RISK-BASED REGULATION

NFA

2017 ANNUAL REVIEW

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Acronym Key

AMCC	Affiliate Members Consultative Committee (of IOSCO)
Board	NFA's Board of Directors
CFTC	Commodity Futures Trading Commission
CPO	Commodity Pool Operator
CTA	Commodity Trading Advisor
FACTS	Financial Analysis & Audit Compliance Tracking System
FCM	Futures Commission Merchant
FDM	Forex Dealer Member
FY	Fiscal Year
IB	Introducing Broker
IOSCO	International Organization of Securities Commissions
ISSP	Information Systems Security Program
RFED	Retail Foreign Exchange Dealer
SD	Swap Dealer
SEF	Swap Execution Facility
SRO	Self-Regulatory Organization

A Letter from NFA's Chairman

Dear NFA Member,

Fiscal Year 2017 (July 1, 2016 through June 30, 2017) was anything but a typical year. It marked NFA's 35th anniversary and was also a time of transition and succession. Dan Roth announced his retirement after more than 30 years with NFA and a process was set in motion to identify his successor. At the culmination of an extensive search and selection process, the Board unanimously agreed that Tom Sexton should be NFA's next President and CEO ensuring that NFA continues to fulfill its regulatory responsibilities and is well-positioned to address the challenges in the years ahead. I would also like to thank Dan for his outstanding leadership over the past 15 years.

NFA has had a strong track record of effective leaders. Sadly, as this year's Annual Review was being drafted, we received the news that NFA's first President and CEO, Robert K. Wilmouth, passed away. He served as NFA's President and CEO for its first twenty years, from 1982 through 2002, when Dan Roth succeeded him. Bob's vision and leadership were instrumental in launching NFA and laying the groundwork for NFA's tremendous success. His knowledge and management style built NFA into the premier model of an effective and trusted self-regulatory organization. Anyone who was fortunate enough to work with Bob was struck by his many leadership qualities, including his professionalism and demanding work ethic. His contributions to the industry and his advice and mentoring to many has created an amazing legacy. As the first steward of NFA, his appreciation for sound, thoughtful regulation still lives on.

Even though our regulatory responsibilities have expanded greatly over 35 years of operations, many of the guiding principles initially established by Bob continue to ensure that we effectively fulfill our mission to safeguard market integrity, protect investors and ensure that Members meet their regulatory responsibilities.

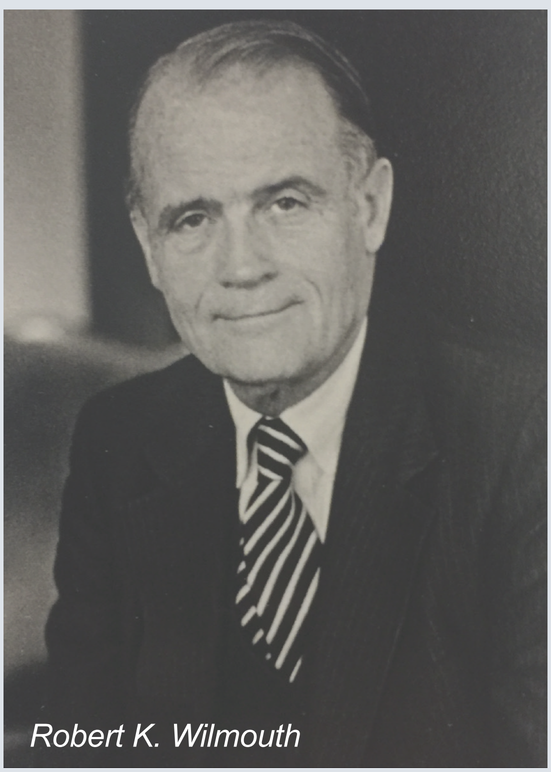
For example, one of our long-established guiding principles is Member involvement in the rulemaking process in order to pass effective rules. Our staff works with its Members, Member advisory committees and trade associations to obtain regulatory solutions to effectively carry out our oversight responsibilities without imposing undue burdens.

