

July 8, 2010

**Via Federal Express**

Mr. David A. Stawick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

Re: National Futures Association: Proposed Amendments to the Interpretive Notice entitled "NFA Compliance Rule 2-30(b): Risk Disclosure Statement for Security Futures Contracts"\*

Dear Mr. Stawick:

Pursuant to Section 17(j) of the Commodity Exchange Act, as amended, National Futures Association ("NFA") hereby submits to the Commodity Futures Trading Commission ("CFTC" or "Commission") a proposed amendment to the Interpretive Notice entitled "NFA Compliance Rule 2-30(b): Risk Disclosure Statement for Security Futures Contracts." NFA's Executive Committee approved the proposal on June 7, 2010 and authorized NFA staff to immediately submit the proposed amendment to the CFTC and SEC. NFA's Board of Directors is expected to ratify approval of these amendments on August 19, 2010.

NFA is invoking the "ten-day" provision of Section 17(j) of the Commodity Exchange Act ("CEA") and will make this proposal effective ten days after receipt of this submission by the Commission unless the Commission notifies NFA that the Commission has determined to review the proposal for approval.

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**PROPOSED AMENDMENTS**

**(additions are underscored and deletions are ~~stricken through~~)**

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**INTERPRETIVE NOTICES**

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**NFA COMPLIANCE RULE 2:30(b): RISK DISCLOSURE STATEMENT FOR SECURITY FUTURES CONTRACTS**

## **INTERPRETIVE NOTICE**

NFA Compliance Rule 2-30(b) requires Members and Associates who are registered as brokers or dealers under Section 15(b)(11) of the Securities Exchange Act of 1934 to provide a disclosure statement for security futures products to a customer at or before the time the Member approves the account to trade security futures products.<sup>1</sup>

NFA Compliance Rule 2-30(j)(1) requires these Members and Associates to make a record of when the disclosure statement was provided, and Compliance Rule 2-29(j)(12) prohibits them from including anything other than basic information in promotional material unless the promotional material is preceded or accompanied by the disclosure statement.<sup>2</sup> The disclosure statement for security futures products referred to in these Rules is a uniform statement that has been jointly developed by NFA, the Financial Industry Regulatory Authority, and a number of securities and futures exchanges.

The uniform disclosure statement, which is titled "Risk Disclosure Statement for Security Futures Contracts," can be downloaded from NFA's web site at [www.nfa.futures.org/NFA-compliance/publication-library/security-futures-disclosure-brochure.pdf](http://www.nfa.futures.org/NFA-compliance/publication-library/security-futures-disclosure-brochure.pdf). Copies are also available by calling NFA's Information Center at 800-621-3570.<sup>3</sup>

Members must be able to demonstrate to NFA, during an audit, that they provided the disclosure statement as required. Members are not, however, required to obtain a written acknowledgment from the customer regarding the disclosure statement.

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### **Section 8 – Other**

#### **8.1. Corporate Events**

As noted in Section 2.4, an equity security represents a fractional ownership interest in the issuer of that security. By contrast, the purchaser of a security futures contract has only a contract for future delivery of the underlying security. Treatment of dividends and other corporate events affecting the underlying security may be reflected in the security futures contract depending on the applicable clearing organization rules. Consequently, individuals should consider

how dividends and other developments affecting security futures in which they transact will be handled by the relevant exchange and clearing organization. The specific adjustments to the terms of a security futures contract are governed by the rules of the applicable clearing organization. Below is a discussion of some of the more common types of adjustments that you may need to consider.

Corporate issuers occasionally announce stock splits. As a result of these splits, owners of the issuer's common stock may own more shares of the stock, or fewer shares in the case of a reverse stock split. The treatment of stock splits for persons owning a security futures contract may vary according to the terms of the security futures contract and the rules of the clearing organization. For example, the terms of the contract may provide for an adjustment in the number of contracts held by each party with a long or short position in a security future, or for an adjustment in the number of shares or units of the instrument underlying each contract, or both.

Corporate issuers also occasionally issue special dividends. A special dividend is an announced cash dividend payment outside the normal and customary practice of a corporation. The terms of a security futures contract may be adjusted for special dividends. The adjustments, if any, will be based upon the rules of the exchange and clearing organization. In general, there will be no adjustments for ordinary dividends as they are recognized as a normal and customary practice of an issuer and are already accounted for in the pricing of security futures. However, adjustments for ordinary dividends may be made for a specified class of security futures contracts based on the rules of the exchange and the clearing organization.

Corporate issuers occasionally may be involved in mergers and acquisitions. Such events may cause the underlying security of a security futures contract to change over the contract duration. The terms of security futures contracts may also be adjusted to reflect other corporate events affecting the underlying security.

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**EXPLANATION OF PROPOSED AMENDMENTS**

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NFA Compliance Rule 2-30(b) requires NFA Members and Associates who are registered as brokers or dealers under Section 15(b)(11) of the Securities Exchange Act of 1934 to provide a risk disclosure statement for security futures products ("SFPs") to a customer at or before the time the Member approves the account to trade security futures products. The risk disclosure statement for security futures products is a uniform statement that had been jointly developed in 2002 by NFA, the National Association of Securities Dealers (now known as the Financial Industry Regulatory Authority), and a number of securities and futures exchanges. Among other things, this statement describes the features of a security futures product.

Recently, OneChicago, LLC (OCX), an exchange listing SFPs, contacted NFA to request that we amend the risk disclosure statement because it plans to offer a new class of SFPs whose dividend feature may differ from the description of dividends in the disclosure statement's "corporate events" section. Specifically, the statement currently provides that there are generally "no adjustments for ordinary dividends as they are recognized as a normal and customary practice of any issuer and are already accounted for in the pricing of the security futures." This language accurately describes the SFPs currently offered by OCX.

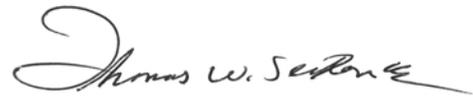
However, OCX's planned new product will be a class of SFPs that *will adjust* for dividends in the pricing of the SFP. Therefore, if a dividend is declared for the underlying security, OCX's clearing organization, Options Clearing Corporation, will adjust the price of the SFP to account for the dividend. In order to ensure that the SFP risk disclosure statement accurately reflects the dividend feature of this new product, amendments to the Interpretive Notice indicate that price adjustments for ordinary dividends may be made for a specified class of security futures contracts based on the rules of the exchange and the clearing organization.

Mr. David A. Stawick

July 8, 2010

As mentioned earlier, NFA is invoking the “ten-day” provision of Section 17(j) of the Commodity Exchange Act. NFA intends to make the amendments to the Interpretive Notice entitled “NFA Compliance Rule 2-30(b): Risk Disclosure Statement for Securities Futures Contracts” effective ten days after receipt of this submission by the Commission, unless the Commission notifies NFA that the Commission has determined to review the proposal for approval.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas W. Sexton". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Thomas W. Sexton  
Senior Vice President and  
General Counsel

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\* The proposed amendments to the Interpretive Notice entitled “NFA Compliance Rule 2-30(b): Risk Disclosure Statement for Security Futures Contracts” will become effective October 7, 2010.