



NATIONAL
FUTURES
ASSOCIATION®

2013 ANNUAL REVIEW

G R O W I N G
stronger.

A LETTER FROM NFA'S CEO AND CHAIRMAN

Dear Members of the National Futures Association,

We write today in a form unlike our greetings in past annual reports. As we approach the end of 2013 and report to you on the last fiscal year, we have an opportunity to reflect and take account of where we have been, where we are, and where we are going. NFA has embraced its newly expanded responsibilities entrusted by Congress, the Commodity Futures Trading Commission (CFTC), and NFA Members and strives to fulfill these responsibilities with the full vigor and dedication of our staff.

We would like to begin by acknowledging that as a result of the changes in the exemption rules set forth by the CFTC, along with the continuing implementation of the Dodd-Frank Wall Street Reform Act, we have gained many new Members. Therefore, we would like to simply begin by saying, "Welcome," to our newest Members. Due largely to the influx of new commodity pool operator registrants, the number of NFA Members has grown 16 percent in the past year. This dramatic increase in our membership has substantially increased the number of pools operated by NFA Members from approximately 1,400 pools in recent years to approximately 5,700 pools in 2013. The net asset value of these pools also rose from about \$350 billion to about \$2.4 trillion.

The poet T. S. Eliot wrote in "Four Quartets": "For last year's words belong to last year's language/And next year's words await another voice." While we at NFA have high principles and attributes that transcend the years, it seems an appropriate thought—"Welcome to 'next year'." We are grateful for our successes over the last years and yet we accept our imperfections with a commitment and determination to excel at our tasks. And, with new authority comes a renewed sense of commitment to excellence.

Rebuilding Trust

As we are all well aware, the last two years have been the most challenging for the futures industry in the almost 80 years the two of us, collectively, have been in the business. The collapse of MF Global and the uncovering of the Peregrine Financial Group (PFG) fraud brought about the questioning of systems and procedures believed to be safe and beyond reproach. Our industry has prided itself on a long track record of protecting customer funds, and on our weathering the 2008 financial crisis. Now, this hard-earned, previously impeccable reputation for safeguarding customer funds was suddenly badly tarnished. We have now embarked down the long, hard road of rebuilding trust.

NFA approached the issues revealed by MF Global and PFG on two parallel paths: regulatory enhancements achieved by rule modifications and improved processes at NFA. Allow us to describe some of these improvements.

Shortly after the discovery of the PFG fraud, we formed a special committee made up of NFA's public directors, chaired by Dr. Todd Petzel. The Board directed the committee to be independent, thorough, and timely in its review of the circumstances surrounding the PFG fraud and all of the NFA audit practices and procedures. The committee engaged Berkeley Research Group (BRG) to gather the information and to analyze processes. The BRG team included former Securities and Exchange Commission (SEC) personnel who conducted a review of the SEC's practices in light of the Madoff scandal. During its investigation, BRG conducted a comprehensive review of NFA's exams of PFG from 1995 through 2012. BRG examined more than 190,000 NFA documents containing over 3 million pages, and more than 166,000 emails and related attachments. It conducted 32 separate interviews of individuals with knowledge of the factors or circumstances surrounding NFA's audits of PFG, including PFG's former CEO Russell Wasendorf, Sr., who was in a federal correctional facility at the time of his interview. NFA is lucky to have outstanding public directors and we should all be grateful for their work on this committee.

The Committee and BRG submitted its findings in a report to NFA's Board of Directors in January 2013, which the Board then made available to the public on NFA's website. Although BRG's review found that "NFA audits were conducted in a competent fashion and the auditors dutifully implemented the appropriate modules that were required," it also stated that NFA needed to develop a greater sense of professional skepticism in its examinations, and it put forth a list of 20 recommendations designed to achieve that result. In addition to adopting the report in its entirety and making the report public, NFA's Board appointed an Implementation Special Committee to ensure those recommendations were fully implemented in a timely fashion. Organizational change is uncomfortable so our appreciation goes out to the Implementation Special Committee chaired by independent director Ron Filler, and comprised of Maureen Downs and Gerald Corcoran, as well as to the NFA staff.



Making Changes

At the outset of the implementation process, NFA staff and the Implementation Special Committee categorized BRG's recommendations into four categories: 1) examination process/risk management; 2) professional development; 3) monitoring compliance with segregated funds requirements; and 4) industry interface. We then identified the specific actions needed to implement each of the recommendations and tracked the progress of each action step on a regular basis. In many areas, we implemented improvements that even exceeded the requirements needed to fulfill BRG's recommendations.

The majority of BRG's recommendations focused on NFA's examination process and risk management, including modifying and strengthening the futures commission merchant (FCM) exam modules. To assist with this effort, the Implementation Special Committee engaged an outside examination expert, PricewaterhouseCoopers LLP (PwC), to review the module enhancements. After a three-month review process, we are happy to report that PwC concluded that NFA's modifications to its exam modules fully implement the relevant BRG recommendations.

The BRG report also made a number of recommendations related to NFA's training and professional development. Prior to receiving the BRG report, in November 2012, NFA formalized a relationship with the Association of Certified Fraud Examiners (ACFE) to ensure its examiners have appropriate training on professional skepticism. Since that time, more than 80 futures compliance staff have completed training and passed a test that covers fraud prevention and deterrence as well as fraud investigations to achieve the certified fraud examiner (CFE) designation. With few exceptions, by December 2013, all NFA staff members involved in the examination function are expected to have completed ACFE training and obtained the CFE designation.

Additionally, the BRG report recommended that NFA evaluate its hiring practices to ensure its examiners have diverse skills. Over the past few years, NFA had already begun to modify its hiring philosophy to place greater emphasis on hiring individuals with prior industry and related experience. This effort will continue in the years to come. Nearly one-third of NFA's recently hired employees had industry related experience.

Going beyond the scope of the BRG recommendations, NFA established an Office of Professional Development (OPD). After benchmarking with other regulators, law firms and accounting firms that have similar departments, NFA created the OPD to oversee the training and professional development of NFA's professional staff in the Futures Compliance, Swaps Compliance, Market Regulation and Registration departments.

With respect to industry interface, NFA staff implemented BRG's recommendation that we improve the flow of information between NFA and other regulators regarding our examinations of FCMs. NFA and the CFTC's Division of Swap Dealer and Intermediary Oversight staff have agreed to meet at least quarterly to discuss NFA's upcoming FCM examinations as well as any concerns the CFTC may have regarding the FCMs subject to those exams. In addition, NFA instituted a regular series of lectures by industry leaders for staff.

After many months of hard work, the Implementation Special Committee reported to the Board at the November meeting that NFA staff had addressed each recommendation, and substantially completed the implementation of all of BRG's recommendations. We are confident that all of the actions that we have taken will help us to create a stronger regulatory environment and a better industry.

Both of the special committees and NFA staff devoted significant resources and energy to conduct the study of the PFG events and to implement the recommended changes outlined in the BRG report. The Implementation Special Committee has completed its work and turned over the remaining tasks to NFA staff. Again, we should all be grateful for their efforts.

Regulatory Improvements and New Responsibilities

As mentioned above, NFA has also improved the self-regulatory system by adopting a number of significant rulemakings. These rulemakings, which are designed to enhance customer protection, are described in detail in this annual review.

