

## APPENDIX A

### Summary of Database Documents Reviewed

Bates Range [1]	General Category	Number of Pages	General Description
NFA00624115-NFA00643186	Emails	19,072	Current Auditor no. 9 emails
NFA00643187-NFA00652731	Emails	9,545	NFA Staff emails
NFA00652732-NFA00659309	Emails	6,578	Current Auditor no. 13 emails
NFA00659310-NFA00674575	Emails	15,266	NFA Staff emails
NFA00674576-NFA00674608	Emails	33	Current Auditor no. 12 emails
NFA00674609-NFA00674612	Emails	4	Current Auditor no. 15 emails
NFA00674613-NFA00700430	Training	25,818	Electronic Training Materials
NFA00700431-NFA00742729	Emails	42,299	Current Auditor no. 12 emails
NFA00742730-NFA00752506	Emails	9,777	Current Auditor no. 12 documents
NFA00752507-NFA00753569	Emails	1,063	NFA Staff emails
NFA00753570-NFA00754339	Emails	770	Current Auditor no. 12 emails
NFA00754340-NFA00764078	Emails	9,739	Current Auditor no. 12 documents
NFA00764079-NFA00766008	Emails	1,930	Current Auditor no. 12 emails
NFA00766009-NFA00767751	Emails	1,743	Current Auditor no. 12 documents
NFA00767752-NFA00798410	Emails	30,659	Former Auditor no. 8 emails
NFA00798411-NFA00804061	Emails	5,651	NFA Staff emails
NFA00804062-NFA00804352	Emails	291	Current Auditor no. 12 emails and documents
NFA00804353-NFA00821227	Emails	16,875	Former Auditor no. 8 documents
NFA00821228-NFA00836288	Emails	15,061	Current Auditor no. 14 emails and documents
NFA00836289-NFA00840202	Emails	3,914	Current Auditor no. 12 emails and documents
NFA00840203-NFA00998612	Emails	158,410	Former Auditor no. 7 emails and documents
NFA00998613-NFA00998764	Training	152	Organizational Charts
NFA00998765-NFA00998992	Training	228	2008 Training Materials: Segregation
NFA00998993-NFA00999083	Training	91	2008 Training Materials: Forex Promotional Materials
NFA00999084-NFA00999133	Training	50	2008 Training Materials: CTA Performance
NFA00999134-NFA00999357	Training	224	2008 Training Materials: AFS/PFS
NFA00999358-NFA01000303	Emails	946	Current Auditor no. 12 emails and documents
NFA01000304-NFA01245358	Emails	245,055	Former Auditor no. 7 emails and documents
NFA01245359-NFA01380689	Emails	135,331	Current Auditor no. 15 emails and documents
NFA01380690-NFA01388860	Emails	8,171	Former Auditor no. 7 emails and documents
NFA01388861-NFA01388989	Interview Transcript	129	Former Auditor no. 1 Interview transcript and exhibits
NFA01388990-NFA01389233	Interview Transcript	244	Current Auditor no. 2 Interview transcript and exhibits
NFA01389234-NFA01389332	Interview Transcript	99	Current Auditor no. 1 Interview transcript and exhibits
NFA01389333-NFA01453242	Emails	63,910	NFA Staff emails and documents
NFA01453243-NFA01502246	Emails	49,004	Current Auditor no. 13 emails and documents
NFA01502247-NFA01502401	Emails	155	Current Auditor no. 15 emails and documents
NFA01502402-NFA01502477	Interview Transcript	76	Current Auditor no. 6 Interview transcript
NFA01502478-NFA01502606	Interview Transcript	129	Current Auditor no. 4 Interview transcript
NFA01502607-NFA01502848	Interview Transcript	242	Former Auditor no. 4 Interview transcript and exhibits
NFA01502849-NFA01502892	Interview Transcript	44	Former Auditor no. 3 Interview transcript and exhibits
NFA01502893-NFA01505874	Emails	2,982	Current Auditor no. 15 emails and documents
NFA01505875-NFA01506139	Emails	265	Current Auditor no. 2 emails
NFA01506140-NFA01507527	Emails	1,388	Current Auditor no. 3 emails

## APPENDIX A

### Summary of Database Documents Reviewed

Bates Range [1]	General Category	Number of Pages	General Description
NFA01507528-NFA01511125	Emails	3,598	Current Auditor no. 6 emails
NFA01511126-NFA01522135	Emails	11,010	Current Auditor no. 5 emails
NFA01522136-NFA01524192	Emails	2,057	Former Auditor no. 4 emails
NFA01524193-NFA01526285	Emails	2,093	Current Auditor no. 7 emails
NFA01526286-NFA01530677	Emails	4,392	Current Auditor no. 4 emails
NFA01530678-NFA01607155	Emails	76,478	Current Auditor no. 9 emails
NFA01607156-NFA01620565	Emails	13,410	Current Auditor no. 13 emails
NFA01620566-NFA01853835	Emails	233,270	Current Auditor no. 12 emails (post - 7/9/2012)
NFA01853836-NFA01869358	Emails	15,523	Current Auditor no. 8 emails
NFA01869359-NFA01890101	Emails	20,743	Current Auditor no. 11 emails
NFA01890102-NFA02081968	Emails	191,867	Current Auditor no. 15 emails and documents
NFA02081969-NFA02089524	Emails	7,556	Current Auditor no. 10 emails
NFA02089525-NFA02150859	Emails	61,335	Current Auditor no. 14 emails
NFA02150860-NFA02151170	Misc.	311	NFA Hard Copy Files
NFA02151171-NFA02155001	Emails	3,831	NFA Staff emails and documents
NFA02155002-NFA02155845	Emails	207	Current Auditor no. 13 emails and documents
NFA02155846-NFA02155931	Interview Transcript	86	Current Auditor no. 5 Interview transcript
NFA02155932-NFA02155998	Interview Transcript	67	Current Auditor no. 7 Interview transcript
NFA02155999-NFA02156000	Interview Transcript	2	Current Auditor no. 1 Interview exhibit
NFA02156001-NFA02156030	Interview Transcript	30	Current Auditor no. 6 Interview exhibits
NFA02156031-NFA02156091	Interview Transcript	61	Current Auditor no. 5 Interview exhibits
NFA02156092-NFA02156135	Interview Transcript	44	Current Auditor no. 4 Interview exhibits
NFA02156136-NFA02547162	Emails	391,027	Former Auditor no. 7 emails (post - 7/9/2012)
NFA02547163-NFA02566936	Emails	19,774	NFA Staff emails and documents
NFA02566937-NFA02597298	Emails	30,362	Former Auditor no. 8 emails and documents
NFA02597299-NFA02623694	Emails	26,396	NFA Staff emails and documents
NFA02623695-NFA02685274	Emails	61,580	Current Auditor no. 14 emails and documents
NFA02685275-NFA02729050	Emails	43,776	Former Auditor no. 7 emails (post - 7/9/2012)
NFA02729051-NFA02730986	Emails	1,936	Current Auditor no. 15 emails
NFA02730987-NFA02736445	Emails	5,459	NFA Staff emails (post - 7/9/2012)
NFA02736446-NFA02740671	Emails	4,226	Current Auditor no. 15 emails (post - 7/9/2012)
NFA02740672-NFA02742507	Emails	1,836	Former Auditor no. 8 emails (post - 7/9/2012)
NFA02742508-NFA02743116	Emails	609	Current Auditor no. 15 Hard Copy documents
NFA02743117-NFA02743172	Audit	56	08-CEXM-148 Audit documents
NFA02743173-NFA02743175	Emails	3	Current Auditor no. 12 emails
NFA02743176-NFA02743178	Emails	3	Current Auditor no. 13 emails
NFA02743179-NFA02789176	Emails	45,998	NFA Staff emails and documents
NFA02789177-NFA02943927	Emails	154,751	NFA Staff emails and documents
NFA02943928-NFA03044684	Emails	100,757	Current Auditor no. 9 emails and documents
NFA03044685-NFA03052991	Emails	8,307	NFA Staff emails and documents
NFA03052992-NFA03053000	Misc.	9	Confirm Contacts
NFA03053001-NFA03053610	JAC documents	610	JAC Minutes
NFA03053611-NFA03053616	Emails	6	NFA Staff emails and documents

## APPENDIX A

### Summary of Database Documents Reviewed

Bates Range [1]	General Category	Number of Pages	General Description
NFA03053617-NFA03054281	Emails	665	NFA Staff emails and documents
NFA03054282-NFA03134958	Emails	80,677	NFA Staff emails and documents
NFA03134959-NFA03244752	Emails	109,794	NFA Staff emails and documents
NFA03244753-NFA03244766	Emails	14	NFA Staff emails and documents
NFA03244767-NFA03338780	Emails	94,014	NFA Staff emails and documents
NFA03338781-NFA03353288	Emails	14,508	NFA Staff emails and documents
NFA03353289-NFA03353391	JAC documents	103	JAC Protocols
NFA03353392-NFA03354492	Emails	1,101	NFA Staff emails and documents
NFA03354493-NFA03355468	Emails	976	NFA Staff emails and documents
NFA03355469-NFA03356087	Emails	619	Current Auditor no. 9 emails and documents
NFA03356088-NFA03356248	Emails	161	NFA Staff emails and documents
NFA03356249-NFA03356539	Emails	291	NFA Staff emails and documents
NFA03356540-NFA03357051	Emails	512	NFA Staff emails and documents
NFA03357052-NFA03358175	Emails	1,124	NFA Staff emails and documents
NFA03358176-NFA03358487	Emails	312	NFA Staff emails and documents
NFA03358488-NFA03358493	Training	6	Training Materials: Booklet - Fraud Squad
NFA03358494-NFA03358527	Training	34	Training Materials: FCM Issues- Margins and Segregation (3/20/96)
NFA03358528-NFA03358575	Training	48	Training Materials: Segregated Funds
NFA03358576-NFA03358684	Training	109	Training Materials: Advanced Net Capital (1/7/00)
NFA03358685-NFA03358702	Training	18	Training Materials: Intro to Net Capital and Seg Funds (9/7/00)
NFA03358703-NFA03358713	Training	11	Training Materials: Risk-Based Auditing (Oct 26, 2000)
NFA03358714-NFA03358946	Training	233	Training Materials: Financial - Net Capital
NFA03358947-NFA03359104	Training	158	Training Materials: Risk-Based Minimum Net Cap Trading
NFA03359105-NFA03359372	Training	268	Training Materials: Intermediate Seg - Seg Training
NFA03359373-NFA03359419	Training	47	Training Materials: Scoping Training (May/June 2011)
NFA03359420-NFA03359529	Training	110	Training Materials: Leading Audits (9/2011)
NFA03359530-NFA03359560	Training	31	Training Materials: Compliance Staff Training Manual (June 2012)
NFA03359561-NFA03359575	Training	15	Training Materials: Compliance Staff Training Manual (January 2011)
NFA03359576-NFA03359611	Training	36	Training Materials: Compliance Staff Training Manual (June 2011)
NFA03359612-NFA03359641	Training	30	Training Materials: Fraud Auditing for NFA Staff
NFA03359642-NFA03359693	Training	52	Training Materials: Investigative Interviewing 10/22/04
NFA03359694-NFA03359736	Training	43	Training Materials: Fraud Detection and Prevention 2/8/2005
NFA03359737-NFA03359859	Training	123	Training Materials: Investigations/Audits Training - FACTS 2000
NFA03359860-NFA03360024	Training	165	Training Materials: Leading Audits (June 2010)
NFA03360025-NFA03360213	Training	189	Training Materials: Fraud Auditing for NFA Staff (2/2012)
NFA03360214-NFA03360285	Emails	72	Current Auditor no. 12 emails and facsimiles
NFA03360286-NFA03360518	Emails	233	NFA Staff facsimiles
NFA03360519-NFA03360674	Emails	156	Former Auditor no. 8 emails and facsimiles
NFA03360675-NFA03360730	Emails	56	NFA Staff facsimiles
NFA03360731-NFA03360755	Emails	25	Current Auditor no. 15 emails and facsimiles
NFA03360756-NFA03360839	Emails	84	Current Auditor no. 13 emails and facsimiles
NFA03360840-NFA03361926	Training	1,087	Training Materials: Compliant Staff Manual- June 2011 (CD-ROM)
NFA03361927-NFA03362088	Interview Transcript	162	Former Auditor no. 2 Interview transcript and exhibits

## APPENDIX A

### Summary of Database Documents Reviewed

Bates Range [1]	General Category	Number of Pages	General Description
NFA03362089-NFA03362218	Interview Transcript	130	Current Auditor no. 3 Interview transcript and exhibits
NFA03362219-NFA03362384	Interview Transcript	166	Current Auditor no. 9 Interview transcript and exhibits
NFA03362385-NFA03362483	Interview Transcript	99	Current Auditor no. 8 Interview transcript and exhibits
NFA03362484-NFA03362777	Interview Transcript	294	Current Auditor no. 10 Interview transcript and exhibits
NFA03362778-NFA03363189	Interview Transcript	412	Current Auditor no. 12 Interview transcript and exhibits
NFA03363190-NFA03363413	Interview Transcript	224	Former Auditor no. 7 Interview transcript and exhibits
NFA03363414-NFA03363478	Interview Transcript	65	Current Auditor no. 11 Interview transcript and exhibits
NFA03363479-NFA03363612	Interview Transcript	134	Former Auditor no. 6 Interview transcript and exhibits
NFA03363613-NFA03363755	Interview Transcript	143	Current Auditor no. 14 Interview transcript and exhibits
NFA03363756-NFA03363931	Interview Transcript	176	Current Auditor no. 13 Interview transcript and exhibits
NFA03363932-NFA03363945	Misc.	14	SD-Confirms1 (June 20, 2011 Backup)
NFA03363946-NFA03390383	Emails	26,438	NFA Staff emails and documents
NFA03390384-NFA03390385	Emails	2	NFA Staff emails
NFA03390386-NFA03390387	Emails	2	NFA Staff emails
NFA03390388-NFA03390531	Interview Transcript	144	Former Auditor no. 5 Interview transcript and exhibits
NFA03390532-NFA03390582	Interview Transcript	51	Former Auditor no. 8 Interview transcript and exhibits
NFA03390583-NFA03390750	Interview Transcript	168	Current Auditor no. 15 Interview transcript and exhibits
NFA03390751-NFA03391431	Training	681	Compliance Staff Training Manual - January 2011
NFA03391432-NFA03391433	Misc.	2	Financial Internal Control Questions
NFA03391434-NFA03391436	Misc.	3	New Audit Documentation Standard
NFA03391437-NFA03391445	Misc.	9	Summary of 2008 Technical Roundtable
NFA03391446-NFA03391448	Training	3	NFA Handbook
NFA03391449-NFA03392104	Misc.	656	2011 Focused Scope Seg Review emails
NFA03392105-NFA03393985	Emails	1,881	Electronic documents from and emails to and from Former Auditor no. 9
2NFA00000001-2NFA00003687	Training	3,687	Training materials
2NFA00003688-2NFA00025818	Training	22,131	Training materials
2NFA00025819-2NFA00028749	Emails	2,931	Current Auditor no. 2 emails
2NFA00028750-2NFA00030137	Emails	1,388	Current Auditor no. 3 emails
2NFA00030138-2NFA00033575	Emails	3,438	Current Auditor no. 6 documents
2NFA00033576-2NFA00037521	Emails	3,946	Current Auditor no. 5 documents
2NFA00037522-2NFA00039574	Emails	2,053	Former Auditor no. 4 documents
2NFA00039575-2NFA00039627	Emails	53	Current Auditor no. 6 documents
2NFA00039628-2NFA00041560	Emails	1,933	Current Auditor no. 7 documents
2NFA00041561-2NFA00047153	Emails	5,593	Current Auditor no. 5 documents
2NFA00047154-2NFA00050709	Emails	3,556	Current Auditor no. 4 documents
2NFA00050710-2NFA00050713	Emails	4	Former Auditor no. 4 documents
2NFA00050714-2NFA00050874	Emails	161	Current Auditor no. 5 documents
2NFA00050875-2NFA00051556	Emails	682	Current Auditor no. 4 documents
2NFA00051557-2NFA00052149	Training	593	NFA 2008 Training Materials
2NFA00052150-2NFA00084799	Emails	32,650	Current Auditor no. 9 emails and documents
2NFA00084800-2NFA00117627	Emails	32,828	Current Auditor no. 13 emails and documents
2NFA00117628-2NFA00354258	Emails	236,631	Current Auditor no. 12 emails
2NFA00354259-2NFA00367177	Emails	12,919	Current Auditor no. 8 emails

## APPENDIX A

### Summary of Database Documents Reviewed

Bates Range [1]	General Category	Number of Pages	General Description
2NFA00367178-2NFA00391278	Emails	24,101	Current Auditor no. 11 emails
2NFA00391279-2NFA00587372	Emails	196,094	Current Auditor no. 15 emails
2NFA00587373-2NFA00594899	Emails	7,527	Current Auditor no. 10 emails
2NFA00594900-2NFA00663095	Emails	68,196	Current Auditor no. 14 emails
2NFA00663096-2NFA00664041	Emails	946	Current Auditor no. 12 emails and documents
2NFA00664042-2NFA00672212	Emails	8,171	Former Auditor no. 7 emails and documents
2NFA00672213-2NFA00675194	Emails	2,982	Current Auditor no. 15 emails and documents
2NFA00675195-2NFA00679025	Emails	3,831	NFA Staff emails and documents
2NFA00679026-2NFA00679336	Emails	311	NFA Hard Copy Files emails and documents
2NFA00679337-2NFA00679725	Emails	389	Current Auditor no. 13 emails and documents
2NFA00679726-2NFA00680116	Emails	391	NFA Staff emails and documents
2NFA00680117-2NFA00680502	Emails	386	Former Auditor no. 8 emails and documents
2NFA00680503-2NFA00680835	Emails	333	NFA Staff emails and documents
2NFA00680836-2NFA00682869	Emails	2,034	Current Auditor no. 14 emails and documents
2NFA00682870-2NFA00683479	JAC Documents	610	JAC minutes
2NFA00683480-2NFA00684580	Emails	1,101	NFA Staff emails and documents
2NFA00684581-2NFA00685556	Emails	976	NFA Staff emails and documents
2NFA00685557-2NFA00686175	Emails	619	Current Auditor no. 9 emails and documents
2NFA00686176-2NFA00686336	Emails	161	NFA Staff emails and documents
2NFA00686337-2NFA00686627	Emails	291	NFA Staff emails and documents
2NFA00686628-2NFA00687139	Emails	512	NFA Staff emails and documents
2NFA00687140-2NFA00688263	Emails	1,124	NFA Staff emails and documents
2NFA00688264-2NFA00688575	Emails	312	NFA Staff emails and documents
2NFA00688576-2NFA00690301	Training	1,726	Training Materials
2NFA00690302-2NFA00693529	Misc.	3,228	Financial Information re FCMs
2NFA00693530-2NFA00694616	Training	1,087	Training Materials
2NFA00694617-2NFA00695297	Training	681	Compliance Staff Training Manual - January 2011
2NFA00695298-2NFA00697178	Misc.	1,881	Documents Requested and ESI from Former Auditor no. 9
2NFA00697179-2NFA00698110	JAC Documents	932	JAC Audit Programs

[1]Bates ranges are provided by counsel for NFA

General Description	Number of documents	Number of Pages
Emails and Related Attachments	166,624	3,168,891
Miscellaneous documents	11,171	146,550
Audit documents	9,373	41,973
Training documents	3,743	30,060
Joint Audit Committee documents	499	2,255
<b>Total</b>	<b>191,410</b>	<b>3,389,729</b>

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

NFA performs periodic audits of its members to ensure compliance with applicable rules and standards. The audits incorporate numerous individual modules designed to review a specific company practice or process. Depending on the nature of the audit planned and the particular circumstances at a given firm, NFA staff may elect to proceed or pass on a specific module.<sup>1</sup> In addition, in certain cases, some modules are completed on a “limited scope” basis.<sup>2</sup>

NFA auditors conducted 17 annual audits of PFG over the past 18 years, every year from 1995<sup>3</sup> to 2012, except for 2007, and NFA auditors were in the process of conducting its audit in 2012 when the fraud came to light. NFA auditors performed 7 additional audits of the following PFG branch offices: (1) Winter Park, FL, in May 2001; (2) Newport Beach, CA, in July 2001; (3) Austin, TX, in August 2001; (4) Westlake Village, CA, in October 2001; (5) Nashville, TN, in December 2002; (6) Scottsdale, AZ in September 2008; and (7) Mission Viejo, CA, in September 2008. In 2010, NFA conducted a second audit of PFG to track the firm’s progress in implementing changes required to be compliant with CFTC’s new Regulation of Off-Exchange Retail Foreign Exchange Transactions and Intermediaries.<sup>4</sup> In 2011, after the MF Global bankruptcy, NFA conducted 2 additional reviews of PFG. Thus, there were a total of 27 audits or reviews of PFG during the period 1995 through 2012.

During 7 of the 17 annual audits, including the last 6 audits, NFA auditors sent a bank confirmation to U.S. Bank.<sup>5</sup> NFA auditors did not find any material issues with the confirmations in any year other than 2012, when NFA began using an electronic confirmation process and the fraud was uncovered.

In 4 of the 17 annual audits, NFA auditors included no deficiencies with PFG’s operations in its report to PFG. In the rest of the annual audits (other than 2012), NFA’s audit reports contained 3 or fewer deficiencies on 7 occasions, and 4 or more deficiencies on 5 occasions.

Outlined below is a brief summary of each annual audit from 1995 until 2012. The scope of the branch office audits was limited to tests of the books and records of the branch office and did not deal with segregation or bank confirmation matters. NFA completed the planning module in addition to the modules listed as completed in each audit.

---

<sup>1</sup> Tr. of Current Auditor no. 3 at 19:19-20.

<sup>2</sup> Tr. of Former Auditor no. 4 at 46:21-47:14 and Tr. of Current Auditor no. 2 at 52:15-18.

