NATIONAL
FUTURES
ASSOCIATION®

# a defining time for regulation

2009 ANNUAL REVIEW




"the facts are

the U.S. futures markets functioned properly during the crisis and no customer funds were lost due to the insolvency of an FCM."

# A Letter from NFA's CEO and Chairman

**During the past 12 months we have witnessed the greatest financial crisis of our lifetime. Extreme market volatility, failing financial firms and $50 billion Ponzi schemes have all combined to shake the public's confidence in the financial markets.**

With all this economic turmoil have come calls for increased regulation. The message from Congress and the Obama Administration is clear: there must be greater regulation of the OTC derivatives market. But what this new regulatory environment will look like is not clear. We know regulatory reform is coming. What we don't know, as yet, are the specific elements of that reform.

NFA has testified at several congressional hearings during the past year to assist Congress in the complex task of developing a new regulatory structure for the financial markets. The crux of our message has always been that before any change is enacted, Congress should conduct a thorough examination of what worked and what didn't during the recent crisis.

The facts are that the U.S. futures markets functioned properly during the crisis and no customer funds were lost due to the insolvency of an FCM. The efforts of government oversight by the CFTC coordinated with self-regulation by NFA and the nation's futures exchange have served the futures industry and the U.S. economy well and should not be substantially changed.

In fact, the futures industry has a long history of effective regulation. Since NFA began operations in 1982, volume on U.S. futures markets has increased over twenty fold from 140 million futures and options contracts in 1983 to 2.9 billion contracts traded last year. During that same time period, customer complaints in the futures industry are down by almost 75%, reflecting the close partnership between NFA and the CFTC, other financial regulators, exchange SROs and law enforcement to protect the futures markets from fraud and manipulation.

That's not to say that the industry does not have its critics, focusing primarily on the issues of excessive speculation and energy prices. Here again, however, caution is encouraged. Although steps should be taken to increase market transparency and prevent market manipulation, we must not forget that energy trading is a global marketplace and there is a danger that over-regulation in the United States could drive more business to less-regulated markets.

Clearly, the issues before Congress are complex and solutions will not be arrived at quickly. In the meantime, there are actions we can take – and are taking right now – to further safeguard market integrity and protect investors. For example, during the past year, we initiated new systems and procedures that allow us to be more vigilant in identifying fraudulent firms and swiftly bringing enforcement actions against them. We also developed additional rules, particularly in the area of retail off-exchange foreign currency trading, to ensure high standards of business conduct.

There is no doubt that this is a defining time for financial regulation. Whatever legislation is eventually crafted, NFA will continue to seek new and better ways to fulfill its regulatory responsibilities as efficiently and cost-effectively as possible.

Daniel J. Roth
President and CEO

W. Robert Felker
Chairman of the Board

*June 30, 2009*

# introduction

NFA's core mission is to safeguard market integrity and protect investors. Our commitment to this mission is reflected in all of our daily activities, whether we're processing a registration application or performing audits and examinations of our Members to monitor compliance with our rules. The mission is also reflected in the disciplinary actions we take against any Member who violates our rules, the arbitration program we provide for the efficient resolution of futures-related disputes, as well as the extensive library of educational materials and programs we provide for both our Members and the investing public.

This Annual Review highlights NFA's accomplishments in each of these areas during our Fiscal Year 2009 (July 1, 2008 through June 30, 2009).

## Early Fraud Detection and Vigorous Rule Enforcement

The Madoff case is a dramatic reminder that the ability to detect fraudulent activity quickly is critical. This lesson has not been lost on NFA. In fact, three years ago we began developing a new enhanced risk management system to aid staff in identifying high-risk Member firms. This new system, launched during Fiscal Year 2009, draws data from a variety of sources within the organization—including annual questionnaires, financial statements, disclosure documents, investigations, audits, registration records, arbitration filings and disciplinary history—to create individual risk profiles of Member firms.

We also created a Risk Management Group to research, identify and test new risk factors on an ongoing basis to enhance our risk models and identify problem firms more quickly.

Although still relatively new, the system has already aided in identifying potential problem firms that subsequently resulted in NFA enforcement actions.

For example, an NFA Member was operating an exempt commodity pool, when we noticed several incongruities based upon information collected by the risk management system. We conducted an immediate exam of the firm. The Member refused to cooperate and we closed the firm before any significant damage was done.

In another instance, when a firm applying for CFTC registration, but not NFA membership, listed a principal identified by our risk management system as the brother of an individual we had recently barred from membership, we conducted an on-site examination of the applicant. The firm withdrew its application the next day.

