a clear vision

Stronger Regulation through Greater Transparency

NFA
NATIONAL
FUTURES
ASSOCIATION®

2010 ANNUAL REVIEW

"The challenge to all regulators is to determine how to achieve greater transparency and to translate that transparency into more effective regulation."

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NFA
NATIONAL FUTURES ASSOCIATION®

A Letter from NFA's CEO and Chairman

Since the economic meltdown that began in 2008, the road to financial regulatory reform has experienced several speed bumps and the occasional pothole. However, during the past year significant progress has been made. Comprehensive rules have been established in some financial markets, while rule-making has begun in others.

In January 2010, the Commodity Futures Trading Commission (CFTC) published its proposed rules regarding the retail off-exchange foreign currency (forex) market. The rules require, with certain exceptions, any firm acting as a counterparty to certain retail forex transactions to register as a Retail Foreign Exchange Dealer (RFED) or Futures Commission Merchant (FCM). In addition, the rules require, with certain exceptions, any person acting as a forex solicitor, account manager or pool operator to register with the CFTC as an Introducing Broker (IB), Commodity Trading Advisor (CTA) or Commodity Pool Operator (CPO) or as an associated person of one of these entities and become Members of NFA.

The final rules were published in August 2010 and became effective October 18. All CFTC-registered forex firms and individuals are now subject to CFTC regulations and NFA rules covering every aspect of their business, including recordkeeping, promotional material and sales practices. These new requirements will increase customer protection and market integrity in the retail over-the-counter forex market.

On July 21, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. This historic piece of legislation addresses systemic risk, consumer protection, the regulation of hedge fund advisers, OTC derivatives, insurance companies and credit agencies. Change of this magnitude is rarely undertaken by regulators.

The legislation calls for the comprehensive regulation of the OTC derivatives market, in part, through the creation of several new categories of registration, including swap dealers, major swap participants and swap execution facilities. The CFTC and other regulators are in the process of drafting extensive rules which will impact firms, customers, traders and markets. This is clearly a critical time in the evolution of the derivatives industry.

What is still to be determined is how the firms will be monitored for compliance with those rules and whether there will be a role for self-regulation in this new regulatory structure. NFA believes that, as in the futures industry, self-regulation can make a strong contribution to the overall regulatory scheme, and we are prepared to take whatever actions are asked of us to assist the CFTC in this important new area of financial regulation.

Throughout the lengthy task of writing the Dodd-Frank Act, the need for greater transparency was listed as one of the primary goals of financial reform. The challenge to all regulators is to determine how to achieve greater transparency and to translate that transparency into more effective regulation.

In other words, what can NFA do to promote greater transparency? What can NFA Members do to exhibit more transparent business operations? And how can greater transparency benefit the investing public?

NFA has already taken several steps to achieve the goal of greater market transparency. In the pages of this review, which covers NFA's most recent fiscal year (July 1, 2009 through June 30, 2010), you will read how we have developed new systems and enhanced existing ones as a means of collecting and monitoring data to determine areas of greatest risk. We will also summarize our rule-making efforts during the past year and the enforcement actions we have taken, as well as our achievements in registration, dispute resolution and education.

The United States continues to face tough economic times, and the need for financial reform remains critical. Some progress has been made; however, much work remains to be done. As it has in the past, NFA will continue to work with Congress and federal regulators to strengthen market integrity and protect investors.

Daniel J. Roth
President and CEO

W. Robert Felker
Chairman of the Board

November 2010

Collecting and Monitoring Data to Determine Areas of Greatest Risk

A regulator's ability to identify firms that fail to comply with its rules is contingent upon the regulator's ability to collect and assess information from numerous sources. During Fiscal Year 2010, NFA put in place several programs and procedures that enable the Association to collect data and identify risk more efficiently.

Following three years of development and implementation, NFA's Risk Management System went into full production in Fiscal Year 2010. The system is designed to assist Compliance staff in assessing risks at Member firms, identifying trends among NFA Members and assigning audit priorities. The system collects data from many different systems and databases within NFA and assists Compliance staff in identifying suspicious activity patterns that might warrant closer review.