Another NFA guiding principle is our collaboration and coordination with the CFTC. The importance of this guiding principle was highlighted due to a significant transition that took place recently at the CFTC. Shortly after the end of our fiscal year, the Senate unanimously confirmed J. Christopher Giancarlo as CFTC Chairman and unanimously confirmed Brian Quintenz and Rostin Behnam to serve as CFTC commissioners. During the past year, we had productive conversations with Chairman Giancarlo and CFTC staff to discuss maximizing coordination and minimizing duplication. The CFTC has an aggressive agenda and we will continue to help in any way we can.

As mentioned earlier, this year was anything but typical. Although NFA is very proud of the achievements listed in this year's Annual Review, we all know that a successful past does not ensure a successful future. The need for effective and efficient regulation has never been greater, and we promise to continue to do everything we can to ensure that the highest levels of integrity are demanded of all market participants, intermediaries and regulators.

Sincerely,

Michael C. Dawley
Chairman of the Board



Robert K. Wilmouth

"Bob had a deep appreciation and loyalty to every employee at NFA and nothing made Bob more proud than NFA's employees and the success we shared over the years."

-Thomas W. Sexton, NFA's President & CEO

Regulation

Initial Margin for Uncleared Swaps

The CFTC's margin requirements for uncleared swaps allow SDs subject to these rules to choose between calculating initial margin using a standardized grid or an internal risk-based initial margin model approved by the CFTC or NFA. During the first phase of a five-year implementation period, NFA reviewed and approved more than 30 SD initial margin models. Following these margin model approvals, NFA developed and implemented an ongoing monitoring program to assess each SD's use of its initial margin model. NFA's monitoring program was launched for Phase 1 SDs with the initial quarterly filing of relevant data due by January 31, 2017. ■

Swap Valuation Disputes

In January 2016, the CFTC issued an order authorizing NFA to receive and review swap valuation dispute notices that SD Members are required to file pursuant to CFTC Regulation 23.502(c). Given NFA's experience with these notices, NFA determined that the notices would be more useful if the notices contained standardized information that could be tracked and monitored across SDs and the industry. Staff worked with SD Members, NFA's Swap Participant Advisory Committee, industry trade associations and the CFTC to finalize the standardized information to be filed for each dispute and to provide guidance on the types of disputes that must be reported. NFA's Board and the CFTC approved an Interpretive Notice detailing the new filing requirements. The effective date of the Interpretive Notice is January 2, 2018. ■

To ensure that SD Members subject to future compliance dates fully understand the initial margin model approval process, NFA offered a webinar in November 2016. During the webinar, NFA senior staff provided an overview of its margin model review process, discussed lessons learned from the September 2016 review and approval process, and answered questions. To view webinar materials, please visit the SD Education and Resources section on NFA's website: www.nfa.futures.org.

Monthly Risk Data Reporting Requirements for SDs

Developing an SD risk profiling system to identify Members that may pose heightened regulatory risk and to allocate resources accordingly is an ongoing process. In March 2017, NFA adopted NFA Financial Requirements Section 17 specifying NFA's general authority to collect financial, operational, risk management and other information from SDs that NFA deems necessary to effectively carry out its oversight responsibilities.

To enhance its SD risk profiling tool, NFA developed a plan to collect market and credit risk data from SDs on a monthly basis. Understanding an SD's market and credit risk exposures will provide NFA with a basic insight into an SD's risk profile. Working with SD Members, NFA's Swap Participant Advisory Committee, industry trade associations and the CFTC, NFA identified a list of metrics related to market and credit risk that will provide NFA with important information for SD risk monitoring, without imposing undue burdens on SDs. In May 2017, NFA issued a Notice to Members, approved by NFA's Board, detailing these metrics.

SD Members will be required to electronically file the first Risk Data Report as of December 31, 2017 by January 31, 2018 using WinJammer™. ■

CPOs and CTAs Report Financial Ratios

In order to effectively oversee its Members, NFA requires Members to report certain information to NFA on a periodic basis. NFA reviews and analyzes this information as an integral part of NFA's oversight program. NFA amended Compliance Rule 2-46 and its related Interpretive Notice, which became effective in June 2017, to require CPO and CTA Members to report two financial ratios regarding their financial condition on the quarterly Forms PQR and PR. These additional ratios will be used by NFA as one factor among many, to determine a CPO's or CTA's risk for monitoring purposes.

Staff worked with CPO and CTA Members, NFA's CPO/CTA Advisory Committee, industry trade associations and the CFTC to finalize the ratios. NFA's Board unanimously approved and the Advisory Committee fully supported the collection of this data.