Finally, when one Member firm told us it was inactive but was listed by one of our forex dealers as a solicitor, we used our risk management system to note this inconsistency and immediately visited the "inactive" firm. The firm refused to cooperate and was promptly closed down.

In those cases where the fraudulent activity reaches beyond NFA's jurisdiction, we coordinate our activities with other regulatory agencies and law enforcement officials to the benefit of customers and markets. For example, when a former NFA Member was named in a civil law suit involving a fraudulent Ponzi scheme, NFA used the new system to identify current members that had previous associations with the former Member.

This led to emergency audits of two large Commodity Pool Operators (Steven Walsh and Bruce Greenwood). During the audits, NFA found that Walsh and Greenwood were operating a $550 million Ponzi scheme and issued a Member Responsibility Action against them.

We also assisted the CFTC, SEC and federal criminal authorities with their investigations into this matter. Within four weeks after we began our initial audit of those firms, the CFTC and SEC had gone to court seeking injunctions against Walsh and Greenwood, and the U.S. Attorney's office for the Southern District of New York had filed a criminal complaint against Walsh and Greenwood, charging them with conspiracy, securities fraud and wire fraud.

Just as important as our ability to detect fraudulent activity quickly is our ability to act quickly once fraud is detected. When NFA restructured its Compliance Department in 2006, we created a specialized investigations unit to focus exclusively on those firms we consider to pose the greatest threat to customers.

The reorganization has produced impressive results. Since the restructuring, NFA has doubled the number of enforcement actions we have taken and tripled the number of Member Responsibility Actions (MRAs). Last year alone, the investigations unit contributed to 39 Complaints issued by NFA's Business Conduct Committee and seven MRAs.

## Forex Rule Development

A strong foundation of rules requiring all futures industry firms to operate with high standards of ethics and professionalism is a basic element of effective self-regulation. However, market environments are constantly changing and rules are amended to adapt to new business realities.

For example, our regulation of the retail off-exchange foreign currency (forex) markets continued to evolve during the past year as we developed rules to bring greater transparency to these markets and provide stronger customer protection.

The CFTC Reauthorization Act of 2008 imposed a $20 million capital requirement on retail forex counterparties that are retail foreign exchange dealers (RFEDs) or that are FCM-only firms primarily or substantially engaged in on-exchange futures activities. Following the requirements outlined in the legislation, NFA amended its Financial Requirements in FY 2009 to increase FDM capital requirements to $20 million, on a gradual basis, by May 16, 2009.

We also specified content requirements for forex confirmations and monthly account statements so that all forex customers receive accurate and comprehensive account information. In addition, we now require FDMs to provide customers with time and sales records upon request and to generate year-end reports for each customer showing both realized and unrealized profits and losses.

To decrease the possibility of a conflict of interest on the part of FDMs, we have prohibited them from exercising discretionary trading authority over accounts when the FDM is also the counterparty. We are also requiring FDMs to use qualified outside parties to conduct periodic reviews of their trading systems.

In addition, we have restricted the circumstances under which an FDM may cancel or adjust executed customer orders, prohibiting FDMs from carrying long and short positions in the same account and requiring FDMs to offset positions on a first-in, first-out basis.

# Registration

Legislation enacted by Congress in May 2008 created a new registration category (Registered Foreign Exchange Dealer) for any firm that acts as the counterparty to retail forex contracts. In addition, the legislation required any firm or individual whose business involves retail forex contracts to register with the CFTC and become Members of NFA. In Fiscal Year 2009, we completed the work necessary to process applications from Registered Foreign Exchange Dealers, forex IBs/CPOs/CTAs and forex APs.

We also developed an enhancement to our Online Registration System (ORS) to allow for the electronic file transfer of Termination Notices. Firms are now able to submit terminations for their Associated Persons (APs) electronically in batch mode rather than entering termination forms manually.

With the consolidation and contraction occurring in the financial services industry during FY 2009, NFA enhanced its mass transfer process to include transferring branch office locations along with linking all of the APs with their appropriate branch offices at their new firm. In FY 09, NFA's Registration Department processed 6 mass transfers on behalf of our Members, automatically transferring 13,270 APs; 1,194 Branch Office managers; and 905 Branch Offices.

Another important function of the Registration Department is the administration of NFA's restitution program, designed to distribute money to investors involved in judgments awarded in cases brought by the CFTC involving commodity fraud. In Fiscal Year 2009, NFA distributed payments totaling more than $5.5 million to harmed investors.

## Arbitration Program Efficiencies

Although the historical trend in customer complaints, as measured by the number of NFA arbitration cases and CFTC reparations cases filed, is downward, NFA's Arbitration Department received 243 claims in Fiscal Year 2009, a 38% increase over the previous fiscal year. The increase is due primarily to the financial crisis and increased participation in the retail off-exchange forex markets.