One of the new data sources for NFA is the enhanced information collected from commodity pool operators (CPOs). Last year, NFA's Board of Directors approved NFA Compliance Rule 2-46, requiring a CPO to report certain quarterly information for each pool that it operates. CPOs must now file quarterly reports, detailing among other things, changes in net asset value, monthly rates of return and a schedule of investments. The new Pool Quarterly Reports give NFA a more current and comprehensive picture of a pool's financial position and alerts NFA to possible problems.

Collecting and monitoring information regarding the trade practices of NFA's Forex Dealer Members (FDMs) has presented some unique challenges, primarily because each FDM acts as its own market with its own trading platform. During Fiscal Year 2010, NFA began development of a system designed to monitor the orders, trades and pricing of its FDMs on a daily basis. The system, when launched in early 2011, will give NFA a more robust picture of each FDM's trading platform and enable NFA to identify possible trade practice abuses or market manipulations quickly.

NFA also took steps last year to ensure that data relating to the nature of a firm's operations remains current. In Fiscal Year 2010, NFA began requiring all NFA Members to indicate in their Annual Questionnaire whether or not they are actively engaged in futures and/or forex-related business. The answers to these questions are now being displayed in NFA's Background Affiliation Status Information Center (BASIC) on NFA's website, providing investors and others with additional information about a firm's trading activities.

In addition to developing systems and procedures to collect data for risk assessment, NFA initiated enhancements to several systems to increase regulatory efficiencies. In order to facilitate the filing of FOCUS, 1FR-FCM and other financial statements by FCMs, NFA teamed with the CME Group, Inc. to develop the WinJammer™ Online Filing System. This new web-based application replaces the old WinJammer system which required users to install software on their PCs in order to transmit the data to regulators. The new WinJammer™ Online Filing System has become the industry standard for futures firms to enter and transmit their required filings to the CFTC and NFA.

The Registration Department launched an enhancement to the Online Registration System that requires demographic information such as sex, race, eye color, hair color, height, weight already collected from FBI fingerprint cards to be entered by the applicant in the Form 8R application. This enhancement allows NFA to download the demographic information from the Form 8R and submit fingerprints electronically to the FBI in a timely manner.