<sup>3</sup> While there were NFA audits of PFG prior to 1995, NFA did not retain records related to PFG audits prior to 1995, and consequently, the audit files the BRG Investigative Team were able to review only went back to 1995.

<sup>4</sup> Regulation of Off-Exchange Retail Foreign Exchange Transactions and Intermediaries, 75 FR 55410 (Sept. 10, 2010) (Final CFTC Retail Forex Rule).

<sup>5</sup> This practice adhered to the 2002-2010 JAC procedures (Example 2010 JAC procedures at NFA03353324), which guided the NFA auditor to “on a scope basis, obtain from each depository confirmation of bank balances as of the audit date. Either an original bank statement or direct confirmation with the depository may be used.”

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

#### i. 1995 NFA Audit (95-CEXM-455)

NFA's 1995 audit of PFG began in late November and fieldwork was completed in a month.<sup>6</sup> The NFA audit team comprised of six NFA auditors, but the audit documentation did not designate their respective titles or professional ranks.<sup>7</sup> According to NFA documentation, NFA auditors conducted a full audit, and there was no indication that NFA auditors passed or limited its scope on any particular area or module.<sup>8</sup> During the 1995 audit, NFA auditors completed a segregation review<sup>9</sup> and during that review matched customer segregated cash balances from PFG's segregated statement records to PFG's trial balances.<sup>10</sup> NFA auditors discovered during its review of the Segregation module that the CFTC, in its own examination, had adjusted historical segregation calculations that caused PFG to be under segregated on certain dates, but PFG did not report these adjustments to NFA. With regard to that particular finding, NFA's audit team's Summary of Internal Control Recommendations and Rule Violations included the following comments:<sup>11</sup>

#### Description of Internal Control Violation

NFA noted that the CFTC reviewed PFG's daily segregation computations for 3/3/95 and 3/6/95 and made adjustments which resulted in the firm being under segregated on such dates. However, PFG did not report the corrected amounts to NFA.

#### Firm Comments

The firm stated that in the future they will report all material changes of the daily segregation information to NFA.

At the conclusion of the audit, the following deficiencies were identified:<sup>12</sup>

- 1) PFG failed to submit to NFA a foreign futures and options quarterly report;
- 2) PFG lacked proper supervision and disclosures with regard to segregated accounts (discussed above);
- 3) PFG used promotional material that contained misrepresentations;
- 4) PFG made commission payments and advances to a non-registered NFA member;
- 5) PFG did not clearly identify bank accounts;
- 6) PRG's financial statements required adjustments that would accurately reflect all transactions affecting the firm's asset, liability, income, expense and capital accounts;

---

<sup>6</sup> NFA00000254 (95-CEXM-455 General Program module).

<sup>7</sup> *Id.*

<sup>8</sup> NFA00000254-NFA00000261 (95-CEXM-455 General Program module).

<sup>9</sup> NFA00000230-NFA00000232 (95-CEXM-455 Segregation module).

<sup>10</sup> NFA00000368-NFA00000377 (95-CEXM-455 Segregation worksheet).

<sup>11</sup> NFA00000308 (95-CEXM-455 Summary of Internal Controls Recommendations and Rule Violations module).

<sup>12</sup> NFA00000307-NFA00000313 (95-CEXM-455 Summary of Internal Controls Recommendations and Rule Violations module).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

- 7) PFG fell below its equity withdrawal restriction. In addition under the restriction, the firm made unsecured advances to employees;
- 8) PFG fell below its early warning requirement as of August 31, 1995;
- 9) PFG included a debit liability on its August 31, 1995 trial balance for Customer Ledger Balance Difference;
- 10) PFG failed to take the required charge of under margined customer accounts;
- 11) PFG did not reduce its adjusted net capital by taking a haircut charge on T-bills that mature more than three months from the statement date; and
- 12) PFG entered into a new guarantee agreement while its adjusted net capital was below its early warning requirement.

NFA auditors noted that all deficiencies were resolved or in the process of being resolved by PFG.

#### ii. 1996 NFA Audit (96-CEXM-431)

NFA's 1996 audit of PFG began in mid-October and fieldwork was completed in over a month. The audit team was comprised of a manager, supervisor, senior auditor, in-charge auditor, and three staff auditors.<sup>13</sup> NFA auditors chose to perform 12 modules (Net Capital, Segregation, Registration, Solicitation, Bunched Orders, Records, Trading, Promotional Material, Cash, Supervision, Margins and Subsequent Review), and passed on 6 modules.<sup>14</sup> NFA management stated that NFA auditors did not perform 3 of the modules (Pool Reporting, Commodity Pool Operator Disclosure Document and Commodity Trading Advisor Disclosure Document) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 2 modules (Order Processing and Affiliates) because they had been tested in prior audits with no material deficiencies.<sup>15</sup>

NFA auditors completed the Segregation module<sup>16</sup> and as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>17</sup> With regard to third-party confirmations, "NFA passed on confirming the balances on deposit with the bank."<sup>18</sup>

At the conclusion of the audit, the following deficiencies were identified:<sup>19</sup>

- 1) PFG's promotional material contained misstatements of fact;
- 2) PFG failed to maintain accurate books regarding foreign balances;

---

<sup>13</sup> NFA00000562 (96-CEXM-431 Audit Planning and Scope Selection module).

<sup>14</sup> NFA00000560-NFA00000561 (96-CEXM-431 Audit Planning and Scope Selection module).

<sup>15</sup> See NFA management statements at Appendix D.

<sup>16</sup> NFA00000589-NFA00000591 (96-CEXM-431 Segregation module).

<sup>17</sup> NFA00000590 (96-CEXM-431 Segregation module).

<sup>18</sup> NFA00000544 (96-CEXM-431 Net Capital module).

<sup>19</sup> NFA00000484-NFA00000486 (96-CEXM-431 IC Summary module).



## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

- 3) PFG had problems associated with its split fill order process; and
- 4) PFG did not mark its securities to market or use the cost method for valuing its customer seg securities.

With regard to the improperly marked securities, NFA auditors stated that the firm would like to value the securities at 95% of face value instead of 90%.<sup>20</sup> With regard to the bookkeeping of foreign balances, NFA auditors noted that PFG represented that it was in the process of revising the firm's account procedures and, in the future, all accounting would be reviewed by the CFO.<sup>21</sup> All other deficiencies were considered resolved by NFA auditors.

#### iii. 1997 NFA Audit (97-CEXM-628)

NFA's 1997 audit of PFG began in mid-October and fieldwork was completed in under a month. The audit team comprised of a manager, supervisor, senior auditor, in-charge auditor and three staff auditors.<sup>22</sup> NFA auditors chose to perform 10 modules (Net capital, Segregation, Registration, Solicitation, Bunched Orders, Promotional Material, Cash, Supervision, Subsequent Review and NFA Fees) and passed on 9 other modules.<sup>23</sup> NFA management stated that NFA auditors did not perform 3 of the modules (Pool Reporting, Commodity Pool Operator Disclosure Document and Commodity Trading Advisor Disclosure Document) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 5 modules (Records, Order Processing, Trading, Margins and Affiliates) because they had been tested in prior audits with no material deficiencies.<sup>24</sup>

NFA auditors completed the Segregation module<sup>25</sup> and as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>26</sup> NFA auditors passed on completing the Cash section of the Net Capital module,<sup>27</sup> which included a step to consider confirming cash balances on deposit with the bank.<sup>28</sup>

At the conclusion of the audit, the following deficiencies were identified in an undated letter from NFA to PFG.<sup>29</sup>

---

<sup>20</sup> NFA00000486 (96-CEXM-431 IC Summary module).

<sup>21</sup> NFA00000485 (96-CEXM-431 IC Summary module).

<sup>22</sup> NFA00000713 (97-CEXM-628 Audit Planning and Scope Selection module).

<sup>23</sup> NFA00000711-NFA00000712 (97-CEXM-628 Audit Planning and Scope Selection module).

<sup>24</sup> See NFA management statements at Appendix D.

<sup>25</sup> NFA00000728-NFA00000732 (97-CEXM-628 Segregation module).

<sup>26</sup> *Id.*

<sup>27</sup> NFA00000695-NFA00000696 (97-CEXM-628 Net Capital module).

<sup>28</sup> *Id.*

<sup>29</sup> NFA00000634 (97-CEXM-628 NFA Audit Findings Letter).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

- 1) Improper calculation of net capital due to overstated assets;
- 2) Missing accruals for legal fees; and
- 3) Lack of oversight in registering individuals affiliated with the company with the NFA.

With regard to the improper calculation of net capital, the undated letter from NFA to PFG specifically stated:<sup>30</sup>

The firm did not calculate adjusted net capital properly because it overstated current assets due to the classification of property, plant and equipment. NFA noted the firm is currently seeking a No-Action position from the CFTC regarding this issue (NFA Compliance Rule 2-10 and CFTC Regulation 1.18(a)).

The BRG Investigative Team did not find any documentation indicating that PFG received a No-Action Letter from NFA regarding the issue noted above. The undated letter from NFA to PFG also stated, “During the exit interview, you represented that corrective action has been or will be taken, therefore, no response to this report is necessary.”<sup>31</sup>

#### iv. 1998 NFA Audit (98-CEXM-393)

NFA’s 1998 audit of PFG began in mid-September and fieldwork was completed in under a month. The audit team comprised of a team manager, field supervisor, and three staff auditors.<sup>32</sup> NFA auditors chose to perform 14 modules (Net Capital, Segregation, Registration, Solicitation, Records, Order Processing, Trading, Promotional Material, Cash, Supervision, Margins, Commodity Pool Operator Disclosure Document, Subsequent Review, and Affiliates) and passed on 5 other modules.<sup>33</sup> NFA management stated that NFA auditors did not perform 2 of the modules (Pool Reporting and Commodity Trading Advisor Disclosure Document) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 2 modules (Bunches Orders and NFA Fees) because they had been tested in prior audits with no material deficiencies.<sup>34</sup>

NFA auditors completed the Segregation module<sup>35</sup> and, as such, traced balances from the firm’s segregated statements to applicable records (PFG trial balances, balances on carrying broker

---

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> NFA00000933-NFA00000942 (98-CEXM-393 Audit Planning and Scope Selection module).

<sup>33</sup> NFA00000939-NFA00000940 (98-CEXM-393 Audit Planning and Scope Selection module).

<sup>34</sup> See NFA management statements at Appendix D.

<sup>35</sup> NFA00000963-NFA00000967 (98-CEXM-393 Segregation module).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

statements, etc.) provided by PFG.<sup>36</sup> NFA auditors passed on confirming the balances on deposit with the bank.<sup>37</sup>

At the conclusion of the audit, the following deficiencies were identified in a letter from NFA to PFG dated February 11, 1999:<sup>38</sup>

- 1) Promotional materials containing a misstatement of facts;
- 2) A failure to disclose positions to the NFA; and
- 3) Adjustments were required to PFG's net capital calculation.

With regard to the adjustments required to PFG's net capital calculation, the February 11, 1999 letter stated:<sup>39</sup>

The following adjustments were proposed as of July 31, 1998 which reduced the firm's excess net capital from \$255,958 to \$223,723. (NFA Compliance Rule 2-10 and CFTC Regulation 1.18):

Receivables from Customers for Debit/Deficit	
Accounts- Non-Current	\$12,000
Receivables from Customers for Debit/Deficit	
Accounts-Current	\$12,000

This adjustment was necessary to properly reflect customer debit/deficits which were unsecured.

Receivables from Employees-Non-Current	\$20,235
Commissions Payable	\$20,235

This adjustment was necessary to properly classify receivables from employees.

As a result of the second adjustment – the reclassification of commissions payable, the firm's adjusted net capital fell below the early warning level of \$753,626 on July 31, 1998. (NFA Financial Requirements Section 6 and CFTC Regulation 1.12(b)).

As a result, NFA auditors determined that PFG's adjusted capital fell below its early warning level and that PFG was not in compliance with NFA Financial Requirements Section 6 and CFTC Regulation 1.12(b).<sup>40</sup>

According to an internal memorandum by an NFA auditor, PFG responded in writing on February 24, 1999.<sup>41</sup> With regard to the adjustment, PFG disagreed with NFA's findings and provided evidence to

---

<sup>36</sup> NFA00000963 (98-CEXM-393 Segregation module).

<sup>37</sup> NFA00000837 (98-CEXM-393 Net Capital module).

<sup>38</sup> NFA00000758-NFA00000760 (98-CEXM-628 NFA Audit Findings Letter).

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

<sup>41</sup> NFA00000931-NFA00000932 (98-CEXM-393 NFA Memorandum regarding PFG response to audit findings).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

support their claims. On March 18, 1999, NFA received the firm's evidence for the remaining items and noted that the firm provided sufficient support. Based on the above information, NFA auditors recalculated the firm's adjusted net capital ("ANC") as the following:<sup>42</sup>

Unadjusted ANC as of 7/31/98	\$758,375
Plus Increase in fmv of life ins	\$24, 197
Plus Cancelled checks	\$4,181
Less Silver Statue	\$12,000
Less Reclass of comm pybl (\$20,235 - \$1,940)	\$18,295
Adjusted ANC	\$756,458

Based on the adjusted ANC, NFA auditors noted that PFG was above the Early Warning Requirement.<sup>43</sup> However, as indicated in the NFA February 11, 1999 letter, PFG had already corrected these deficiencies and thus, no additional response was necessary.<sup>44</sup>

#### v. 1999 NFA Audit (99-CEXM-370)

NFA's 1999 audit of PFG began in September and fieldwork was completed was completed in over a month. The audit team comprised of a team manager, a field supervisor and three staff auditors.<sup>45</sup> In September of 1999, the CFTC issued a report noting incorrect material items on PFG's "financial balances."<sup>46</sup> NFA auditors noted the following in its Audit Planning and Scope Selection module: "As many material items were noted regarding the financial balances, NFA will ensure that the firm is correctly classifying these specific items noted by the CFTC."<sup>47</sup>

The NFA auditors chose to perform 11 modules (Net Capital, Segregation, Registration, Solicitation, Bunches Orders, Trading, Promotional Material, Cash, Supervision, Subsequent Review, and Affiliates) and passed on 8 modules.<sup>48</sup> NFA management stated that NFA auditors did not perform 3 of the modules (Pool Reporting, Commodity Pool Operator Disclosure Document and Commodity Trading Advisor Disclosure Document) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 4 modules (Records, Order Processing, Margins and NFA Fees) because they had been tested in prior audits with no material deficiencies.<sup>49</sup>

---

<sup>42</sup> *Id.*

<sup>43</sup> *Id.*

<sup>44</sup> NFA00000758-NFA00000760 (98-CEXM-628 NFA Audit Findings Letter).

<sup>45</sup> NFA00001167 (99-CEXM-370 Audit Planning and Scope Selection module).

<sup>46</sup> NFA00001175-NFA00001176 (99-CEXM-370 Audit Planning and Scope Selection module). See also, CFTC Settlement, dated September 7, 2000, at 1-2.

<sup>47</sup> NFA00001175 (99-CEXM-370 Audit Planning and Scope Selection module).

<sup>48</sup> NFA00001174-NFA00001175 (99-CEXM-370 Audit Planning and Scope Selection module).

<sup>49</sup> See Appendix D.

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

NFA auditors completed the Segregation module<sup>50</sup> and as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>51</sup> During the review of the Segregation module, NFA auditors found inaccurate calculations in daily reports filed with NFA and that PFG further failed to report changes made to daily segregation reports when errors were corrected.<sup>52</sup> NFA auditors relied on the bank records provided by PFG and passed on confirming the balances on deposit with the bank.<sup>53</sup>

At the conclusion of the audit, the following deficiencies were identified in a letter from NFA to PFG dated December 3, 1999:<sup>54</sup>

- 1) PFG's promotional materials contained misstatement of facts;
- 2) The firm's error account was used for trading purposes;
- 3) There were inaccurate calculations in net capital and segregated funds; and
- 4) PFG employees lacked proper registration.

With regard to the inaccurate calculations in net capital and segregated funds, NFA proposed a number of adjustments that reduced the firm's excess net capital from \$1,451,415 to \$1,022,489 and increased excess segregated funds from \$220,279 to \$220,442.<sup>55</sup>

In a December 3, 1999 letter to PFG, NFA noted, "that during the exit interview, PFG represented that corrective action has been or will be taken with respect to these deficiencies, no further response is necessary."<sup>56</sup> In the same letter, NFA warned PFG, noting, "Please be advised that the violations noted in this report are serious violations of NFA Rules. Any future violations of NFA Requirements may subject your firm to further disciplinary action pursuant to NFA Rules."<sup>57</sup>

#### **vi. 2000 NFA Audit (00-CEXM-341)**

NFA's 2000 audit of PFG began in early August and fieldwork was completed in over a month. The audit team comprised of a manager, a field supervisor, and three staff auditors.<sup>58</sup> NFA auditors chose to perform 13 modules (Net Capital, Segregation, Registration, Bunches Orders, Order Processing, Trading, Promotional Material, Cash, Supervision, Margins, Subsequent Review, Affiliates and Automated Order Routing) and passed on 7 other modules.<sup>59</sup> NFA management stated that NFA auditors did not perform 3 of the modules (Pool Reporting, Commodity Pool Operator Disclosure Document and Commodity

---

<sup>50</sup> NFA00001189-NFA00001201 (99-CEXM-370 Segregation module).

<sup>51</sup> *Id.*

<sup>52</sup> NFA00001023-NFA00001027 (99-CEXM-370 IC Summary module).

<sup>53</sup> NFA00001077 (99-CEXM-370 Net Capital module).

<sup>54</sup> NFA00000994-NFA00000998 (99-CEXM-370 NFA Audit Findings Letter).

<sup>55</sup> *Id.*

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

<sup>58</sup> NFA00001413 (00-CEXM-341 Audit Planning and Scope Selection module).

<sup>59</sup> NFA00001420 (00-CEXM-341 Audit Planning and Scope Selection module).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

Trading Advisor Disclosure Document) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 3 modules (Solicitation, Records and NFA Fees) because they had been tested in prior audits with no material deficiencies.<sup>60</sup>

NFA auditors completed the Segregation module<sup>61</sup> and as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>62</sup> NFA auditors noted no material problems with the bank reconciliations, and passed on confirming balances on deposit with the bank.<sup>63</sup>

NFA auditors also conducted a follow-up review related to the findings associated with the 1999 report issued by the CFTC to ensure PFG had successfully addressed any deficiencies noted by the CFTC.<sup>64</sup> No deficiencies related to the CFTC report were noted.

At the conclusion of the audit, the following deficiencies were identified in a letter from NFA to PFG dated October 17, 2000:<sup>65</sup>

- 1) Improper promotional materials;
- 2) Non-compliance with block order procedures; and
- 3) Adjustments to the Initial Margin Requirement and Maintenance Margin Requirement were required for one account.

With regard to the adjustments to the Initial Margin Requirement and Maintenance Margin Requirement, NFA auditors noted that PFG ensured the account in question would be properly calculated in the future.<sup>66</sup> NFA auditors further stated that PFG had already corrected the deficiencies and no additional response was necessary.<sup>67</sup>

#### **vii. 2001 NFA Audit (01-CEXM-420)**

NFA's 2001 audit of PFG began in early September and fieldwork was completed in over 2 months. The audit team comprised of a team manager, a field supervisor, and three staff auditors.<sup>68</sup> NFA auditors chose to perform 14 modules (Net Capital, Segregation, Registration, Bunches Orders, Records, Trading, Promotional Material, Cash, Supervision, Margins, Subsequent Review, Affiliates, NFA Fees, and

---

<sup>60</sup> See NFA management statements at Appendix D.

<sup>61</sup> NFA00001441-NFA00001453 (00-CEXM-341 Segregation module).

<sup>62</sup> *Id.*

<sup>63</sup> NFA00001390 (00-CEXM-341 Net Capital module).

<sup>64</sup> NFA00001421 (00-CEXM-341 Audit Planning and Scope Selection module). NFA00001270-NFA00001278 (00-CEXM-341, PFG's Financial Procedures).

<sup>65</sup> NFA00001244-NFA00001245 (00-CEXM-341 NFA Audit Findings Letter).

<sup>66</sup> NFA00001301 (00-CEXM-341 IC Summary module).

<sup>67</sup> NFA00001244-NFA00001245 (00-CEXM-341 NFA Audit Findings Letter).

<sup>68</sup> NFA00002274 (01-CEXM-420 Audit Planning and Scope Selection module).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

Automated Order Routing) and passed on 6 other modules.<sup>69</sup> NFA management stated that NFA auditors did not perform 3 of the modules (Pool Reporting, Commodity Pool Operator Disclosure Document, and Commodity Trading Advisor Disclosure Document) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 2 modules (Solicitation and Order Processing) because they had been tested in prior audits with no material deficiencies.<sup>70</sup>

NFA auditors completed the Segregation module<sup>71</sup> and as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>72</sup> NFA auditors noted no material problems with bank reconciliations and passed on confirming balances on deposit with the banks.<sup>73</sup> NFA auditors again followed up on the implementation of CFTC recommendations in 1999 and found PFG to be compliant.<sup>74</sup> The 2001 audit concluded with no material deficiencies, as indicated in a letter from NFA to PFG dated November 29, 2001.<sup>75</sup>

#### viii. 2002 NFA Audit (02-CEXM-306)

NFA's 2002 audit of PFG began in mid-July and fieldwork was completed in less than 1 month. The audit team comprised of a team manager, a field supervisor, and two staff auditors.<sup>76</sup> 2002 was the first year that NFA added the Anti-Money Laundering module<sup>77</sup> to its audit program, based upon a review of the audit documentation.<sup>78</sup> NFA auditors chose to perform 10 modules (Net Capital, Segregation, Registration, Solicitation, Promotional Material, Cash, Supervision, Margins, Subsequent Review and Anti-Money Laundering) and passed on 11 other modules.<sup>79</sup> NFA management stated that NFA auditors did not perform 3 of the modules (Pool Reporting, Commodity Pool Operator Disclosure Document and Commodity Trading Advisor Disclosure Document) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 7 modules (Bunches Orders, Records, Order Processing, Trading, Affiliates, NFA Fees and Automated Order Routing) because they had been tested in prior audits with no material deficiencies.<sup>80</sup>

---

<sup>69</sup> NFA00002281-NFA00002282 (01-CEXM-420 Audit Planning and Scope Selection module).