Faced with an increase in caseload, NFA focused on creating program efficiencies through rule changes and system enhancements.

One of the proposed rule changes would ensure more cases are administered as summary proceedings rather than oral hearings. Because, on average, summary proceedings are resolved four months sooner than cases which require oral hearings, the proposed rule change will result in significant cost savings in NFA staff hours and hearing-related expenses.

Another rule proposal will increase the threshold for cases decided by three-arbitrator panels to $100,000, decreasing the demand on NFA arbitrators and conserving the depth of the arbitrator roster.

The success of NFA's arbitration program is due in large part to the pool of qualified professionals who serve as NFA arbitrators. Keeping current information on all of NFA's 2,000 arbitrators is crucial. That's why we introduced a new online Arbitrator Profile System last year. The new system allows arbitrators to access their profiles through NFA's website and update them electronically, ensuring that NFA has the most up-to-date information.

"Faced with an increase in caseload, NFA focused on creating program efficiencies through rule changes and system enhancements"

# Enhancing Resources for Members and the Investing Public

Providing educational resources for our Members and the investing public has always been a primary goal for NFA. In FY 2009 we reached out to both audiences with the redesign of our website (www.nfa.futures.org).

NFA's website is the primary method futures industry professionals, the public, the media and other interested parties communicate with NFA. More than 1.5 million pages are viewed every month on our website.

The redesigned site contains several new features, including an enhanced search function for the NFA Manual, an extensive Frequently Asked Questions section and a more intuitive navigation system. For Members we added educational podcasts and webcasts on a variety of compliance-related topics. For investors, we produced a webcast describing various types of investment fraud and what individuals can do to protect themselves from financial fraud.

In addition to the website, we published a Spanish-language version of our investor education booklet, "Scams and Swindles: An Educational Guide to Avoiding Investment Fraud." Produced in partnership with the Appleseed Foundation, a non-profit network of 16 public interest justice centers in the U.S. and Mexico, the publication has been distributed to several State Securities Agencies throughout the country. We also collaborated with the Federal Citizen Information Center to distribute copies of the brochure to Hispanic communities across the U.S.

NFA also co-sponsored a seminar with AARP entitled "Real Relief in an Uncertain Economy." The program was presented as part of Money Smart Week Chicago, an annual event coordinated by the Federal Reserve Bank of Chicago that offers more than 450 free education classes, seminars and activities focusing on financial topics.

For NFA Members, we sponsored two half-day workshops focusing on promotional material requirements and compliance issues for small firms. We also produced a web seminar to help CPOs and CTAs learn to file their disclosure documents electronically with NFA.

# conclusion

The accomplishments cited in this publication are a reflection of the commitment we made in 2002 to define ourselves as an organization that seeks creative solutions to regulatory issues, focuses on results and fulfills its regulatory responsibilities efficiently and cost-effectively.

We work hard to instill those characteristics in each and every NFA employee. We strive to create a work environment that rewards outstanding performance while encouraging employees to create a healthy balance between their work and their personal lives.

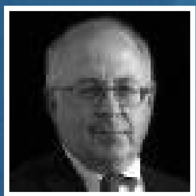
Our efforts are reflected in the awards we have received over the past several years, including being named one of Chicago's "101 Best and Brightest Companies to Work For", one of the "Best Places to Work in Illinois" and one of the "100 Best Adoption-Friendly Workplaces".

Our ability to attract and retain high-quality employees is essential to maintaining our success as an exemplary self-regulatory organization.

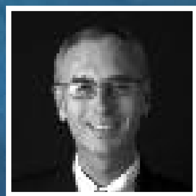
# Officers & Board of Directors

*As of June 30, 2009*

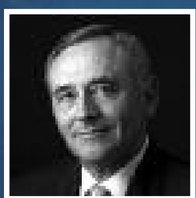
## Officers



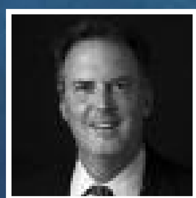
**Daniel J. Roth***
*President & CEO*



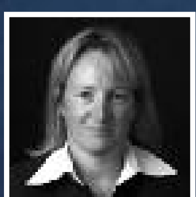
**Daniel A. Driscoll**
*Exec. Vice-President*
*Chief Operating Officer*



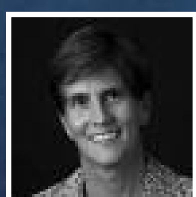
**Kenneth F. Haase**
*Sr. Vice-President*
*Information Systems*