Following three years of development and implementation, NFA's

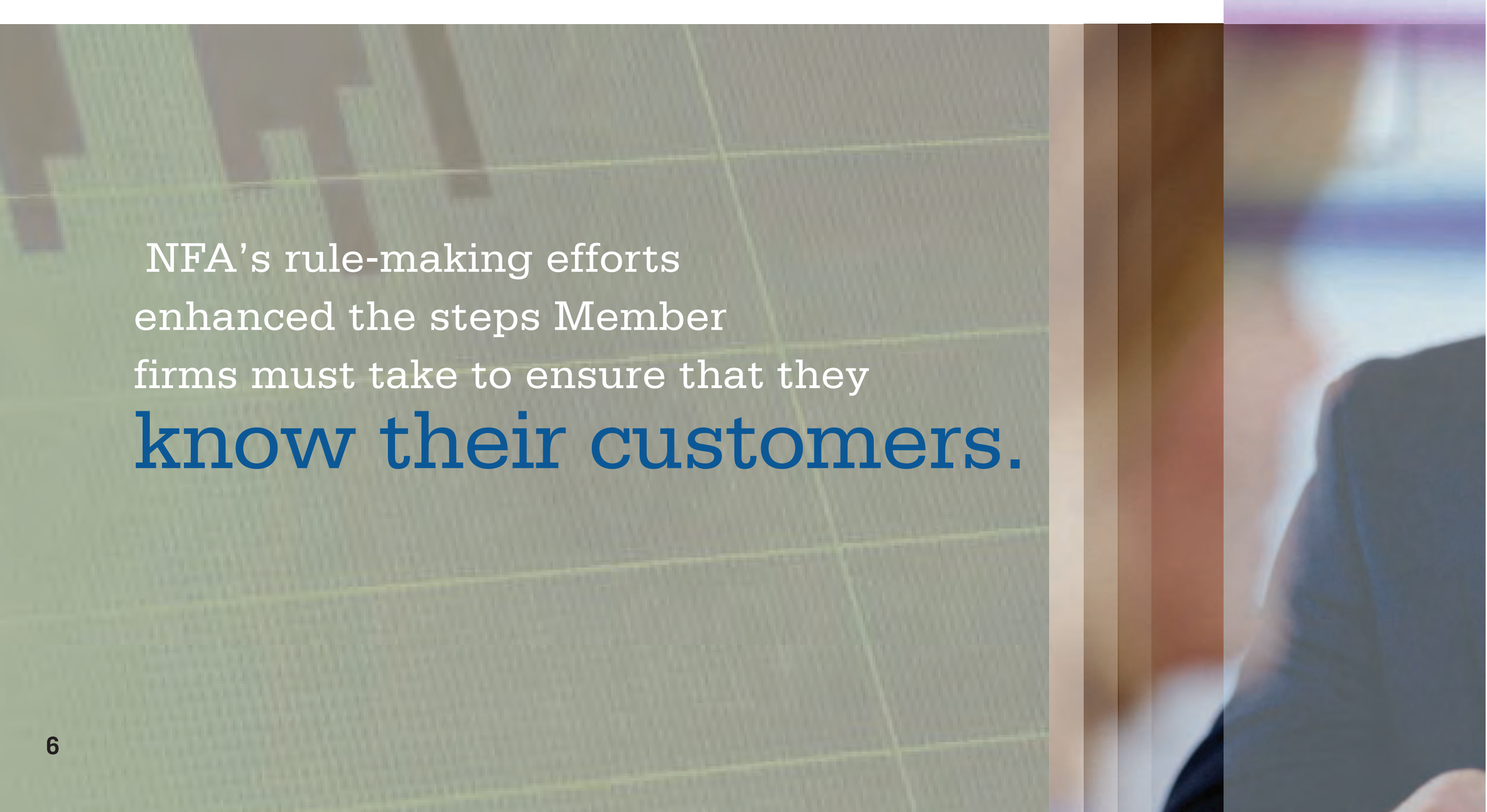
Risk Management System

went into full production in Fiscal Year 2010.

Rule-Making

Effective rule-making is a cornerstone of any regulatory organization's success. During the past year, NFA's rule-making efforts enhanced the steps Member firms must take to ensure that they "know their customers", addressed how NFA Members can utilize social media in their business activities and prohibited potentially unethical business practices by CPOs.

In order to further enhance NFA's customer protection efforts, the NFA's Board of Directors approved amendments to Compliance Rule 2-30, also known as the "Know Your Customer" rule, and its related Interpretive Notice titled "Customer Information and Risk Disclosure". The rule requires each Member or Associate soliciting accounts to obtain certain information about each customer and to provide disclosure of the risks of futures trading in light of that information at or before the time the customer opens an account.



NFA's rule-making efforts enhanced the steps Member firms must take to ensure that they **know their customers.**

The amendments, which will become effective on January 3, 2011, have three main components:

1. Expand the customers covered by the rule to reach all non-eligible contract participants (ECPs) rather than just individuals.
2. Require FCM Members to request at least annually that active customers update information on file if there are any material changes and require the FCM, IB or CTA Member that currently solicits and communicates with the customer to determine if additional risk disclosure is required to be provided based on any changed information.
3. Prohibit Members and Associates from making individualized recommendations to those customers whom the Member or Associate has or should have advised that futures trading is too risky for them.

New technologies are providing new methods for firms and individuals to communicate with the investing public, and NFA took several steps during the past year to address the growing use of social networking groups such as blogs, chat rooms and forums to communicate with and solicit customers. NFA developed an interpretive notice entitled "Use of Online Social Networking Groups to Communicate with the Public". The notice discusses a Member or Associate's responsibilities in connection with electronic communications, including developing procedures for employee use of social networking and outlining the steps the Member should take to supervise and enforce whatever policies it adopts.