<sup>70</sup> See NFA management statements at Appendix D.

<sup>71</sup> NFA00002342-NFA00002349 (01-CEXM-420 Segregation module).

<sup>72</sup> *Id.*

<sup>73</sup> NFA00002255 (01-CEXM-420 Net Capital module).

<sup>74</sup> NFA00002284 (01-CEXM-420 Audit Planning and Scope Selection module).

<sup>75</sup> NFA00001669 (01-CEXM-420 NFA Audit Findings Letter).

<sup>76</sup> NFA00002903 (02-CEXM-306 Audit Planning and Scope Selection module).

<sup>77</sup> NFA00002543-NFA00002547 (02-CEXM-306 Anti-Money Laundering module).

<sup>78</sup> NFA00002911 (02-CEXM-306 Audit Planning and Scope Selection module).

<sup>79</sup> NFA00002911-NFA00002912 (02-CEXM-306 Audit Planning and Scope Selection module).

<sup>80</sup> See NFA management statements at Appendix D.

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

NFA auditors completed the Segregation module<sup>81</sup> and as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>82</sup> NFA auditors performed limited testing on the Net Capital module, "as no cites were noted in the previous audit."<sup>83</sup> By performing a limited test, the NFA auditors passed on confirming balances on deposit with the banks.

The 2002 audit concluded with no material deficiencies, as indicated in an undated letter from NFA to PFG.<sup>84</sup>

#### ix. 2003 NFA Audit (03-CEXM-519)

NFA's 2003 audit of PFG began in late July and fieldwork was completed in less than a month. The audit team comprised of a team manager, a field supervisor, and three staff auditors.<sup>85</sup> NFA auditors chose to perform 15 modules (Net Capital, Segregation, Registration, Order Processing, Promotional Material, Cash, Supervision, Affiliates, Anti-Money Laundering, Security Futures Products notification, Security Futures Product Records, Security Futures Product Trading, Security Futures Product Promotional Material, Security Futures Product Supervision and Security Futures Product Margins) and passed on 12 modules.<sup>86</sup> NFA management stated that NFA auditors did not perform 3 of the modules (Pool Reporting, Commodity Pool Operator Disclosure Document and Commodity Trading Advisor Disclosure Document) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 8 modules (Solicitation, Bunches Orders, Records, Trading, Margins, Subsequent Review, NFA Fees and Automated Order Routing) because they had been tested in prior audits with no material deficiencies.<sup>87</sup>

NFA auditors completed the Segregation module<sup>88</sup> and, as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>89</sup> The 2003 audit documentation also indicated that NFA auditors completed third party confirmations on bank account balances.<sup>90</sup>

---

<sup>81</sup> NFA00002939-NFA00002947 (02-CEXM-306 Segregation module).

<sup>82</sup> *Id.*

<sup>83</sup> NFA00002912 (02-CEXM-306 Audit Planning and Scope Selection module), Steps #1-4 and #43-47 were completed; however, the step to confirm cash balances was not included in this limited scope review.

<sup>84</sup> NFA00002542 (02-CEXM-306 NFA Audit Findings Letter).

<sup>85</sup> NFA00003389 (03-CEXM-519, Audit Planning and Scope Selection module).

<sup>86</sup> NFA00003389-NFA00003406 (03-CEXM-519 Audit Planning and Scope Selection module).

<sup>87</sup> See NFA management statements at Appendix D.

<sup>88</sup> NFA00003446-NFA00003450 (03-CEXM-519 Segregation module).

<sup>89</sup> *Id.*

<sup>90</sup> NFA00003361-NFA00003364 (03-CEXM-519 Net Capital module); NFA00039391-NFA00039399 (03-CEXM-519 3rd Party Bank Confirmations).



## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

The 2003 audit concluded with no material deficiencies, as indicated in an undated letter from NFA to PFG.<sup>91</sup> This was the third consecutive year in which the NFA auditors found no material deficiencies as a result of its audit of PFG.

#### x. 2004 NFA Audit (04-CEXM-544)

NFA's 2004 audit of PFG began in late September and fieldwork was completed in less than a month. The audit team comprised of a team manager, a field supervisor, and three staff auditors.<sup>92</sup> The NFA auditors chose to perform 21 modules (Net Capital, Segregation, Registration, Bunches Orders, Records, Trading, Promotional Material, Cash, Supervision, Commodity Pool Operator Disclosure Document, Pool Reporting, Subsequent Review, NFA Fees, Automated Order Routing, Anti-Money Laundering, Security Futures Product Notification, Security Futures Product Records, Security Futures Product Trading, Security Futures Product Promotional Material, Security Futures Product Supervision and Security Futures Product Margins) and passed on 6 modules.<sup>93</sup> NFA management stated that NFA auditors did not perform 1 module (Commodity Trading Advisor Disclosure Document) because it pertained to Commodity Trading Advisor operations, which was not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 4 modules (Solicitation, Order Processing, Margins and Affiliates) because they had been tested in prior audits with no material deficiencies.<sup>94</sup>

NFA auditors completed the Segregation module<sup>95</sup> and, as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>96</sup> NFA auditors chose to perform a limited testing<sup>97</sup> of the Net Capital module and passed on confirming cash balances on deposit with the banks.<sup>98</sup>

At the conclusion of the audit, the following deficiencies were identified in a letter from NFA to PFG dated January 24, 2005:<sup>99</sup>

- 1) Did not meet standards in registering employees in branch offices; and
- 2) Lacked supervision of its Guaranteed Introducing Brokers.

In a letter from PFG to NFA dated February 7, 2005, PFG informed NFA that PFG had terminated its guarantee agreements with all three Guaranteed Introducing Brokers mentioned in the Audit Findings letter. Further, PFG implemented a quarterly verbal interview with each Introducing Broker. During the

---

<sup>91</sup> NFA00002993-NFA00002994 (03-CEXM-519 NFA Audit Findings Letter).

<sup>92</sup> NFA00004026 (04-CEXM-544 Audit Planning and Scope Selection module).

<sup>93</sup> NFA00004034-NFA00004036 (04-CEXM-544 Audit Planning and Scope Selection module).

<sup>94</sup> See NFA management statements at Appendix D.

<sup>95</sup> NFA00004088-NFA00004092 (04-CEXM-544 Segregation module).

<sup>96</sup> *Id.*

<sup>97</sup> NFA00004035 (04-CEXM-544 Audit Planning and Scope Selection module).

<sup>98</sup> NFA00004013 (04-CEXM-544 Net Capital module).

<sup>99</sup> NFA00003505-NFA00003506 (04-CEXM-544 NFA Audit Findings Letter).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

interview, PFG said that it would document general information regarding the Introducing Broker, the business it is conducting, review its website for compliance, and review the registration on the Online Registration System in order to resolve the outstanding issues.<sup>100</sup>

#### **xi. 2005 NFA Audit (05-CEXM-716)**

NFA's 2005 audit of PFG began in mid-October and fieldwork was completed in about 2 months. The audit team comprised of a team manager, a field supervisor, and 3 staff members.<sup>101</sup> NFA auditors chose to perform 10 modules (Net Capital, Segregation, Registration, Records, Order Processing, Promotional Material, Cash, Supervision, Margins and Subsequent Review) and passed on 17 modules.<sup>102</sup> NFA management stated that NFA auditors did not perform 1 module (Commodity Trading Advisor Disclosure Document) because it pertained to Commodity Trading Advisor operations, which was not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 9 modules (Solicitation, Bunches Orders, Trading, Commodity Pool Operator Disclosure Document, Pool Reporting, Affiliates, NFA Fees, Automated Order Routing and Anti-Money Laundering) because they had been tested in prior audits with no material deficiencies; and passed on 6 other modules (Security Futures Product Notification, Security Futures Product Records, Security Futures Product Trading, Security Futures Product Promotional Material, Security Futures Product Supervision and Security Futures Product Margins) because PFG had very few Security Futures Product accounts.<sup>103</sup>

NFA auditors completed the Segregation module<sup>104</sup> and, as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>105</sup> NFA auditors also chose to confirm the cash balance of the Bank One "Customer Seg – Forex" account, which it mailed to Bank One on October 27, 2005.<sup>106</sup> NFA auditors noted that the confirmation statement from the bank agreed with the firm's August 31, 2005 documented balance and passed on further review.<sup>107</sup>

The 2005 audit concluded with no material deficiencies, as indicated in a letter from NFA to PFG dated February 8, 2006.<sup>108</sup>

---

<sup>100</sup> NFA00003880 (Memorandum from PFG in response to NFA's Audit Findings Letter).

<sup>101</sup> NFA00004610 (05-CEXM-716 Audit Planning and Scope Selection module).

<sup>102</sup> NFA00004618-NFA00004620 (05-CEXM-716 Audit Planning and Scope Selection module).

<sup>103</sup> See NFA management statements at Appendix D.

<sup>104</sup> NFA00004661-NFA00004665 (05-CEXM-716 Segregation module).

<sup>105</sup> *Id.*

<sup>106</sup> NFA00004434 (05-CEXM-716 Net Capital module).

<sup>107</sup> NFA00004435 (05-CEXM-716 Net Capital module).

<sup>108</sup> NFA00004152- NFA00004153 (05-CEXM-716 NFA Audit Findings Letter).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

#### xii. 2006 NFA Audit (06-CEXM-521)

NFA's 2006 audit of PFG began in mid-October and fieldwork was completed in a month. The audit team comprised of a team manager, a field supervisor and three staff auditors.<sup>109</sup> NFA auditors chose to perform 13 modules (Net Capital, Segregation, Registration, Solicitation, Records, Order Processing, Promotional Material, Cash, Supervision, Commodity Pool Operator Disclosure Document, Pool Reporting, Subsequent Review and Anti-Money Laundering) and passed on 14 modules.<sup>110</sup> NFA management stated that NFA auditors did not perform 1 module (Commodity Trading Advisor Disclosure Document) because it pertained to Commodity Trading Advisor operations, which was not applicable to PFG at the time; did not perform another module (Seldom Seen Issues) because it was not applicable to PFG's operations; and passed on 6 modules (Bunches Orders, Trading, Margins, Affiliates, NFA Fees and Automated Order Routing) because they had been tested in prior audits with no material deficiencies; and passed on 6 other modules (Security Futures Product Notification, Security Futures Product Records, Security Futures Product Trading, Security Futures Product Promotional Material, Security Futures Product Supervision and Security Futures Product Margins) because PFG had very few Security Futures Product accounts.<sup>111</sup>

NFA auditors completed the Segregation module<sup>112</sup> and, as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>113</sup> NFA auditors sent cash balance confirmation statements to a number of banks, including U.S. Bank on November 10, 2006 and no material differences were found.<sup>114</sup>

At the conclusion of the audit, the following deficiencies were identified in a letter from NFA to PFG dated March 15, 2007:<sup>115</sup>

- 1) Failure to calculate concentration charge against its net capital;<sup>116</sup>
- 2) Misleading promotional material;
- 3) Mislabeled accounts at JPMorgan and Dresdner; and
- 4) An inaccurate disclosure document for PECTA LLC.

With regard to the mislabeling of accounts, the March 15, 2007 letter noted the following:<sup>117</sup>

---

<sup>109</sup> NFA00005924 (06-CEXM-521 Audit Planning and Scope Selection module).

<sup>110</sup> NFA00005936-NFA00005938 (06-CEXM-521 Audit Planning and Scope Selection module).

<sup>111</sup> See NFA management statements at Appendix D.

<sup>112</sup> NFA00006038-NFA00006046 (06-CEXM-521 Segregation module).

<sup>113</sup> *Id.*

<sup>114</sup> NFA00006051-NFA00006054 (06-CEXM-521 Sources worksheet). NFA auditors received the U.S. Bank confirmation on November 27, 2006; NFA00037005 (U.S. Bank 3rd Party Bank Confirmation).

<sup>115</sup> NFA00004823-NFA00004826 (06-CEXM-521 NFA Audit Findings Letter).

<sup>116</sup> *Id.*, NFA noted that the adjustment resulted in an immaterial decrease in its Adjusted Net Capital.

<sup>117</sup> *Id.*

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

The JPMorgan Chase Bank account is titled “Customer Segregated Fund Account/Forex.” This implies that customer funds are segregated and given special protections under the bankruptcy laws. (NFA Compliance Rule 2-36)

*Subsequent to fieldwork, the firm had the account title changed to ‘Forex Customer Account’ and provided documentation to NFA.*

The accounts at Dresdner and JPMorgan Chase Banks for the firm’s secured accounts do not properly identify that the funds were segregated for foreign futures and options customers. (NFA Compliance Rule 2-31 and CFTC Regulation 30.7(c))

*Subsequent to fieldwork, the firm had the account titles changed to reflect that the accounts represent 30.7 secured funds and provided documentation to NFA.*

With regard to the JPM account, on January 5, 2007, PFG provided NFA with the new signature card that the firm was required to fill out from JPM with the new account title; and on February 22, 2007, PFG provided NFA auditors with a screen shot from the bank showing the new title of the account.<sup>118</sup> With regard to the Dresdner account, an undated PFG letter to Dresdner informed the bank to designate the PFG account as “Peregrine Financial Group, Inc. – Customer 30.7.”<sup>119</sup> With regard to the failure to calculate concentration charge against its net capital, PFG stated it would prepare the calculation and provide it to NFA. In addition, PFG stated that it would ensure that concentration charge calculations were prepared in the future.<sup>120</sup> As indicated in the letter, PFG had already corrected all deficiencies and no additional response was considered necessary.<sup>121</sup>

#### **xiii. 2008 NFA Audit (08-CEXM-016)**

NFA’s 2008 audit of PFG began in early January and fieldwork was completed in less than 1 month. The audit team comprised of a team manager, a field supervisor, and three staff auditors.<sup>122</sup> NFA auditors chose to perform 12 modules (Net Capital, Segregation, Bunches Orders, Trading, Promotional Material, Cash, Supervision, Pool Reporting, Subsequent Review, NFA Fees, Automated Order Routing and Anti-Money Laundering) and passed on 16 modules.<sup>123</sup> NFA management stated that NFA auditors did not perform 1 module (Commodity Trading Advisor Disclosure Document) because it pertained to Commodity Trading Advisor operations, which was not applicable to PFG at the time; did not perform 2 modules (Seldom Seen Issues and Not-Doing-Business) because they were not applicable to PFG’s operations; and passed on 7 modules (Registration, Solicitation, Records, Order Processing, Margins, Commodity Pool Operator Disclosure Document and Affiliates) because they had been tested in prior

---

<sup>118</sup> NFA00005873-NFA00005874 (06-CEXM-521 Summary of Audit Findings). For JPMorgan Chase signature card, email and printout of account details, see NFA00005712-NFA00005715 (06-CEXM-521 supporting documents).

<sup>119</sup> NFA00005709 (PFG letter to Dresdner re: customer segregated account).

<sup>120</sup> NFA00005871-NFA00005872 (06-CEXM-521 Summary of Audit Findings).

<sup>121</sup> NFA00004823 (06-CEXM-521 NFA Audit Findings Letter).

<sup>122</sup> NFA00007360- NFA00007361 (08-CEXM-016 Audit Planning and Scope Selection module).

<sup>123</sup> NFA00007375-NFA00007377 (08-CEXM-016 Audit Planning and Scope Selection module).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

audits with no material deficiencies; and passed on 6 other modules (Security Futures Product Notification, Security Futures Product Records, Security Futures Product Trading, Security Futures Product Promotional Material, Security Futures Product Supervision and Security Futures Product Margins) because PFG had very few Security Futures Product accounts.<sup>124</sup>

NFA auditors completed the Segregation module and as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>125</sup> NFA auditors noted that PFG was compliant with the December 21, 2007, FDM requirement change of increased levels of Net Capital.<sup>126</sup> NFA auditors also confirmed cash balances of certain PFG accounts with their respective banks.<sup>127</sup> No material deficiencies with regard to bank confirmations were noted.<sup>128</sup>

At the conclusion of the audit, the following deficiency was identified in a letter from NFA to PFG dated April 24, 2008:<sup>129</sup>

- 1) PFG futures and Forex websites contained misstatements of fact or unbalanced discussion of risk.

With regard to the deficiency, PFG revised the statements on both websites to ensure compliance with NFA rules.<sup>130</sup> Accordingly, NFA determined that PFG had already corrected these deficiencies and no additional response was necessary.<sup>131</sup>

#### **xiv. 2009 NFA Audit (09-CEXM-003)**

NFA's 2009 audit began in early January 2009 and fieldwork was completed in a month. The audit team comprised of a team manager, a field manager, and four staff auditors.<sup>132</sup> NFA auditors chose to perform 11 modules (Net Capital, Segregation, Solicitation, Trading, Promotional Material, Cash, Supervision, Margins, Pool Reporting, Automated Order Routing and Anti-Money Laundering) and passed on 17 modules.<sup>133</sup> NFA management stated that NFA auditors did not perform 1 module (Commodity Trading Advisor Disclosure Document) because it pertained to Commodity Trading Advisor operations, which was not applicable to PFG at the time; did not perform 3 modules (Bunches Orders, Seldom Seen Issues and Not-Doing-Business) because they were not applicable to PFG's operations; and passed on 7 modules (Registration, Records, Order Processing, Commodity Pool Operator Disclosure

---

<sup>124</sup> See NFA management statements at Appendix D.

<sup>125</sup> NFA00007412-NFA00007415 (08-CEXM-016 Segregation module).

<sup>126</sup> NFA00007372 (08-CEXM-016 Audit Planning and Scope Selection module).

<sup>127</sup> NFA00007339-NFA00007342 (08-CEXM-016 Net Capital module); NFA00035856 (08-CEXM-016 3rd Party Bank Confirmation).

<sup>128</sup> NFA00007416-NFA00007439 (08-CEXM-016 Segregation worksheet, *See* note 1 of Table 2 notes).

<sup>129</sup> NFA00006190-NFA00006192 (08-CEXM-016 NFA Audit Findings Letter).

<sup>130</sup> NFA00007325-NFA00007326 (08-CEXM-016 Summary of Audit Findings).

<sup>131</sup> NFA00006190 (08-CEXM-016 NFA Audit Findings Letter).

<sup>132</sup> NFA00007856-NFA00007857 (09-CEXM-003 Audit Planning and Scope Selection module).

<sup>133</sup> NFA00007881-NFA00007886 (09-CEXM-003 Audit Planning and Scope Selection module).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

Document, Subsequent Review, Affiliates and NFA Fees) because they had been tested in prior audits with no material deficiencies; and passed on 6 other modules (Security Futures Product Notification, Security Futures Product Records, Security Futures Product Trading, Security Futures Product Promotional Material, Security Futures Product Supervision and Security Futures Product Margins) because PFG had very few Security Futures Product accounts.<sup>134</sup>

NFA auditors completed the Segregation module and as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>135</sup> NFA auditors also confirmed cash balances of certain PFG accounts with their respective banks.<sup>136</sup> No material deficiencies with regard to bank confirmations were noted.<sup>137</sup>

At the conclusion of the audit, the following deficiencies were identified in a letter from NFA to PFG dated May 29, 2009.<sup>138</sup>

- 1) PFG promotional materials possess misstatements of fact;
- 2) PFG lacks supervision of unregulated solicitors;
- 3) PFG submitted inaccurate Forex weekly reports; and
- 4) PFG's anti-money laundering program is inadequate.

With regard to PFG's Anti-Money Laundering program, the May 29, 2009 letter specifically stated:<sup>139</sup>

The anti-money laundering program developed and implemented by the firm was not adequate. Specifically, the annual independent anti-money laundering audit was conducted by Schweder, the firm's Compliance Manager, who works in an area that is potentially susceptible to money laundering and as such, is not an independent party. (NFA Compliance Rule 2-9(c))

On January 29, 2009, the firm stated that this audit has been conducted by Schweder and the former PFG Compliance Manager for the past several years and PFG believed these individuals were independent as they do not perform any anti-money laundering functions for the firm. However, as of February 2, 2009, PFG entered into an agreement with EA Compliance, Inc., an independent third party, to conduct its annual anti-money laundering audits going forward.

---

<sup>134</sup> See NFA management statements at Appendix D.

<sup>135</sup> NFA00007927-NFA00007929 (09-CEXM-003 Segregation module).

<sup>136</sup> NFA00007764-NFA00007780 (09-CEXM-003 Net Capital module); NFA00008684 (09-CEXM-003 3rd Party Bank Confirmation).

<sup>137</sup> NFA00007927-NFA00007929 (09-CEXM-003 Segregation module).

<sup>138</sup> NFA03136468-NFA03136475 (09-CEXM-003 NFA Audit Findings).