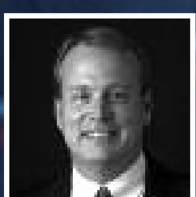
**Thomas Sexton III**
*Sr. Vice-President*
*General Counsel*
*& Secretary*



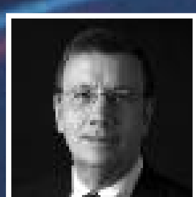
**Regina Thoele**
*Sr. Vice-President*
*Compliance*



**Karen K. Wuertz**
*Sr. Vice-President*
*Strategic Planning*
*and Communications*



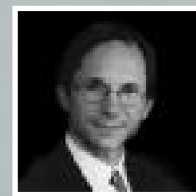
**David Hawrysz**
*Vice-President*
*Chief Financial Officer*
*Treasurer*



**Gregory C. Prusik**
*Vice-President*
*Registration*

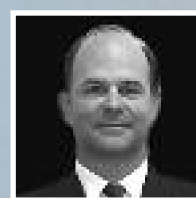
## Directors

**W. Robert Felker***
Chairman of the Board
*Chairman*
JPMorgan Futures, Inc.

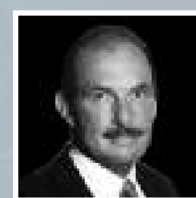


**Christopher K. Hehmeyer***
Vice-Chairman of the Board
*Chief Executive Officer*
Penson GHCO

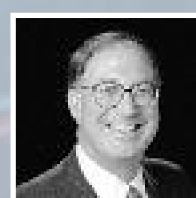
## Commodity Pool Operator and Commodity Trading Advisor Representatives



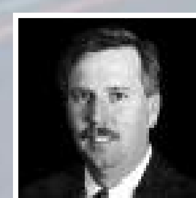
**Craig L. Caudle**
*Chief Executive Officer*
Liberty Funds Group, Inc.



**Bruce L. Cleland***
*Vice Chairman*
Campbell & Company, Inc.

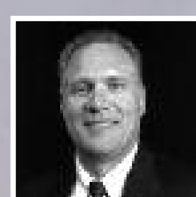


**George E. Crapple***
*Co-Chairman & Co-CEO*
The Millburn Corp.

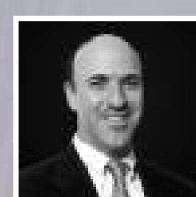


**Robert E. Murray**
*Chief Operating Officer*
Graham Capital
Management LP

## Introducing Broker Representatives



**Paul J. Georgy***
*President*
Allendale, Inc.



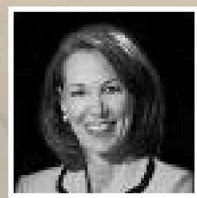
**John A. Vassallo**
*President*
Coquest, Inc.

* *Member of the Executive Committee*

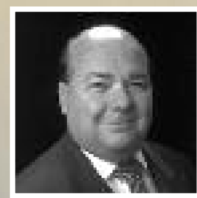
## Futures Commission Merchant Representatives

**Gerald F. Corcoran**
*Chief Executive Officer*
R.J. O'Brien & Associates, Inc.

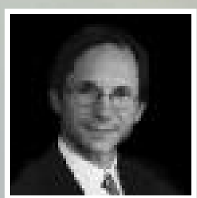
**Scott A. Cordes**
*President*
Country Hedging, Inc.



**Maureen C. Downs**
*President*
Rosenthal Collins Group LLC

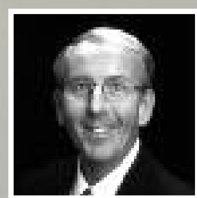


**W. Robert Felker***
*Chairman*
JPMorgan Futures, Inc.



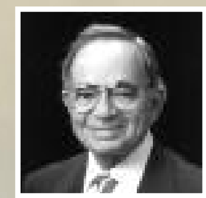
**Christopher K. Hehmeyer***
*Chief Executive Officer*
Penson GHCO