This new financial data will enhance NFA's risk profiling system and improve NFA's ability to quickly identify firms that may pose heightened regulatory risk and allocate resources accordingly. ■

To help CPO and CTA Members understand the new reporting requirements and the calculation of the ratios, NFA held workshops in Chicago and New York in May 2017. To view workshop materials, please visit the CPO or CTA Education and Resources section on NFA's website: www.nfa.futures.org.

Increased Transparency for Retail Forex Customers

Customer protection is one of NFA's top priorities. To review the quality of executions received by retail forex customers compared to that of other customers at an FDM, NFA amended NFA Compliance Rule 2-36 to require FDMs to provide customers, upon request, with certain transaction execution data.

Under the amendment, an FDM, in response to a customer request regarding an executed forex transaction, must provide the customer with certain transaction data in the same currency pair for the 15 transactions that occurred immediately before and after the customer's transaction. The amendment became effective in March 2017. ■

Cybersecurity Member Education

Cybersecurity threats continue to evolve with unparalleled speed, complexity and impact. NFA's Cybersecurity Interpretive Notice, which became effective in March 2016, requires NFA Members to adopt and enforce procedures to secure both customer data and access to their electronic systems.

The Cybersecurity Interpretive Notice adopts a principles-based risk approach to allow Members some degree of flexibility in determining what constitutes "diligent supervision," given the differences in Members' size and complexity of operations, the make-up of their customers and counterparties serviced, and the extent of their electronic interconnectedness with other entities.

During Member examinations, NFA now reviews Members' written ISSPs. NFA noted a number of common findings, which were presented and addressed during workshops held in May 2017. NFA also discussed recent cyber events that may have impacted Members and provided practical tips and tools from a panel of experts. ■

To view workshop materials, please visit the Education and Resources section on NFA's website: www.nfa.futures.org.

Enforcement Actions

Enforcement of NFA rules is critical to the effectiveness of the self-regulatory process. In FY 2017:

- NFA's Business Conduct Committee issued 14 Complaints against 24 respondents. A number of these cases involved Members and Associates who failed to supervise, cooperate with NFA, or observe high standards of commercial honor and just and equitable principles of trade.
- NFA's disciplinary panels issued 21 Decisions, and ordered 15 expulsions and 3 suspensions.
- NFA collected nearly $700,000 in fines.

Many of these cases culminated complex and exhaustive investigations that spanned multiple years and involved collaboration with the CFTC and other regulators.

NFA regularly meets with the U.S. Department of Justice's Securities and Commodities Fraud Working Group, local law enforcement, the U.S. Attorney's Office, the Federal Bureau of Investigation, the U.S. Postal Inspector's Office, the CFTC, and the Illinois Department of Securities. Over the last several years, NFA's work with these agencies has resulted in significant prison sentences for nearly 30 individuals, including sentences of more than 20 years. ■

Registration

NFA screens all firms and individuals wishing to register with the CFTC and become NFA Members. In FY 2017, NFA's Registration Department processed nearly 520 firm registrations and approximately 9,200 individual registrations. ■

Information Center

NFA's Information Center—a service NFA offers to Members and the investing public—received more than 24,000 calls and responded to nearly 4,000 emails. ■

Fitness Investigation Cases

NFA's Investigations Group opened approximately 1,800 cases. These fitness investigation cases are due to fingerprint card results, answers to disciplinary questions on applications, or regulatory information obtained during NFA's background checks. ■

Restitution

NFA's restitution program helps return proceeds of fraudulent schemes to harmed customers. The majority of these cases do not involve NFA Members. In FY 2017, NFA's restitution program disbursed more than $2 million to more than 1,300 harmed investors. Because NFA does not charge fees for administering this restitution service, fraud victims are returned the maximum amount of money possible. Over the life of the restitution program, NFA has distributed more than $35 million to over 13,000 individuals. ■

Technological Solutions

FACTS Rebuild

NFA is committed to modernizing its critical computer applications in order to ensure greater efficiency, efficacy and security. NFA continued the multi-year rebuild of its FACTS system, which serves as the primary analytical system for NFA's futures and swaps oversight programs. To date, NFA has rebuilt the subsystems used for the analysis of regular financial filings, and developed a flexible subsystem to investigate and analyze any type of non-financial data. The new subsystem was implemented in June 2017. The underlying architecture of this rebuild includes a reusable framework that will accommodate the analysis of additional financial filings as they are prioritized for transition to the new system. ■