<sup>139</sup> NFA03136475 (09-CEXM-003 NFA Audit Findings).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

The May 29, 2009 letter also indicated that, “[s]ome findings from this examination are serious violations of NFA Rules . . .” but added that “PFG has already corrected all items; therefore, no additional response is necessary . . .”<sup>140</sup>

#### **xv. 2010 NFA Audit (10-CEXM-206)**

NFA’s 2010 audit began in late March and fieldwork was completed in 2 months. The audit team comprised of a team manager, two field supervisors, and four staff auditors.<sup>141</sup> During the audit, NFA auditors noted that the 2009 issues related to anti-money laundering, solicitation, and promotional materials would be reinvestigated to ensure compliance.<sup>142</sup> The audit team chose to perform 10 modules (Net Capital, Segregation, Registration, Order Processing, Promotional Material, Cash, Supervision, NFA Fees, Automated Order Routing and Anti-Money Laundering) and passed on 19 modules.<sup>143</sup> NFA management stated that NFA auditors did not perform 4 modules (Commodity Pool Operator Disclosure Document, Commodity Trading Advisor Disclosure Document, Pool Reporting and Fund of Funds) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at the time; did not perform 3 modules (Bunches Orders, Seldom Seen Issues and Not-Doing-Business) because they were not applicable to PFG’s operations; passed on 6 modules (Solicitation, Records, Trading, Margins, Subsequent Review and Affiliates) because they had been tested in prior audits with no material deficiencies; and passed on 6 other modules (Security Futures Product Notification, Security Futures Product Records, Security Futures Product Trading, Security Futures Product Promotional Material, Security Futures Product Supervision and Security Futures Product Margins) because PFG had very few Security Futures Product accounts.<sup>144</sup>

NFA auditors completed the Segregation module and, as such, traced balances from the firm’s segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>145</sup> NFA auditors also confirmed cash balances of certain PFG accounts with their respective banks.<sup>146</sup>

At the conclusion of the audit, the following deficiencies were identified in a letter from NFA to PFG dated August 6, 2010:<sup>147</sup>

- 1) Incorrect material statements in promotional material; and
- 2) Lack of supervision of Guaranteed Introducing Broker activities, specifically the websites and promotional materials of PFG’s Guaranteed Introducing Brokers.

---

<sup>140</sup> NFA03136468 (09-CEXM-003 NFA Audit Findings).

<sup>141</sup> NFA00010674-NFA00010675 (10-CEXM-206 Audit Planning and Scope Selection module).

<sup>142</sup> *Id.*

<sup>143</sup> NFA00010700-NFA00010705 (10-CEXM-206 Audit Planning and Scope Selection module).

<sup>144</sup> See NFA management statements at Appendix D.

<sup>145</sup> NFA00010951-NFA00010953 (10-CEXM-206 Segregation module).

<sup>146</sup> NFA00010579-NFA00010596 (10-CEXM-206 Net Capital); NFA00594038 (10-CEXM-206 3rd Party Bank Confirmation).

<sup>147</sup> NFA03244805-NFA03244808 (10-CEXM-206 NFA Audit Findings Letter).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

NFA determined that PFG already had corrected these deficiencies and no additional response was necessary.<sup>148</sup>

#### **xvi. 2010 NFA Second Audit (10-CEXM-613)**

NFA's second 2010 audit of PFG began in July and fieldwork was completed in over 2 months. NFA conducted a second audit of PFG to track the firm's progress in implementing changes required to be compliant with CFTC's new Regulation of Off-Exchange Retail Foreign Exchange Transactions and Intermediaries.<sup>149</sup> The new regulations and amendments established requirements for, among other things, registration, disclosure, recordkeeping, financial reporting, minimum capital, and other operational standards.<sup>150</sup> Specifically, the regulations required:<sup>151</sup>

- 1) The registration of counterparties offering retail foreign currency contracts as either a FCM or RFED;
- 2) That persons who solicit orders, exercise discretionary trading authority or operate pools with respect to retail forex will be required to register as commodity trading advisers, commodity pool operators or associated persons;
- 3) That leverage in retail forex customer accounts will be subject to a security deposit requirement; and
- 4) Retail forex counter parties and intermediaries distribute forex-specific risk disclosure statement to customers.

The audit team comprised of one manager and one field supervisor. The audit began in early October and focused on registration, CFTC Regulation 5.5 Disclosure, margin requirements, capital compliance and solicitors.<sup>152</sup> As a result of this focused review, the NFA audit team concluded that there were no material deficiencies.<sup>153</sup>

#### **xvii. 2011 NFA Audit (11-CEXM-239)**

NFA's 2011 audit began in early May and fieldwork was completed in months. The audit team comprised of a team manager, two field supervisors, and three staff auditors.<sup>154</sup> NFA auditors chose to perform 10 modules (Net Capital, Segregation, Registration, Bunches Orders, Records, Promotional Material, Cash, Supervision, NFA Fees and Anti-Money Laundering) and passed on 19 modules.<sup>155</sup> NFA

---

<sup>148</sup> *Id.*

<sup>149</sup> Regulation of Off-Exchange Retail Foreign Exchange Transactions and Intermediaries, 75 FR 55410 (September 10, 2010) (Final CFTC Retail Forex Rule).

<sup>150</sup> *Id.*

<sup>151</sup> CFTC Press Release dated August 30, 2010, "CFTC Releases Final Rules Regarding Forex Transactions." Available at <http://www.cftc.gov/PressRoom/PressReleases/pr5883-10>.

<sup>152</sup> NFA00012643-NFA00012665 (10-CEXM-613 Audit Planning and Scope Selection module).

<sup>153</sup> *Id.*

<sup>154</sup> NFA00012983-NFA00013017 (11-CEXM-239 Audit Planning and Scope Selection module).

<sup>155</sup> *Id.*



## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

management stated that NFA auditors did not perform 4 modules (Commodity Pool Operator Disclosure Document, Commodity Trading Advisor Disclosure Document, Pool Reporting and Fund of Funds) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at the time; did not perform 2 modules (Seldom Seen Issues and Not-Doing-Business) because they were not applicable to PFG's operations; passed on 7 modules (Solicitation, Order Processing, Trading, Margins, Subsequent Review, Affiliates and Automated Order Routing) because they had been tested in prior audits with no material deficiencies; and passed on 6 other modules (Security Futures Product Notification, Security Futures Product Records, Security Futures Product Trading, Security Futures Product Promotional Material, Security Futures Product Supervision and Security Futures Product Margins) because PFG had very few Security Futures Product accounts.<sup>156</sup>

NFA auditors completed the Segregation module and, as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>157</sup> NFA auditors noted in the IC Summary module that PFG, "did not prepare or maintain daily segregation statements on a currency by currency basis."<sup>158</sup> NFA auditors also confirmed cash balances of certain PFG accounts with their respective banks.<sup>159</sup>

As explained in more detail in Section IV of this report, NFA auditors received conflicting confirmations from U.S. Bank during this audit. On Friday, May 13, 2011, NFA auditors received the confirmation form from U.S. Bank stating that PFG's customer segregated account held \$7,181,336.36.<sup>160</sup> On Monday, May 16, 2011, NFA auditors received a "corrected" U.S. Bank confirmation form with the customer segregated account balance adjusted to \$218,650,550.96.<sup>161</sup> After the "corrected" balance was received, the NFA auditors did not take any further steps to determine the reason for such a large correction, and as a result, no material deficiencies were noted with regard to the confirmation of the balance in the U.S. Bank customer segregated account.

At the conclusion of the audit, the following deficiencies were identified in a letter from NFA to PFG dated September 26, 2011.<sup>162</sup>

- 1) NFA fees were improperly applied to customers;
- 2) PFG submitted inaccurate Forex Weekly reports to NFA;
- 3) Procedures were not followed to ensure that the individuals or entities that the firm conducts business with are properly registered;
- 4) PFG failed to prepare its daily segregation statements on a currency-by-currency basis; and

---

<sup>156</sup> See NFA management statements at Appendix D.

<sup>157</sup> NFA00013080-NFA00013082 (11-CEXM-239 Segregation module).

<sup>158</sup> NFA00012926 (11-CEXM-239 IC Summary module).

<sup>159</sup> NFA00012930-NFA00012936 (11-CEXM-239 Net Capital module).

<sup>160</sup> 2NFA00122082-2NFA00122083 (11-CEXM-239 3rd Party Bank Confirmation).

<sup>161</sup> 2NFA00122084-2NFA00122086 (11-CEXM-239 3rd Party Bank Confirmation).

<sup>162</sup> NFA03136527-NFA03136529 (11-CEXM-239 NFA Audit Findings Letter).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

- 5) PFG promotional material included hypothetical performance results without disclosing the material assumptions made in arriving at the hypothetical performance.

As indicated in NFA's September 26, 2011 letter, PFG corrected items 3) through 5), and NFA asked PFG to provide a written response for items 1) and 2).<sup>163</sup> On October 13, 2011, PFG responded to NFA stating that corrective actions had been taken to resolve items 1) and 2).<sup>164</sup>

#### **xviii. 2011 NFA Post-MF Global Audit (11-CEXM-853)**

In response to the MF Global bankruptcy on October 31, 2011, NFA conducted a limited audit of PFG on November 1, 2011, and fieldwork was completed in 1 day.<sup>165</sup> The audit team was comprised of a manager and a field supervisor. NFA auditors identified PFG accounts with MF Global and the impact the bankruptcy would have on PFG's excess segregated funds and excess net capital.<sup>166</sup> PFG had one account at MF Global, which was an omnibus account in the amount of \$5,373.79.<sup>167</sup> NFA auditors noted, "As the firm is well capitalized and the balance at MFG [MF Global] will not affect either the segregated funds or net capital requirements, NFA will pass on further review."<sup>168</sup>

#### **xix. 2011 NFA Second Post-MF Global Audit (11-CEXM-939)**

Later in November, NFA conducted an additional focused, but limited, review of PFG during 2011 at the request of the CFTC. The CFTC described the review as "a coordinated review with the CME and NFA of all FCMs that carried customer funds to assess compliance with the protection of customer funds and Commission regulations."<sup>169</sup> The CFTC further stated that "[t]he limited reviews relied to a great extent on the records and third-party source documents maintained at the FCMs. Staff did not confirm balances directly with depositories or other entities holding customer funds."<sup>170</sup>

The audit team was comprised of two managers, two field supervisors and four staff auditors and began in late November 2011.<sup>171</sup> According to the Audit Planning and Scope Selection document for the audit, the audit was limited in scope as follows:<sup>172</sup>

. . . Unless testing warrants, NFA will solely be completing Step 1 of the Segregation module for the purposes of its review. Due to the nature of the review NFA will not be issuing a formal audit report. If any deficiencies were discovered during the review, they have been discussed with the firm and appropriate corrective action has been obtained . . .

---

<sup>163</sup> *Id.*

<sup>164</sup> NFA00018622 (11-CEXM-239 PFG Response to NFA Findings).

<sup>165</sup> NFA00013883-NFA00013884 (11-CEXM-853 Audit Planning and Scope Selection module).

<sup>166</sup> NFA00013883 (11-CEXM-853 Audit Planning and Scope Selection module).

<sup>167</sup> *Id.*

<sup>168</sup> *Id.*

<sup>169</sup> <http://www.cftc.gov/PressRoom/PressReleases/pr6171-12>.

<sup>170</sup> *Id.*

<sup>171</sup> NFA00013984-NFA00013985 (11-CEXM-939 Audit Planning and Scope Selection module).

<sup>172</sup> NFA00013984 (11-CEXM-939 Audit Planning and Scope module).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

NFA auditors interviewed PFG regarding its internal controls related to segregated accounts and concluded the following:<sup>173</sup>

. . . NFA noted that PFG solely withdraws segregated funds through its JP Morgan Chase segregated accounts . . . .

. . . . PFG has multiple internal controls that check and record the movement of segregated funds. All money movement must go through multiple levels of review and approval . . . Further, all customer withdrawals are verified with the customer over the phone prior to the initiation of the withdrawal. PFG also maintains copies of all emails, check requests, wire requests, transfer requests, margin wires and copies of check deposits which are compiled by Josh Gates, Shannon Marsh, Jenni Hashman, or Cody Banks. Further, PFG stated that the daily computation of excess segregation also provides an overall review of the movement of segregated funds for any errors or imbalances. Lastly, NFA noted that any withdrawal of \$100,000 or must be approved by Russell Wasendorf Jr.

The audit documentation did not indicate that NFA auditors conducted further testing to verify the efficacy of such internal controls.

As a result of the audit, NFA auditors noted an understatement in PFG's excess segregated funds in the amount of \$183,342.89. The understatement was a result of data entry errors, an omission of a T-bill, and warehouse receipt rate adjustments; but noted that these adjustments were immaterial based on the amount of segregated funds in the account.<sup>174</sup> NFA's 2011 Post-MF Global review into PFG's segregated accounts concluded that there were no material issues.<sup>175</sup>

#### **xx. 2012 NFA Audit (12-CEXM-299)**

NFA's 2012 audit of PFG began in June. The audit team comprised of a team manager, three field supervisors, and three staff auditors.<sup>176</sup> NFA auditors chose to perform 16 modules (Net Capital, Segregation, Registration, Solicitation, Bunches Orders, Records, Order Processing, Trading, Promotional Material, Cash, Supervision, Margins, Subsequent Review, Automated Order Routing, Anti-Money Laundering, and Business Continuity/Disaster Recovery) and pass on 16 modules.<sup>177</sup> NFA management stated that NFA auditors did not perform 6 modules (Commodity Pool Operator Disclosure Document, Commodity Trading Advisor Disclosure Document, Pool Reporting, Fund of Funds, 4.7 Disclosure Commodity Trading Advisor and 4.7 Disclosure Commodity Pool Operator) because they pertained to Commodity Pool Operator/Commodity Trading Advisor operations, which were not applicable to PFG at

---

<sup>173</sup> NFA00014103 (11-CEXM-939 Supporting Documentation–Internal Controls).

<sup>174</sup> NFA00014006-NFA00014018 (11-CEXM-939 Segregation module).

<sup>175</sup> *Id.*

<sup>176</sup> NFA00081797-NFA00081798 (12-CEXM-299 Audit Planning and Scope Selection module).

<sup>177</sup> NFA00081797-NFA00081830 (12-CEXM-299 Audit Planning and Scope Selection module).

## APPENDIX B

### Description of NFA Audits of PFG, 1995-2012

the time; did not perform 2 modules (Seldom Seen Issues and Not-Doing-Business) because they were not applicable to PFG's operations; passed on 1 module (NFA Fees) because it had been tested in prior audits with no material deficiencies; passed on 1 module (Affiliates) because PFG had no current receivables from affiliates; and passed on 6 other modules (Security Futures Product Notification, Security Futures Product Records, Security Futures Product Trading, Security Futures Product Promotional Material, Security Futures Product Supervision and Security Futures Product Margins) because PFG had very few Security Futures Product accounts.<sup>178</sup>

NFA auditors completed the Segregation module and as such, traced balances from the firm's segregated statements to applicable records (PFG trial balances, balances on carrying broker statements, etc.) provided by PFG.<sup>179</sup> NFA's documentation in the Segregation module shows PFG "passed" or "appeared reasonable" in all completed steps of the review.<sup>180</sup>

In the Net Capital module, NFA auditors assessed PFG as a high control risk because, "the firm manually inputs balances from accounting software into excel" and its use of "a 1-person CPA firm to conduct an annual audit."<sup>181</sup> In addition, NFA auditors documented that PFG had recurring problems with improper reporting/classification of receivables and debits/deficits.<sup>182</sup>

For the first time, NFA auditors used an online electronic confirmation process via confirmation.com to conduct third-party confirmations with banks holding PFG cash balances, including U.S. Bank. NFA auditors requested the balances of PFG's segregated bank accounts as of April 30, 2012.<sup>183</sup> On July 2, 2012, NFA auditors requested an electronic signature from Wasendorf through confirmation.com.<sup>184</sup> On July 8, 2012, Wasendorf affirmatively responded to the electronic request to confirm the balances.<sup>185</sup> When Wasendorf clicked on the button authorizing the balance, the system automatically sent the balance request to U.S. Bank. U.S. Bank then filled out the amount of the balance on July 9, 2012 at 10:48 a.m.<sup>186</sup>

Wasendorf attempted suicide before the confirmations were returned from the banks.<sup>187</sup> The third party bank confirmation showed that the 845 Account held approximately \$5 million. PFG bank statements filed with the NFA showed a balance of \$223,811,055.39.<sup>188</sup> These facts suggested that

---

<sup>178</sup> See NFA management statements at Appendix D.

<sup>179</sup> NFA00082876-NFA00082893 (12-CEXM-299 Segregation module).

<sup>180</sup> *Id.*

<sup>181</sup> NFA00081704 (12-CEXM-299 Net Capital module).

<sup>182</sup> NFA00081704-NFA00081705 (12-CEXM-299 Net Capital module).

<sup>183</sup> Tr. of Current Auditor no. 12 at 121:15-122:13.

<sup>184</sup> *Id.* at 122:2-6.

<sup>185</sup> *Id.* at 122:11-13.

<sup>186</sup> *Id.* at 122:20-23.

<sup>187</sup> *Id.* at 123:3-6.

<sup>188</sup> NFA00082835-NFA00082836 (12-CEXM-299 Segregated Bank Statements); Holden, Denise (July 10, 2012). "Narrative for 0232217 – Peregrine Financial Group Inc." The National Futures Association.

## **APPENDIX B**

### **Description of NFA Audits of PFG, 1995-2012**

Wasendorf had potentially misappropriated money from the customer segregated accounts and covered his actions by falsifying bank statements.<sup>189</sup>

On July 9, 2012, PFG's Board of Directors drafted a resolution seeking protection under Chapter 7 of U.S. bankruptcy laws.<sup>190</sup> The same day, NFA issued a notice of MRA against PFG which temporarily ceased its operations and froze its assets.<sup>191</sup> On July 10, 2012, the CFTC issued a formal complaint that alleged fraud, misappropriation of customer funds, violation of customer segregated fund laws, and making false statements against both Wasendorf and PFG.<sup>192</sup>

---

<sup>189</sup> Holden, Denise. (July 10, 2012). "Narrative for 0232217 – Peregrine Financial Group Inc." The National Futures Association.

<sup>190</sup> United States Bankruptcy Court Filing, Northern District of Illinois (July 10, 2012). Peregrine Financial Group, Inc. Bankruptcy Filing; Resolution of the Board of Directors (July 9, 2012). Peregrine Financial Group Resolution to file for Bankruptcy.

<sup>191</sup> Member Responsibility Action (July 9, 2012). National Futures Association.

<sup>192</sup> CFTC v. PFG Complaint for Injunctive and Other Equitable Relief and Civil Monetary Penalties Under the Commodity Exchange Act. (July 10, 2012).

# APPENDIX C

## Overview of NFA Audit Modules

### Introduction

NFA management stated that NFA's examinations are conducted pursuant to a number of audit modules that are developed in conjunction with JAC and submitted annually to the CFTC for its review. Each module addresses a specific area of regulatory compliance. Over the years, the number of modules in the Futures Commission Merchant audit program has ranged from 18 to the current 25. NFA management identified the current modules by the following topics:

Net Capital	Segregation
Registration issues	Solicitation of customers
Block Orders	Record keeping regarding customer accounts
Customer orders	Noncustomer trading/discretionary accounts
Promotional material	Cash transactions
Supervision	Margins
Subsequent events	Transactions with affiliates
NFA fees	Anti-Money laundering
Automated Order Routing	Security Futures Products (6 modules)
Seldom Seen Issues (e.g., deliveries, inventory)	Disaster Recovery

The remainder of this appendix contains a brief description of the modules reviewed by the BRG Investigative Team.

### Net Capital

The purpose of the Net Capital module is to test the firm's books and records to ensure that it is properly classifying and calculating its capital.<sup>1</sup> This module is one of the most comprehensive modules in the audit process, containing twelve sections: cash, securities, debits/deficits, other receivables and advances, additional assets, bank loans, accounts payable, subordinated liabilities, owner's equity, monthly net capital computations, charges/haircuts and forex dealer member.<sup>2</sup> The most notable sections of the module include the Cash, Securities, and Owner's Equity sections. The main objectives are to ensure the firm is properly computing its net capital requirements in accordance with the CFTC and NFA regulations, that all current assets are properly stated and classified in accordance with the CFTC regulations, and that the firm is preparing and maintaining all required financial records.<sup>3</sup>

The Cash section is particularly important because it includes steps to identify all of the firm's bank accounts.<sup>4</sup> This section also includes consideration for confirmation of cash balances directly from the bank, ". . . to ensure that the firm did not falsify a bank statement."<sup>5</sup> In this step, NFA auditors will send the Standard Form to Confirm Accounts Balances to the banks with the appropriate account numbers

---

<sup>1</sup> 2NFA00004493 (The New Auditor Handbook, The Audit Process, 2012).

<sup>2</sup> 2NFA00005782-2NFA00005805 (The New Auditor Handbook, Net Capital Module, 2004).

<sup>3</sup> 2NFA00005791 (The New Auditor Handbook, Net Capital, 2004).

<sup>4</sup> 2NFA00005784 (The New Auditor Handbook, Net Capital, 2004).

<sup>5</sup> 2NFA00005785 (The New Auditor Handbook, Net Capital, 2004).

## APPENDIX C

### Overview of NFA Audit Modules

already provided on the form.<sup>6</sup> It is the bank's responsibility to fill in the accurate balances for the accounts listed and return the completed document to NFA.<sup>7</sup>

The Securities section identifies investments held by customers of the firm and the firms, including reverse repurchase ("repo") agreements.<sup>8</sup> In this section of the module, auditors confirm that the repo agreement is accurately reflected by the firm<sup>9</sup> and that the proper accounting procedures are utilized.<sup>10</sup> NFA auditors can also elect to have the repo agreement confirmed with the bank, or other party, to ensure that the terms of the repo agreement provided by the firm are accurate and complete.<sup>11</sup>

The Owner's Equity section contains a step to ensure that there have been no material changes in the firm's capital balances. The auditor reviews the last certified financial statement and compares it to the balance as of the audit date. If there are material changes, the auditor will discuss these changes with firm personnel.<sup>12</sup>

#### **Segregation**

Consistent with CFTC Rule 1.20, the Segregation module is used to ensure that Futures Commission Merchants have sufficient funds in a segregated account to meet all obligations to customers and that those Futures Commission Merchants prepare a segregation statement for all segregated accounts.<sup>13</sup> Consistent with CFTC Regulation 30.7, the Segregation module also is used to ensure that Futures Commission Merchants who accept money, securities, or property from U.S. customers maintain in a separate account or accounts such money, securities, and property in an amount at least sufficient to cover or satisfy all of its current obligations to those customers.<sup>14</sup>

While conducting its review for compliance with CFTC Rules 1.20 and 30.7, NFA auditors examine the firm's segregated statements, as of the exam date, and identify the balances in the firm's segregated and secured bank accounts.<sup>15</sup> NFA auditors conduct a review to ensure that customer, non-customer, domestic and foreign omnibus accounts are properly identified; and also review segregation acknowledgements and disclosures from the firm identifying any new depositories that hold customer funds/securities.<sup>16</sup> NFA auditors typically select a sample of the firm's daily segregation statements and

---

<sup>6</sup> NFA00008677 (Standard form to Confirm Account).