**William F. McCoy**
*Managing Director*
Morgan Stanley

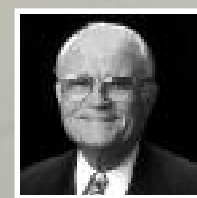


**Michael R. Schaefer***
*Managing Director*
Citigroup Global Markets, Inc.

## Special Advisors

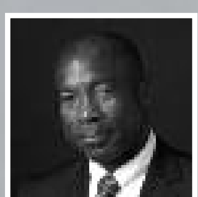


**Leo Melamed**
Permanent Special Advisor to the Board & Executive Committee



**Robert K. Wilmouth**
*Special Policy Advisor*

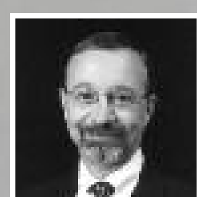
## Public Representatives



**Douglas E. Harris**
*Managing Director*
Promontory Financial Group L.L.C.

**Silas Keehn**
*Past President*
Federal Reserve Bank of Chicago

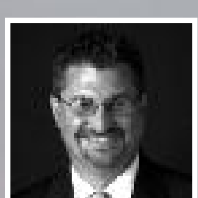
**Charles P. Nastro**
*New York, N.Y.*



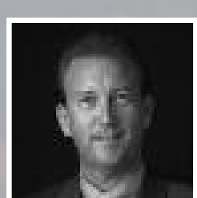
**Todd E. Petzel***
*Chief Investment Officer*
Offit Capital Advisors LLC

**Susan M. Phillips**
*Dean*
School of Business
The George Washington University

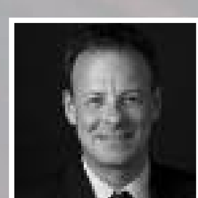
## Exchange Representatives



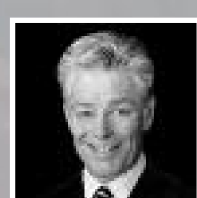
**Mark G. Bagan**
*President & CEO*
Minneapolis Grain Exchange



**Jeffrey C. Borchardt**
*President & CEO*
Kansas City Board of Trade



**David S. Goone***
*Senior Vice President & Chief Strategic Officer*
IntercontinentalExchange, Inc.



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

# 2009 Financials

## Report of Independent Certified Public Accountants

Board of Directors
National Futures Association

We have audited the accompanying statements of financial position of National Futures Association (the "Association") as of June 30, 2009 and 2008, and the related statements of unrestricted revenues, expenses and changes in unrestricted net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois
October 9, 2009

NATIONAL FUTURES ASSOCIATION

# Statements of Financial Position

JUNE 30, 2009 AND 2008

| | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $5,415,746 | $5,360,200 |
| Short-term investments | 35,894,951 | 37,171,820 |
| Accrued interest | 43,431 | 54,416 |
| Assessments receivable | 1,839,968 | 2,613,690 |
| Other current assets, net | 1,208,570 | 1,224,292 |
| **Total current assets** | **44,402,666** | **46,424,418** |
| **Long-term Investments** | 493,554 | 2,750,614 |
| **Furniture, fixtures, equipment, leasehold improvements and software, net** | 9,956,256 | 10,533,862 |
| **Other assets** | 3,291,511 | 3,029,992 |
| **Total assets** | **58,143,987** | **62,738,886** |
| **Liabilities and Net Assets** | | |
| **Current liabilities:** | | |
| Unearned dues and fees | $1,706,763 | $1,886,394 |
| Accounts payable, accrued expenses and other current liabilities | 2,758,331 | 3,273,401 |
| **Total current liabilities** | **4,465,094** | **5,159,795** |
| **Deferred rent credit** | 3,761,111 | 3,694,220 |
| **Other long-term liabilities** | 4,160,092 | 3,957,861 |
| **Total liabilities** | **12,386,297** | **12,811,876** |
| **Unrestricted net assets** | 45,757,690 | 49,927,010 |
| **Total Liabilities and Net Assets** | **$58,143,987** | **$62,738,886** |

*The accompanying notes are an integral part of these statements.*

# Statements of Unrestricted Revenues, Expenses and Changes in Unrestricted Net Assets

JUNE 30, 2009 AND 2008

| | 2009 | 2008 |
|---|---|---|
| **Unrestricted Revenues** | | |
| Assessments | $18,237,830 | $27,595,613 |
| Membership dues | 11,121,345 | 7,823,523 |
| Registration and other fees | 2,743,132 | 3,224,409 |
| Regulatory services outsourcing | 3,823,923 | 2,454,320 |
| Investment (loss) income | (178,734) | 345,809 |
| **Total unrestricted revenues** | **35,747,496** | **41,443,674** |
| **Unrestricted Expenses** | | |
| Salaries, wages and employee benefits | 27,652,674 | 26,158,263 |
| Space rental and related expenses | 1,823,916 | 2,126,880 |
| Travel and meetings | 2,732,128 | 2,874,228 |
| Computer expenditures | 1,013,315 | 1,132,133 |
| Depreciation and amortization | 3,150,692 | 2,788,950 |
| Outside consulting fees and services | 1,294,800 | 1,364,512 |
| Supplies, postage and telephone | 277,170 | 336,454 |
| Outside printing and publications | 120,720 | 111,602 |
| Board and committee fees and expenses | 482,918 | 547,510 |
| Insurance, recruiting, education, dues and other | 1,368,483 | 1,608,522 |
| **Total unrestricted expenses** | **39,916,816** | **39,049,054** |
| **Change in Unrestricted Net Assets** | **(4,169,320)** | **2,394,620** |
| **Unrestricted net assets** at beginning of year | **49,927,010** | **47,532,390** |
| **Unrestricted net assets** at end of year | **$45,757,690** | **$49,927,010** |