Additionally, in line with rulemakings to enhance customer protection was the development of a system to perform a daily confirmation of customer segregated funds. In December 2012, NFA and the CME Group began using a daily segregation confirmation system to electronically confirm the balances in customer segregated and secured fund accounts. This past summer, NFA and CME expanded surveillance systems to include obtaining daily confirmations from clearing firms, and expect to receive daily reports from clearinghouses shortly. Upon receipt of the data, NFA performs an automated comparison of the FCMs' reports to the daily confirmations from the depositories to identify any suspicious discrepancies. This process is a vast improvement of the regulatory process.

Beyond traditional futures regulation, NFA has significant new responsibilities under Dodd-Frank with the assignment of regulatory authority over Swap Dealers, Major Swap Participants, and market surveillance for Swap Execution Facilities (SEFs). These developments mean a bigger organization with far greater reach. The Board and senior management were prudent not to overly commit NFA resources until the scope and timing of these regulatory responsibilities were made clear. Now, though, NFA has taken action.

NFA's compliance program for swap dealers is still in its embryonic stage, but much has been accomplished in the past year. We were prepared for the glut of swap dealer applications and the voluminous 4s filings that arrived in December 2012. We performed an initial review of more than 5,000 4s submissions totaling more than 165,000 pages, and granted provisional registration to all applicants by Jan. 1, 2013. NFA staff also began the development of modules designed to implement an exam process for swap participants that will be phased in over time. NFA's Board also was modified to integrate swap participants into the governance structure. Finally, now that the timing and scope of NFA's responsibilities are clearer, NFA is fully committed to building its swaps regulatory staff.

Significant work also was done to develop a regulatory services program for SEFs. Since 2011, NFA has been working to develop the systems required to conduct trade practice and market surveillance for potential SEFs. In June 2013, the CFTC published its final SEF rules. At that time, 16 potential SEFs signed regulatory services agreements with NFA to provide surveillance on their behalf. The CFTC granted temporary registration to all of the SEFs that executed regulatory service agreements with NFA prior to Oct. 2, 2013, thereby allowing them to operate as a SEF on the compliance date.

Conclusion

The events of the past two years have been shocking, traumatic and almost overwhelming ... almost. The failures of MF Global and PFG have eroded trust in both the marketplace and regulators. But as hurtful as these lessons have been, they have helped us to improve over the last two years and we have become a much stronger, more effective regulator. We are painfully aware of Warren Buffet's admonition, "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently".

As the year comes to a close, we will now cast our eyes to the future and toward the challenges that lie ahead while continuing to strive to restore customer confidence in the futures industry. We look forward to working with Congress, the CFTC, other self-regulatory organizations, and the industry to ensure that customers have justified confidence in the integrity of the U.S. derivatives markets. Thank you for your attention and "welcome to next year"!



Daniel J. Roth
President and CEO



Christopher K. Hehmeyer
Chairman of the Board



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restore
confidence

ENHANCING CUSTOMER PROTECTION

Since the failures of MF Global in 2011 and Peregrine Financial Group Inc. (PFG) in 2012, NFA, along with the Commodity Futures Trading Commission (CFTC) and other self-regulatory organizations, has worked tirelessly to strengthen customer protection, improve our regulatory practices and restore confidence in the marketplace. This work has centered on a number of key areas.

In the past fiscal year, a special committee of NFA's Board of Directors engaged an outside consultant, Berkeley Research Group (BRG), to perform an independent analysis of NFA's examinations of PFG. BRG issued a report of its findings in late January 2013 and, since that time, NFA has devoted significant time and energy to researching and implementing the recommendations outlined in the report. Next, in an effort to make better use of technology, NFA unveiled a new system by which NFA can confirm customer segregated and secured amount balances of futures commission merchant (FCM) Members on a daily basis. NFA further enhanced customer protections by increasing the transparency of FCM financial information and provided guidance on FCMs' internal control systems. And finally, along with other industry groups, NFA commissioned a study to examine the costs of adopting an insurance regime for the U.S. futures industry.

IMPLEMENTING RECOMMENDATIONS FROM THE BRG REPORT

Shortly after PFG's failure, NFA's Special Committee for the Protection of Customer Funds, comprised of public directors, hired BRG to perform an independent analysis of NFA's examinations of PFG. BRG issued its findings, along with a list of recommendations in January 2013.

The recommendations set forth in the BRG report were "designed to improve the operations of NFA audits" based on the results of its analysis. These recommendations covered a range of topics, including examiner hiring, ►

HIRING

training, supervision, the examination process, risk management and continuing education. Overall, BRG's review found that "NFA audits were conducted in a competent fashion and the auditors dutifully implemented the appropriate modules" following the standards set by the Joint Audit Committee.

Upon receipt of the BRG report, NFA's Board of Directors appointed a special committee to oversee NFA's timely implementation of the BRG recommendations. At the outset of the implementation process, NFA staff and the Implementation Special Committee categorized BRG's recommendations into one of four categories: professional development; examination process and risk management; monitoring compliance with segregated funds requirements; and industry interface. NFA then

identified the specific actions needed to implement each of the recommendations and tracked the progress of these action steps on a regular basis.

A number of BRG's recommendations focused on the modification of NFA's modules that it used during the FCM examination process. To assist with this, the Implementation Special Committee engaged an outside examination expert, PricewaterhouseCoopers LLP (PwC), to review the module enhancements. After a three-month review process, PwC concluded that NFA's modifications to its exam modules fully implemented the related BRG recommendations.

TRAINING, HIRING AND PROFESSIONAL DEVELOPMENT

The BRG report also made a number of recommendations related to NFA's training and development. Among these was a recommendation to promote a greater sense of professional skepticism among its examiners. Prior to receiving the BRG report, in November 2012, NFA formalized a relationship with the Association of Certified Fraud Examiners (ACFE) to ensure its examiners have appropriate training on professional skepticism. Since that time, more than 80 Futures Compliance staff have completed training and passed a test that covers fraud prevention and deterrence as well as fraud investigations to achieve the certified fraud examiner (CFE) designation. With few exceptions, by December 2013, all NFA staff involved in the examination function are expected to have completed ACFE training and obtain the CFE designation. Going forward, NFA's certified CFEs will obtain at least 20 hours of continuing professional education in fraud-related topics each year.

Other training related to fraud and professional skepticism has been provided to NFA staff during 2013. There were six "Member Lecture Training" sessions, in which a senior staff person from a Member firm discussed current industry topics with NFA staff in areas relating to risk management, back office operations, trading practices and front office operations. NFA will continue to offer these types of training courses to staff on a regular basis.

NFA also established an Office of Professional Development (OPD) as a result of the BRG recommendations. After benchmarking with other regulators, law firms and accounting firms that have similar departments, NFA created the OPD to oversee the training and professional development of NFA's professional staff in the Futures Compliance, Swaps Compliance, Market Regulation and Registration departments.

Additionally, the BRG report recommended that NFA evaluate its hiring practices to ensure its examiners have diverse skills. Over the past few years, NFA already had begun to modify its hiring philosophy to place greater emphasis on hiring individuals with prior industry and related experience. This effort will continue in the years to come.

As of this publication, NFA staff has substantially and materially completed implementation of the BRG recommendations.

