# 2018 ANNUAL REVIEW


EXIT

# CONTENT



# ACRONYM KEY

| | |
|---|---|
| AAII | American Association of Individual Investors |
| The Act | The Commodity Exchange Act |
| AP | Associated Person |
| BASIC | Background Affiliation Status Information Center |
| Board | NFA's Board of Directors |
| CFTC | Commodity Futures Trading Commission |
| CPO | Commodity Pool Operator |
| CTA | Commodity Trading Advisor |
| DCM | Designated Contract Market |
| FCM | Futures Commission Merchant |
| FDM | Forex Dealer Member |
| FY | Fiscal Year |
| IB | Introducing Broker |
| IFM | Institute for Financial Markets |
| IOSCO | International Organization of Securities Commissions |
| Member | NFA Member |
| RFED | Retail Foreign Exchange Dealer |
| SD | Swap Dealer |
| SEC | Securities and Exchange Commission |
| SEF | Swap Execution Facility |
| SRO | Self-Regulatory Organization |
| SVD | Swap Valuation Disputes |

# A LETTER FROM NFA'S CHAIRMAN

Dear NFA Member,

An organization's Annual Review typically looks back on the significant initiatives of the past year. NFA's Fiscal Year 2018 (July 1, 2017-June 30, 2018) Annual Review summarizes the highlights of the previous 12 months, but also provides a preview of coming attractions.

During the past year, NFA's Executive Committee and senior staff held a long-range planning session to discuss potential issues that may shape NFA and impact our Members in the future. These important meetings are generally held every couple of years. Forward-looking exercises, such as this long-range planning meeting, provide an opportunity to examine and adapt our regulatory programs and policies to meet the demands of an evolving marketplace. Flexibility and nimbleness are critical as we adapt to changing regulatory and industry landscapes.

This year's long-range planning meeting agenda included regulatory topics that are awaiting CFTC action such as the CFTC's swap dealer capital rules and SEF market reform that was discussed in CFTC Chairman Giancarlo's White Papers. In his White Papers, Chairman Giancarlo also expressed his desire to raise the professional standards of individuals engaging in swaps-related activity. Therefore, the Executive Committee discussed and approved the development of proficiency requirements for individuals engaged in swaps activities.

The Executive Committee also focused its attention on NFA's approach to examinations and investigations. For example, given the increased use of electronic communications by all Members, we need to ensure that our technological ability to detect fraud keeps pace with Members' technological ability to commit fraud. Technology and globalization are issues that will be NFA priorities for years to come. Therefore, the Executive Committee also discussed practical approaches to conducting non-U.S. exams.

Operational issues including NFA's use of technology were also covered on this meeting's agenda. Staff presented a current assessment of NFA's technology and identified critical areas for enhancement. This topic is a priority for every organization and NFA is committed to implementing innovative, adaptable, timely and highly secure technological solutions in order to carry out its mission of safeguarding market integrity, protecting investors and ensuring Members meet their regulatory obligations.

Finally, the Committee set aside time on the meeting agenda to discuss strategies to ensure that NFA continues to have knowledgeable and dedicated staff to address both the strategic and daily issues that we face. Staff from all areas of NFA developed the agenda, researched the issues and formulated proposals to address many of these issues.

In the pages that follow, you will read a traditional Annual Review, outlining NFA's achievements during the past fiscal year. You will also see a number of accomplishments highlighted over the course of NFA's history. We are proud of all that we have accomplished and we are prepared to face the challenges that lie ahead.

Sincerely,

Michael C. Dawley
Chairman of the Board

# LOOKING AHEAD

NFA's Executive Committee generally holds long-range planning sessions every couple of years to discuss issues and initiatives that could have a significant impact on NFA in the future, and assist senior management in establishing NFA's strategic direction.

During the long-range planning session that took place in January 2018, the Executive Committee and NFA senior staff discussed several significant regulatory issues, including swaps proficiency requirements, the changing nature of NFA's investigations, and non-U.S. Member exams, among other topics. A number of operational issues were also covered such as NFA's strategic plan for technology and NFA's financial forecast.