In addition, NFA amended Compliance Rule 2-29(h) regarding a Member's use of audio or video advertisements distributed through media accessible to the public. If a Member's audio podcasts and videos on the Internet make specific trading recommendations or refer to profits that have been obtained in the past or can be achieved in the future, the Member must submit them to NFA for approval ten days prior to use.

In some instances, rule-making comes as a result of investigating continuing patterns of misconduct. For example, in recent years NFA has taken several enforcement actions against CPOs who had misappropriated pool funds through direct or indirect loans from a pool to the CPO or its related entity. Given the significant losses suffered by pool participants as a result of these improper loans, NFA developed Compliance Rule 2-45 and its accompanying interpretive notice prohibiting commodity pool operators from making direct or indirect loans or advances of pool assets to the CPO or any other affiliated person or entity.

Enforcement Activities

Fiscal Year 2010 saw a record number of NFA enforcement actions. NFA's Executive Committee issued four emergency enforcement actions (Member Responsibility Actions), and the Business Conduct Committee issued a record 58 Complaints against 117 respondents. Additionally, NFA's disciplinary panels issued 63 Decisions, ordered 46 expulsions and 35 suspensions, and assessed approximately $850,000 in fines.

Many cases involved forex solicitors (IBs, CPOs and CTAs) who were charged with failure to cooperate with NFA staff, the use of misleading promotional material and a failure to meet supervisory requirements. NFA also issued a Complaint involving trading platform abuses by a Forex Dealer Member.

Sales practice allegations were also a common theme among cases brought against non-forex solicitors during Fiscal Year 2010, with many cases involving the use of misleading promotional material. In addition, NFA issued several Complaints in connection with trading strategies employed by Member firms. In those cases, the firms employed trading strategies that were designed to generate large commissions for the firms, but frequently made little or no financial sense for customers.

Collaboration with other regulatory organizations and law enforcement agencies has always been a cornerstone of NFA's enforcement initiatives. In June 2010, NFA hosted a workshop for the U.S. Department of Justice's Securities and Commodities Fraud Working Group. The workshop focused on recent enhancements to the intelligence and surveillance systems at the FBI, the SEC, the CFTC, FINRA and NFA.

Collaboration

with other regulatory organizations and law enforcement agencies . . .

Dispute Resolution

NFA's arbitration program is considered by many as the industry standard for resolving futures-related disputes, and NFA constantly reviews the program, looking for ways to achieve greater efficiencies. During the past year, NFA's Arbitration Department implemented rule changes designed to modify the monetary threshold that determine how a case will be processed and the number of arbitrators NFA appoints to a panel.

Under the amended Code of Arbitration, all customer cases filed on or after October 1, 2009, with claim amounts that are less than or equal to $50,000 are processed as summary proceedings (i.e., one arbitrator decides the case based on the parties' written submissions). However, parties are able to request an oral hearing for claims between $25,000 and $50,000.

Eighteen percent of the claims NFA received between October 1, 2009 and June 30, 2010 fell within this range. Of these, 99% were processed as summary proceedings, resulting in quicker decisions for the parties and leading to significant cost savings since NFA and the parties did not incur any hearing-related expenses. Furthermore, because summaries are easier to process than cases requiring oral hearings, NFA staff spent fewer hours administering these matters.

NFA also amended its rules to allow one arbitrator to hear disputes up to $100,000 rather than the previous limit of $50,000. Appointing one arbitrator instead of three simplifies the administration process and reduces the drain on NFA's arbitrator roster. It also saves the parties money because they incur lower hearing fees.

Educational Resources for Members and the Investing Public

In a time of dramatic changes in the world of financial regulation, education is especially critical. It's critical to the firms to help them understand their new regulatory requirements, and it's critical to investors to help them conduct the due diligence necessary to make sound investment decisions.