Market Regulation Electronic Audit Trail Review Program

The SEF core principles set forth in the Commodity Exchange Act require that SEFs enforce their audit trail and recordkeeping requirements through, at a minimum, annual reviews of market participants. As part of NFA's Market Regulation services, SEFs may request that NFA perform these audit trail and recordkeeping reviews. With the CFTC's clarification of compliance requirements and deadlines for electronic audit trails, NFA finalized the parameters of an electronic audit trail review program for SEFs based on CFTC regulations, SEF rules, exchange rules, and participant connectivity. NFA conducted onsite SEF visits to determine which SEFs would fall within the scope of this program and the volume of work required at each SEF. NFA then developed a system to perform these reviews by taking the raw audit trail data directly from the SEFs and commenced initial audit trail reviews for a number of SEFs. ■

NFA Website Redesign

NFA launched its redesigned website in June 2017. Over the years, NFA has added a tremendous amount of content to its former website, making it difficult for users to find information quickly. The redesign project was driven by Member feedback, analysis of usage patterns and benchmarking. Enhancements include:

- Streamlined content and navigation using clearly marked paths for key audiences;
- Improved functionality; and
- Responsive design with most mobile devices. ■

To walk Members through the new website, NFA conducted a webinar in June 2017. To view webinar materials, please visit the Member Education and Resources section on NFA's website: www.nfa.futures.org.

International Initiatives

2016 IOSCO AMCC Mid-Year Meeting and 9th Annual AMCC Training Seminar

NFA's membership extends well beyond the U.S. Therefore, it's important to establish relationships with non-U.S. regulators and to educate these regulators about NFA's effectiveness as an SRO. NFA continues to be increasingly involved in the work of IOSCO. IOSCO members include derivatives and securities regulators, SROs, exchanges, clearing organizations, investor protection funds and trade associations from around the world. In 2016, NFA was appointed Vice Chairman of IOSCO's AMCC, which is composed of approximately 60 members.

NFA organized the 2016 IOSCO AMCC Mid-Year Meeting and 9th annual Regulatory Staff Training Seminar in Chicago. More than 80 individuals attended the meeting, and more than 140 people attended the training seminar. Individuals came from more than 40 different countries, including the United Kingdom, U.S., Germany, Brazil, Japan, India, and the United Arab Emirates.

The meeting agenda covered cybersecurity, fintech, cross-border regulation of trading platforms and retail investor protection. During the training seminar, attendees listened to industry experts discuss enforcement, surveillance, risk-based supervision, cybersecurity, data tools and analytics and retail protection measures. ■


9th Annual IOSCO AMCC
Training Seminar


Strategic Directions and Priorities
importance of IOSCO's Principles
IOSCO Secretary General


Tuesday, September 27, 2016 | AMCC 2016 Regulatory

Onsite Exams of Non-U.S. NFA Members

Over the past few years, the number of non-U.S. NFA Members has grown steadily to approximately 600. These Members are predominantly CPOs or CTAs, but also include SDs. NFA has always monitored its Members, but in 2016, NFA performed onsite exams of CPO and CTA Members in the U.K. for the first time. In FY 2017, NFA conducted 21 onsite examinations of NFA Members in the U.K.

With respect to non-U.S. SD Members, staff designed an examination program that focused on rule areas for which there is no substituted compliance. NFA performed its first examination of a non-U.S. SD covering these areas, with the work completed in New York. ■

NFA's May Board Meeting and Reception in Washington, D.C.

In May 2017, NFA held its Board meeting in Washington, D.C. NFA was honored that House Agriculture Committee Chairman, Michael Conaway, accepted NFA's invitation to speak to NFA's Board and to take questions regarding regulatory issues affecting the derivatives markets. Following the meeting, NFA hosted an evening reception in the House Agriculture Committee Hearing Room in the Longworth House Office Building. The Washington D.C. Board meeting and reception provided an opportunity to bring attention to NFA's regulatory programs and the important role NFA plays in the regulation of the derivatives markets.