Hiring has been the buzzword around NFA's offices throughout much of the past year. **With the organization firmly focused on enhancing customer protection**, NFA has been diligently searching for new employees to fill a variety of roles throughout the organization.

Even prior to receiving Berkeley Research Group's report analyzing NFA's exams of Peregrine Financial Group in early 2013, NFA had placed a greater emphasis on hiring individuals with **prior industry experience** to join the organization. The report later reinforced the importance of hiring **examiners with diverse skills**. Additionally, the recent spate of new commodity pool operator, commodity trading advisor and introducing broker Members, NFA's expanding role in the registration and oversight of swap dealers and major swap participants, as well as the organization's expanding role in providing regulatory services to swap execution facilities all have driven a significant need for new employees in nearly every department.

As a result, **NFA has added close to 90 employees** between its Chicago and New York offices over the past 18 to 24 months—jumping from about 300 employees in September 2011 to close to 400 employees in 2013. Nearly one-third of the newly hired employees came to NFA with experience working in the industry or related fields. In the past year, the departments experiencing the most growth include NFA's Swaps and Futures Compliance departments, Market Regulation and the Information Systems department.

Given this recent growth spurt, especially with the majority of NFA's Swaps Compliance department located in New York, NFA leased a significantly larger New York office space. On July 1, 2013, NFA executed a lease on the 43rd floor of One New York Plaza. The new space accommodates about 150 seats, a large conference room for NFA's Board meetings and training, seven smaller meeting rooms as well as additional support space. NFA had occupied its former New York location at 120 Broadway for more than 25 years.

The build out of NFA's New York office follows the Chicago office's expansion in July 2012. The new space has seating for about 125 employees, including designated space for the Market Regulation department. Concurrent to the build out, the Chicago office also expanded its data center.

NFA worked with architects in both Chicago and New York to design an open floor plan that provides greater flexibility and seating.



DAILY CONFIRMATION OF SEGREGATED ACCOUNT BALANCES

In early 2012, NFA began electronically confirming bank balances, which led to the discovery of the PFG fraud. However, this electronic confirmation was only performed during the annual examination process. Therefore, in an effort to make better use of technology, NFA partnered with CME Group to unveil a new system by which both NFA and CME Group directly confirm all customer segregated and secured amount balances with banks and other depositories on a daily basis. This segregation confirmation system performs an automated comparison of the information received directly from the depository with the daily segregation reports filed by FCMs, and generates immediate alerts for any material discrepancies.

FURTHER CUSTOMER PROTECTION INITIATIVES

To provide greater transparency about the financial condition of FCMs for futures customers, in November 2012, NFA made certain FCM financial information publicly available through the Background Affiliation Status Information Center (BASIC) on NFA's website. The information includes an FCM's adjusted net capital, required net capital and its excess net capital. The information also includes the amount of customer segregated funds held, the amount of segregated funds required to be held, the amount of excess segregated funds, and how the firm invests customer segregated funds. This information is displayed for each FCM, and includes historical information in addition to the most current data.

NFA also proposed guidance that outlines the minimum standards that should be part of FCMs' internal controls in an effort to further enhance transparency and promote confidence in the markets. Under the proposed guidance, FCMs will be required to have written policies and procedures that fully explain their internal control systems, and describe the supervisory system established to ensure that the policies and procedures are followed. These policies and procedures must identify at least one firm principal who is responsible for overseeing that the firm has met the requirements and can respond to regulatory inquiries. Additionally, the guidance also requires that these written policies and procedures, and any material amendments, be approved in writing by an FCM's governing body or senior officer. Finally, the guidance requires FCMs to conduct periodic reviews to ensure that the internal controls are being properly implemented and are effective.

CUSTOMER ASSET PROTECTION INSURANCE STUDY

In an effort to further examine all means of protecting customers, CME Group, Futures Industry Association, the Institute for Financial Markets and NFA jointly commissioned economic consultant Compass Lexecon to study the costs of adopting an insurance regime for the U.S. futures industry. The study examines a number of models for providing insurance to the futures industry in the event of an FCM failure.

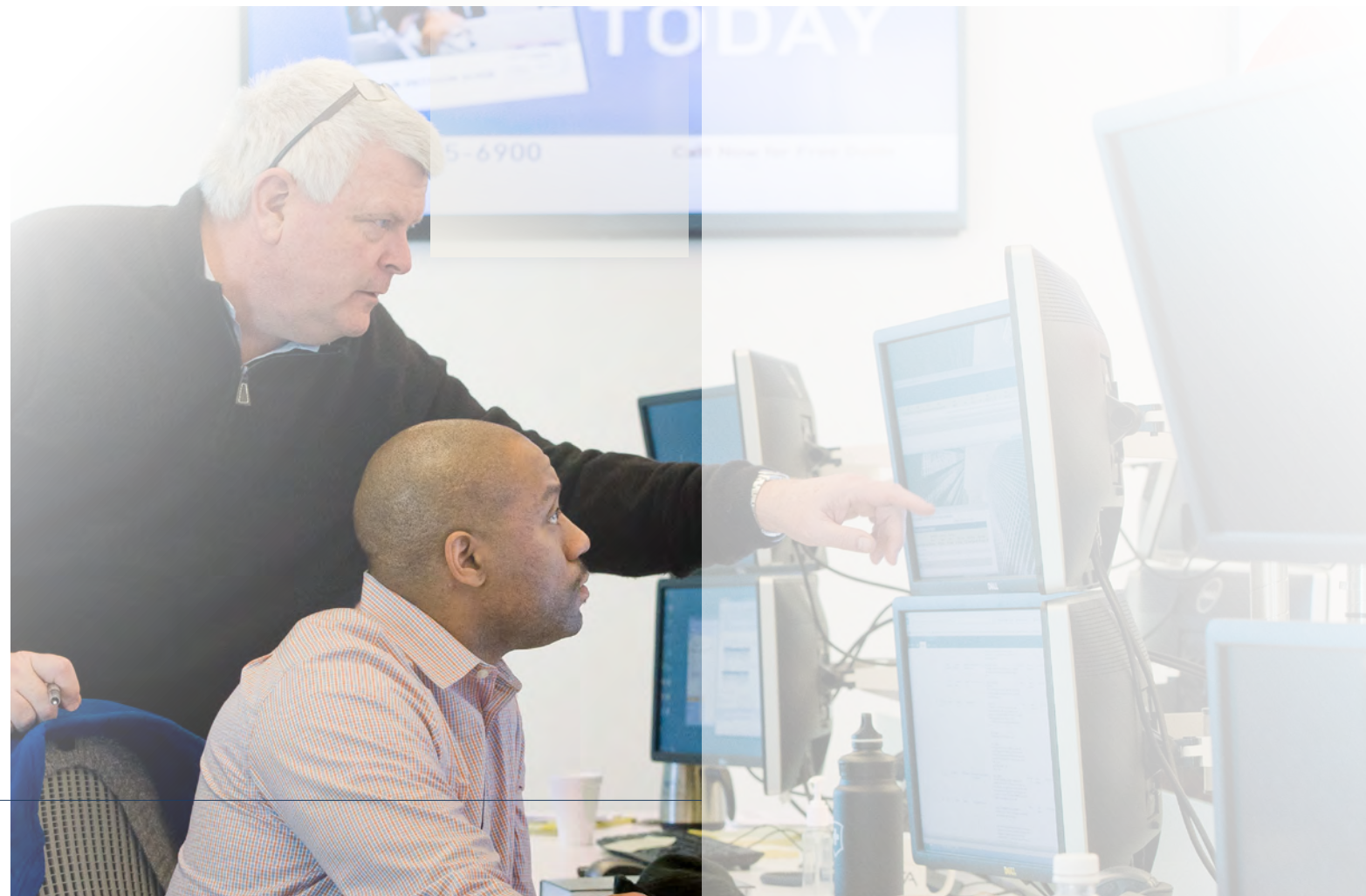
The completed study will be an important contribution to the anticipated debate on customer account insurance. A complete version of the study can be found on NFA's website.