<sup>7</sup> NFA00008683 (Standard form to Confirm Account).

<sup>8</sup> 2NFA00005786-2NFA00005790 (The New Auditors Handbook, Net Capital, 2004).

<sup>9</sup> 2NFA00005789 (The New Auditors Handbook, Net Capital, 2004).

<sup>10</sup> 2NFA00005787-2NFA00005789 (The New Auditors Handbook, Net Capital, 2004).

<sup>11</sup> 2NFA00005789-2NFA00005790 (The New Auditors Handbook, Net Capital, 2004).

<sup>12</sup> 2NFA00005800 (The New Auditor Handbook, Net Capital, 2004).

<sup>13</sup> CFTC Rule 1.20 (Customer Funds to be Segregated and Separately Accounted).

<sup>14</sup> CFTC Rule 30.7 (Treatment of foreign futures or foreign options).

<sup>15</sup> 2NFA00006482-2NFA00006483 (Resource Module, Segregation Instructions, 2007).

<sup>16</sup> 2NFA00006486-2NFA00006487 (Resource Module, Segregation Instructions, 2007).

## **APPENDIX C**

### **Overview of NFA Audit Modules**

trace selected balances from those statements to appropriate firm records, which may include copies of bank statements provided to NFA auditors by the firm.<sup>17</sup>

#### **Registration/Bylaw 1101**

NFA Bylaw 1101 requires that “NFA members can only conduct business with other NFA members” and therefore, NFA auditors use the Registration module to determine whether the member’s principals, APs, and Branch Office Managers are properly registered.<sup>18</sup> NFA auditors also verify that APs with discretionary authority meet the minimum experience requirement.<sup>19</sup> Records needed from the member to conduct the Registration module include articles of incorporation, stock ledgers, accounting records for capital accounts, subordinated loan agreements, minutes of board of directors meetings, cash receipts/disbursement journals, commission records, current equity run and customer account documents.<sup>20</sup>

#### **Solicitation of Customers**

The purpose of this module is to monitor member firm solicitations to ensure they are not misleading and are in compliance with NFA Rule 2-29.<sup>21</sup> NFA Rule 2-29 covers communications by members who solicit customers to trade on-exchange futures and options, and prohibits deceptive or misleading communications with the public.<sup>22</sup>

#### **Record Keeping Regarding Customer Accounts (“Records”)**

The Records module is used to confirm that members obtain all required signed documents from customers before opening accounts, and that the member has established procedures to provide customers with additional risk disclosures, if necessary.<sup>23</sup>

#### **Customer Orders**

The CFTC and NFA require that each Futures Commission Merchant and Introducing Broker receiving customer orders immediately prepare a written record of the order which includes account identification, order number and appropriate timestamps. The purpose of this module is to prevent various forms of customer abuse, such as fraudulent allocation of trades, by providing an adequate audit trail that allows customer orders to be tracked at every step of the order processing system. NFA

---

<sup>17</sup> 2NFA00006488 (Resource Module, Segregation Instructions, 2007).

<sup>18</sup> 2NFA00017774 (The New Auditor Handbook, Registration/Bylaw 1101, 2005); 2NFA00004552 (Instructors Guide, The Audit Process, 2005).

<sup>19</sup> 2NFA00004552 (Instructors Guide, The Audit Process, 2005).

<sup>20</sup> 2NFA00017775 (The New Auditor Handbook, Registration/Bylaw 1101, 2005).

<sup>21</sup> 2NFA00004552 (Instructors Guide, The Audit Process, 2005).

<sup>22</sup> National Futures Association. (September 2010). A Guide to NFA Compliance Rules 2-29 and 2-36. at 3 and at 8 <http://www.nfa.futures.org/nfa-compliance/publication-library/compliance-rule-2-29.pdf>.

<sup>23</sup> 2NFA00004552 (Instructors Guide, The Audit Process, 2005).



## APPENDIX C

### Overview of NFA Audit Modules

auditors review the firm's order tickets and discuss order procedures with the firm.<sup>24</sup> The auditor must also determine if the firm is giving account numbers at the time the order is placed for execution, test systems of Omnibus Futures Commission Merchants, and ensure large trader reports are accurate and being filed with NFA.<sup>25</sup>

#### **Noncustomer Trading/Discretionary Account ("Trading")**

The module makes sure members have controls in place to monitor non-customer and discretionary trading to ensure brokers are not committing unauthorized trading, or taking advantage of customers through misuse of non-customer and proprietary accounts.<sup>26</sup> The Trading module also includes a review of the calculation of the commission/equity ratio to ensure that discretionary accounts are not being over traded (i.e., "churned") for the sake of generating commissions.<sup>27</sup> The Trading module also examines the internal controls of the firm to prevent fraudulent or improper trading, determines if the firm is taking advantage of its customers, and reviews customer complaints regarding improper trading.<sup>28</sup>

#### **Promotional Material**

This module is used to ensure that industry members are compliant with NFA Compliance Rule 2-29 pertaining to promotional materials.<sup>29</sup> The firm's promotional materials are reviewed to determine that discussions of profits and risks are balanced, asserted statements are factually true, and any calculations are done in a method approved by the CFTC.<sup>30</sup> Promotional materials containing hypothetical performance calculations are also checked for appropriate disclaimers and disclosures.<sup>31</sup>

#### **Cash Transactions**

The Cash Transactions module, different from the Cash section of the Net Capital module, is used to investigate any unusual cash activity and confirm that cash transactions are properly recorded.<sup>32</sup> The module directs auditors to review trading and cash receipts for unusual activity as well as identify unusual transactions between the pool operator, its principals, employees and others pools.<sup>33</sup> Additionally, for Omnibus Futures Commission Merchants, auditors are instructed to determine that

---

<sup>24</sup> 2NFA00016425 (Instructors Guide, The Audit Process, 2005).

<sup>25</sup> *Id.*

<sup>26</sup> 2NFA00004403 (New Auditor Handbook, The Audit Process, 2005).

<sup>27</sup> 2NFA00018515 (The New Auditor's Handbook, Trading, 2008).

<sup>28</sup> *Id.*

<sup>29</sup> 2NFA00017071 (Resource Module Promotional Material).

<sup>30</sup> 2NFA00017074-2NFA00017075 (New Auditor Handbook, Sales Practice & Promotional Material-Checklist, 2005).

<sup>31</sup> 2NFA00017076-2NFA00017077 (New Auditor Handbook, Sales Practice & Promotional Material-Checklist, 2005).

<sup>32</sup> 2NFA00004688 (Instructor's Guide - CASH).

<sup>33</sup> 2NFA00004689-2NFA00004690 (Instructor's Guide - CASH).

## APPENDIX C

### Overview of NFA Audit Modules

customer segregated funds are properly recorded.<sup>34</sup> For Introducing Brokers and fully disclosed Futures Commission Merchants, auditors take steps to ensure that the firm is not accepting money in its name and properly depositing it or forwarding it to its carrying broker.<sup>35</sup> NFA auditors review and document all bank statements, cash receipts and disbursement records, and monthly statements of the firm, principals, APs and affiliates.<sup>36</sup>

#### **Supervision**

The Supervision module is used to ensure NFA members are properly supervising their employees, Guaranteed Introducing Brokers, and commodity business operations. The Supervision module allows NFA auditors to determine if customer complaints are being investigated and resolved in a timely manner.<sup>37</sup> Further, NFA auditors investigate whether potentially misleading solicitations are being made by APs and how actively they are monitored.<sup>38</sup> NFA members are expected to have ethics training in place for new registrants as mandated by the NFA Compliance Rule 2-9.<sup>39</sup> Records obtained from members and reviewed by NFA auditors include audit programs and post-audit reports for on-site visits of branches and guaranteed Introducing Brokers, records/copies of all customer complaints received, and reports issued by other regulatory agencies.<sup>40</sup>

#### **Margins**

The CFTC and SEC have set minimum initial and maintenance margin levels for securities futures at 20% of the current market value of the positions. “Current market value” means the daily settlement price of the security future.<sup>41</sup> The Margins module tests firm’s margin systems to ensure proper capital charges are taken and procedures to ensure margin calls are made in a timely fashion.<sup>42</sup> Auditors ensure that the firm’s margin requirements are at least as high as Standard Portfolio Analysis of Risk Performance (“SPAN”) requirements, margin calls are being made daily, proper firm procedures for under margined accounts exist, and that the firm is collecting the appropriate deposits for foreign currency and options.<sup>43</sup>

#### **Transactions with Affiliates (“Affiliates”)**

The Affiliates module addresses risks associated with the financial position of Introducing Brokers and Futures Commission Merchants by conducting a review of the firm’s transactions with its affiliates. The module is often completed by NFA auditors when the firm has a current receivable from an affiliated

---

<sup>34</sup> 2NFA00004691 (Instructor’s Guide – CASH).

<sup>35</sup> *Id.*

<sup>36</sup> 2NFA00004688 (Instructor’s Guide – CASH).

<sup>37</sup> 2NFA00004552 (Instructors Guide, The Audit Process, 2005).

<sup>38</sup> 2NFA00018418 (Resource Module, Supervision, 2007).

<sup>39</sup> 2NFA00018419 (Resource Module, Supervision, 2007).

<sup>40</sup> 2NFA00018415 (Resource Module, Supervision, 2007).

<sup>41</sup> <http://www.nfa.futures.org/nfa-compliance/publication-library/security-futures-products.pdf> at 17.

<sup>42</sup> 2NFA00004493 (The New Auditor Handbook, The Audit Process, 2012).

<sup>43</sup> For example, see NFA00007752-NFA00007761 (09-CEXM-003 Margins module).

## APPENDIX C

### Overview of NFA Audit Modules

entity.<sup>44</sup> The module also analyzes whether firm expenses have been paid by an affiliate and evaluates the risks associated with proprietary trading by the firm and its affiliates.<sup>45</sup>

#### **NFA Fees**

The purpose of the NFA Fees module is to ensure that the firm is properly calculating the fees it owes to NFA.<sup>46</sup>

#### **Automated Order Routing (“AOR”)**

The Automated Order Routing module is completed to ensure that a Member’s Automated Order Routing system has risk parameters in place and to establish whether the member is knowledgeable of such system.<sup>47</sup> In addition, the NFA auditor determines if the AORS protects the reliability and confidentiality of customer orders throughout the order process.<sup>48</sup> Members are required to assign a capable employee to oversee the Automated Order Routing system process, maintain personnel and facilities for timely delivery of customer orders, handle customer complaints in a timely manner, and prevent customers from entering into trades that create undue financial risks for the member’s other customers.<sup>49</sup>

#### **Anti-Money Laundering (“AML”)**

The Anti-Money Laundering module seeks to test whether the Futures Commission Merchant’s anti-money laundering procedures are in compliance with NFA rule 2-9(c) and applicable interpretive notices.<sup>50</sup> NFA members’ Anti-Money Laundering programs “must include internal policies, procedures and controls; a designated compliance officer to oversee day-to-day operations of the program, an ongoing training program for employees, and an independent audit function to test the program.”<sup>51</sup> NFA auditors will often look for members’ internal Anti-Money Laundering programs to possess: customer identification program to screen customers, up-to-date Anti-Money Laundering procedures designed to detect suspicious activity, procedures for continual risk assessment of its customers with respect to Anti-Money Laundering and sound recordkeeping.<sup>52</sup> The primary focus of the Anti-Money Laundering module is on the review of customer funds and activity, rather than the activity of Futures Commission Merchant principals.<sup>53</sup>

---

<sup>44</sup> 2NFA00002967 (Technical Roundtable Minutes, August 31, 2009).

<sup>45</sup> *Id.*

<sup>46</sup> 2NFA00004493 (The New Auditor Handbook, The Audit Process, 2012).

<sup>47</sup> 2NFA00004552 (Instructors Guide, The Audit Process, 2005).

<sup>48</sup> NFA00111553 (Automated Order Routing System instructions, 2011).

<sup>49</sup> NFA00111554-NFA00111555 (Automated Order Routing System instructions, 2011).

<sup>50</sup> 2NFA00004552 (Instructors Guide, The Audit Process, 2005).

<sup>51</sup> Interpretive Notice NFA Compliance Rule 2-9 at <http://www.nfa.futures.org/nfamanual/NFAManual.aspx#45>.

<sup>52</sup> *Id.*

<sup>53</sup> For example, see NFA00006200-NFA00006218 (Objectives and Procedures – Anti-Money Laundering).

## APPENDIX C

### Overview of NFA Audit Modules

#### Business Continuity and Disaster Recovery

The Business Continuity and Disaster Recovery module evaluates whether Futures Commission Merchants have established and maintained written procedures for business continuity and disaster recovery responses.<sup>54</sup> In addition, NFA auditors review its records to ensure that it is in possession of the proper emergency contact information for each firm.<sup>55</sup>

---

<sup>54</sup> NFA Compliance Rule 2-38 at <http://www.nfa.futures.org/nfamanual/NFAManual.aspx?RuleID=RULE%202-38&Section=4>.

<sup>55</sup> *Id.*

## **APPENDIX D**

### **Supplemental Information on NFA's Compliance Department and Audit Function Provided by NFA Management**

The following was provided to the BRG Investigative Team by NFA Management on January 9, 2013.

#### **Organizational Chart and Staffing of Audit Function**

(Attachment – Organizational Chart)

NFA's Compliance Department staff currently consists of 115 individuals in Chicago and 32 in New York. At the end of the month, we are adding 24 additional auditors who will attend a several week training class. We are also currently recruiting for 2 additional Audit Directors. All Compliance staff have a background in finance or accounting and 7% of the staff are CPAs. Additionally, 29% of the staff have been with NFA for at least 5 years while 18% have been here 10 years or longer. The vast majority of compliance staff who have been at NFA longer than one year have passed the Series 3 exam and approximately 4% have passed the Series 7 exam. In addition, 32 staff members have passed the Certified Fraud Examiner test.

#### **Description of Audit Team Structure**

Audits are staffed with an Audit Manager, Field Supervisor and staff level auditors (with the number of staff auditors varying based on the type of audit). Under the supervision of the Field Supervisor, audit staff performs the modules assigned to them and their work is reviewed on site by the Field Supervisor. For FCM audits, field work lasts an average of about 4 weeks. Typically, the Audit Manager spends the last week of field work on site to review the modules that have been completed and to conduct the exit interview with the firm. After field work, staff follows up on open items such as confirmations and remedial measures the firm has agreed to adopt.

The Compliance Department staff is not divided into groups that focus on audits of a particular membership category. All staff members work on a variety of audits because we have always believed it is important that all of our auditors have knowledge of each membership category. Although staff members work on audits of each membership category, we strive to have consistency at the Field Supervisor and/or Audit Manager level on a particular FCM's annual audit from year to year.

#### **Scope of Yearly Audit Activity**

NFA staff conducts approximately 600 audits each year. Audits of FCMs that hold customer funds, Forex Dealer Members (FDMs) and newly registered Independent IBs are required to be done within certain time periods based on CFTC and/or NFA internal requirements. Below is a summary of yearly audit priorities:

- FCM (that hold customer funds) Audits – NFA is the DSRO for 25 FCMs that hold customer funds. NFA audits these FCMs once a year.
- FDM Audits – NFA is the DSRO for 11 FDMs. FDMs act as the counterparty to retail forex transactions and hold customer funds. NFA audits these firms once a year.
- Newly Registered Independent IBs – NFA conducts an audit of newly registered independent IBs within the first six months of the IB's registration.

## APPENDIX D

### Supplemental Information on NFA's Compliance Department and Audit Function Provided by NFA Management

- The audits of all other Membership Categories are guided by our risk profile system (described below), which takes into consideration the length of time since a Member's last audit. We generally conduct about 350 of these audits yearly and these Members are generally audited every 3.5 years.
- Applicant Audits – Given the risks associated with FCMs, RFEDs, and IBs, particularly in the areas of segregation, net capital compliance, financial recordkeeping, and compliance with anti-money laundering and disaster recovery regulations, we conduct audits of these firms before their registration and membership is approved. We review the firm's financial records, obtain support to ensure that their balances are accurate, and review certain procedures, including the firm's AML and disaster recovery programs. We also conduct interviews of firm personnel to ensure that they have the expertise to operate a regulated entity. We generally conduct about 100 of these audits each year.

**Description of Risk System:** In 2009, NFA completed a three-year project to revamp our risk management program to identify high-risk Member firms. This risk system draws upon all information NFA currently has concerning Member firms to create individual risk profiles of Member firms. These profiles are based on different data points that are extracted from annual questionnaires, financial statements, quarterly pool filings, disclosure documents, investigations, audits, registration records, arbitration filings and disciplinary history. The risk management system not only tracks changes in any of the data, but also, based on relationships between the various data fields, ranks the Members based on their risk profiles. Additionally, the system uses a subset of the data and relationships to alert staff of issues requiring more immediate attention. For example, if one data point indicates a firm is not doing business but another shows that members of the public are seeking information on the firm from our BASIC system, the risk profile system will generate an alert for immediate follow up.

This enhanced risk management system is a useful tool, but it is not a substitute for human judgment in identifying suspicious patterns of activity that warrant closer examination. We have staff dedicated to monitoring the system on a daily basis and investigating any potentially unusual issues as soon as the system identifies them.

Below is a chart summarizing audit activity for the last three years:

	Seg. FCM	FDM	Other FCM	IB	CPO	CTA	Applicant	AML	Total
2010	19	31	7	161	88	162	113	2	583
2011	42	21	3	236	126	235	95	2	760
2012	37	12	6	130	121	168	126	4	604
Totals	98	64	16	527	335	565	334	8	1947

## **APPENDIX D**

### **Supplemental Information on NFA's Compliance Department and Audit Function Provided by NFA Management**

#### **Management Review and Audit Sign-off**

FCMs that hold customer funds and FDM audits are subject to the highest level of review. The entire audit is reviewed by a Field Supervisor and an Audit Manager. In addition, one of the Audit Directors reviews the Planning, Net Capital and Segregation modules and the final audit report before it is issued. In addition, the CFTC receives copies of all audit reports issued to these Members.

The Audit Director is also involved in the planning of the audits of FCMs and FDMs. Prior to these examinations, the Audit Director, Audit Manager and Field Supervisor assigned to the examination meet to discuss a range of topics, including the firm, its operations, prior examination results, the firm's financial statements, prior investigations, customer complaints and arbitration cases. That group then decides which audit modules to perform and the extent of testing in each. Once in the field, those decisions are subject to change based on the results of the current exam. The planning meeting also considers whether any staffing changes should be made based on specific areas of concern about the firm or the anticipated complexity of the exam.

For all other Membership categories, the entire audit is reviewed by a Field Supervisor and an Audit Manager. The audit may also be reviewed by a Senior Audit Manager, an Associate Audit Director or an Audit Director depending on the complexity of the audit or the problems uncovered. The final audit report is reviewed by a Senior Audit Manager, an Associate Audit Director or an Audit Director before it is issued. The Audit Director is often involved in the planning of these audits as well.

#### **Audit Evaluation Process**

NFA's audit modules are regularly reviewed both externally and internally. NFA participates in Joint Audit Committee meetings with the other SROs and the CFTC. Discussions at these meetings include new rules/interpretations, concerns and updates in audit processes. Once a year, these JAC meetings include a comprehensive review of the JAC audit modules and any changes to those modules. On annual basis, the CFTC receives copies of all modules, which incorporate any updates or changes to the modules during the previous year.

Additionally, all members of NFA's audit staff continuously review NFA's audit processes and modules for improvements and communicate their ideas to Compliance management at the weekly management meetings or to a member of NFA staff's audit module committee. The audit module committee is made up of an Audit Director and at least two Audit Managers including at least one of NFA's JAC representatives. At the end of each quarter, NFA's audit module committee formally updates NFA's modules and communicates these module changes and any audit policy changes through an "Audit Issues Memo" to the department. These memos are also maintained on our internal portal site along with a log of each issue for use by existing and newly hired staff. Changes are incorporated into the department's training materials. If a rule change or material policy change takes effect at an interim period, the audit module committee will effect an immediate change and communicate through a special issue of the Audit Issues Memo and

## APPENDIX D

### Supplemental Information on NFA's Compliance Department and Audit Function Provided by NFA Management

training session, as appropriate. On an annual basis, NFA sends the CFTC copies of all modules, which incorporate any updates or changes to the modules during the previous year.

#### **Audit Module Selection for PFG Audits**

NFA completed the planning module in addition to the specific modules listed as completed in each audit.

**1996 Audit** – NFA completed 12 modules (net capital, segregation, registration, solicitation, bunched orders, records, trading, promotional material, cash, supervision, margins and subsequent review) in the 1996 audit, and passed on 6 other modules. NFA did not perform 3 of the modules (pool reporting, CPO disclosure document and CTA disclosure document) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not perform seldom seen issues module (which covers topics such as deliveries, warehouse receipts and inventory) because it was not applicable to PFG's operations; and passed on 2 modules (orders and affiliates) because they had been tested in prior audits with no material deficiencies.

**1997 Audit** – NFA completed 10 modules (net capital, segregation, registration, solicitation, bunched orders, promotional material, cash, supervision, subsequent review and NFA fees) and passed on 9 other modules. NFA did not perform 3 of the modules (pool reporting, CPO disclosure document and CTA disclosure document) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not perform another module (seldom seen issues) because it was not applicable to PFG's operations; and passed on 5 modules (records, orders, trading, margins and affiliates) because they had been tested in recent prior audits with no material deficiencies.