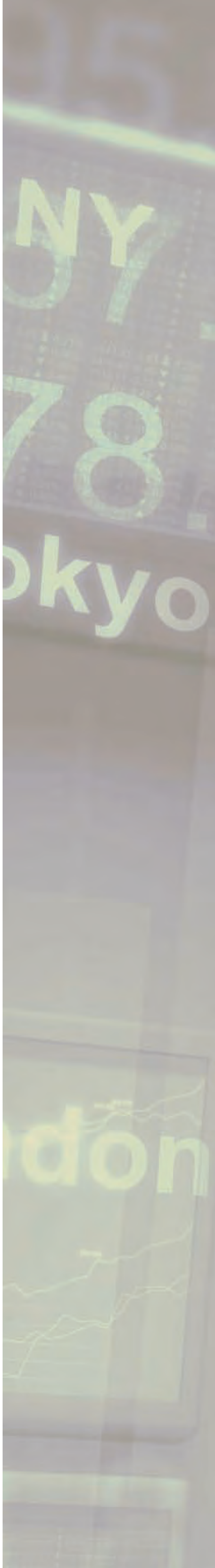
NFA's website continues to be an educational resource for NFA Members, the investing public, futures industry professionals and the media, among others. NFA's redesigned website has attracted more than 2.5 million unique visitors since its launch in June 2009. Every month, more than 100,000 background searches are conducted on futures industry firms and individuals through NFA's online Background Affiliation Status Information Center (BASIC).

NFA's forex brochure, outlining the risks involved in trading in the retail off-exchange foreign currency market, was viewed and/or downloaded more than 30,000 times last year, while NFA Members viewed and/or downloaded more than 20,000 copies of the Association's regulatory guides.

the due diligence necessary to make sound investment decisions

NFA held CPO/CTA regulatory workshops in Chicago and New York, focusing on new financial reporting requirements and other compliance issues. NFA also revised several of its regulatory guides, including "Communications with the Public: A Guide to NFA Compliance Rule 2-29" and the Forex Regulatory Guide, to help Members stay current with their regulatory requirements. In addition, NFA produced podcasts and webinars on a variety of regulatory topics, including NFA's new quarterly filing requirements for CPOs and the use and supervision of online social networking communications.

For retail investors, NFA distributed educational materials at several conferences throughout the year, including the American Association of Individual Investors Conference and the Forex Traders Expo. NFA also participated in Money Smart Week in Chicago, an event coordinated by the Federal Reserve Bank of Chicago. NFA and AARP co-sponsored a seminar entitled "Operation Fight Fraud". The annual event offers more than 450 free education classes, seminars and activities focusing on financial issues.



Looking Ahead

The challenges facing financial regulators have never been greater or more complex. Many questions are still unanswered. However, NFA remains steadfast in its commitment to providing exemplary regulatory programs and services that help safeguard the integrity of the futures and forex markets and protect investors.

Officers & Board of Directors

As of June 30, 2010

Officers

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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

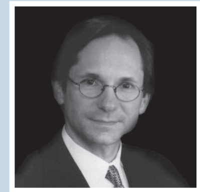
Karen K. Wuertz
Sr. Vice-President
Strategic Planning
and Communications

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
Non-executive Chairman
Penson GHCO

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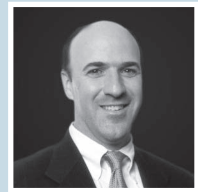
The Millburn Corp.

Aleks A. Kins
President and CEO
AlphaMetrix LLC

Introducing Broker Representatives

Paul J. Georgy*
President
Allendale, Inc.



John A. Vassallo
President
Coquest, Inc.

* *Member of the Executive Committee*

Futures Commission Merchant Representatives

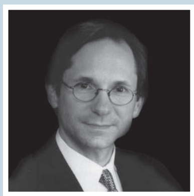
Gerald F. Corcoran
Chief Executive Officer
R.J. O'Brien & Associates, Inc.

Scott A. Cordes
President
Country Hedging, Inc.

Michael C. Dawley
Managing Director
Goldman Sachs & Co.

Maureen C. Downs
President
Rosenthal Collins Group LLC

W. Robert Felker*
Chairman
JPMorgan Futures, Inc.



Christopher K. Hehmeyer*
Non-executive Chairman
Penson GHCO

William F. McCoy
Managing Director
Morgan Stanley

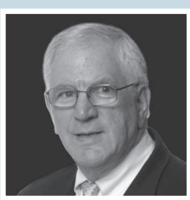
Michael R. Schaefer*
Managing Director
Citigroup Global Markets, Inc.