WEBSITE UPDATES

NFA's website is the primary source of information for both NFA Members and the investing public. During NFA's most recent fiscal year, the website recorded more than **3.6 million visitor sessions**—an increase of nearly one million visitors from the previous year.

Over the course of the past year, NFA made a significant number of enhancements to its website. In August 2013, NFA unveiled a futures commission merchant cleared swaps customer collateral report as part of its Background Affiliation Status Information Center (BASIC) system, a comprehensive database of registration, disciplinary and financial information about all firms and individuals ever registered with the CFTC. The information displayed on FCMs' cleared swaps customer collateral page mirrors the information NFA displays in BASIC with respect to FCMs' customer segregated fund and customer secured amount fund account balances. During the past year, individuals conducted more than **2 million background checks** using BASIC.

NFA also revised and redesigned its brochure, "An Introduction to National Futures Association," which details how NFA protects and educates investors, safeguards the integrity of the derivatives marketplace and fights against fraud and abuse. The brochure is available for download, along with corresponding changes to the About Us section of the website.





SWAPS REGULATION

This past year was replete with challenges in regard to regulation of over-the-counter (OTC) derivatives. Similar to the tests NFA faced in its first years after its inception, the Swaps Compliance department—established in mid-2011—began oversight of an entirely new category of NFA Members.

In the past fiscal year, the Swaps Compliance department continued to fill out its ranks, growing from a group of seven to a team of nearly 30. The still-expanding swaps staff worked relentlessly with NFA's Registration department to manage the registration of new swap dealer (SD) and major swap participant (MSP) Members. They also provided education for, assisted with and reviewed Member firms' submission of documentation required to demonstrate compliance with the CFTC's Section 4s Implementing Regulations. Additionally, NFA increased the size and modified the structure of the Board of Directors to integrate SD and MSP Members into its governance structure.

REGISTRATION OF SDs and MSPs

Over the past 30 years, the CFTC has delegated nearly all of its registration functions to NFA. In 2011, NFA's role expanded when the CFTC entrusted NFA with the responsibility to process and grant applications for SD/MSP registration. Additionally, the CFTC also required all registered SDs and MSPs to become Members of NFA, and for NFA to monitor those new Members to ensure they meet their regulatory obligations.

As part of the registration process, SDs/MSPs are required to submit detailed policies and procedures concerning how the firm intends to comply with each of the 4s Implementing Regulations. NFA must review these massive submissions before granting provisional registration.

Leading up to December 2012, NFA hosted a webinar and a workshop to help prepare SDs/MSPs for registration and the 4s review process, and developed numerous videos located on NFA's website to educate prospective Members on each topic. The website also was expanded to include a new section devoted exclusively to swaps regulation.

Additionally, significant work was done by NFA's Registration department prior to the registration deadline for SDs and MSPs. It made numerous enhancements to the Online Registration System, answered hundreds of telephone inquiries and addressed several registration issues with the CFTC that may have impeded the prospective SDs and MSPs from becoming provisionally registered.

To date, NFA has granted provisional registration status to more than 80 SDs and MSPs.

REGISTRATION SCREENING/ INFORMATION CENTER

NFA thoroughly screens all firms and individuals wishing to register with the CFTC and become NFA Members. Applicants must meet stringent fitness requirements and most must pass comprehensive proficiency testing requirements. In Fiscal Year 2013, NFA's Registration department processed more than **1,600 firm registrations** and more than **21,000 individual registrations**.

In many instances, fingerprint card results, answers to a disciplinary history question on the application or regulatory information obtained during NFA's background checks precipitates the opening of a fitness investigation case. NFA's Fitness Group opened nearly **2,500 cases** in Fiscal Year 2013.

Many registrants have questions during the application process and turn to NFA's Information Center for answers. Each business day, the Information Center answers hundreds of calls from NFA Members and the investing public. They guide registrants through the registration process, help investors conduct background checks on futures or forex firms and clarify compliance rules for NFA Members. During the past fiscal year, the Information Center received more than **56,000 calls**—about a 60 percent increase from the previous year.

REVIEW OF 4s SUBMISSIONS

Since December 2012, NFA has received more than 4,000 4s submissions totaling over 150,000 pages of materials from provisionally registered SDs and MSPs. The majority of these submissions were received in the final two weeks of December 2012. NFA completed a facial review of the submissions by Dec. 31, 2012 to ensure that applicants could receive provisional registration status and continue doing business. Since January, NFA's Swaps Compliance teams have been conducting in-depth reviews of the eight main topic areas covered in Member firms' 4s submissions.

Over the next two years, NFA will design, staff and implement an examination process for SD and MSP Members, which is expected to be phased-in over time. NFA expects to begin performing examinations of Member firms in 2014, and to have the program fully operational by the end of 2016.

NFA has begun preliminary work on the modules that examiners will use in the examination process.

GOVERNANCE STRUCTURE

In August 2012, NFA's Board ratified a proposal to amend NFA's Articles of Incorporation to increase the size and modify the structure of the Board to integrate swap participant Members into NFA's governance structure. The amended Articles increase the Board's size by adding seven swap participants to the Board. The Board further determined that of the seven seats, three are to be designated for SDs that are major financial institutions, one seat for a MSP and the remaining seats for SDs that are either financial institutions or engaged in energy or agricultural swaps.

The CFTC approved these amendments to NFA's Articles of Incorporation in April 2013.

Rather than waiting to fill all SD seats on the Board, the Swap Dealer Advisory Committee (SDAC) decided to seat four representatives on the Board as soon as possible—three from major financial institutions and one from a non-major financial institution. The SDAC also decided that of the three major financial institutions to be represented on the Board, one should be a foreign bank.

At its May 2013 meeting, NFA's Board elected its first four swap participant members.