Chairman Michael Conaway

The reception was attended by approximately 200 guests, including Congressmen and staff from the House Agriculture and Financial Services Committees, Senate Agriculture Committee staff, a CFTC Commissioner, CFTC senior staff, representatives from CME Group and ICE, and many industry leaders. ■

Board of Directors

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

Maureen C. Downs*
Vice-Chairman of the Board
President
Rosenthal Collins
Group, LLC

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

Futures Commission Merchants

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

Michael C. Dawley*
Managing Director
Goldman Sachs & Co.

Maureen C. Downs*
President
Rosenthal Collins
Group, LLC

Thomas R. Kadlec
President
ADM Investor Services, Inc.

Antonio Reyes Miras
Managing Director and Americas Head-Futures, Clearing and Collateral
Citigroup Global Markets, Inc.

Commodity Pool Operators & Commodity Trading Advisors

Douglas L. Bry*
Senior Strategist
Welton Investment Partners LLC

Ernest L. Jaffarian*
CEO/CIO
Efficient Capital Management, LLC

Brendan R. Kalb
Managing Director and General Counsel
AQR Capital Management, LLC

Martin Lueck
Research Director
Aspect Capital Limited

Contract Market Directors

Mark G. Bagan
President and CEO
Minneapolis Grain Exchange

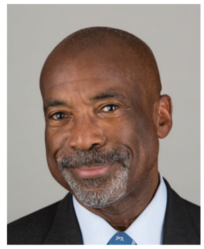
David S. Goone*
Chief Strategy Officer
IntercontinentalExchange, Inc.

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

Public Representatives

Andrea M. Corcoran
Principal
Align International, LLC

Ronald H. Filler*
Professor of Law
New York Law School



Douglas E. Harris*
Managing Director
Promontory Financial Group, LLC

Jim Marshall
Washington, D.C.

Mary M. McDonnell
Founder and CEO
McDonnell & Associates

Michael H. Moskow*
Vice Chair and Distinguished Fellow
The Chicago Council on Global Affairs

Charles P. Nastro
New York, N.Y.

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

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

Michael R. Schaefer
New York, N.Y.

Swap Dealers

William F. McCoy
Managing Director
Morgan Stanley

Charlotte B. McLaughlin*
President and CEO
PNC Capital Markets, LLC

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

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

Sheryl M. Wallace
Corporate Vice President, Risk Management Leader
Cargill, Inc.

Introducing Brokers

Michael T. Burke
CEO
HighGround Trading LLC

Paul J. Georgy
President
Allendale, Inc.

**Member of the Executive Committee*

2017 Financials

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
National Futures Association

We have audited the accompanying financial statements of National Futures Association, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of unrestricted revenues, expenses and changes in unrestricted net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Futures Association as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois
November 6, 2017

NFA

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

Assets	**2017**	**2016**
CURRENT ASSETS		
Cash and cash equivalents	$ 22,402,169	$ 18,053,071
Short-term investments	81,889,159	79,858,500
Assessments receivable	2,571,589	2,651,454
Other current assets, net	2,428,705	2,450,326
Total current assets	**109,291,622**	**103,013,351**
FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE, NET	16,289,625	17,008,124
LONG-TERM INVESTMENTS	---	15,013,470
OTHER ASSETS	13,875	13,875
TOTAL ASSETS	**$125,595,122**	**$135,048,820**

Liabilities And Unrestricted Net Assets		
CURRENT LIABILITIES		
Unearned dues and fees	$ 4,089,554	$ 4,338,364
Accounts payable, accrued expenses and other current liabilities	5,087,467	5,124,512
Total current liabilities	**9,177,021**	**9,462,876**
DEFERRED RENT CREDIT	4,259,587	5,090,486
OTHER LONG-TERM LIABILITIES	8,963,883	8,437,632
Total liabilities	**22,400,491**	**22,990,994**
UNRESTRICTED NET ASSETS	103,194,631	112,057,826
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	**$125,595,122**	**$135,048,820**

The accompanying notes are an integral part of these statements.