*The accompanying notes are an integral part of these statements.*

# Statements of Cash Flows

JUNE 30, 2009 AND 2008

| Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities | 2009 | 2008 |
|---|---|---|
| Change in unrestricted net assets | $(4,169,320) | $2,394,620 |
| Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities | | |
| Net unrealized loss on investments | 1,255,481 | 1,178,632 |
| Net realized loss (gain) on investments | 1,145 | (1,205) |
| Realized loss on sale of fixed assets | - | 282,114 |
| Depreciation and amortization | 3,150,692 | 2,788,950 |
| Changes in assets and liabilities | | |
| Assessments receivable | 773,722 | 754,855 |
| Accrued interest | 10,985 | 311,377 |
| Other assets | (245,797) | (408,077) |
| Unearned dues and fees | (179,631) | 410,242 |
| Accounts payable, accrued expenses and other liabilities | (312,839) | 1,301,975 |
| Deferred rent credit | 66,891 | 3,422,834 |
| **Net Cash Provided by Operating Activities** | **351,329** | **12,436,317** |
| **Cash Flows from Investing Activities** | | |
| Purchases of fixed assets and software | (2,573,086) | (9,758,550) |
| Purchases of securities | (3,542,697) | (51,113,365) |
| Proceeds from sale of securities | - | 34,991,354 |
| Maturities of U.S. Treasury securities | 5,820,000 | 5,620,552 |
| **Net Cash Used in Investing Activities** | **(295,783)** | **(20,260,009)** |
| **Net Change in Cash and Cash Equivalents** | **55,546** | **(7,823,692)** |
| **Cash and Cash Equivalents** at beginning of year | **5,360,200** | **13,183,892** |
| **Cash and Cash Equivalents** at end of year | **$5,415,746** | **$5,360,200** |

*The accompanying notes are an integral part of these statements.*

# Notes to Financial Statements

JUNE 30, 2009 AND 2008

## 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. The preparation of financial statements in conformity with generally accepted accounting principles 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 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 one-time non-refundable fees and monthly fees for ongoing services for each customer. One-time 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 and a transaction fee for ongoing surveillance and other regulatory services are recognized as revenue on a monthly basis as services are performed.

***Depreciation and Amortization***—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.

***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 two to eleven years. The Association computed an average monthly rental for the entire term of each lease and charged 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.

***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, 2009 and 2008, the allowance for doubtful accounts is $103,138 and $444,770, 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***—Effective July 1, 2008, the Association adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." SFAS No. 157 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 enhances disclosure requirements for fair value measurements. SFAS No. 157 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 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 is exempt from federal income taxes under Section 501(c)(6) of the U.S. Internal Revenue Code. The Internal Revenue Service has issued a determination letter to that effect.

In December 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises." FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 ("Interpretation No. 48"), "Accounting for Uncertainty in Income Taxes," to its annual financial statements for fiscal years beginning after December 15, 2008. The Association has elected to defer the application of Interpretation No. 48 for the year ending June 30, 2009. The Association evaluates its uncertain tax positions using the provisions of SFAS No. 5, "Accounting for Contingencies."

## 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 INVESTMENTS

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.

In 2008, the Association liquidated its professionally managed bond portfolio into a self-directed bond portfolio. The majority of the funds were invested in an Intermediate Term Treasury Bond Fund. Additionally, $5 million has been invested equally into two equity-based index funds, Developed Markets and Extended Markets Signal.

