U.S. COMMODITY FUTURES TRADING COMMISSION
Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
Telephone: (202) 418-5430
Facsimile: (202) 418-5536

Division of
Trading and Markets

May 7, 2002

Thomas W. Sexton, Esq.
General Counsel
National Futures Association
200 West Madison Street
Chicago, Illinois 60606-3447

Re: National Futures Association -- Request for Relief Regarding the Conversion to an Online Registration System

Dear Mr. Sexton:

This is in response to your letter dated March 19, 2002, to the Secretary of the Commodity Futures Trading Commission ("Commission"), by which the National Futures Association ("NFA") submitted for review and approval, pursuant to Section 17(j) of the Commodity Exchange Act (the "Act"),[1] certain proposed amendments to its Registration Rules to implement an Online Registration System ("ORS") and requested certain relief. Your request for relief has been forwarded to the Division of Trading and Markets (the "Division") for response.

Based upon your representations, we understand the facts to be as follows. Currently, applicants for registration with the Commission file hardcopies of the pertinent forms with NFA and the information is manually entered into the Membership Registration Receivables System ("MRRS") by NFA staff.[2] Beginning in June 2002, firm and individual applicants for registration with the Commission will file the pertinent forms with NFA electronically through ORS.[3] The transition from MRRS to ORS will require a "quiet period" of approximately two weeks when NFA will not be able to process any registration filings. You have indicated that at the end of business on May 17, 2002, NFA will cease accepting hardcopies of the registration forms that will only be accepted electronically through ORS beginning in June 2002. During the "quiet period," NFA will

[1] 7 U.S.C. § 1 *et seq.* (2000).

[2] The Commission has previously delegated the authority to process applications for registration of intermediaries and floor traders under the Act to NFA. *See*, e.g., 58 FR 19657 (Apr. 15, 1993) (floor traders); 51 FR 34490 (Sep. 29, 1986) (floor brokers); 49 FR 39593 (Oct. 9, 1984) (futures commission merchants, commodity pool operators, commodity trading advisors, and associated persons thereof); 48 FR 35158 (Aug. 3, 1983) (introducing brokers and associated persons thereof).

[3] Agricultural trade option merchants as well as applicants for registration as FCMs and IBs pursuant to Section 4f(a)(2) of the Act (notice-registration of securities broker-dealers whose only futures-related activity involves security futures products) will still file paper applications.

enter the information from any hardcopy forms received before May 17th into MRRS and then transfer the information contained in MRRS to ORS.

In your letter, you noted that, because NFA will not process filings during the "quiet period," there might be situations in which applicants or registrants could be disadvantaged. When an associated person ("AP") or principal of a sponsor fails to become associated with the sponsor as an AP or affiliated with the sponsor as a principal, or the association of an AP or affiliation of a principal with a sponsor is terminated, NFA Registration Rule 214 requires the sponsor to notify NFA by filing a Form 8-T, within 20 days of either such occurrence. Pursuant to NFA Registration Rule 203(a)(10), if such notice is not received within 20 days of the occurrence requiring the notice, the sponsor must pay a late fee of $100.[4] If the 20-day period during which a sponsor is required to file a Form 8-T expires during the "quiet period," a sponsor could incur a late fee. In light of this, you have requested that NFA be permitted to waive the late fee for any Form 8-T filed late, but filed with NFA within the first 20 days that ORS is available to receive registration forms. As you noted in your letter, this may result in some sponsors being able to avoid paying the late fee where the 20-day period for filing the Form 8-T expired before the "quiet period." However, you represent that the benefit of ensuring accurate registration records outweighs the costs that NFA would incur to determine only those Forms 8-T that were filed late because of the "quiet period."

Pursuant to NFA Registration Rule 301(b), when within sixty days of a person's registration as an AP being terminated, an application is filed for that person to become associated with a new sponsor, the person shall be granted a temporary license as an AP ("Special Temporary License").[5] As mentioned above, NFA will not be processing applications for registration as an AP during the "quiet period." Accordingly, there may be individuals who will lose their eligibility to be granted a Special Temporary License if the relevant 60-day period expired during the "quiet period." You have requested that the Commission permit NFA to grant a Special Temporary License to eligible applicants during the "quiet period," even though the applicant will not be able to file the required application forms. You represented that NFA would grant the Special Temporary License upon receiving notice from the relevant sponsor that the person has been employed as an AP of the sponsor. NFA would manually reflect the person's Special Temporary License in the registration database. The sponsor would have to file the appropriate application forms for the AP within the first 20 days that ORS is available. You further represented that NFA will withdraw any Special Temporary License if the appropriate registration forms regarding the AP are not filed within 20 days after ORS becomes available.

Based upon the representations contained in your letter, the Division believes that permitting NFA to waive the late fee for required notices of termination filed past the 20-day period, where such notice is filed within 20 days of ORS becoming available, and permitting NFA to grant Special

---

[4] While Commission Rule 3.31(c), 17 C.F.R. § 3.31(c), requires a sponsor to file with NFA a Form 8-T within 20 days of the occurrences noted above, Commission Rules do not require a sponsor to pay a late fee. Fees related to the registration process are within the discretion of NFA, subject to the Commission's approval of the pertinent NFA rule setting forth such fees.

[5] *See also*, Commission Rule 3.12(d), 17 C.F.R. § 3.12(d).

Temporary Licenses as APs to eligible persons before the applicable registration forms are filed, so long as the required forms are filed within 20 days of ORS becoming available, would not be contrary to the public interest and the purposes of the Act and the Commission's rules thereunder.

This letter and the opinions expressed herein are based upon the representations that have been made to us. Any different, changed, or omitted facts or conditions might change the opinion of the Division. Moreover, this letter represents the opinion of the Division only and does not necessarily reflect the views of the Commission or any other office or division of the Commission.

If you have any questions concerning this correspondence, please contact Lawrence B. Patent, Associate Chief Counsel, or Michael A. Piracci, an attorney on my staff, at (202) 418-5430.

Very truly yours,

John C. Lawton
Acting Director