Special Advisors

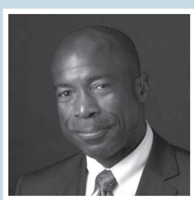
Leo Melamed
Permanent Special Advisor to the Board & Executive Committee

Robert K. Wilmouth
Special Policy Advisor

Public Representatives

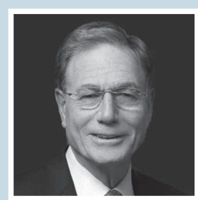


Ronald H. Filler
Professor of Law, Director
Center on Financial Services Law



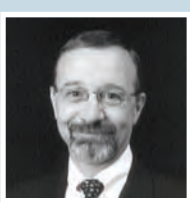
Douglas E. Harris
Managing Director
Promontory Financial Group L.L.C.

Silas Keehn
Past President
Federal Reserve Bank of Chicago



Michael H. Moskow
Vice-Chairman and Senior Fellow on the Global Economy
The Chicago Council on Global Affairs

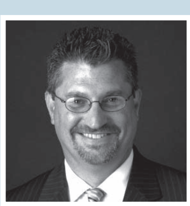
Charles P. Nastro
New York, N.Y.



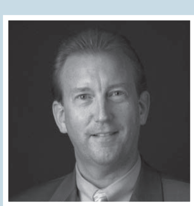
Todd E. Petzel*
Chief Investment Officer
Offit Capital Advisors LLC

Susan M. Phillips*
Former Chairman
Commodity Futures Trading Commission

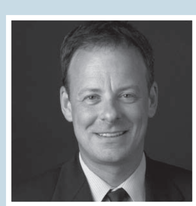
Exchange Representatives



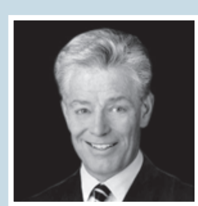
Mark G. Bagan
President & CEO
Minneapolis Grain Exchange



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.

2010 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, 2010 and 2009, 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, 2010 and 2009, 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 14, 2010

Statements of Financial Position

JUNE 30, 2010 AND 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$7,045,207	$5,415,746
Short-term investments	30,742,995	35,894,951
Accrued interest	9,144	43,431
Assessments receivable	1,840,997	1,839,968
Other current assets, net	3,645,453	1,208,570
Total current assets	**43,283,796**	**44,402,666**
Long-term Investments	–	493,554
Furniture, fixtures, equipment, leasehold improvements and software, net	8,896,590	9,956,256
Other assets	882,068	3,291,511
Total assets	**$53,062,454**	**$58,143,987**
Liabilities and Net Assets		
Current liabilities:		
Unearned dues and fees	$1,698,032	$1,706,763
Accounts payable, accrued expenses and other current liabilities	3,806,440	2,758,331
Total current liabilities	**5,504,472**	**4,465,094**
Deferred rent credit	3,396,859	3,761,111
Other long-term liabilities	4,419,367	4,160,092
Total liabilities	**13,320,698**	**12,386,297**
Unrestricted net assets	39,741,756	45,757,690
Total Liabilities and Net Assets	**$53,062,454**	**$58,143,987**

The accompanying notes are an integral part of these statements.

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

JUNE 30, 2010 AND 2009

	2010	2009
Unrestricted Revenues		
Assessments	$18,348,405	$18,237,830
Membership dues	7,497,129	11,121,345
Registration and other fees	2,889,324	2,743,132
Regulatory services outsourcing	3,037,652	3,823,923
Investment income (loss)	3,417,193	(178,734)
Total unrestricted revenues	**35,189,703**	**35,747,496**
Unrestricted Expenses		
Salaries, wages and employee benefits	28,980,978	27,652,674
Space rental and related expenses	2,183,396	1,823,916
Travel and meetings	2,283,714	2,732,128
Computer expenditures	1,080,065	1,013,315
Depreciation and amortization	3,374,800	3,150,692
Outside consulting fees and services	1,353,622	1,294,800
Supplies, postage and telephone	248,265	277,170
Outside printing and publications	64,178	120,720
Board and committee fees and expenses	472,942	482,918
Insurance, recruiting, education, dues and other	1,163,677	1,368,483
Total unrestricted expenses	**41,205,637**	**39,916,816**
Change in Unrestricted Net Assets	**(6,015,934)**	**(4,169,320)**
Unrestricted net assets at beginning of year	**45,757,690**	**49,927,010**
Unrestricted net assets at end of year	**$39,741,756**	**$45,757,690**