## SWAPS PROFICIENCY REQUIREMENTS PROGRAM

NFA has proficiency requirements for all APs except for those engaging in swaps-related activities. At the Executive Committee's long-range planning session, the Committee approved the development of swaps proficiency requirements for APs engaging in swaps transactions. This initiative was subsequently approved by the Board. These requirements will be in the form of an online learning program with embedded test questions. The requirements will be applicable to all APs engaging in swaps activities, including those who are designated as swap APs at FCMs, IBs, CPOs and CTAs, and those individuals who act as APs at SDs.

The Act requires NFA to establish training standards and proficiency testing for persons involved in the solicitation of transactions subject to the provisions of the Act and their supervisors. NFA's Registration Rules require APs engaged in futures and forex activities to take and pass proficiency exams that test both their market knowledge and their knowledge of regulatory requirements. Currently, there are no analogous requirements applicable to swaps-related activity.

To begin this project, the Board approved the formation of a Swaps Proficiency Requirements Advisory Committee composed of industry experts from the various membership categories that will be impacted by these requirements. This Advisory Committee, chaired by NFA Board Member Don Thompson, is consulting with and assisting staff regarding the development and implementation of the requirements. NFA is also working closely with the CFTC, the Board, Members and relevant trade associations. Due to the significant scope of this project, it is anticipated that this program will be launched in early 2020.

**1984**

APs engaged in futures activities required to take and pass Series 3 examination. Since then, NFA adopted a number of other proficiency requirements, including the Series 30, 31, 32 and 34 exams and an online learning program for security futures products.

# TECHNOLOGY STRATEGIC PLAN

Similar to other organizations, NFA is increasingly reliant on technology as a means to achieve gains in productivity and effectiveness. Ensuring that NFA's systems and infrastructure are kept up-to-date and maintained in a secure manner is a critical priority for NFA. Therefore, during NFA's long-range planning session, NFA's Executive Committee reviewed NFA's technology strategic plan which covers cybersecurity defenses, technology infrastructure, systems and support needs. This strategic plan also addressed several broad principles that NFA will use to guide its decision-making in order for its technology to reach the optimal state.

# SD RISK PROFILING SYSTEM AND RISK-BASED EXAMS

NFA's SD oversight program continues to evolve in order to enhance NFA's monitoring of all SDs, including non-U.S. SDs. In FY 2018, staff improved its program for risk-based SD exams tailored to the specific regulatory concerns of each SD by enhancing its SD risk profiling system. This system is used to identify SDs that pose heightened regulatory risk and allocate NFA's regulatory resources accordingly. It utilizes information from a number of sources including policies and procedures reviews, prior exam findings, risk exposure reports and other monitoring activities.

During the previous year, the Board approved the collection of standardized SVD information and SD monthly market and credit risk data. These additional data inputs were incorporated into the SD risk profiling system this year, enabling NFA to gain further insights into an SD's activities. While NFA has always evaluated the risks associated with certain rules (e.g. chief compliance officer, risk management) and industry and firm-specific oversight factors, the recent access to standardized SVD and market and credit risk data has significantly enhanced the process. This additional data, along with other quantitative and qualitative factors, is now being used to prioritize SD exams and help determine an exam's scope.

NFA will continue to analyze the SD risk profiling system's performance to ensure that it is functioning as designed and identify further enhancements.

**2011**

CFTC requires each registered SD to become an NFA Member.

# MARKET REGULATION

NFA provides regulatory services to DCMs and SEFs, including trade practice and market surveillance, investigations and disciplinary matters, audit trail review, arbitration, and reporting and recordkeeping.

**2000**

NFA delivers Market Regulation services to DCMs.

**2013**

NFA delivers Market Regulation services to SEFs.

# SYSTEM MODERNIZATION

Technology impacts just about every aspect of NFA's regulatory responsibilities and operations. Our systems encompass applications used by staff, Members, the CFTC and the general public to complete functions or to access information. NFA must continue to modernize its current systems and position itself to adopt new technologies that will realize efficiencies, strengthen quality and improve analytics. To accomplish these objectives, NFA has commenced a number of multi-phase, multi-year system modernization projects.