REGULATION

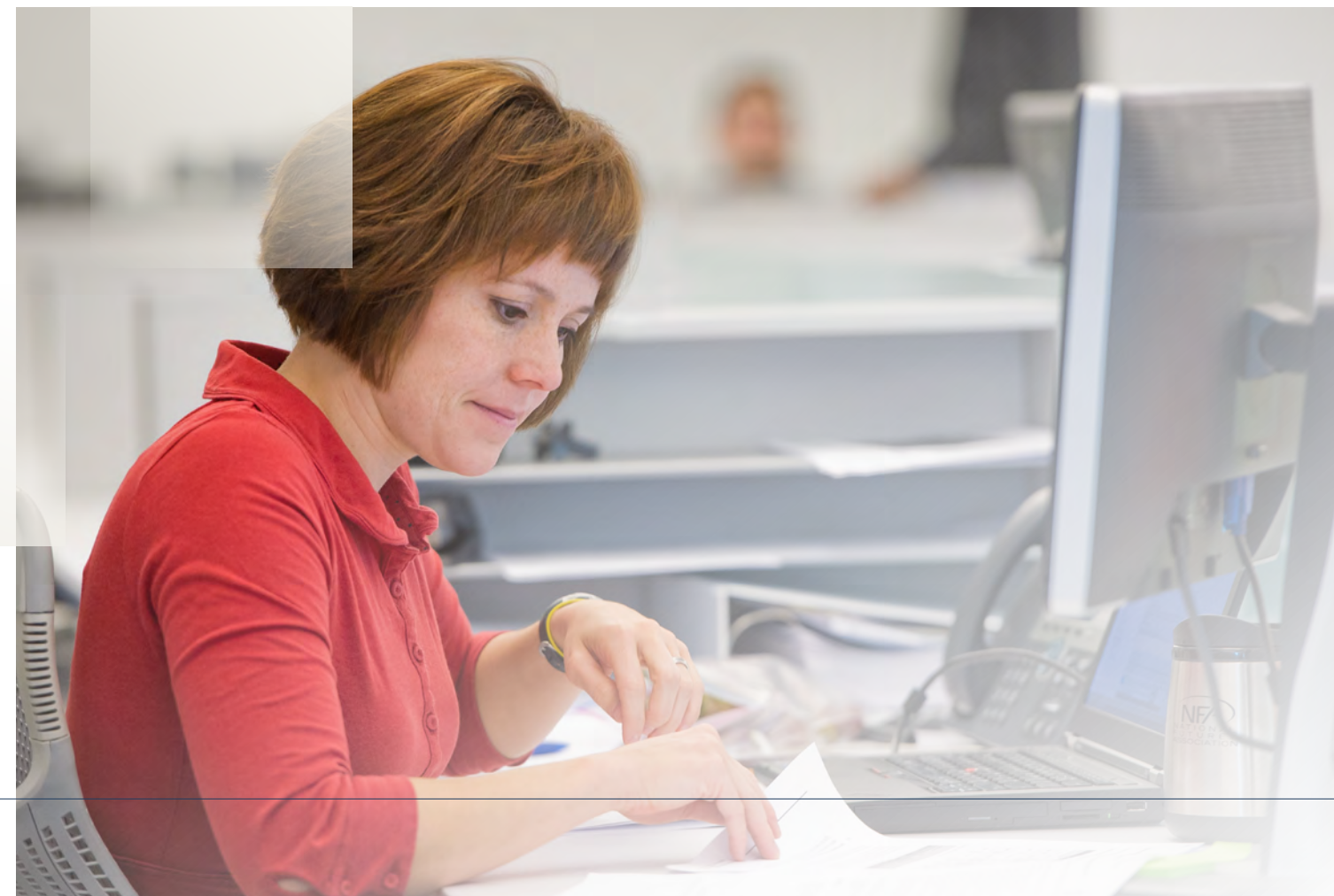
In order for NFA to meet its oversight responsibilities and enforce the requirements of the CFTC's 4s Implementing Regulations, NFA proposed an amendment to Part 2 of its compliance rules governing the business conduct of Members registered with the CFTC. The new rule—NFA Compliance Rule 2-49—provides that any violation by an SD or MSP Member of the CFTC's Chief Compliance Officer Requirements or the Part 23 Regulations would be deemed a violation of an NFA requirement. The proposed compliance rule is consistent with other NFA compliance rules where NFA adopted certain other CFTC regulations by reference applicable to CPO/CTAs, FCMs/IBs and forex dealer members. This new rule was submitted to the CFTC for approval in September 2013.

ENFORCEMENT ACTIONS

Strict enforcement of NFA rules is critical to the effectiveness of the self-regulatory process. During the past fiscal year, NFA's Executive Committee issued **seven member responsibility actions (MRA)**/associate responsibility actions. These types of actions are taken when **NFA perceives an imminent threat to customers or markets**. MRAs typically result in a suspension of membership privileges, the freezing of customer and firm accounts, prohibition of accepting additional customer funds and restriction of trading except for specific purposes (such as liquidation of open positions) under close supervision.

NFA's Business Conduct Committee issued 34 Complaints against 56 respondents in the past fiscal year. NFA's disciplinary panels issued 34 Decisions, ordered 13 expulsions and 10 suspensions. NFA collected a total of \$1.73 million in fines. In the past fiscal year, **NFA distributed over \$1.5 million in restitution to more than 800 harmed investors**. Over the life of the restitution program, NFA has distributed over \$29 million to more than 10,000 harmed investors.

Of the Complaints issued in the past year, a handful dealt with price slippage practices that benefitted the firm to the detriment of its customers, improper cancelling of trades and removing profits from customer accounts. Other Complaints were issued in response to firms' improper sales practices, especially those involving the use of misleading promotional material and fraudulent sales solicitations. Additionally, other cases concerned firms that violated just and equitable trading principles by allowing individuals to engage in activities that required them to be registered as associated persons of the firm.



FUTURES REGULATION

While firmly focused on the myriad enhancements to customer protection implemented in the past 12 months, NFA also worked to register and monitor a significant influx of new members and modified the reporting requirements for CPOs and CTAs.

MANAGING THE INFLUX OF CPO AND CTA MEMBERS

The CFTC amended its Part 4 Regulations in February 2012 to rescind the widely held exemption from CPO registration for certain pools under CFTC Regulation 4.13(a)(4), and modified the criteria for claiming an exclusion from the definition of a CPO under CFTC Regulation 4.5. Additionally, the Dodd-Frank Act amended the definition of “commodity interest” to include “swaps,” thereby requiring CPOs and CTAs that are engaged in swaps activities to also register with the CFTC.

As a result of these changes, the number of CPO Members jumped nearly 50 percent from the end of 2011 to 2013—rising from about 1,200 CPO Members to about 1,800 CPO Members. This dramatic increase in membership substantially increased the number of pools operated by NFA Members—increasing from about 1,400 pools in recent years to about 5,700 pools. Concurrently, the net asset value for these pools also skyrocketed from about \$350 billion to about \$2.4 trillion. CPO Members located in foreign jurisdictions also rose from about 90 to 245.

To help provide proper guidance for this glut of new Members, NFA hosted workshops in London, Chicago, New York and San Francisco, and provided webinars covering regulatory and registration requirements. The workshops and webinars covered a host of topics including the registration process, disclosure document preparation, financial reporting requirements and the NFA exam process.

NFA's oversight of CPOs involves a number of functions beyond periodic examinations, including review of disclosure documents, pool quarterly reports (PQR), pool certified annual financial statements, promotional material and investigative matters (customer complaints and referrals from other agencies). Because of the massive swell in CPO membership, the number of PQRs filed with NFA correspondingly increased. For the quarter ended March 31, 2013, NFA received 5,700 pool-level filings. This is substantially higher than the 1,400 pool-level PQRs NFA received for the Dec. 31, 2011 reporting date.