The aggregate fair value of investments by major type as of June 30, 2009 and 2008, is as follows:

| Short-term investments: | 2009 | 2008 |
|---|---|---|
| U.S. Treasury securities | $832,010 | $3,647,536 |
| U.S. Government Agency securities | 1,408,085 | 1,188,086 |
| Developed Markets Index Fund | 2,693,743 | 1,594,973 |
| Extended Markets Signal Index Fund | 2,721,765 | 1,631,966 |
| Intermediate Term Treasury Bond Fund | 24,012,504 | 24,612,143 |
| S&P 500 Index Mutual Fund | 4,226,844 | 4,497,116 |
| **Total short-term investments** | **$35,894,951** | **$37,171,820** |

| Long-term investments: | 2009 | 2008 |
|---|---|---|
| U.S. Treasury securities | 493,554 | $836,548 |
| U.S. Government Agency securities | - | 1,914,066 |
| **Total long-term investments** | **493,554** | **$2,750,614** |
| **TOTAL** | **$36,388,505** | **$39,922,434** |

The composition of investment (loss) income, which includes interest-bearing cash and cash equivalent holdings, for the years ended June 30, 2009 and 2008, is as follows:

| | 2009 | 2008 |
|---|---|---|
| Interest income | $1,077,892 | $1,523,236 |
| Net realized (loss) gain (net of management fee of $-0- and $3,101 in 2009 and 2008, respectively) | (1,145) | 1,205 |
| Net unrealized (loss) gain | (1,255,481) | (1,178,632) |
| **Total investment (loss) income** | **$(178,734)** | **$345,809** |

## NOTE E FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE

At June 30, 2009 and 2008, furniture, fixtures, equipment, leasehold improvements and software, and the related accumulated depreciation and amortization are as follows:

| | 2009 | 2008 |
|---|---|---|
| Furniture and fixtures | $2,142,149 | $2,134,592 |
| Equipment | 3,475,119 | 3,761,202 |
| Leasehold improvements | 5,472,035 | 5,456,767 |
| Software | 4,148,257 | 3,388,883 |
| **Total** | **$15,237,560** | **$14,741,444** |
| Less accumulated depreciation and amortization | 5,281,304 | 4,207,582 |
| **Furniture, fixtures, equipment, leasehold improvements and software, net** | **$9,956,256** | **$10,533,862** |

## NOTE F COMMITMENTS AND CONTINGENCIES

The Association leases office space in Chicago and New York. The current Chicago lease expires on December 31, 2019. The current New York lease expires on October 31, 2011. The Association has a 24-month contract with a disaster recovery service provider that expires August 28, 2010. The Association has a 36-month contract with a telecommunications provider that expires October 26, 2010. 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, 2009:

| *Years ending June 30,* | |
|---|---|
| 2010 | 1,657,137 |
| 2011 | 1,566,877 |
| 2012 | 1,104,579 |
| 2013 | 902,213 |
| 2014 | 924,769 |
| Thereafter | 5,512,015 |
| **Total operating lease commitments** | **$11,667,590** |

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 2008 of $996,203 was made in 2009. A profit-sharing contribution for 2007 of $922,349 was made in 2008. 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 provided under a Medicare Supplemental Plan. Under the Medicare Supplemental Plan, the Association pays a stated percentage of the supplemental costs. Subsequent to July 1, 2003, the eligibility requirement was amended to reflect that employees can retire at age 55 or older but must have at least 10 years of service since their 45th birthday. All employees will retire having at least 10 years of service preceding their retirement.

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

| | *Retiree's Share* | |
|---|---|---|
| **Age** | **Pre-65** | **Post-65** |
| 55-59 | 70% | 40% |
| 60-64 | 60% | 30% |
| 65 plus | 50% | 20% |

At June 30, 2009 and 2008, 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:

| | **2009** | **2008** |
|---|---|---|
| *Amounts recognized in the statements of financial position* | | |
| Accumulated post-retirement benefit obligations | $(3,166,716) | $(2,645,486) |
| Unrecognized prior service cost | (653,703) | (871,603) |
| Unrecognized net gain | (431,801) | (555,311) |
| Unrecognized transition obligation | 115,478 | 134,725 |
| **Accrued post-retirement benefit cost** | **$(3,136,742)** | **$(3,937,675)** |

The estimated net periodic post-retirement benefit cost for the Plan for the year ended June 30, 2009, is $225,333 assuming a discount rate of 6.5%. The breakdown of the cost is as follows:

| | **2009** |
|---|---|
| *Net periodic post-retirement benefit cost* | |
| Service cost | $267,435 |
| Interest cost | 187,973 |
| Amortization of (gain) loss | (31,422) |
| Amortization of prior service cost | (217,900) |
| Amortization of transition obligation | 19,247 |
| **Total net period post-retirement benefit cost** | **$225,333** |

The accumulated post-retirement benefit obligation was determined using an assumed weighted-average discount rate of 6.25% at June 30, 2009 and 6.5% at June 30, 2008. The rate of increase in the gross cost of covered healthcare benefits was assumed to be 8.00% for fiscal years 2009 and 2008. The rate of increase is assumed to decline by 1.00% for each year after 2009 to 6.00% in 2011. It is assumed that the rate will then decrease by 0.50% to 5.50% for 2012 and another 0.50% to 5.0% for 2013 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, 2009 and 2008, the cumulative premium paid on behalf of the Executives is $3,235,341 and $2,975,869, respectively, and is classified in other assets on the statements of financial position.