## BASIC

In 1999, NFA became the first financial services industry SRO to help investors perform online background checks on those conducting business in the derivatives industry with the launch of NFA's BASIC tool.

**1999**
Over 30 million searches performed since BASIC launched.

BASIC provides investors with:

- Current and historical CFTC registration and NFA membership information;
- Financial information for FCMs;
- Regulatory actions taken by NFA, the CFTC, U.S. futures exchanges and SEFs; and
- NFA arbitration decisions and CFTC reparation case information.

To enhance functionality and user experience, NFA is rebuilding BASIC. NFA collected and will incorporate suggestions for improvement from BASIC users. Some of the enhancements will include improved navigation, greater filtering capabilities, and an updated look and feel.

# EXAM SOFTWARE

NFA's exam software is central to NFA's ability to effectively and efficiently oversee its Members. The software has received a number of enhancements over the years but it is now appropriate to rebuild the software using the most current tools and functionality.

**1996**
NFA develops its electronic exam modules.

To evaluate the existing exam software, NFA conducted extensive research including internal surveys, focus groups, benchmarking of similar software, and reviews of past system enhancement requests. NFA will begin the development of the new software in FY 2019.

# FACTS

FACTS is NFA's primary analytical system used to monitor a number of regulatory requirements and analyze financial and non-financial data submitted by Members. It is the cornerstone application for both futures and swaps compliance.

**1983**
NFA develops its Financial Analysis Audits Compliance Tracking System (FACTS).

The multi-year, multi-phase rebuild to enhance the depth and quality of FACTS' analysis is ongoing. During the past year, NFA added new functionality to support the analysis of key investigative matters. NFA also recently launched a new promotional material filing system for Members to file their submissions electronically through NFA's website.

**View the Promotional Material Filing System webinar available on the Member Education & Resources page of NFA's website.**

# INVESTOR EDUCATION & PROTECTION

Investor protection begins with investor education. NFA offers a variety of resources to help investors educate themselves on how the markets work, and perform background checks of firms and individuals offering investment opportunities in the derivatives markets. NFA also has a system for investors to file complaints if they feel they've been harmed.

During the past year, the growth of the virtual currency market has attracted a significant amount of investor attention. Therefore, NFA issued an Investor Advisory to remind investors that, just like any other investment, trading futures on virtual currencies, including bitcoin, has certain benefits and various risks. Read NFA's Investor Advisory: www.nfa.futures.org/investors/investor-advisory.html.

NFA also issues a quarterly investor newsletter detailing recent initiatives, helpful resources and upcoming events related to investor protection. Subscribe to NFA's Investor Newsletter: www.nfa.futures.org/subscribe/subscribe.asp.

**2007**

First electronic quarterly Investor Newsletter.

There are many organizations that make investor education and protection a priority. NFA recently worked closely with FIA, CME Group and IFM to launch Futures Fundamentals, a one-stop educational resource designed to explain the role of futures markets in everyday life and provide information on the derivatives industry. NFA also participates in Money Smart Week, an annual event organized by the Federal Reserve Bank of Chicago. During this year's Money Smart Week, NFA presented a webinar entitled, "*Avoiding Fraud is Your Best Money Strategy*," to educate investors about how to recognize financial scams and the importance of conducting thorough due diligence. The webinar included presentations by the CFTC, SEC and FINRA.

**2006**

NFA's first Federal Reserve Bank of Chicago Money Smart Week.

**View the "*Avoiding Fraud is Your Best Money Strategy*" webinar available on the Investor Education and Resources page of NFA's website.**

NFA also participates in IOSCO's annual World Investor Week. This week-long, global campaign is designed to raise awareness about the importance of investor education and protection and highlights the various initiatives of financial services regulators in these two critical areas. In October 2017, NFA presented a webinar entitled, "*Investor Protection: A Worldwide Impact Starts with You*," along with representatives from the CFTC, SEC and FINRA.

Throughout the year, NFA also exhibits at a number of investor conferences. This year, NFA staff answered questions and provided educational materials to attendees during two Traders Expos and at the AAII meeting. During the AAII meeting, NFA provided attendees with helpful information to conduct due diligence and identify investment fraud.