REPORTING REQUIREMENTS

In early 2012, the CFTC established reporting requirements under CFTC Regulation 4.27 that were similar but not identical to the CPO reporting requirements that NFA adopted in March 2010. As a result, NFA amended Compliance Rule 2-46 to simplify the filing requirements for CPO Members, establish consistent filing deadlines and avoid duplicate filings of similar information required by the CFTC. In order to better assess the risks associated with CTA Members, NFA also amended Compliance Rule 2-46 to require CTAs to report, among other things, assets under management and performance results on a quarterly basis. CPOs and CTAs file these forms through NFA's EasyFile system. The form filing process is virtually identical regardless of whether the firm is completing the applicable schedules for NFA only, or for both NFA and the CFTC. Firms only have to complete one set of forms, and NFA forwards to the CFTC any CFTC-specific forms as requested.

FURTHER CUSTOMER PROTECTION INITIATIVES — CLEARED SWAPS CUSTOMER COLLATERAL

In May 2012, NFA adopted a number of initiatives to further safeguard customer funds, including a requirement that all FCMs immediately notify regulators if they draw down their excess segregated funds by 25 percent in a given day. These withdrawals must be approved by the firm's CEO, CFO or financial principal.

Several months later, the CFTC finalized its rules relating to cleared swaps and cleared swaps customer collateral, which are similar to the requirements for customer segregated and secured amount funds. Because of these changes, NFA amended Financial Requirements Section 16 and its interpretive notice to impose the same requirements currently applicable to customer segregated and secured amount funds to cleared swaps customer collateral.

Additionally, NFA updated its website to display the identical type of financial information for cleared swaps customer collateral as displayed for segregated and secured amount funds in its Background Affiliation Status Information Center system.





MARKET REGULATION – SWAP EXECUTION FACILITIES

For well over a decade, NFA has performed trade practice and market surveillance services on behalf of various contract markets. However, as a result of the promulgation of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010, which required certain swaps trading platforms to register with the CFTC, these services are also now in demand by swap execution facilities (SEF).

When the CFTC issued its proposed rules for SEFs in January 2011, the rules provided for SEFs to contract with a registered futures association, such as NFA or another registered entity for regulatory services to assist with compliance with the core principles of the Commodity Exchange Act. Prior to the finalization of the SEF rules, 16 potential SEFs approached NFA to provide regulatory services. Each of these SEFs signed a pre-launch services agreement (PSA) with NFA, in order for NFA to begin development work with the SEFs prior to the finalization of the SEF rules. This early work ensured that all SEFs contracting with NFA would be in compliance with the technical specifications required to perform surveillance.

DEVELOPING MARKET SURVEILLANCE SYSTEMS

Over the past two years, NFA's Market Regulation department had been working to modify its existing systems to conduct trade practice and market surveillance for potential SEFs. In order to collect the required data elements to perform regulatory services for SEFs, a detailed SEF data specification was created so that all SEFs would transmit uniform data to NFA's system. These data specifications were cooperatively developed between the potential SEFs and NFA in consultation with the CFTC. Over a period of several months, NFA worked extensively with each SEF to code and test data transmission in advance of the issuance of the final SEF rules.

FINAL SEF RULES PUBLISHED

The CFTC published its final SEF rules on June 4, 2013. Upon publication in the Federal Register, the final rules started a countdown for potential SEFs to submit a SEF application to the CFTC. For potential SEFs that previously had entered into a PSA with NFA, the CFTC required an executed regulatory services agreement (RSA) with NFA to be included with their application if they chose to utilize NFA's services. NFA executed 16 RSAs with potential SEFs, and continued working with potential SEFs so that each SEF was able to provide NFA with daily data that met the specifications of NFA's surveillance system.

The CFTC granted temporary registration to all of the SEFs that executed regulatory service agreements with NFA prior to Oct. 2, 2013, thereby allowing them to operate as a SEF on the compliance date.



BOARD OF DIRECTORS

Directors



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Chairman of the Board
Non-executive Vice Chairman
Knight Futures



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



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

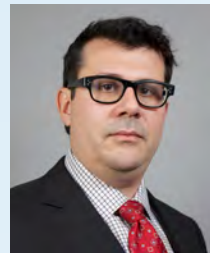
Commodity Pool Operators & Commodity Trading Advisors



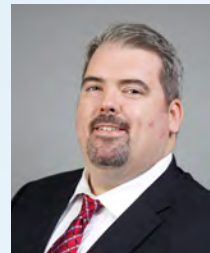
Douglas Bry*
President
Northfield Trading LP



Ernest L. Jaffarian
CEO/CIO
Efficient Capital
Management LLC



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Chief Executive Officer
Typhon Capital
Management LLC



John L. Roe
President
Roe Capital
Management Inc.

Futures Commission Merchants



Antoine Babule
Chief Executive Officer
Newedge USA LLC



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



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Managing Director
Goldman Sachs & Co.



Maureen C. Downs
President
Rosenthal Collins
Group LLC



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Non-executive Vice Chairman
Knight Futures



William F. McCoy
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*Member of the Executive Committee

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Ronald H. Filler
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New York Law School



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Managing Director
Promontory Financial
Group LLC



Jim Marshall
President and CEO
U.S. Institute of Peace



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Vice Chairman and Senior
Fellow on the Global Economy
The Chicago Council on
Global Affairs



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New York, N.Y.



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



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Chief Investment Officer
Offit Capital Advisors LLC



Susan M. Phillips*
Arlington, Va.



Michael R. Schaefer
New York, N.Y.

Swap Dealers



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Merrill Lynch



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



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



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

Contract Market Directors



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



David S. Goone*
Senior Vice President
Chief Strategic Officer
Intercontinental-
Exchange Inc.



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

Introducing Brokers



Paul J. Georgy
President
Allendale Inc.



Jeffrey D. Malec
CEO and Founding Partner
Attain Capital
Management LLC

2013 Financials

National Futures Association
STATEMENTS OF FINANCIAL POSITION
 June 30, 2013 and 2012

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
National Futures Association

We have audited the accompanying financial statements of National Futures Association (the Association), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of unrestricted revenues, expenses and changes in unrestricted net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Futures Association as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Chicago, Illinois
October 9, 2013

Assets	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 25,750,570	\$ 17,287,655
Short-term investments	35,070,628	33,584,908
Assessments receivable	4,415,388	3,792,519
Other current assets, net	1,400,586	2,370,750
Total current assets	66,637,172	57,035,832
FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE, NET	10,372,236	10,049,388
OTHER ASSETS	1,457,312	1,050,985
TOTAL ASSETS	\$78,466,720	\$68,136,205

Liabilities and Unrestricted Net Assets

CURRENT LIABILITIES		
Unearned dues and fees	\$ 8,185,452	\$ 2,295,880
Accounts payable, accrued expenses and other current liabilities	3,990,474	5,811,881
Total current liabilities	12,175,926	8,107,761
DEFERRED RENT CREDIT	3,729,886	4,125,417
OTHER LONG-TERM LIABILITIES	5,846,062	5,062,204
Total liabilities	21,751,874	17,295,382
UNRESTRICTED NET ASSETS	56,714,846	50,840,823
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$78,466,720	\$68,136,205

The accompanying notes are an integral part of these statements.