NFA

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

Years ended June 30, 2017 and 2016

	2017	2016
UNRESTRICTED REVENUES		
Assessments	$ 28,684,057	$ 27,337,946
Membership dues	39,961,282	39,895,220
Registration and other fees	2,880,999	2,558,593
Regulatory services outsourcing	8,983,000	9,024,525
Investment income	2,463,377	827,606
TOTAL UNRESTRICTED REVENUES	**82,972,715**	**79,643,890**
UNRESTRICTED EXPENSES		
Salaries, wages and employee benefits	66,983,479	59,844,094
Space rental and related expenses	3,562,190	3,487,807
Travel and meetings	3,500,589	3,132,028
Computer expenditures	2,727,564	2,112,794
Depreciation and amortization	7,466,378	7,252,628
Outside consulting fees and services	4,081,534	3,160,990
Supplies, postage and telephone	245,258	252,042
Outside printing and publications	36,231	52,418
Board and committee fees and expenses	831,558	774,159
Insurance, recruiting, education, dues and other	2,401,129	2,593,900
TOTAL UNRESTRICTED EXPENSES	**91,835,910**	**82,662,860**
CHANGE IN UNRESTRICTED NET ASSETS	**(8,863,195)**	**(3,018,970)**
Unrestricted net assets at beginning of year	112,057,826	115,076,796
Unrestricted net assets at end of year	$103,194,631	$112,057,826

NFA

STATEMENTS OF CASH FLOWS

Years ended June 30, 2017 and 2016

	2017	2016
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	$ (8,863,195)	$ (3,018,970)
Adjustments to reconcile change in unrestricted net assets to net cash (used in) provided by operating activities		
Net unrealized gain on investments	(1,516,365)	(135,966)
Depreciation and amortization	7,466,378	7,252,628
Changes in assets and liabilities		
Assessments receivable	79,865	(325,993)
Other assets	21,621	(5,647)
Unearned dues and fees	(248,810)	(1,403,466)
Accounts payable, accrued expenses and other liabilities	489,206	1,387,294
Deferred rent credit	(830,899)	(833,971)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(3,402,199)**	**2,915,909**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets and software	(6,747,879)	(6,523,128)
Purchase of investments	(37,500,824)	(35,565,976)
Maturities of U.S. Treasury Securities	**52,000,000**	--
NET CASH USED IN INVESTING ACTIVITIES	**7,751,297**	**(42,089,104)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**4,349,098**	**(39,173,195)**
Cash and cash equivalents at beginning of year	18,053,071	57,226,266
Cash and cash equivalents at end of year	$ 22,402,169	$ 18,053,071

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 primarily financed through the payment of assessments and dues by its members and registration fees by registrants.

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Rules

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, as a new topic, Accounting Standards Codification (ASC) Topic 606. The objective of ASU No. 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new standard, companies will perform a five-step analysis of transactions to determine when and how revenue is recognized. ASU No. 2014-09 applies to all contracts with customers, except those that are within the scope of other topics in the FASB ASC. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date for one year. The guidance is currently effective for the Association for fiscal year 2020. The guidance permits the use of either a retrospective or cumulative effect transition method. Early adoption is permitted.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Association for fiscal year 2021. Early adoption is permitted.

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment return, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires a not-for-profit to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for the Association for fiscal year 2019. Early adoption is permitted and entities are required to adopt the guidance retrospectively, but, if comparative financial statements are presented, they have the option to omit certain information for any periods presented that are prior to the period of adoption.

Use of Estimates

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

Assessments

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

Membership Dues

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

Registration Renewal Fees

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

Regulatory Services Outsourcing

Regulatory services outsourcing revenue relates to the Association's trade practice and market surveillance services. This revenue consists of non-refundable start-up fees and monthly maintenance fees for ongoing services for each customer. Fees are used by the Association to purchase hardware and software necessary to perform surveillance services for a given customer and are recognized as revenue when paid by the customer. Monthly fees for ongoing surveillance and other regulatory services are recognized as revenue on a monthly basis as services are performed.

Furniture, Fixtures, Equipment & Leasehold Improvements

The Association capitalizes individual purchases greater than $1,500 and group purchases greater than $15,000.

Furniture, fixtures, equipment and leasehold improvements are depreciated over three to seven years or the term of the lease, if applicable, on a straight-line basis. The Association uses the half year convention so that the first and last years of depreciation and amortization are one-half the straight-line amount and all middle years are in direct proportion to the useful life of the capitalized item. Additionally, the Association has artwork that is considered non-depreciable, included in the furniture and fixtures line within note E, valued at $297,566 for 2017 and $296,680 for 2016.