**In June 2018, NFA published a new brochure entitled, "*Scams and Swindles*," which is available in English and Spanish. View the brochure on the Investor Education & Resources page of NFA's website.**

## 2001

NFA offers an affordable and efficient arbitration program to help customers and Members resolve futures-related and forex-related disputes. In 2001, NFA was recognized as the first regulatory organization in the financial services industry to accept arbitration cases online.

# NFA'S DIVERSE WORKFORCE

Diversity is one of NFA's core values. NFA strives to create a work environment that cultivates diversity and encourages free and open discussion of ideas. Diversity of viewpoints contributes to innovative solutions and leads to a vibrant organization. NFA recognizes that diversity and inclusion are extremely important to NFA's success and the ability to fulfill its mission. Therefore, NFA expends significant efforts to recruit, develop and retain a diverse workforce. NFA's recruiting efforts are year-round and NFA actively seeks talented individuals from a variety of backgrounds. In order to develop and retain employees, NFA has a variety of programs such as flexible work arrangements, robust training initiatives, academic assistance, and wellness activities to encourage employees to achieve their highest potential both in the workplace and in their personal lives.

The Board recognizes the value of a diverse workforce. Therefore, NFA's senior leadership delivered an extensive presentation to the Board, covering recruitment and hiring, workforce composition, employee retention, and future strategies to successfully address NFA's workforce initiatives.

**In June 2018, NFA launched a new recruiting video entitled, "*This Is the Start,*" highlighting NFA's diverse workforce and career development opportunities. Visit the Careers page on NFA's website to learn more about NFA's culture, opportunities and recruiting initiatives.**

# 2018 STATISTICS

## ENFORCEMENT ACTIONS

Enforcement of NFA rules is critical to the effectiveness of the self-regulatory process. In FY 2018:

- NFA's Business Conduct Committee issued 17 Complaints against 27 respondents. A number of these cases involved Members and Associates that 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 16 Decisions, and ordered six expulsions and five suspensions.
- NFA collected nearly $550,000 in fines.

Many of these cases were the culmination of 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, 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.

**In June 2018, NFA launched its redesigned Enforcement & Registration Actions tool, which includes enhanced filtering and sorting functionality, and an updated look and feel. Visit the Enforcement & Registration Actions page of NFA's website to view recent actions.**

# REGISTRATION

NFA screens all firms and individuals wishing to register with the CFTC and become Members. In FY 2018, NFA's Registration Department processed nearly 500 firm registrations and approximately 8,400 individual registrations.

# FITNESS INVESTIGATION CASES

NFA's Fitness Investigations Group opened approximately 1,300 cases. These fitness investigation cases are due to fingerprint card results, answers to disciplinary history questions on the application, or regulatory information obtained during NFA's background checks.

# RESTITUTION

NFA's restitution program helps return proceeds of fraudulent schemes to harmed investors. The majority of these cases do not involve Members. In FY 2018, NFA's restitution program disbursed more than $10 million to nearly 2,500 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 $45 million to approximately 15,500 individuals.

# 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 over 3,000 emails.

**1985**

Since the inception of NFA's Information Center in 1985, NFA has received nearly 2.5 million calls and responded to approximately 40,000 emails.

# BOARD OF DIRECTORS

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

**Maureen C. Downs***
Vice-Chairman of the Board
Phillip Capital, Inc.

**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***
Goldman Sachs & Co.

**Maureen C. Downs***
Phillip Capital, Inc.

**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

**Martin Lueck**
Research Director
Aspect Capital Limited

## CONTRACT MARKET DIRECTORS

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

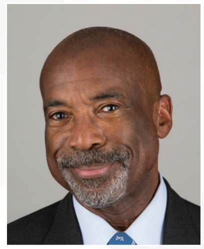
**David S. Goone***
Chief Strategy Officer
IntercontinentalExchange, Inc.