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

Years ended June 30

	2013	2012
UNRESTRICTED REVENUES		
Assessments	\$ 40,268,608	\$ 38,408,823
Membership dues	17,093,485	8,823,913
Registration and other fees	5,644,141	4,165,412
Regulatory services outsourcing	3,727,479	4,640,662
Investment income	1,485,720	296,253
TOTAL UNRESTRICTED REVENUES	68,219,433	56,335,063
UNRESTRICTED EXPENSES		
Salaries, wages and employee benefits	41,102,386	35,279,476
Space rental and related expenses	3,016,624	2,214,930
Travel and meetings	2,235,308	2,439,091
Computer expenditures	1,379,543	1,237,443
Depreciation and amortization	3,495,857	3,174,855
Outside consulting fees and services	7,857,268	1,959,445
Supplies, postage and telephone	317,011	243,333
Outside printing and publications	69,226	54,018
Board and committee fees and expenses	734,294	622,735
Insurance, recruiting, education, dues and other	2,137,893	1,344,280
TOTAL UNRESTRICTED EXPENSES	62,345,410	48,569,606
CHANGE IN UNRESTRICTED NET ASSETS	5,874,023	7,765,457
Unrestricted net assets at beginning of year	50,840,823	43,075,366
Unrestricted net assets at end of year	\$56,714,846	\$50,840,823

STATEMENTS OF CASH FLOWS

Years ended June 30

	2013	2012
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 5,874,023	\$ 7,765,457
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Net unrealized (gain) loss on investments	(1,058,766)	226,643
Depreciation and amortization	3,495,857	3,174,855
Changes in assets and liabilities		
Assessments receivable	(622,869)	970,935
Other assets	563,837	(922,426)
Unearned dues and fees	5,889,572	936,112
Accounts payable, accrued expenses and other liabilities	(1,037,549)	2,979,218
Deferred rent credit	(395,531)	1,027,798
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,708,574	16,158,592
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets and software	(3,818,705)	(5,314,406)
Purchase of investments	(426,954)	(1,978,410)
Proceeds from sale of investments	-	1,455,512
NET CASH USED IN INVESTING ACTIVITIES	(4,245,659)	(5,837,304)
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,462,915	10,321,288
Cash and cash equivalents at beginning of year	17,287,655	6,966,367
Cash and cash equivalents at end of year	\$25,750,570	\$17,287,655

The accompanying notes are an integral part of these statements.

NOTE A

ORGANIZATION

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

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Assessments

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

Membership Dues

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

Registration Renewal Fees

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

Regulatory Services Outsourcing

Regulatory services outsourcing revenue relates to the Association's trade practice and market surveillance services. This revenue consists of non-refundable start-up fees and monthly maintenance fees for ongoing services for each customer. Fees are used by the Association to purchase hardware and software necessary

to perform surveillance services for a given customer and are recognized as revenue when paid by the customer. Monthly fees for ongoing surveillance and other regulatory services are recognized as revenue on a monthly basis as services are performed.

Furniture, Fixtures, Equipment & Leasehold Improvements

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

Furniture, fixtures, equipment and leasehold improvements are depreciated over three to seven years or the term of the lease, if applicable, on a straight-line basis. The Association uses the half-year convention so that the first and last years of depreciation and amortization are one-half the straight-line amount and all middle years are in direct proportion to the useful life of the capitalized item. Additionally, the Association has artwork that is considered non-depreciable included in note E valued at \$266,069 for 2013 and \$246,307 for 2012.

Purchased Software

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

Software Design and Development Costs

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

Deferred Rent Credit

Due to the terms of the Association's primary office space leases, a deferred rent credit was generated. The deferred rent credit is amortized over the remaining terms of the respective leases, which range from one to 10 years. The Association has computed an average monthly rental for the entire term of each lease and charges this amount to rental expense each month. The difference between the average monthly rental and the actual monthly rental payment is accounted for as either an increase or reduction of the deferred rent credit on the accompanying statements of financial position.

Allowance for Doubtful Accounts

The allowance for doubtful accounts, which is related to membership dues receivable, registration revenue receivable and regulatory fines, is maintained at a level that management deems adequate to provide for estimated uncollectible receivables and is based on the length of time receivables have been outstanding, historical experience and an assessment of business economic conditions. At June 30, 2013 and 2012, the allowance for doubtful accounts is \$375,067 and \$360,784, respectively. This allowance is a reduction of receivables, which are included in other current assets on the accompanying statements of financial position.

Fair Value Measurements

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

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

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

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

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

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

All of the Association's investments have values that are based on quoted market prices in active markets and are therefore classified as Level 1. These investments include active listed equities, U.S. government and sovereign obligations, and money market securities. The Association does not adjust the quoted price for such instruments, even in situations where the Association may hold a large position and a sale could reasonably impact the quoted price.

Federal Income Taxes

The Association has received a favorable determination letter from the Internal Revenue Service, stating that they are exempt from federal income taxes under the provisions of Section 501(c)(6) of the Internal Revenue Code of 1986 (IRC), except for income taxes pertaining to unrelated business income. The FASB issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain positions that require recognition in the financial statements, and has properly accrued a provision for excise taxes. There is no interest or penalties recognized in the statements of unrestricted revenues, expenses and changes in unrestricted net assets. The tax years ending 2010, 2011 and 2012 are still open to audit for both federal and state purposes.

NOTE C

CASH AND CASH EQUIVALENTS

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

NOTE D

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Association's investment portfolio is classified on the statements of financial position as short-term and long-term investments. Short-term investments consist of securities with maturity dates of one year or less. Long-term investments consist of securities with maturity dates greater than one year. Also included as short-term investments is the Association's investment in equity and fixed income mutual funds. As of June 30, 2013 and 2012, the Association did not own any long-term investments.

The aggregate fair value of investments by major type as of June 30, 2013 and 2012, are as follows:

	2013	2012
SHORT TERM INVESTMENTS		
Developed Markets Index Fund	\$ 1,733,199	\$ 1,463,057
Extended Markets Signal Index Fund	2,102,321	1,668,743
Short Term Treasury Fund	26,939,544	26,890,441
S&P 500 Index Mutual Fund	4,295,564	3,562,667
TOTAL INVESTMENTS	\$35,070,628	\$33,584,908

For its four mutual funds, the Association immediately reinvests all interest income, dividend income and capital gains back into the funds.

For the years ended June 30, 2013 and 2012, the activities in the funds and the self-directed securities were as follows:

	2013	2012
Income reinvested back into mutual funds	\$426,954	\$522,896
Net unrealized gain (loss) on mutual funds	\$1,058,766	\$(226,643)
TOTAL INVESTMENT RETURN	\$1,485,720	\$296,253

NOTE E

FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE

At June 30, 2013 and 2012, furniture, fixtures, equipment, leasehold improvements and software, and the related accumulated depreciation and amortization are as follows:

	2013	2012
Furniture and fixtures	\$ 2,753,614	\$ 2,802,585
Equipment	3,856,150	3,320,805
Leasehold improvements	7,192,866	6,555,564
Software	5,397,526	5,096,830
	19,200,156	17,775,784
Less accumulated depreciation and amortization	8,827,920	7,726,396
FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE, NET	\$10,372,236	\$10,049,388

NOTE F

COMMITMENTS AND CONTINGENCIES

The Association leases office space in Chicago and New York. The current Chicago lease expires on August 31, 2023. The existing New York lease expires on December 31, 2013. The new lease expires June 30, 2023.