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

JUNE 30, 2010 AND 2009

	2010	2009
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in unrestricted net assets	$(6,015,934)	$(4,169,320)
Adjustments to reconcile change in unrestricted net assets to net cash (used in) provided by operating activities		
Net unrealized (gain) loss on investments	(1,511,443)	2,232,553
Net realized loss on investments	–	1,145
Depreciation and amortization	3,374,800	3,150,692
Changes in assets and liabilities		
Assessments receivable	(1,029)	773,722
Accrued interest	34,288	10,985
Other assets	(27,440)	(245,797)
Unearned dues and fees	(8,732)	(179,631)
Accounts payable, accrued expenses and other liabilities	1,307,384	(312,839)
Deferred rent credit	(364,252)	66,891
Net Cash (used in) provided by Operating Activities	**(3,212,358)**	**1,328,401**
Cash Flows from Investing Activities		
Purchases of fixed assets and software	(2,315,134)	(2,573,086)
Purchase of investments	(1,714,801)	(4,519,769)
Proceeds from sale of investments	6,653,930	–
Maturities of U.S. Treasury securities	2,217,824	5,820,000
Net Cash provided by (used in) Investing Activities	**4,841,819**	**(1,272,855)**
Net Change in Cash and Cash Equivalents	**1,629,461**	**55,546**
Cash and Cash Equivalents at beginning of year	**5,415,746**	**5,360,200**
Cash and Cash Equivalents at end of year	**$7,045,207**	**$5,415,746**

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 ("US GAAP"). The preparation of financial statements in conformity with US 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 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. Additionally, the Association has artwork that is considered non-depreciable included in note E valued at $246,307 for 2010 and 2009.

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 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, 2010 and 2009, the allowance for doubtful accounts is $93,883 and $103,138, 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 is exempt from Federal income taxes under Section 501(c)(6) of the U.S. Internal Revenue Code (the "IRC"). The Internal Revenue Service has issued a determination letter to that effect.

In July 2006, the FASB issued guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can 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. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. The Association is exempt from income tax under IRC section 501(c)(6), though it is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by the IRC. The tax years ending 2006, 2007 and 2008 are still open to audit for both Federal and state purposes. The Association adopted this guidance as of January 1, 2009. The adoption of this guidance did not have any impact on the Association's financial statements.

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.

The aggregate fair value of investments by major type as of June 30, 2010 and 2009, is as follows:

Short-term investments:	**2010**	**2009**
U.S. Treasury securities	–	$832,010
U.S. Government Agency securities	475,594	1,408,085
Developed Markets Index Fund	1,744,244	2,693,743
Extended Markets Signal Index Fund	1,812,975	2,721,765
Intermediate Term Treasury Bond Fund	23,096,861	24,012,504
S&P 500 Index Mutual Fund	3,613,321	4,226,844
Total short-term investments	**30,742,995**	**35,894,951**

Long-term investments:	**2010**	**2009**
U.S. Treasury securities	–	$493,554
U.S. Government Agency securities	–	–
Total long-term investments	–	**493,554**
Total	**$30,742,995**	**$36,388,505**

For its four mutual funds the Association immediately reinvests all interest income, dividend income and capital gains back into the funds. The Association also holds self-directed government securities, which it anticipates holding until maturity. For the years ended June 30, 2010 and 2009, the activities in the funds and the self-directed securities were as follows:

	2010	**2009**
Income reinvested back into mutual funds	$1,714,801	$1,853,491
Net unrealized gain (loss) mutual funds	1,697,744	(2,201,499)
Interest income from self-directed investments	47,703	201,474
Unrealized loss from self-directed investments	(40,231)	(31,055)
Realized loss from self-directed investments	(2,824)	(1,145)
Total investment return	**$3,417,193**	**$(178,734)**

