rates
- Exchange rate intervention
- Exchange rate volatility
- Federal Reserve Board, Fedwire
- Fiscal policy
- Fisher effect
- Foreign investment indicators
- Gross national product, gross domestic product
- Inflation
- Interbank funds transfer and settlement systems
- International Fisher effect
- International Monetary Fund
- Portfolio balance
- Role of central banks
- Theory of elasticities
- Theory of purchasing power parity
- World Trade Organization

## Series 34 (continued)

# RETAIL OFF-EXCHANGE FOREX EXAMINATION

## **SERIES 34**

### **E. Forex Regulatory Requirements**

- CFTC jurisdiction and jurisdictional limitations
- Conflicts of interest
- Disclosures to customers
- Jurisdictional & regulatory framework
- Know your customer
- NFA Interpretive Notice Regarding Forex Transactions
- NFA Interpretive Notice Compliance Rule 2-36(e): Supervision of the Use of Electronic Trading Systems
- NFA Notice to Members: Supervision of Forex Promotional Materials
- NFA membership and associate membership requirements
- Promotional material & solicitation
- Registration requirements
- Reports to customers, confirmations, monthly summaries
- Security deposit rules
- Security of customer funds, no segregation