The following is a schedule of future payments under both of the operating leases and the disaster recovery service contract that have remaining non-cancellable payment terms as of June 30, 2013:

Years ending June 30	
2014	\$ 1,695,782
2015	2,803,361
2016	2,838,683
2017	2,874,943
2018	2,912,157
Thereafter	18,722,519
TOTAL OPERATING LEASE COMMITMENTS	\$31,847,445

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

NOTE G

EMPLOYEE BENEFIT PLANS

The Association sponsors an Employee Retirement Savings Plan (the Savings Plan). Contributions to the Savings Plan of up to 100% of employees' compensation can be made through payroll deductions. The Association will match employee contributions up to 6% of the employee's eligible compensation. The Association may also contribute to the Savings Plan an additional profit-sharing contribution expressed as a percent of the calendar year's compensation of participants who are employed on the last day of the calendar year. A profit-sharing contribution for 2012 of \$1,386,794 was made in 2013. A profit-sharing contribution for 2011 of \$1,200,636 was made in 2012. Employees are eligible to participate in the Savings Plan upon their date of hire. Employee contributions and any vested employer contributions are payable upon termination or retirement as stipulated in the Savings Plan.

The Association also sponsors the Retiree Medical Benefits Plan (the Plan), which covers substantially all retirees and their dependents. Effective December 31, 1993, employees who retire from the Association on or after attaining age 55 and who have at least 10 years of full-time service with the Association are entitled to receive benefits from the Plan. Individuals who attained age 65 on or before December 31, 1993, who have been employed by the Association on a full-time basis for at least five years, and who retired after July 1, 1993, were grandfathered under the Plan. The Plan pays a stated percentage of the cost of medical coverage for employees who retire prior to age 65. Coverage for employees who have retired and have reached age 65 is not provided by the Association; instead, Medicare-eligible participants can purchase individual supplemental coverage. The Association will reimburse the cost of Medicare supplemental coverage up to an indexed monthly maximum benchmark amount (\$327.31 per person per month in 2013), reduced by a service-related percentage (the reduction is shown in the table below).

Subsequent to July 1, 2003, the structure is based on age at retirement as follows:

Age	Reduction %	
	Pre-65	Post-65
55-59	70 %	40%
60-64	60	30
65 plus	50	20

At June 30, 2013 and 2012, the actuarial and recorded liabilities for the Plan, none of which has been funded, and the net periodic post-retirement benefit cost and benefits paid for the Plan that are included in other long-term liabilities, were as follows:

	2013	2012
AMOUNTS RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION		
Accumulated post-retirement benefit obligations	\$ (6,180,354)	\$ (5,748,832)
Unrecognized prior service cost	(218,172)	-
Unrecognized net loss	523,143	634,726
Unrecognized transition obligation	38,490	57,737
ACCRUED POST-RETIREMENT BENEFIT COST	\$(5,836,893)	\$(5,056,369)

The estimated net periodic post-retirement benefit cost for the Plan for the year ended June 30, 2013, is \$823,298 assuming a discount rate of 4.75%. The breakdown of the cost is as follows:

Net periodic post-retirement benefit cost

Service cost	\$ 547,315
Interest cost	250,238
Amortization of transition obligation	19,247
Amortization of prior service cost	6,498
TOTAL NET PERIOD POST-RETIREMENT BENEFIT COST	\$823,298

The accumulated post-retirement benefit obligation was determined using an assumed weighted-average discount rate of 4.75% at June 30, 2013, and 4.00% at June 30, 2012. The rate of increase in the gross cost of covered healthcare benefits was assumed to be 6.75% for fiscal year 2013. The rate of increase is assumed to decline by 0.25% for each year after 2013 to 5.00% in 2020 and after.

The Association also participates in the purchase of life insurance on behalf of certain executive officers (Executives) as part of the National Futures Association split-dollar life insurance plan (the Split-Dollar Plan). The purpose of the Split-Dollar Plan is to provide participating Executives with an insured death benefit during employment and after retirement. The insurance policy also allows for capital accumulation through the buildup of cash value. Upon termination of employment, death or maturity of the policy, the Association receives cash value equal to the cumulative premium paid by the Association. As of June 30, 2013 and 2012, the cumulative premium paid on behalf of the Executives is \$1,080,931 and \$997,499, respectively, and is classified in other assets on the statements of financial position.

NOTE H

DEFERRED RENT CREDIT

Effective November 2001, the Association executed a 10-year operating lease for office premises in New York. Also effective January 2008, the Association executed a 12-year operating lease for office premises in Chicago. In December 2011, the Association extended its Chicago lease by 44 months to August 2023. Also in October 2012, the Association extended its New York lease by eight months to December 2013. The Association's New York office will relocate in November 2013 and a new lease has been entered for this space. The leases include rent incentives and, accordingly, the Association recognizes such abatement as an adjustment to a deferred rent credit over the terms of the lease on a straight-line basis. The total deferred rent credit at June 30, 2013 and 2012, was \$4,125,417 and \$4,435,750, respectively, of which \$395,531 and \$310,333, respectively, are included in accounts payable, accrued expenses and other current liabilities on the statements of financial position.

For the years ended June 30, 2013 and 2012, the Association's rent expense was as follows:

	2013	2012
Cash payments for rent	\$ 3,075,220	\$ 2,353,124
Less amortization of deferred rent credits	(310,333)	(325,579)
RENT EXPENSE	\$2,764,887	\$2,027,545

NOTE I

SUBSEQUENT EVENTS

The Association evaluated its June 30, 2013, financial statements for subsequent events through October 9, 2013, the date the financial statements were available to be issued. The Association is not aware of any subsequent events that require recognition or disclosure in the financial statements. Subsequent to June 30, 2013, the Association became aware of a \$910,000 insurance claim reimbursement receivable related to a claim made on the Association's professional liability policy, which will be reflected in the June 30, 2014 financial statements.

Officers



Daniel J. Roth*
President
Chief Executive Officer



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



Kenneth F. Haase
Sr. Vice-President
Information Systems



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



Regina G. Thoele
Sr. Vice-President
Compliance



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



Edward J. Dasso
Vice-President
Market Regulation



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



Jamila A. Piracci
Vice-President
OTC Derivatives



Gregory C. Prusik
Vice-President
Registration

*Member of the Executive Committee

ABOUT NFA

Accountability & Organization

POLICY DEVELOPMENT

31-member Board of Directors

- 14 FCM, IB, CPO and CTA representatives
- 3 contract market representatives
- 10 public representatives
- 4 swap dealer representatives

POLICY SUPERVISION

12-member Executive Committee

- NFA President
- NFA Chairman of the Board
- NFA Vice-Chairman of the Board
- 3 directors/FCM or IB representatives
- 2 directors/contract market representatives
- 2 directors/CPO or CTA representatives
- 4 public representatives

POLICY IMPLEMENTATION

NFA officers and staff

FUNDING

NFA is totally self-financed with funds derived from membership dues and fees and from assessments paid by Members and users of the derivatives markets.

TOTAL EMPLOYEES

(as of June 30, 2013)

370

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