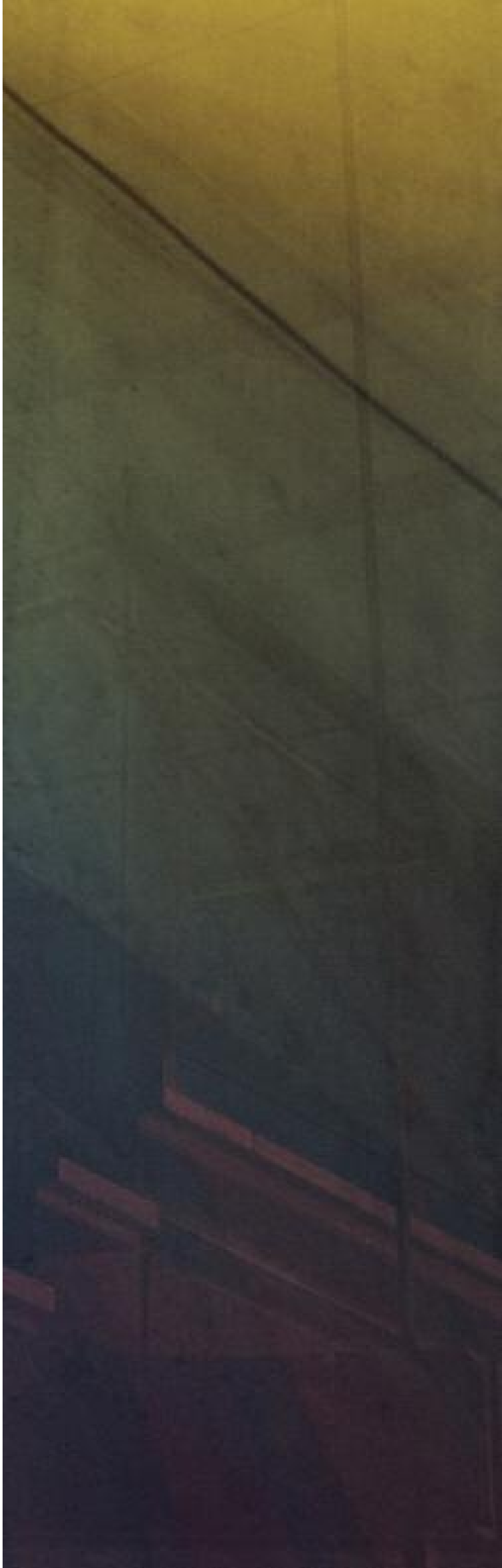
## NOTE H DEFERRED RENT CREDIT

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. The leases include rent incentives and, accordingly, the Association is recognizing 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, 2009 and 2008, was $4,098,089 and $4,010,997, respectively, of which $336,978 and $316,777, respectively, are included in accounts payable, accrued expenses and other current liabilities on the statements of financial position. For the years ended June 30, 2009 and 2008, the Association's rent expense was as follows:

| | 2009 | 2008 |
|---|---|---|
| Cash payments for rent | $1,551,479 | $1,728,286 |
| Less amortization of deferred rent credits | 87,092 | 73,253 |
| **Rent expense** | **$1,638,571** | **$1,801,539** |

## NOTE I SUBSEQUENT EVENTS

The Association evaluated its June 30, 2009 financial statements for subsequent events through October 9, 2009, the date the financial statements were available to be issued. The Association is not aware of any subsequent events which would require recognition or disclosure in the financial statements.



**National Futures Association has been designated by the Commodity Futures Trading Commission (CFTC) as a registered futures association. NFA is the premier independent provider of innovative and efficient regulatory programs that safeguard the integrity of the futures markets.**

## Accountability and Organization

### Policy Development

25-member Board of Directors

- 14 FCM, IB, CPO, and CTA representatives
- 6 exchange representatives
- 5 public representatives

### Policy Supervision

10-member Executive Committee

- NFA President
- NFA Chairman of the Board
- 3 directors/FCM or IB representatives
- 2 directors/exchange representatives
- 2 directors/CPO or CTA representatives
- 1 public representative

### 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 futures markets.

### Total Employees (As of June 30, 2009)

291

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1-800-621-3570

**Disciplinary Information Access Line (DIAL):**
1-800-676-4NFA

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