Purchased Software

Purchased software is included in fixed assets and is capitalized and amortized over three years on a straightline 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 involvedin 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 five to six 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, 2017 and 2016, the allowance for doubtful accounts is $535,915 and $62,725, respectively. This allowance is a reduction of receivables, which are included in other current assets, net on the accompanying statements of financial position.

Fair Value Measurements

The 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 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 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 on 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 U.S. Treasury bills and equity and fixed income mutual funds. 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.

Functional Expenses

NFA considers substantially all of its expenses to be attributable to its one significant program, regulating the U.S. derivatives industry, and expenses attributable to supporting services, such as general and administrative costs, are not significant to the expenses as a whole.

Federal Income Taxes

The Association follows 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 only be recognized in the financial statements 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 federal income tax under Internal Revenue Code (IRC) section 501(c)(6), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Association has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Association has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

NOTE C

CASH AND CASH EQUIVALENTS

The Association considers 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 short-term investments by major type as of June 30, 2017 and 2016, is as follows:

	2017	2016
SHORT TERM INVESTMENTS		
U.S. Treasury securities	$14,990,625	$19,992,640
Developed Markets Index Fund	3,859,695	2,564,510
Extended Markets Signal Index Fund	3,911,067	2,935,830
Short Term Treasury Fund	51,519,941	47,846,813
S&P 500 Index Mutual Fund	7,607,831	6,518,707
Total short-term investments	**81,889,159**	**79,858,500**
LONG TERM INVESTMENTS		
U.S. Treasury securities	--	15,013,470
TOTAL INVESTMENTS	**$81,889,159**	**$94,871,970**

For its four mutual funds, the Association immediately reinvests all interest income, dividend income and capital gains back into the funds. U.S. Treasury securities are held to maturity.

For the years ended June 30, 2017 and 2016, the activities in the funds and the self-directed securities were as follows:

	2017	2016
Interest income	$947,012	$691,634
Net unrealized gain	1,516,365	135,966
TOTAL INVESTMENT RETURN	**$2,463,377**	**$827,600**

NOTE E

FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE

At June 30, 2017 and 2016, furniture, fixtures, equipment, leasehold improvements and software, and the related accumulated depreciation and amortization, are as follows:

	2017	2016
Furniture and fixtures	$2,331,825	$ 2,280,505
Equipment	7,728,452	6,757,688
Leasehold improvements	11,703,179	11,510,581
Software	14,453,938	13,467,008
Total furniture, fixtures, equipment, leasehold improvements and software	**36,217,394**	**34,015,782**
Less accumulated depreciation and amortization	19,927,769	17,007,658
FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE, NET	**$16,289,625**	**$17,008,124**

NOTE F

COMMITMENTS AND CONTINGENCIES

The Association leases office space in Chicago and New York. The Chicago lease expires on August 31, 2023. The lease for the New York office expires on June 30, 2023.

The following is a schedule of future payments under both of the operating leases and the disaster recovery service contract that have remaining noncancellable payment terms as of June 30, 2017:

Years ending June 30	
2018	2,912,157
2019	2,950,339
2020	3,288,482
2021	3,508,882
2022	3,565,900
Thereafter	5,581,216
TOTAL OPERATING LEASE COMMITMENTS	**$21,806,976**

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. Regarding a current legal matter, due to inherent uncertainties, the outcome cannot be predicted, and no accurate estimate of any settlement or timing of such settlement, which may arise from any of the legal proceedings, can be made.

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, subject to Internal Revenue Service (IRS) elective deferral limits. 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 2016 of $2,305,662 was made in 2017. A profit-sharing contribution for 2015 of $2,035,202 was made in 2016. 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 National Futures Association Retiree Medical Benefits Plan (the Plan) for the benefit of the Association's retirees and their eligible spouses/domestic partners and dependents. Effective January 1, 2016, 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 since their 45th birthday are entitled to receive benefits from the Plan.

For eligible retirees, automatically upon retirement, the Association will establish a Retiree Health Reimbursement Account (HRA). A retiree's spouse or domestic partner at the time of retirement will also be eligible to receive an HRA of equal value to the retiree's HRA (a partner HRA). The Association will make a one-time, notional contribution to the HRA and partner HRA. The amount allocated to the HRA and the partner HRA, if applicable, is based on years of service (YOS) with the Association after age 45 and the indexed credit for the year of retirement.