**1998 Audit** – NFA completed 14 modules (net capital, segregation, registration, solicitation, records, orders, trading, promotional material, cash, supervision, margins, CPO DD, subsequent review and affiliates) and passed on 5 other modules. NFA did not perform 2 of the modules (pool reporting and CTA disclosure document) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not perform another module (seldom seen issues) because it was not applicable to PFG's operations; and passed on 2 modules (bunched orders and NFA fees) because they had been tested in recent prior audits with no material deficiencies.

**1999 Audit** – NFA completed 11 modules (net capital, segregation, registration, solicitation, bunched orders, trading, promotional material, cash, supervision, subsequent review and affiliates) and passed on other 8 modules that year. NFA did not perform 3 of the modules (pool reporting, CPO disclosure document and CTA disclosure document) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not perform another module (seldom seen issues) because it was not applicable to PFG's operations; and passed on 4 modules (records, orders, margins and NFA fees) because they had been tested in recent prior audits with no material deficiencies.

**2000 Audit** – NFA completed 13 modules (net capital, segregation, registration, bunched orders, orders, trading, promotional material, cash, supervision, margins, subsequent review, affiliates and AORS) and



## APPENDIX D

### Supplemental Information on NFA's Compliance Department and Audit Function Provided by NFA Management

passed on 7 other modules. NFA did not perform 3 of the modules (pool reporting, CPO disclosure document and CTA disclosure document) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not perform another module (seldom seen issues) because it was not applicable to PFG's operations; and passed on 3 modules (solicitation, records and NFA fees) because they had been tested in recent prior audits with no material deficiencies.

**2001 Audit** – NFA completed 14 modules (net capital, segregation, registration, bunched orders, orders, trading, promotional material, cash, supervision, margins, subsequent review, affiliates and AORS) and passed on 6 other modules. NFA did not perform 3 of the modules (pool reporting, CPO disclosure document and CTA disclosure document) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not perform another module (seldom seen issues) because it was not applicable to PFG's operations; and passed on 2 modules (solicitation and orders because they had been tested in recent prior audits with no material deficiencies.

**2002 Audit** – NFA completed 10 modules (net capital, segregation, registration, solicitation, promotional material, cash, supervision, margins, subsequent review and AML) and passed on 11 other modules. NFA did not perform 3 of the modules (pool reporting, CPO disclosure document and CTA disclosure document) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not perform another module (seldom seen issues) because it was not applicable to PFG's operations; and passed on 7 modules (bunched orders, records, orders, trading, affiliates, NFA fees and Automated Order Routing Systems(AORS)) because they had been tested in recent prior audits with no material deficiencies.

**2003 Audit** – NFA completed 15 modules (net capital, segregation, registration, orders, promotional material, cash, supervision, affiliates, AML, Security Futures Products ("SFP") notification, SFP records, SFP trading, SFP promotional material, SFP supervision and SFP margins) and passed on 12 other modules in 2003. NFA did not perform 3 of the modules (pool reporting, CPO disclosure document and CTA disclosure document) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not perform another module (seldom seen issues) because it was not applicable to PFG's operations; and passed on 8 modules (solicitation, bunched orders, records, trading, margins, subsequent review, NFA fees and AORS) because they had been tested in recent prior audits with no material deficiencies.

**2004 Audit** – NFA completed 21 modules (net capital, segregation, registration, bunched orders, records, trading, promotional material, cash, supervision, CPO DD, pool reporting, subsequent review, NFA fees, AORS, AML, SFP notification, SFP records, SFP trading, SFP promotional material, SFP supervision and SFP margins)during its audit and passed on 6 other modules. NFA did not perform 1 module (CTA disclosure document) because it pertained to CTA operations, which was not applicable to PFG at the time; did not perform another module (seldom seen issues) because it was not applicable to PFG's operations; and passed on 4 modules (solicitation, orders, margins and affiliates) because they had been tested in recent prior audits with no material deficiencies.

**2005 Audit** – NFA completed 10 modules (net capital, segregation, registration, records, orders, promotional material, cash, supervision, margins and subsequent review) and passed on 17 other modules.

## APPENDIX D

### Supplemental Information on NFA's Compliance Department and Audit Function Provided by NFA Management

NFA did not perform 1 module (CTA disclosure document) because it pertained to CTA operations, which was not applicable to PFG at the time; did not perform another module (seldom seen issues) because it was not applicable to PFG's operations; and passed on 9 modules (solicitation, bunched orders, trading, CPO disclosure document, pool reporting, affiliates, NFA fees, AORS and AML) because they had been tested in recent prior audits with no material deficiencies; and passed on 6 other modules (Security Futures Products ("SFP") notification, SFP records, SFP trading, SFP promotional material, SFP supervision and SFP margins) because PFG had very few SFP accounts.

**2006 Audit** – NFA completed 13 modules (net capital, segregation, registration, solicitation, records, orders, promotional material, cash, supervision, CPO DD, pool reporting, subsequent review and AML) and passed on 14 other modules. NFA did not perform 1 module (CTA disclosure document) because it pertained to CTA operations, which was not applicable to PFG at the time; did not perform another module (seldom seen issues) because it was not applicable to PFG's operations; and passed on 6 modules (bunched orders, trading, margins, affiliates, NFA fees and AORS) because they had been tested in recent prior audits with no material deficiencies; and passed on 6 other modules (SFP notification, SFP records, SFP trading, SFP promotional material, SFP supervision and SFP margins) because PFG had very few SFP accounts.

**2008 Audit** – NFA completed 12 modules (net capital, segregation, bunched orders, trading, promotional material, cash, supervision, pool reporting, subsequent review, NFA fees, AORS and AML) and passed on 16 other modules. NFA did not perform 1 module (CTA disclosure document) because it pertained to CTA operations, which was not applicable to PFG at the time; did not perform 2 modules (seldom seen issues and not-doing-business) because they were not applicable to PFG's operations; and passed on 7 modules (registration, solicitation, records, orders, margins, CPO disclosure document and affiliates) because they had been tested in recent prior audits with no material deficiencies; and passed on 6 other modules (SFP notification, SFP records, SFP trading, SFP promotional material, SFP supervision and SFP margins) because PFG had very few SFP accounts.

**2009 Audit** – NFA completed 11 modules (net capital, segregation, solicitation, trading, promotional material, cash, supervision, margins, pool reporting, AORS and AML) and passed on 17 other modules. NFA did not perform 1 module (CTA disclosure document) because it pertained to CTA operations, which was not applicable to PFG at the time; did not perform 3 modules (bunched orders, seldom seen issues and not-doing-business) because they were not applicable to PFG's operations; and passed on 7 modules (registration, records, orders, CPO disclosure document, subsequent review, affiliates and NFA fees) because they had been tested in recent prior audits with no material deficiencies; and passed on 6 other modules (SFP notification, SFP records, SFP trading, SFP promotional material, SFP supervision and SFP margins) because PFG had very few SFP accounts.

**2010 Audit** – NFA completed 10 modules (net capital, segregation, registration, orders, promotional material, cash, supervision, NFA fees, AORS and AML) and passed on 19 other modules. NFA did not perform 4 modules (CPO disclosure document, CTA disclosure document, pool reporting and fund of funds) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not

## APPENDIX D

### Supplemental Information on NFA's Compliance Department and Audit Function Provided by NFA Management

perform 3 modules (bunched orders, seldom seen issues and not-doing-business) because they were not applicable to PFG's operations; passed on 6 modules (solicitation, records, trading, margins, subsequent review and affiliates) because they had been tested in recent prior audits with no material deficiencies; and passed on 6 other modules (SFP notification, SFP records, SFP trading, SFP promotional material, SFP supervision and SFP margins) because PFG had very few SFP accounts.

**2011 Audit** – NFA completed 10 modules (net capital, segregation, registration, bunched orders, records, promotional material, cash, supervision, NFA fees and AML) and passed on 19 other modules. NFA did not perform 4 modules (CPO disclosure document, CTA disclosure document, pool reporting and fund of funds) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not perform 2 modules (seldom seen issues and not-doing-business) because they were not applicable to PFG's operations; passed on 7 modules (solicitation, orders, trading, margins, subsequent review, affiliates and AORS) because they had been tested in recent prior audits with no material deficiencies; and passed on 6 other modules (SFP notification, SFP records, SFP trading, SFP promotional material, SFP supervision and SFP margins) because PFG had very few SFP accounts.

**2012 Audit** – NFA completed 16 modules (net capital, segregation, registration, solicitation, bunched orders, records, orders, trading, promotional material, cash, supervision, margins, subsequent review, AORS, AML and business continuity/disaster recovery) and passed on 16 other modules. NFA did not perform 6 modules (CPO disclosure document, CTA disclosure document, pool reporting, fund of funds, 4.7 disclosure CTA and 4.7 disclosure CPO) because they pertained to CPO/CTA operations, which were not applicable to PFG at the time; did not perform 2 modules (seldom seen issues and not-doing-business) because they were not applicable to PFG's operations; passed on 1 module (NFA fees) because it had been tested in recent prior audits with no material deficiencies; passed on 1 module (affiliates) because PFG had no current receivables from affiliates; and passed on 6 other modules (SFP notification, SFP records, SFP trading, SFP promotional material, SFP supervision and SFP margins) because PFG had very few SFP accounts.

(caw: Special Committee\_Audit Summary Information)

## APPENDIX E

### Summary of Selected NFA Auditor Notes and Actions Taken in Net Capital Modules

Exam #	Owner's Equity Section Completed?	Securities Section Completed?	NFA Notes About Repo Investment	Obtained Repo?	Confirmed Repo?	Tested Market Value for Repo?	3rd Party Cash Balance Confirmations Sent?	3rd Party Cash Balance Confirmation Sent to U.S. Bank?
95-CEXM-455	N/A <sup>[1]</sup>	N/A <sup>[1]</sup>	N/A	N/A	N/A	N/A	N/A	N/A
96-CEXM-431	Yes	Yes	T-Bills	Yes	No	Yes	No	No
97-CEXM-628	Yes	Yes	T-Bills	Yes	No	Yes	No	No
98-CEXM-393	Yes	Yes	T-Bills	No	No	Yes	No	No
99-CEXM-370	Yes	Yes	T-Bills	No	No	Yes	No	No
00-CEXM-341	Yes	Yes	No Reference	Yes	No	Yes	No	No
01-CEXM-420	Yes	Yes	No Reference	Yes	No	No	No	No
02-CEXM-306	Yes	No	No Reference	No	No	No	No	No
03-CEXM-519	Yes	No	T-Notes <sup>[2]</sup>	No	No	No	Yes	Yes
04-CEXM-544	Yes	No	No Reference	No	No	No	No	No
05-CEXM-716	Yes	No	No Reference	No	No	No	Yes	No
06-CEXM-521	Yes	No	No Reference	No	No	No	Yes	Yes
08-CEXM-016	Yes	No	T-Notes <sup>[3]</sup>	No	No	No	Yes	Yes
09-CEXM-003	Yes	Yes	T-Notes	Yes	No	No	Yes	Yes
10-CEXM-206	Yes	Yes	N/A <sup>[4]</sup>	N/A	N/A	N/A	Yes	Yes
11-CEXM-239	Yes	No	N/A <sup>[4]</sup>	N/A	N/A	N/A	Yes	Yes
12-CEXM-299	Yes	Yes	N/A <sup>[4]</sup>	N/A	N/A	N/A	Yes	Yes

**BRG Investigative Team Notes:**

[1] No corresponding section in 95-CEXM-455.

[2] See NFA00003500 (Field Supervisor Memorandum to Files, August 14th, 2003).

[3] See NFA00007421 (08-CEXM-016 Segregation worksheet).

[4] PFG discontinued the repo in June, 2009.

[5] NFA auditors obtained repo transaction confirmation.

**APPENDIX E**  
**Summary of Selected NFA Auditor Notes and Actions Taken in Net Capital Modules**  
**Source Documents**

Exam #	Module Source
95-CEXM-455	N/A
96-CEXM-431	NFA00000542-NFA00000552
97-CEXM-628	NFA00000693-NFA00000706
98-CEXM-393	NFA00000832-NFA00000849
99-CEXM-370	NFA00001071-NFA00001094
00-CEXM-341	NFA00001385-NFA00001405
01-CEXM-420	NFA00002251-NFA00002272
02-CEXM-306	NFA00002893-NFA00002902
03-CEXM-519	NFA00003360-NFA00003371
04-CEXM-544	NFA00004012-NFA00004025
05-CEXM-716	NFA00004432-NFA00004447
06-CEXM-521	NFA00005890-NFA00005906
08-CEXM-016	NFA00007338-NFA00007357
09-CEXM-003	NFA00007762-NFA00007855
10-CEXM-206	NFA00010577-NFA00010658
11-CEXM-239	NFA00012928-NFA00012977
12-CEXM-299	NFA00081704-NFA00081761

## APPENDIX F

### Summary of Selected NFA Auditor Notes and Actions Taken in Segregation Modules and Worksheets

Examination	Segregation Module Completed?	Segregation Worksheet Completed?	U.S. Bank Segregated Account Balance per PFG Segregation Statement	U.S. Bank Segregated Account Balance as Recorded by NFA Auditor	Repo Noted in Worksheet by NFA Auditor?	Amount of Repo
95-CEXM-455	Yes	Yes	\$4,827,586	\$4,827,586	-- Not Documented --	
96-CEXM-431	Yes	Yes	\$5,706,680	\$5,706,680	No	\$554,000 <sup>[1]</sup>
97-CEXM-628	Yes	Yes (Appendix G)	\$8,487,831	\$697,831	Yes	\$7,790,000
98-CEXM-393	Yes	No	N/A	N/A	No	\$9,190,000 <sup>[2]</sup>
99-CEXM-370	Yes	No	N/A	N/A	-- Not Documented --	
00-CEXM-341	Yes	No	N/A	N/A	No	\$30,750,806 <sup>[3]</sup>
01-CEXM-420	Yes	No	N/A	N/A	No	\$37,109,395 <sup>[4]</sup>
02-CEXM-306	Yes	Yes (Appendix H)	\$58,083,194	\$5,133,194 <sup>[5]</sup>	Yes	\$52,950,000
03-CEXM-519	Yes	Yes (Appendix I)	\$63,924,578	\$3,640,578 <sup>[6]</sup>	No	\$60,284,000 <sup>[6]</sup>
04-CEXM-544	Yes	Yes (Appendix K)	\$86,338,031	\$86,338,031 <sup>[7]</sup>	-- Not Documented --	
05-CEXM-716	Yes	Yes (Appendix L)	\$92,360,120	\$2,360,120	Yes	\$90,000,000
06-CEXM-521	Yes	No	\$144,206,357 <sup>[8]</sup>	\$56,357 <sup>[9]</sup>	No	\$144,150,000 <sup>[8]</sup>
08-CEXM-016	Yes	Yes (Appendix M)	\$136,067,600	\$117,600	Yes	\$135,950,000
09-CEXM-003	Yes	Yes (Appendix N)	\$177,074,888	\$123,800	Yes	\$176,951,089
10-CEXM-206	Yes	Yes	\$207,260,962	\$207,266,962	No Repo	No Repo
11-CEXM-239	Yes	Yes	\$218,650,551	\$218,650,551	No Repo	No Repo
12-CEXM-299	Yes	Yes	\$223,811,055	\$223,811,055	No Repo	No Repo

**BRG Investigative Team Notes:**

- [1] NFA auditors documented the repo amount in 96-CEXM-431 Net Capital Module (NFA00000546).
- [2] NFA auditors documented the repo amount in 98-CEXM-393 Net Capital Module (NFA00000839).
- [3] NFA auditors documented the repo amount in 00-CEXM-341 Net Capital Module (NFA00001394).
- [4] NFA auditors documented the repo amount in 01-CEXM-420 Net Capital Module (NFA00002258).
- [5] BRG modified this balance so that it excludes the amount of the repo.
- [6] BRG modified this balance so that it excludes the amount of the "sweep account". NFA auditors noted this balance and reference a sweep account in the 03-CEXM-519 Cash Information worksheet, but did not note this balance or the sweep account in the segregation worksheet. NFA auditors also noted the U.S. Bank address to be located in Minnesota.
- [7] BRG was unable to modify this balance to reflect the amount of the repo because the amount was not documented.
- [8] Per NFA auditor handwritten notes in audit work files (NFA00005389, NFA00005391). For further discussion on this amount, see the Report of Investigation.
- [9] See ending balance on the August 2006 Fabricated U.S. Bank Statement for the 845 account (NFA00005389).

## APPENDIX F

### Summary of Selected NFA Auditor Notes and Actions Taken in Segregation Modules and Worksheets Source Documents

Examination	Module Source	Worksheet Source
95-CEXM-455	NFA00000228-NFA00000240	NFA00000368-NFA00000377 NFA00000049-NFA00000054
96-CEXM-431	NFA00000589-NFA00000591	NFA00000592-NFA00000596
97-CEXM-628	NFA00000728-NFA00000732	NFA00000737-NFA00000742
98-CEXM-393	NFA00000963-NFA00000967	N/A
99-CEXM-370	NFA00001189-NFA00001201	N/A
00-CEXM-341	NFA00001441-NFA00001453	N/A
01-CEXM-420	NFA00002342-NFA00002349	N/A
02-CEXM-306	NFA00002939-NFA00002947	NFA00002948-NFA00002957
03-CEXM-519	NFA00003446-NFA00003460	NFA00003451-NFA00003464
04-CEXM-544	NFA00004088-NFA00004092	NFA00004093-NFA00004107
05-CEXM-716	NFA00004661-NFA00004665	NFA00004666-NFA00004695
06-CEXM-521	NFA00006038-NFA00006046	N/A
08-CEXM-016	NFA00007412-NFA00007415	NFA00007416-NFA00007439
09-CEXM-003	NFA00007927-NFA00007955	NFA00010384-NFA00010402
10-CEXM-206	NFA00010951-NFA00010966	NFA00012540-NFA00012578
11-CEXM-239	NFA00013080-NFA00013095	NFA00013808-NFA00013852
12-CEXM-299	NFA00082876-NFA00082893	NFA00082894-NFA00082924

**APPENDIX G**  
**97-CEXM-628 Segregation Worksheet and NFA Auditor's Notes**  
**Excerpt from: NFA00000740**

**General Note:**

NFA mounted the firm's Daily Segregation Report worksheet on **S\_seg**; however, NFA noted the worksheet is not identical to the Seg Stmt (1-FR) format. As a result, NFA noted the following amounts were grouped or itemized on the Seg Stmt:

**Note 1:**

Per **S\_seg** and the firm prepared 8/31/97 bank reconciliations for the Harris Bank ("Harris") Customer Segregated account (Acct# 375-795-2) and the Firststar Bank ("Firststar") Segregated Funds account (Acct# 621011845), NFA noted Cash on the Seg Stmt is comprised of the following:

Per Firststar Bank acct:		wp reference
Balance per bank	\$698,178.91	<b>S_REP A 1/3</b>
Outstanding checks	(\$176.39)	
adjust interest	(\$171.05)	
<b>Subtotal</b>	<b>\$697,831.47</b>	

Per Harris Bank acct:		
Balance per bank	\$289,040.29	*
Outstanding checks	(\$112,075.36)	
deposit in transit	\$117,063.10	
<b>Subtotal</b>	<b>\$294,028.03</b>	<b>S_seg 1/2</b>
<b>Total</b>	<b>\$991,859.50</b>	

**BRG Investigative Team Note:**  
 To reconcile the difference between PFG and the bank statement balance for the Firststar segregated account, NFA auditors added the repo amount to the bank balance as follows:

Balance per PFG: \$8,487,831  
 Balance per Bank: \$697,831  
 Repo Amount: \$7,790,000

$\$697,831 + \$7,790,000 = \$8,487,831$

**Note 2:**

Per review of the 8/31/97 bank reconciliation for the Firststar Segregated Funds account, sweep repurchase agreement (**S\_REP B**) and discussion with Rooks [PFG Compliance Personnel] on 10/21/97, NFA noted the \$7,790,000 represents a Sweep Repurchase Agreement.



**APPENDIX H**

**02-CEXM-306 Segregation Worksheet and NFA Auditor's Note**

..... Excerpt from: NFA00002953-NFA00002955

<b>NOTE 3: FIRM'S 5/31/02 OTE AND CASH BALANCES</b>						<b>Explanation/</b>
<b>Segregated Cash Balance (Bank Accounts)</b>	<b>Per Firm</b>	<b>W/P Reference</b>	<b>Per Bank Stmts</b>	<b>W/P Reference</b>	<b>Difference</b>	<b>Tickmark</b>
Firststar Customer Seg Balance	\$58,083,194	SD-SEG-12, 1/3	\$58,075,194	SD-SEG-12, 1/3	(\$8,000)	ggg
Magic Valley Customer Seg Balance	\$83,115	SD-SEG-14, 1/2	\$83,115	SD-SEG-14, 1/2	\$0	
American National Bank Customer Seg Balance	\$3,259,023	SD-SEG-13, 4/5	\$3,938,701	SD-SEG-13, 5/5	\$679,678	ttt
<b>Subtotal</b>	<b>\$61,425,332</b>	<b>SD-SEG-1, 1/3 Line 7A</b>	<b>\$62,097,010</b>		<b>\$671,678</b>	

1.08% Immaterial difference

**Note ggg:**  
 Per review of the reconciliation for the Firststar Customer Seg Account (SD-SEG-12, 1/3), NFA noted a cash balance of \$5,125,194. However, per review of the stmt, NFA noted that the firm entered into a repurchase agreement on 5/31/02, with a principal balance of \$52,950,000. As such, NFA included this repurchase balance in the Firststar Customer Seg Balance.

**BRG Investigative Team Notes:**  
 The Firststar Customer Seg balance "per bank statement" reflects the added total of the cash balance of the seg account and the amount of the repo. This was noted by NFA auditors in note ggg in the segregation worksheet.