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

At June 30, 2010 and 2009, furniture, fixtures, equipment, leasehold improvements and software, and the related accumulated depreciation and amortization are as follows:

	2010	**2009**
Furniture and fixtures	$ 2,142,149	$2,142,149
Equipment	3,635,201	3,475,119
Leasehold improvements	5,472,035	5,472,035
Software	5,148,359	4,148,257
Total	**$16,397,744**	**$15,237,560**
Less accumulated depreciation and amortization	7,501,154	5,281,304
Furniture, fixtures, equipment, leasehold improvements and software, net	**$8,896,590**	**$9,956,256**

NOTE F COMMITMENTS & 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, 2010:

Years ending June 30,	
2011	1,566,877
2012	1,104,579
2013	902,213
2014	924,769
2015	947,888
Thereafter	4,564,127
Total operating lease commitments	**$10,010,453**

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 2009 of $1,102,364 was made in 2010. A profit-sharing contribution for 2008 of $996,203 was made in 2009. 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, 2010 and 2009, 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:

	2010	**2009**
Amounts recognized in the statements of financial position		
Accumulated post-retirement benefit obligations	$(3,536,033)	$(3,166,716)
Unrecognized prior service cost	(435,803)	(653,703)
Unrecognized net gain	(519,677)	(431,801)
Unrecognized transition obligation	96,231	115,478
Accrued post-retirement benefit cost	**$(4,395,282)**	**$(4,136,742)**

The estimated net periodic post-retirement benefit cost for the Plan for the year ended June 30, 2010, is $297,380 assuming a discount rate of 5.25%. The breakdown of the cost is as follows:

	2010
Net periodic post-retirement benefit cost	
Service cost	$293,593
Interest cost	214,849
Amortization of (gain) loss	(12,409)
Amortization of transition obligation	19,247
Amortization of prior service cost	(217,900)
Total net period post-retirement benefit cost	**$297,380**

The accumulated post-retirement benefit obligation was determined using an assumed weighted-average discount rate of 5.25% at June 30, 2010 and 6.25% at June 30, 2009. The rate of increase in the gross cost of covered healthcare benefits was assumed to be 8.00% for fiscal year 2011. The rate of increase is assumed to decline by 0.50% for each year after 2011 to 5.00% in 2017 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, 2010 and 2009, the cumulative premium paid on behalf of the Executives is $3,494,813 and $3,235,341, respectively, and is classified in other current assets on the statements of financial position in 2010 and other assets in 2009.

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 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, 2010 and 2009, was $3,761,107 and $4,098,089, respectively, of which $364,248 and $336,978, respectively, are included in accounts payable, accrued expenses and other current liabilities on the statements of financial position. For the years ended June 30, 2010 and 2009, the Association's rent expense was as follows:

	2010	2009
Cash payments for rent	$2,333,387	$1,551,479
Less amortization of deferred rent credits	(336,977)	87,092
Rent expense	**$1,996,410**	**$1,638,571**

NOTE I SUBSEQUENT EVENTS

The Association evaluated its June 30, 2010 financial statements for subsequent events through October 14, 2010, the date the financial statements were available to be issued. The Association is not aware of any subsequent events that 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
- 4 exchange representatives
- 7 public representatives

Policy Supervision

11-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
- 2 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 futures markets.

Total Employees (As of June 30, 2010)

271

Chicago's 101 Best and Brightest Companies to Work For Winner 2010

Winner
2010, 2009, 2008, 2007 & 2006
Awarded by the National Association for Business Resources

Best Places to Work in IL 2010 — A workplace analysis and competition

Winner
2010, 2009, 2008 & 2007
Awarded by the Best Companies Group

Dave Thomas Foundation for Adoption — Finding Forever Families for Children in Foster Care — 100 Best Adoption-Friendly Workplaces 2009

Winner
2009, 2008 & 2007
Awarded by the Dave Thomas Foundation for Adoption

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