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

## PUBLIC REPRESENTATIVES

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

**Arthur W. Hahn**
of Counsel
Katten Muchin
Rosenman LLP



**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

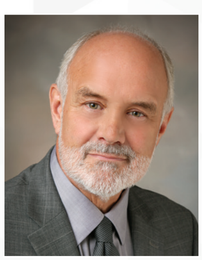
**Philip A. Olesen**
Managing Director and
Global Head of Credit
Trading
UBS Securities LLC

**Don Thompson***
JPMorgan Chase & Co.

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

## INTRODUCING BROKERS

**Michael T. Burke**
CEO
HighGround Trading LLC



**Scott W. Stewart**
CEO
Stewart-Peterson Group, Inc.

**Member of the Executive Committee*

# 2018 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, 2018 and 2017, 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. Inmaking 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, 2018 and 2017, 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
October 22 2018

NFA

# STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

| Assets | 2018 | 2017 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 16,483,086 | $ 22,402,169 |
| Short-term investments | 89,262,060 | 81,889,159 |
| Assessments receivable | 4,831,821 | 2,571,589 |
| Other current assets, net | 2,873,638 | 2,428,705 |
| Total current assets | **113,450,605** | **109,291,622** |
| FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE, NET | 14,088,789 | 16,289,625 |
| OTHER ASSETS | 34,547 | 13,875 |
| **TOTAL ASSETS** | **$127,573,941** | **$125,595,122** |

| Liabilities And Unrestricted Net Assets | | |
|---|---|---|
| CURRENT LIABILITIES | | |
| Unearned dues and fees | $ 5,619,906 | $ 4,089,554 |
| Accounts payable, accrued expenses and other current liabilities | 7,117,780 | 5,087,467 |
| Total current liabilities | **12,737,686** | **9,177,021** |
| DEFERRED RENT CREDIT | 3,404,840 | 4,259,587 |
| OTHER LONG-TERM LIABILITIES | 9,431,754 | 8,963,883 |
| Total liabilities | **25,574,280** | **22,400,491** |
| UNRESTRICTED NET ASSETS | 101,999,661 | 103,194,631 |
| **TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS** | **$127,573,941** | **$125,595,122** |

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, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| UNRESTRICTED REVENUES | | |
| Assessments | $ 44,942,335 | $ 28,684,057 |
| Membership dues | 38,920,794 | 39,961,282 |
| Registration and other fees | 2,148,344 | 2,880,999 |
| Regulatory services outsourcing | 8,612,850 | 8,983,000 |
| Investment income | 2,338,069 | 2,463,377 |
| **TOTAL UNRESTRICTED REVENUES** | **96,962,392** | **82,972,715** |
| UNRESTRICTED EXPENSES | | |
| Salaries, wages and employee benefits | 73,251,414 | 66,983,479 |
| Space rental and related expenses | 3,668,887 | 3,562,190 |
| Travel and meetings | 4,003,643 | 3,500,589 |
| Computer expenditures | 2,943,903 | 2,727,564 |
| Depreciation and amortization | 7,503,693 | 7,466,378 |
| Outside consulting fees and services | 2,802,645 | 4,081,534 |
| Supplies, postage and telephone | 186,279 | 245,258 |
| Outside printing and publications | 26,779 | 36,231 |
| Board and committee fees and expenses | 792,243 | 831,558 |
| Insurance, recruiting, education, dues and other | 2,977,876 | 2,401,129 |
| **TOTAL UNRESTRICTED EXPENSES** | **98,157,362** | **91,835,910** |
| **CHANGE IN UNRESTRICTED NET ASSETS** | **(1,194,970)** | **(8,863,195)** |
| Unrestricted net assets at beginning of year | 103,194,631 | 112,057,826 |
| Unrestricted net assets at end of year | $101,999,661 | $103,194,631 |