02-CEXM-306 is the first of three exams (also '03 & '04) where NFA auditors added the cash balance and repo amounts together to reflect the bank balance.

## APPENDIX I

### 03-CEXM-519 Segregation Worksheet

..... Excerpt from: NFA00003456-NFA00003460

**Table 3 - Seg - 6/30/03 OTE AND CASH BALANCES**

Segregated Cash Balances (Bank)	Per Firm	W/P Reference	Per Bank Stmts	Difference	% Difference	W/P Reference
US Bank Customer Seg (previously Firststar)	\$63,924,578		\$63,924,578	\$ -		
Magic Valley Bank Customer Seg	\$50,500		\$50,500	\$ -		
Bank of America Customer Seg	\$717		\$717	\$ -		
Bank One Customer Seg	\$2,372,997		\$2,372,997	\$ -		
First Premier Bank Customer Seg	\$44,546		\$44,546	\$ -		
<b>Subtotal</b>	<b>\$66,393,338</b>	<b>G.</b>	<b>\$66,393,338</b>	<b>\$ -</b>		

**BRG Investigative Team Notes:**

The U.S. Bank Customer Seg balance "per bank statement" reflects the added total of the cash balance of the seg account and the amount of the repo (\$60,283,999). This was not noted by NFA auditors in the segregation worksheet. The repo amount was documented in the 03-CEXM-519 Cash Information worksheet.

03-CEXM-519 is the second of three exams (also '02 & '04) where NFA auditors added the cash balance and repo amounts together to reflect the balance.

**APPENDIX J**

**03-CEXM-519 Cash Information Worksheet and NFA Auditor's Notes**

.....**Exerpt from: NFA00003272-NFA00003275**

<b>Segregated Accounts:</b>			
<b>Name</b>	<b>Account #</b>	<b>Reconciled Balance as of 6/30/03</b>	<b>Bank Balance as of 6/30/03</b>
Peregrine Financial Group, Inc. - <b>Bank One - Indianapolis, IN</b> (Formerly American National Bank House)	533 0355 265	2,372,997	2,909,180
Peregrine Financial Group, Inc. - <b>Magic Valley Bank - Twin Falls, ID</b>	1011669	50,500	50,500
Peregrine Financial Group, Inc. - <b>US Bank - St. Paul, MN</b>	621011845	63,924,578	3,640,578
Peregrine Financial Group, Inc. - <b>Bank of America - Chicago, IL</b>	8666109322	717	717
Peregrine Financial Group, Inc. - <b>First Premier - Sioux Falls, SD</b>	1701345338	44,546	44,546
<b>Cash Balance reconciliations</b>		66,393,338.14	
<b>Cash Balance per Seg Statement</b>		66,393,338.00	
<b>Difference</b>		0.14	
<b>Cash Balance per bank statements</b>			6,644,805

<b>Non-Segregated Accounts</b>			
<b>Name</b>	<b>Account #</b>	<b>Reconciled Balance as of 6/30/03</b>	<b>Bank Balance as of 6/30/03</b>
Peregrine Financial Group, Inc. - <b>US Bank</b>	767467	17,207,643	17,208,976
Peregrine Financial Group, Inc. - <b>Bank One - Indianapolis, IN</b> (Formerly American National Bank) (House Payroll)	533 0355 257	27,150	74,749
Peregrine Financial Group Inc. <b>Lakeside Bank - Chicago, IL</b> (Operating Expenses)	01669059-00	-230,389	104,447
Jackson Financial Group Inc. - <b>Bank One - Indianapolis, IN</b>	533 0356 903	-59,209	5,003
Jackson Financial Group Inc. - <b>Bank One - Indianapolis, IN</b> Market Index Account	533 0356 911	1,178,407	1,178,407
Jackson Financial Group Inc. - <b>Fifth Third Bank - Elmhurst, IL</b>	7231260899	1,001,555	1,001,555

**NFA Auditor Note:**  
This includes sweep account balance, see page 2 on the bank statement.

**NFA Auditor Note:**  
This does not include the 6/30/03 Sweep.

**BRG Investigative Team Note:**  
To Reconcile the difference between the firm and bank balances for the U.S. bank segregated account, NFA auditors added the repo amount to the bank balance as follows:

Balance per Firm: \$63,924,578  
Balance per Bank: \$3,640,578  
Repo Amount: \$60,284,000

$\$3,640,587 + \$60,284,000 = \$63,924,587$

**BRG Investigative Team Note:**  
NFA auditors recorded a U.S. Bank address different from the U.S. Bank address to which they sent confirms. Also see Field Supervisor's memo dated August 14, 2003 (NFA00003498-NFA00003499).

**BRG Investigative Team Note:**  
The following is stated in the Field Supervisor's memo dated August 14, 2003:

"O'Meara represented that the cash swept out each night is not maintained in a separate bank account but is part of the original account number."

## APPENDIX K

### 04-CEXM-544 Segregation Worksheet

..... Excerpt from: NFA00004098-NFA00004102

Table 2 - Seg - Note B - 7/30/04 OTE AND CASH BALANCES						
Segregated Cash Balances (Bank)	Per Firm		Per Bank Stmts	Difference	% Difference	
US Bank/Firststar Bank #621011845	\$86,338,031		\$86,338,031	\$ (0)	0%	
Bank One Customer Seg #5330355265	\$4,895,263		\$5,504,180	\$ 608,917	11%	<b>Note A</b>
Bank of America Customer Seg #8666109322	\$466		\$466	\$ -	0%	
First Premier Bank Customer Seg	\$51,293		\$51,293	\$ -	0%	
<b>Subtotal</b>	<b>\$91,285,054</b>	<b>G.</b>	<b>\$91,893,970</b>	<b>\$ 608,917</b>	<b>1%</b>	<b>Immaterial Difference</b>

**BRG Investigative Team Notes:**

BRG was unable to identify the amount of the repo because the amount was not documented.

The U.S. Bank/Firststar Bank balance "per bank statement" reflects the added total of the cash balance of the segregated account and the amount of the repo. This was not noted by NFA auditors in the segregation worksheet.

04-CEXM-544 is the third of three exams (also '02 & '03) where NFA auditors added the cash balance and repo amounts together to reflect the bank balance.

**APPENDIX L**  
**05-CEXM-716 Segregation Worksheet and NFA Auditor's Note**  
**Excerpt from: NFA00004681**

<b>Table 2 - Seg, 8/31/05 OTE and Cash Balances</b>							
<b>Segregated Cash Balances (Bank)</b>	<b>Per Firm</b>	<b>Reference</b>	<b>Per Bank Stmt</b>	<b>Difference</b>	<b>% Difference</b>	<b>Notes</b>	
US Bank/(Previously First Star Bank #621011845)	\$92,360,119.97		\$2,360,120	-\$90,000,000.00	-3813%	<b>Note 2</b>	
Bank Of America #8666109322	\$1,000.00		\$1,000.00	\$0.00	0%	-	
First Premier #1701345338	\$117,215.20		\$177,991	\$60,775.91	34%	<b>Note 3</b>	
Bank One/JP Morgan #5330355365	\$941,866.34		\$1,385,754	\$443,887.73	32%	<b>Note 4</b>	
<b>Subtotal:</b>	<b>\$93,420,202</b>	<b>E</b>	<b>\$3,924,865</b>	<b>-\$89,495,336.36</b>	<b>-2280%</b>	<b>Note 2,3,4</b>	

**Table 2 Notes:**

Note 2: NFA obtained the Firm's 8/31/05 Bank Reconciliation and noted that the \$90M difference is the amount swept into a separate, interest bearing bank account ("Sweep Account") every night and deposited back into the account every morning. Further, NFA noted the bank statement shows the appropriate deposit and withdrawal for each day.

Per discussion with Susan O'Meara on 1/10/06, NFA noted the firm has no separate bank account statement or account number for the sweep account to verify the amount coming in the account at night and out of the account in the morning. Further, O'Meara represented that this issue comes up year after year in NFA's Audits. Per review of the 2003 & 2004 PFG audit, NFA noted the Segregated Cash Balance per Firm and the balance per the Bank Statement have agreed. As such, the situation regarding a separate sweep account has been discussed but never recorded.

As such, O'Meara provided NFA with a copy of the Purchase/Repurchase agreement (and all addendum's) the firm made with Firststar Bank (which US Bank purchased and is now US Bank) on 12/12/94. Per review of the agreement, NFA noted this appears reasonable. As such, NFA will pass on further review.

**BRG Investigative Team Note:**

The \$90 million difference between PFG's balance and the bank statement balance for the U.S. Bank segregated account is reconciled by the amount of the repo.

**APPENDIX M**

**08-CEXM-016 Segregation Worksheet and NFA Auditor's Note**

..... Excerpt from: NFA00007424-NFA00007426

<b>Table 2 - Seg, 11/30/07 OTE and Cash Balances</b>							
<b>Segregated Cash Balances (Bank)</b>	<b>Per Firm</b>	<b>Reference</b>	<b>Per Bank Stmts</b>	<b>W/P Ref</b>	<b>Difference</b>	<b>% Difference</b>	<b>Table 2 Notes</b>
US Bank #621011845	\$136,067,600.11	^^	\$117,600.11	*	-\$135,950,000.00	-115604%	<b>Note 1</b>
Bank Of America #8666109322	\$1,000.00	^^	\$1,000.00	*	\$0.00	0%	-
First Premier #1701345338	\$137,225.39	^^	\$137,225.39	*	\$0.00	0%	-
Bank One/JP Morgan #5330355365	\$3,781,598.37	^^	\$5,065,981.74	*	\$1,284,383.37	25%	<b>Note 2</b>
Wells Fargo/ANTC #415-9437490	\$3,416.55	^^	\$38,054.03	*	\$34,637.48	91%	<b>Note 3</b>
<b>Total Cash held at Bank:</b>	<b>\$139,990,840</b>	<b>E Seg Stmt Tab</b>	<b>\$5,359,861</b>		<b>-\$134,630,979.15</b>	<b>-2512%</b>	<b>Note 1,2,3</b>

**Table 2 Notes:**

**Note 1:** NFA obtained the Firm's 11/30/07 Bank Reconciliation and noted that the \$136M difference is the amount swept into a reverse repo agreement that invests in US Treasury Notes ("Sweep Account") every night and deposited back into the account every morning. Further, NFA noted the bank statement shows the appropriate deposit and withdrawal for each day. NFA reviewed the repo agreement confirmation with a settlement date of 11/30/07 and the repurchase date of 12/3/07 and noted that the cash was invested in US Treasury Notes. In addition, NFA noted no capital charge as the contract price of the reverse repurchase agreement is the same as the market value of the securities. Further, NFA sent a bank confirmation to US Bank regarding this account and confirmed the balance as of 11/30/07. See SD-SOURCE1 2/29.

NFA also obtained the reverse repo agreement between PFG and US Bank, noting no unusual items (SD-SEG14).

**BRG Investigative Team Note:**  
 The \$136 million difference between PFG's balance and the bank statement balance for the U.S. Bank segregated account is reconciled by the amount of the repo.

## APPENDIX N

### 09-CEXM-003 Segregation Worksheet and NFA Auditor's Note Excerpt from: NFA00010389, NFA00010393-NFA00010395

Table 2 - Deposits in Segregated Funds Bank Accounts - SD-SEG2, General Note 4							
Bank Account	S/D Reference	Balance Per Bank	S/D Reference	Balance Per Book	S/D Reference	Reconciliation	Notes
BOA PFG Customer Seg (#8666109322)	SD-SEG2 p. 1-2/18	\$952.96	SD-SEG2 p. 1/18	\$952.96	SD-SEG2 p. 2/18	\$0.00	
First Premier Bank PFG Customer Seg (#1701345338)	SD-SEG2 p. 3-4/18	\$85,376.43	SD-SEG2 p. 3/18	\$85,376.43	SD-SEG2 p. 4/18	\$0.00	
US Bank PFG Customer Seg (#62101845)	SD-SEG2 p. 5-8/18	\$123,800.00	SD-SEG2 p. 5/18	\$177,074,888.00	SD-SEG2 p. 8/18	-\$176,951,088.00	Reverse Repo, Listed in 11-30-08 Seg Stmt Cell E27
JPMorgan Chase PFG Boss Customer Seg (#789868502)	SD-SEG2 p. 9-10/18	\$254,829.16	SD-SEG2 p. 9/18	\$254,829.16	SD-SEG2 p. 10/18	\$0.00	
JPMorgan Chase PFG Customer Seg 2 (#78964816)	SD-SEG2 p. 11-12/18	\$488.00	SD-SEG2 p. 11/18	\$488.00	SD-SEG2 p. 12/18	\$0.00	
JPMorgan Chase PFG Customer Seg (#5330355265)	SD-SEG2 p. 13-17/18	\$10,753,075.51	SD-SEG2 p. 13/18	\$9,477,998.77	SD-SEG2 p. 14/18	\$1,275,076.74	Uncleared Checks and Wires Sent
<b>Totals</b>		<b>\$11,218,522.06</b>		<b>\$186,894,533.32</b>		<b>-\$175,676,011.26</b>	
				Less Repo			
				-\$176,951,088.00			
				<b>Cash from Banks on 11/30/08 Seg</b>	<b>\$9,943,445.32</b>	<b>11/30/08 Seg Stmt Cell E26</b>	

**Table 2 Notes:**

**Note 4 - Funds in Segregated Bank Accounts**

Per fieldwork on 1/9/09, NFA obtained the firm's Customer Segregated Bank Accounts (SD-SEG2). NFA noted the firm maintains an account at Bank of America, First Premier, and US Bank, and 3 accounts at JPMorgan Chase. NFA also obtained any bank reconciliations that PFG had regarding the total balances listed on the bank accounts and the 11-30-08 Seg Stmt. Further, NFA imported the account balances per bank and book into Table 2. NFA noted that two of the accounts, the US Bank Account and the Main Customer Seg Account held at Chase had different balances listed per bank and book. In the US Bank Account (Account #621011845), NFA noted a balance per bank of \$123,800.00 (p. 6) and a balance per book of \$177,074,888.80 (p. 7). Per discussion with O'Meara and per review of SD-SEG2 p. 6-7/18, NFA noted PFG has a reverse repo agreement with US Bank for \$176,951,088.80. Further, NFA noted this is listed in Cell E27 of the 11-30-08 Seg Stmt. As this appears reasonable, NFA will pass on further review.

**BRG Investigative Team Note:**

The \$177 million difference between PFG's balance and the bank statement balance for the U.S. Bank segregated account is reconciled by the amount of the repo.

**APPENDIX N**  
**Account 845 Documentation for November 2008**

- 1. Fabricated U.S. Bank Statement (NFA00024631-NFA00024632)**
- 2. Actual U.S. Bank Statement (0060849)**
- 3. Fabricated Standard Form to Confirm Account Balance (NFA00008684)**
- 4. Fabricated Repurchase Agreement Confirmation (NFA00024634)**

\*The BRG Investigative Team was unable to locate the actual Repurchase Agreement Confirmation for November 2008.





U.S. Bank National Association  
PO Box 706  
Cedar Falls, Iowa 50613-0030

4217 TRC Y ST01

# Bank Statement

Some banks promise great service. U.S. Bank guarantees it!

Statement Period  
11/01/08 through 11/30/08

Primary Account Number  
621011845



To Contact U.S. Bank  
By Phone: 1-800-347-7827  
Internet: usbank.com

000042564 1 AV 0.324 106481010908171 P  
PEREGRINE FINANCIAL GROUP INC  
CUSTOMER SEGREGATED FUNDS ACCT  
3812 CEDAR HEIGHTS DRIVE  
CEDAR FALLS IA 50613-6260

### Bank Information

BK: 2081  
BR: 4217 CYC: 097  
PR: 66 ENC: 000

## COMMERCIAL CHECKING Account Number 0621011845 Member FDIC

<b>Account Summary</b>	Beginning Balance on 11/01/08.....	\$115,000.00	Average Daily Balance.....	\$115,896.09
	Deposits and Other Additions.....	2,978,759,154.72	Number of Days in Statement Period.....	30
	Check Activity.....	\$0.00	<i>Names on the account:</i>	
	Other Deductions and Withdrawals	2,978,750,354.72	PEREGRINE FINANCIAL GROUP INC	
	Ending Balance on 11/30/08.....	\$123,800.00	CUSTOMER SEGREGATED FUNDS ACCT	

<b>Deposits and Other Additions</b>	<b>Date</b>	<b>Description of Transaction</b>	<b>Ref Nbr</b>	<b>Amount</b>
	11/04/08	DEPOSIT .....	43807152	\$19,500.00
	11/12/08	DEPOSIT .....	45515878	\$750.00
	11/13/08	DEPOSIT .....	46059421	\$20,000.00
	11/14/08	DEPOSIT .....	46155910	\$10,100.00
	11/18/08	DEPOSIT .....	45244158	\$293.18
	11/19/08	DEPOSIT .....	46769778	\$6,100.00
	11/21/08	DEPOSIT .....	47238135	\$5,000.00
	11/25/08	DEPOSIT .....	44413982	\$23,800.00
	11/26/08	DEPOSIT .....	48170299	\$5,000.00
	11/26/08	DEPOSIT .....	48897712	\$5,000,000.00
	11/06/08	WT INC 0811060005209JPMCHASE*PFG CUST SEG ACCT	06002011	\$10,000,000.00
	11/06/08	WT INC 0811060020003BK AMER NYC TOM HERRMANN K	06007358	\$500,000.00
	11/21/08	WT INC 0811210008847USBANK*RWASENDORF*6210162	06017743	\$1,000,000.00
	11/26/08	WT INC 0811260013101JPMCHASE*PFG CUST SEG ACCT	06004717	\$5,000,000.00
	11/03/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00097804	\$155,237,903.62
	11/04/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00072030	\$155,243,031.99
	11/05/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00077180	\$155,253,161.66
	11/06/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00081934	\$155,268,292.53
	11/07/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00070228	\$165,777,751.19
	11/10/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00073525	\$165,809,630.16
	11/12/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00075373	\$165,820,557.06
	11/13/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00077525	\$165,826,020.25
	11/14/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00082282	\$165,832,234.72
	11/17/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00083397	\$165,848,630.71
	11/18/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00085667	\$165,854,095.29
	11/19/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00089761	\$165,879,561.78
	11/20/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00090958	\$165,895,128.59
	11/21/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00075998	\$165,900,622.15
	11/24/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00077511	\$166,917,402.15
	11/25/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00081462	\$166,928,999.90



<b>Deposits and Other Additions</b>	<b>Date</b>	<b>Description of Transaction</b>	<b>Ref Nbr</b>	<b>Amount</b>
	11/26/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00086402	\$166,934,498.99
	11/28/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL PREV DAY	00092239	\$176,941,088.80
<b>Total Deposits and Other Additions.....</b>				<b>2,978,759,154.72</b>

<b>Other Deductions and Withdrawals</b>	<b>Date</b>	<b>Description of Transaction</b>	<b>Ref Nbr</b>	<b>Amount</b>
	11/26/08	RETURNED CHECK: NSF:DEPOSIT DATE 11/21/08.....	01009187	.....\$5,000.00
	11/03/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00098058	\$155,237,903.62
	11/04/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00072217	\$155,248,031.99
	11/05/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00077380	\$155,263,161.66
	11/06/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00082146	\$165,772,292.53
	11/07/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00070422	\$165,793,251.19
	11/10/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00073733	\$165,809,630.16
	11/12/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00075573	\$165,820,557.06
	11/13/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00077739	\$165,826,770.25
	11/14/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00082509	\$165,832,234.72
	11/17/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00083619	\$165,848,630.71
	11/18/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00085895	\$165,874,095.29
	11/19/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00090009	\$165,889,661.78
	11/20/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00091209	\$165,895,128.59
	11/21/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00076209	\$166,900,915.33
	11/24/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00077754	\$166,923,502.15
	11/25/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00081716	\$166,928,999.90
	11/26/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00086670	\$176,929,498.99
	11/28/08	SWEEP REPURCHASE AGREEMENT PRINCIPAL.....	00092450	\$176,951,088.80
<b>Other Deductions and Withdrawals.....</b>				<b>2,978,750,354.72</b>

<b>Balance Summary</b>	<b>Date</b>	<b>Ending Balance</b>	<b>Date</b>	<b>Ending Balance</b>	<b>Date</b>	<b>Ending Balance</b>
	11/03/08	.....\$115,000.00	11/12/08	.....\$100,750.00	11/20/08	.....\$106,393.18
	11/04/08	.....\$129,500.00	11/13/08	.....\$120,000.00	11/21/08	.....\$111,100.00
	11/05/08	.....\$119,500.00	11/14/08	.....\$130,100.00	11/24/08	.....\$105,000.00
	11/06/08	.....\$115,500.00	11/17/08	.....\$130,100.00	11/25/08	.....\$128,800.00
	11/07/08	.....\$100,000.00	11/18/08	.....\$110,393.18	11/26/08	.....\$133,800.00
	11/10/08	.....\$100,000.00	11/19/08	.....\$106,393.18	11/28/08	.....\$123,800.00



P.O. Box 1800  
Saint Paul, Minnesota 55101-0800

4217 TRO

Y ST01

**Business Statement**

Account Number:  
0 006 2101 1845  
Statement Period:  
Nov. 3, 2008  
through  
Nov. 30, 2008

Page 1 of 5



000042564 1 AV 0.324 106481010908171 P  
PEREGRINE FINANCIAL GROUP INC  
3812 CEDAR HEIGHTS DR  
CEDAR FALLS IA 50613-6260



**To Contact U.S. Bank**

**24-Hour Business Solutions:** 1-800-673-3555

**Telecommunications Device for the Deaf:** 1-800-685-5065

**Internet:** usbank.com

**INFORMATION YOU SHOULD KNOW**

Price changes for U.S. Bank's Business Checking, Savings and Treasury Management Services are effective January 1, 2009. You can view revised pricing (only those prices that changed) at <https://www2.usbank.com/tmpricing> beginning December 1, 2008. Log onto this secure Web site using the account number (omit leading zeroes and dashes) and five-digit zip code from your statement. If you are unable to access the Internet or this information, please contact your Banker, Relationship Manager, Treasury Management Sales Consultant or Commercial Customer Service Team for assistance. If you prefer, you can send an email to [commercialsupport@usbank.com](mailto:commercialsupport@usbank.com).