The HRA benefit is calculated as follows:

[Indexed Credit $ Amount] x [NFA YOS after age 45 (maximum of 20)] = HRA Account Value

Prior to 2016, eligible retirees received reimbursement for the cost of medical coverage or Medicare supplement coverage, limited by an indexed YOS percentage.

At June 30, 2017 and 2016, 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 longterm liabilities, were as follows:

	2017	2016
AMOUNTS RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION		
Accumulated post-retirement benefit obligations	$(7,694,472)	$(7,451,499)
Unrecognized prior service cost	(2,152,803)	(2,458,295)
Unrecognized net loss	963,897	1,548,842
ACCRUED POST-RETIREMENT BENEFIT COST	**$ (8,883,378)**	**$(8,360,952)**

The estimated net periodic post-retirement benefit cost for the Plan for the year ended June 30, 2017, is $618,368. The breakdown of the cost is as follows:

Net periodic post-retirement benefit cost	
Service cost	$570,037
Interest cost	256,926
Amortization of prior service cost	(305,492)
Net loss amortization	96,897
TOTAL NET PERIOD POST-RETIREMENT BENEFIT COST	**$618,368**

The accumulated post-retirement benefit obligation was determined using an assumed weighted-average discount rate of 3.65% at June 30, 2017, and 3.25% at June 30, 2016. The rate of increase in the gross cost of covered health care benefits was assumed to be 5.75% for fiscal year 2017. The rate of increase is assumed to decline by 0.25% for each year after 2017, to 5.00% in 2020 and after.

The Association also participates in the purchase of life insurance on behalf of certain executive officers (Executives) as part of the National Futures Association split-dollar life insurance plan (the Split-Dollar Plan). The purpose of the Split-Dollar Plan is to provide participating Executives with an insured death benefit during employment and after retirement. The insurance policy also allows for capital accumulation through the buildup of cash value. Upon termination of employment, death or maturity of the policy, the Association receives cash value equal to the cumulative premium paid by the Association. As of June 30, 2017 and 2016, the cumulative premium paid on behalf of the Executives is $0 and $572,237, respectively, and is classified in current receivables and other assets, respectively, on the accompanying statements of financial position.

NOTE H

DEFERRED RENT CREDIT

Effective January 2008, the Association executed a 12-year operating lease for office premises in Chicago. In December 2011, the Association extended its Chicago lease by 44 months, through August 2023. The Association's New York office relocated in November 2013, and and the Association entered into a lease for this space through May 2023. 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, 2017 and 2016, was $5,093,559 and $5,924,458, respectively, of which $833,972 and $833,972, respectively, are included in accounts payable, accrued expenses and other current liabilities on the accompanying statements of financial position.

For the years ended June 30, 2017 and 2016, the Association's rent expense was as follows:

	2017	2016
Cash payments for rent	$4,082,257	$3,812,043
(Less) amortization of deferred rent credits	(833,972)	(764,612)
RENT EXPENSE	**$3,248,285**	**$3,047,431**

NOTE I

SUBSEQUENT EVENTS

The Association evaluated its June 30, 2017 financial statements for subsequent events through November 6, 2017, the date the financial statements were available to be issued. The Association is not aware of any subsequent events that require recognition or disclosure in the financial statements.

About NFA

NFA is the industrywide SRO for the U.S. derivatives industry. Designated by the CFTC as a registered futures association, NFA strives every day to safeguard the integrity of the derivatives markets, protect investors and ensure NFA Members meet their regulatory responsibilities.

NFA Officers

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President & CEO

Daniel A. Driscoll
Executive Vice-President & COO

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Vice-President Information Systems

Jamila Piracci
Vice-President OTC Derivatives

Carol Wooding
Vice-President General Counsel & Secretary

Daniel J. Roth
Special Advisor to the President & CEO

As of June 30, 2017:

NFA Membership

NFA had approximately 3,800 Members and nearly 52,000 Associate Members.

Membership by Registration Category:

SD:	**101**
RFED:	**2**
FCM:	**63**
IB:	**1,226**
CPO:	**1,575**
CTA:	**1,684**
Exchange:	**6**

Total Employees

551

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