**SUMMARY OF YOUR U.S. BANK RELATIONSHIP**

This section reflects the total balances for all accounts on this statement.

<i>Deposit Accounts</i>	<i>Account Number</i>	<i>Balance</i>	<i>Page</i>
Commercial Checking	0-006-2101-1845	\$ 123,800.00	1
<b>Total Deposit Balances</b>		<b>\$ 123,800.00</b>	

<i>Sweep Account</i>	<i>Account Number</i>	<i>Balance</i>	<i>Page</i>
Repurchase Agreement Sweep	0-007-9261-1352	\$ 15,773,465.33	4
<b>Total Sweep Balances</b>		<b>\$ 15,773,465.33</b>	

**COMMERCIAL CHECKING**

Member FDIC

Account Number 0-006-2101-1845

U.S. Bank National Association

**Account Summary**

	<i># Items</i>	
Beginning Balance on Nov. 3		\$ 115,000.00
Customer Deposits	9	90,543.18
Other Deposits	3	15,500,000.00
Sweeps From Investment	41	170,953,227.78
Other Withdrawals	15	1,952,877.29-
Sweeps To Investment	18	184,582,093.67-
<b>Ending Balance on Nov. 30, 2008</b>		<b>\$ 123,800.00</b>

**Customer Deposits**

<i>Number</i>	<i>Date</i>	<i>Ref Number</i>	<i>Amount</i>	<i>Number</i>	<i>Date</i>	<i>Ref Number</i>	<i>Amount</i>
	Nov. 4	6043807152	19,500.00		Nov. 19	6046769778	6,100.00
	Nov. 12	6045515878	750.00		Nov. 21	6047238135	5,000.00
	Nov. 13	5946059421	20,000.00		Nov. 25	6944413982	23,800.00
	Nov. 14	5946155910	10,100.00		Nov. 26	6048170299	5,000.00
	Nov. 18	6145244158	293.18				

**Total Customer Deposits** \$ 90,543.18



PEREGRINE FINANCIAL GROUP INC  
3812 CEDAR HEIGHTS DR  
CEDAR FALLS IA 50613-6260

**Business Statement**

Account Number:  
0 006 2101 1845  
Statement Period:  
Nov. 3, 2008  
through  
Nov. 30, 2008



**COMMERCIAL CHECKING (CONTINUED)**

Account Number 0-006-2101-1845

**Other Deposits**

Date	Description of Transaction	Ref Number	Amount
Nov. 6	Wire Credit REF007358 ORG=TOM HERRMANN KAYA HERRMANN	BK AMER NYC 081106020003	\$ 500,000.00
Nov. 6	Wire Credit REF002011 ORG=PEREGRINE FINANCIAL GROUP INC CUSTOMER SEGR	JPMCHASE NYC 081106005209	10,000,000.00
Nov. 26	Wire Credit REF004717 ORG=PEREGRINE FINANCIAL GROUP INC CUSTOMER SEGR	JPMCHASE NYC 081126013101	5,000,000.00
<b>Total Other Deposits</b>			<b>\$ 15,500,000.00</b>

**Sweeps From Investment**

Date	Description of Transaction	Ref Number	Amount
Nov. 3	REPO Sweep Interest		\$ 2.97
Nov. 4	REPO Sweep Interest		2.97
Nov. 4	REPO Sweep Interest		5.95
Nov. 5	REPO Sweep Interest		2.98
Nov. 6	REPO Sweep Interest		2.96
Nov. 7	REPO Sweep Interest		17.55
Nov. 10	REPO Sweep Interest		17.57
Nov. 12	REPO Sweep Interest		17.57
Nov. 12	REPO Sweep Interest		35.14
Nov. 13	REPO Sweep Interest		15.07
Nov. 13	REPO Sweep Interest		17.57
Nov. 14	REPO Sweep Interest		15.07
Nov. 17	REPO Sweep Interest		15.07
Nov. 18	REPO Sweep Interest		15.06
Nov. 18	REPO Sweep Interest		30.14
Nov. 19	REPO Sweep Interest		15.09
Nov. 20	REPO Sweep Interest		15.10
Nov. 21	REPO Sweep Interest		15.10
Nov. 24	REPO Sweep Interest		15.10
Nov. 25	REPO Sweep Interest		15.11
Nov. 25	REPO Sweep Interest		30.21
Nov. 26	REPO Sweep Interest		15.11
Nov. 28	REPO Sweep Interest		21.89
Nov. 3	REPO Sweep Principal	From 00792611352	2,144,199.30
Nov. 4	REPO Sweep Principal	From 00792611352	2,144,202.27
Nov. 5	REPO Sweep Principal	From 00792611352	2,149,211.19
Nov. 6	REPO Sweep Principal	From 00792611352	2,134,214.17
Nov. 7	REPO Sweep Principal	From 00792611352	12,638,217.13
Nov. 10	REPO Sweep Principal	From 00792611352	12,653,734.68
Nov. 12	REPO Sweep Principal	From 00792611352	12,653,752.25
Nov. 13	REPO Sweep Principal	From 00792611352	10,850,689.96
Nov. 14	REPO Sweep Principal	From 00792611352	10,851,472.60
Nov. 17	REPO Sweep Principal	From 00792611352	10,851,487.67
Nov. 18	REPO Sweep Principal	From 00792611352	10,847,740.45
Nov. 19	REPO Sweep Principal	From 00792611352	10,867,785.65
Nov. 20	REPO Sweep Principal	From 00792611352	10,877,900.74
Nov. 21	REPO Sweep Principal	From 00792611352	10,877,915.84
Nov. 24	REPO Sweep Principal	From 00792611352	10,878,224.12
Nov. 25	REPO Sweep Principal	From 00792611352	10,884,339.22
Nov. 26	REPO Sweep Principal	From 00792611352	10,884,384.54
Nov. 28	REPO Sweep Principal	From 00792611352	15,763,399.65
<b>Total Sweeps From Investment</b>			<b>\$ 170,953,227.78</b>



PEREGRINE FINANCIAL GROUP INC  
3812 CEDAR HEIGHTS DR  
CEDAR FALLS IA 50613-6260

**Business Statement**

Account Number:  
0 006 2101 1845  
Statement Period:  
Nov. 3, 2008  
through  
Nov. 30, 2008

**COMMERCIAL CHECKING (CONTINUED)**

Account Number 0-006-2101-1845

**Other Withdrawals**

Date	Description of Transaction	Ref Number	Amount
Nov. 17	Iowa Tax	1700000000	\$ 245.44-
Nov. 26	Wire Debit REF000540 BNF=ANAC NO ADDRESS	BK ONE FCRGO 081126005308 GIVEN	8,500.00
Nov. 12	Wire Debit REF002404 BNF=ANAC NO ADDRESS	JPMCHASE NYC 081112023916 GIVEN	6,000.00-
Nov. 12	Wire Debit REF002391 BNF=AEGIS RS NO ADDRESS	WACHOVIA ROANOKE 081112023882 GIVEN	18,000.00-
Nov. 26	Wire Debit REF000507 BNF=AEGIS RS NO ADDRESS	WACHOVIA ROANOKE 081126005099 GIVEN	24,500.00-
Nov. 26	Electronic Funds Transfer	To Account 196473400329	5,000.00-
Nov. 26	Electronic Funds Transfer	To Account 196473400303	20,000.00-
Nov. 26	Electronic Funds Transfer	To Account 196473400311	58,000.00-
Nov. 26	Deposited Item Returned	1000529409	5,000.00-
Nov. 17	Analysis Service Charge	1700000000	3,516.85-
Nov. 12	Telephone Transfer	To Account 00173431140	500,000.00-
Nov. 12	Telephone Transfer	To Account 00173431140	1,114,115.00-
Nov. 12	Telephone Transfer	To Account 196473400311	5,000.00-
Nov. 5	Telephone Transfer	To Account 196473400329	25,000.00-
Nov. 12	Telephone Transfer	To Account 196473400329	160,000.00-
<b>Total Other Withdrawals</b>			<b>\$ 1,952,877.29-</b>

**Sweeps To Investment**

Date	Description of Transaction	Ref Number	Amount
Nov. 3	REPO Sweep Transfer	To 00792611352 0300000260	\$ 2,144,202.27-
Nov. 4	REPO Sweep Transfer	To 00792611352 0400000256	2,149,211.19-
Nov. 5	REPO Sweep Transfer	To 00792611352 0500000236	2,134,214.17-
Nov. 6	REPO Sweep Transfer	To 00792611352 0600000240	12,638,217.13-
Nov. 7	REPO Sweep Transfer	To 00792611352 0700000251	12,653,734.68-
Nov. 10	REPO Sweep Transfer	To 00792611352 1000000252	12,653,752.25-
Nov. 12	REPO Sweep Transfer	To 00792611352 1200000325	10,850,689.96-
Nov. 13	REPO Sweep Transfer	To 00792611352 1300000274	10,851,742.60-
Nov. 14	REPO Sweep Transfer	To 00792611352 1400000209	10,851,487.67-
Nov. 17	REPO Sweep Transfer	To 00792611352 1700000257	10,847,740.45-
Nov. 18	REPO Sweep Transfer	To 00792611352 1800000274	10,867,785.65-
Nov. 19	REPO Sweep Transfer	To 00792611352 1900000242	10,877,900.74-
Nov. 20	REPO Sweep Transfer	To 00792611352 2000000265	10,877,915.84-
Nov. 21	REPO Sweep Transfer	To 00792611352 2100000224	10,878,224.12-
Nov. 24	REPO Sweep Transfer	To 00792611352 2400000282	10,884,339.22-
Nov. 25	REPO Sweep Transfer	To 00792611352 2500000244	10,884,384.54-
Nov. 26	REPO Sweep Transfer	To 00792611352 2600000248	15,763,399.65-
Nov. 28	REPO Sweep Transfer	To 00792611352 2800000251	15,773,421.54-
<b>Total Sweeps To Investment</b>			<b>\$ 184,582,093.67-</b>

**Balance Summary**

Date	Ending Balance	Date	Ending Balance	Date	Ending Balance
Nov. 3	115,000.00	Nov. 12	100,750.00	Nov. 20	106,393.18
Nov. 4	129,500.00	Nov. 13	120,000.00	Nov. 21	111,100.00
Nov. 5	119,500.00	Nov. 14	130,100.00	Nov. 24	105,000.00
Nov. 6	115,500.00	Nov. 17	130,100.00	Nov. 25	128,800.00
Nov. 7	100,000.00	Nov. 18	110,393.18	Nov. 26	133,800.00
Nov. 10	100,000.00	Nov. 19	106,393.18	Nov. 28	123,800.00

Balances only appear for days reflecting change.



PEREGRINE FINANCIAL GROUP INC  
3812 CEDAR HEIGHTS DR  
CEDAR FALLS IA 50613-6260

**Business Statement**

Account Number:  
0 006 2101 1845  
Statement Period:  
Nov. 3, 2008  
through  
Nov. 30, 2008



**REPURCHASE AGREEMENT SWEEP** *This Account is NOT FDIC Insured*

Account Number 0-007-9261-1352

**Account Summary**

	# Items	\$		\$
Beginning Balance on Nov. 1		2,144,202.27	Interest Earned this Period	440.98
Investment Purchases	42	184,582,490.84	Interest Paid this Period	397.17
Investment Redemptions	41	170,953,227.78	Interest Paid this Year	361,079.00
<b>Ending Balance on Nov. 30, 2008</b>		<b>\$ 15,773,465.33</b>	Average Amount Invested	10,586,721.46
			Average Rate	0.05%
			Number of Days in Statement Period	30

**Investment Purchases**

Date	Description of Transaction	Ref Number	Amount
Nov. 3	Interest Paid	0300000353	\$ 2.97
Nov. 3	Interest Paid	0300000352	5.95
Nov. 3	REPO Sweep Purchase	0300000259	2,144,202.27
Nov. 4	Interest Paid	0400000336	2.98
Nov. 4	REPO Sweep Purchase	0400000255	2,149,211.19
Nov. 5	Interest Paid	0500000324	2.96
Nov. 5	REPO Sweep Purchase	0500000235	2,134,214.17
Nov. 6	Interest Paid	0600000309	17.55
Nov. 6	REPO Sweep Purchase	0600000239	12,638,217.13
Nov. 7	Interest Paid	0700000321	17.57
Nov. 7	REPO Sweep Purchase	0700000250	12,653,734.68
Nov. 10	Interest Paid	1000000337	17.57
Nov. 10	Interest Paid	1000000336	35.14
Nov. 10	REPO Sweep Purchase	1000000251	12,653,752.25
Nov. 12	Interest Paid	1200000421	15.07
Nov. 12	Interest Paid	1200000420	17.57
Nov. 12	REPO Sweep Purchase	1200000324	10,850,689.96
Nov. 13	Interest Paid	1300000367	15.07
Nov. 13	REPO Sweep Purchase	1300000273	10,851,472.60
Nov. 14	Interest Paid	1400000279	15.07
Nov. 14	REPO Sweep Purchase	1400000208	10,851,487.67
Nov. 17	Interest Paid	1700000335	15.06
Nov. 17	Interest Paid	1700000334	30.14
Nov. 17	REPO Sweep Purchase	1700000256	10,847,740.45
Nov. 18	Interest Paid	1800000343	15.09
Nov. 18	REPO Sweep Purchase	1800000273	10,867,785.65
Nov. 19	Interest Paid	1900000310	15.10
Nov. 19	REPO Sweep Purchase	1900000241	10,877,900.74
Nov. 20	Interest Paid	2000000336	15.10
Nov. 20	REPO Sweep Purchase	2000000264	10,877,915.84
Nov. 21	Interest Paid	2100000298	15.10
Nov. 21	REPO Sweep Purchase	2100000223	10,878,224.12
Nov. 24	Interest Paid	2400000372	15.11
Nov. 24	Interest Paid	2400000371	30.21
Nov. 24	REPO Sweep Purchase	2400000281	10,884,339.22
Nov. 25	Interest Paid	2500000315	15.11
Nov. 25	REPO Sweep Purchase	2500000243	10,884,384.54
Nov. 26	Interest Paid	2600000322	21.89
Nov. 26	REPO Sweep Purchase	2600000247	15,763,399.65
Nov. 28	Interest Paid	2800000338	21.89
Nov. 28	Interest Paid	2800000339	21.90
Nov. 28	REPO Sweep Purchase	2800000250	15,773,421.54
<b>Total Investment Purchases</b>			<b>\$ 184,582,490.84</b>



PEREGRINE FINANCIAL GROUP INC  
3812 CEDAR HEIGHTS DR  
CEDAR FALLS IA 50613-6260

**Business Statement**

Account Number:  
0 006 2101 1845  
Statement Period:  
Nov. 3, 2008  
through  
Nov. 30, 2008

**REPURCHASE AGREEMENT SWEEP**

**(CONTINUED)**

Account Number 0-007-9261-1352

**Investment Redemptions**

Date	Description of Transaction	Ref Number	Amount
Nov. 3	Interest Redemption		\$ 2.97-
Nov. 3	REPO Sweep Redemption	To 00621011845	2,144,199.30-
Nov. 4	Interest Redemption		2.97-
Nov. 4	Interest Redemption		5.95-
Nov. 4	REPO Sweep Redemption	To 00621011845	2,144,202.27-
Nov. 5	Interest Redemption		2.98-
Nov. 5	REPO Sweep Redemption	To 00621011845	2,149,211.19-
Nov. 6	Interest Redemption		2.96-
Nov. 6	REPO Sweep Redemption	To 00621011845	2,134,214.17-
Nov. 7	Interest Redemption		17.55-
Nov. 7	REPO Sweep Redemption	To 00621011845	12,638,217.13-
Nov. 10	Interest Redemption		17.57-
Nov. 10	REPO Sweep Redemption	To 00621011845	12,653,734.68-
Nov. 12	Interest Redemption		17.57-
Nov. 12	Interest Redemption		35.14-
Nov. 12	REPO Sweep Redemption	To 00621011845	12,653,752.25-
Nov. 13	Interest Redemption		15.07-
Nov. 13	Interest Redemption		17.57-
Nov. 13	REPO Sweep Redemption	To 00621011845	10,850,689.96-
Nov. 14	Interest Redemption		15.07-
Nov. 14	REPO Sweep Redemption	To 00621011845	10,851,472.60-
Nov. 17	Interest Redemption		15.07-
Nov. 17	REPO Sweep Redemption	To 00621011845	10,851,487.67-
Nov. 18	Interest Redemption		15.06-
Nov. 18	Interest Redemption		30.14-
Nov. 18	REPO Sweep Redemption	To 00621011845	10,847,740.45-
Nov. 19	Interest Redemption		15.09-
Nov. 19	REPO Sweep Redemption	To 00621011845	10,867,785.65-
Nov. 20	Interest Redemption		15.10-
Nov. 20	REPO Sweep Redemption	To 00621011845	10,877,900.74-
Nov. 21	Interest Redemption		15.10-
Nov. 21	REPO Sweep Redemption	To 00621011845	10,877,915.84-
Nov. 24	Interest Redemption		15.10-
Nov. 24	REPO Sweep Redemption	To 00621011845	10,878,224.12-
Nov. 25	Interest Redemption		15.11-
Nov. 25	Interest Redemption		30.21-
Nov. 25	REPO Sweep Redemption	To 00621011845	10,884,339.22-
Nov. 26	Interest Redemption		15.11-
Nov. 26	REPO Sweep Redemption	To 00621011845	10,884,384.54-
Nov. 28	Interest Redemption		21.89-
Nov. 28	REPO Sweep Redemption	To 00621011845	15,763,399.65-
<b>Total Investment Redemptions</b>			<b>\$ 170,953,227.78-</b>

**Balance Summary**

Date	Ending Balance	Date	Ending Balance	Date	Ending Balance
Nov. 3	2,144,211.19	Nov. 12	10,850,722.60	Nov. 20	10,877,930.94
Nov. 4	2,149,214.17	Nov. 13	10,851,487.67	Nov. 21	10,878,239.22
Nov. 5	2,134,217.13	Nov. 14	10,851,502.74	Nov. 24	10,884,384.54
Nov. 6	12,638,234.68	Nov. 17	10,847,785.65	Nov. 25	10,884,399.65
Nov. 7	12,653,752.25	Nov. 18	10,867,800.74	Nov. 26	15,763,421.54
Nov. 10	12,653,804.96	Nov. 19	10,877,915.84	Nov. 28	15,773,465.33

Balances only appear for days reflecting change.

*Investments in Repurchase Agreements are not insured by the Federal Deposit Insurance Corporation, are not guaranteed by the bank and may lose value.*

**STANDARD FORM TO CONFIRM ACCOUNT  
BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS**

**ORIGINAL**  
To be mailed to accountant

**Peregrine Financial Group, Inc.**

**CUSTOMER NAME**

Financial Institution's Name and Address [ U.S. Bank  
P.O. Box 706  
Cedar Falls, IA 50613-0706 ]  
[ Attn: Hope Timmerman ]

We have provided to our accountants the following information as of the close of business on **November 30, 2008** regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below.\* Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit balance(s):


ACCOUNT NAME	ACCOUNT NO.	INTEREST RATE	BALANCE*
Peregrine Financial Group, Inc.	#787487		\$236,342.03
Peregrine Financial Group, Inc.	#621011845**		\$177,074,888.80
Peregrine Financial Group, Inc.	#198455993366**		\$1,117,895.51

\*\*Please include balances of Securities for Reverse Repos

2. We were directly liable to the financial institution for loans at the close of business on the date listed above:

ACCOUNT NO./ DESCRIPTION	BALANCE*	DATE DUE	INTEREST RATE	DATE THROUGH V INTEREST IS P	AL
NA					

↑  
1,118,996

  
(Customer's Authorized Signature)

16 Jan 2009  
(Date)

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below.

  
(Financial Institution Authorized Signature)  
Senior Vice President, Commercial Banking Division  
(Title)

January 22, 2009  
(Date)

EXCEPTIONS AND/OR COMMENTS
NA

Please return this form directly to our accountants:

[ Attn: Pete Kroi ]  
NATIONAL FUTURES ASSOCIATION  
300 S. Riverside Suite 1800  
Chicago, IL 60606

\* Ordinarily, balances are intentionally left blank if they are not





REPURCHASE AGREEMENT CONFIRMATION

U.S. BANK IOWA N.A. (SWEEP REPO)

Phone #800-236-5800

We confirm our sale to you of securities described below. We hold the described securities in safekeeping for you and agree to repurchase these securities on the maturity date. This transaction is subject to the terms and condition of the Master Repurchase Agreement and, if a sweep account, The Sweep Service Agreement between you and us.

PEREGRINE FINANCIAL GROUP INC  
CEA CUSTOMER SEGREGATED ACCT  
3812 CEDAR HEIGHTS DRIVE  
PO BOX 849  
CEDAR FALLS IA 50613-0849

#000-621011845

Any funds held by us in connection with this transaction are not a deposit and therefore are not FDIC Insured.



PEREGRINE FINANCIAL GROUP INC

Customer Account Number	Trade Number	Settlement Date	Principal	Repurchase Date	Current Rate	Interest
000-621011845	092450	11/28/08	176,951,088.80	12/01/08	0.975%	14,202.01

The following securities are sold under agreement to repurchase:

Security type	CUSIP Number	Coupon Rate	Maturity Date	Par Value	Market Value
U S TREASURY NOTES	912828EX4	4.500%	02/28/11	195,450,000.00	176,965,290.81

7/1