NFA

# STATEMENTS OF CASH FLOWS

## YEARS ENDED JUNE 30, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Change in unrestricted net assets | $ (1,194,970) | $ (8,863,195 |
| Adjustments to reconcile change in unrestricted net assets to net cash (used in) provided by operating activities | | |
| Net unrealized gain on investments | (1,147,439) | (1,516,365) |
| Depreciation and amortization | 7,503,693 | 7,466,378 |
| Changes in assets and liabilities | | |
| Assessments receivable | (2,260,232) | 79,865 |
| Other assets | (465,605) | 21,621 |
| Unearned dues and fees | 1,530,352 | (248,810) |
| Accounts payable, accrued expenses and other liabilities | 2,498,184 | 489,206 |
| Deferred rent credit | (854,747) | (830,899) |
| **NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES** | **5,609,236** | **(3,402,199)** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of fixed assets and software | (5,302,857) | (6,747,879) |
| Purchase of investments | (168,225,462) | (37,500,824) |
| Maturities of U.S. Treasury Securities | **162,000,000** | **52,000,000** |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(11,528,319)** | **7,751,297** |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **(5,919,083)** | **4,349,098** |
| Cash and cash equivalents at beginning of year | 22,402,169 | 18,053,071 |
| Cash and cash equivalents at end of year | $ 16,483,086 | $ 22,402,169 |

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 recorded at cost and 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 both 2018 and 2017.

### 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 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 halfyear 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, 2018 and 2017, the allowance for doubtful accounts is $26,435 and $535,915, 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 notmobservable 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

The Association 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 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 investments consisting of securities with maturity dates of one year or less. 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, 2018 and 2017, is as follows:*

| | 2018 | 2017 |
|---|---|---|
| SHORT TERM INVESTMENTS | | |
| U.S. Treasury securities | $19,972,280 | $14,990,625 |
| Developed Markets Index Fund | 3,223,626 | 3,859,695 |
| Extended Markets Signal Index Fund | 3,566,300 | 3,911,067 |
| Short Term Treasury Fund | 55,762,297 | 51,519,941 |
| S&P 500 Index Mutual Fund | 6,737,557 | 7,607,831 |
| **Total short-term investments** | **89,262,060** | **81,889,159** |
| **TOTAL INVESTMENTS** | **$89,262,060** | **$81,889,159** |

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, 2018 and 2017, the activities in the funds and the self-directed securities were as follows:*

| | 2018 | 2017 |
|---|---|---|
| Interest income | $1,190,630 | $947,012 |
| Net unrealized gain | 1,147,439 | 1,516,365 |
| **TOTAL INVESTMENT RETURN** | **$2,338,069** | **$2,463,377** |

## NOTE E

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

*At June 30, 2018 and 2017, furniture, fixtures, equipment, leasehold improvements and software, and the related accumulated depreciation and amortization, are as follows:*

| | 2018 | 2017 |
|---|---|---|
| Furniture and fixtures | $2,381,625 | $2,331,825 |
| Equipment | 8,783,219 | 7,728,452 |
| Leasehold improvements | 11,736,702 | 11,703,179 |
| Software | 11,431,145 | 14,453,938 |
| Total furniture, fixtures, equipment, leasehold improvements and software | **34,332,691** | **36,217,394** |
| Less accumulated depreciation and amortization | 20,243,902 | 19,927,769 |
| **FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE, NET** | **$14,088,789** | **$16,289,625** |

## 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, 2018:*

| **Years ending June 30** | |
|---|---|
| 2019 | 2,950,339 |
| 2020 | 3,288,482 |
| 2021 | 3,508,882 |
| 2022 | 3,565,900 |
| 2023 | 3,624,401 |
| Thereafter | 1,956,816 |
| **TOTAL OPERATING LEASE COMMITMENTS** | **$18,894,820** |

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 2017 of $2,509,412 was made in 2018. A profit-sharing contribution for 2016 of $2,305,662 was made in 2017. 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 [YOS after age 45 (maximum of 20)] = HRA Account Value

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

*At June 30, 2018 and 2017, the actuarial and recorded liabilities for the Plan, none of which have 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:*

| | **2018** | **2017** |
|---|---|---|
| AMOUNTS RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION | | |
| Accumulated post-retirement benefit obligations | $(7,889,520) | $(7,694,472) |
| Unrecognized prior service cost | (1,847,311) | (2,152,803) |
| Unrecognized net loss | 381,408 | 963,897 |
| **ACCRUED POST-RETIREMENT BENEFIT COST** | **$ (9,355,423)** | **$ (8,883,378)** |

*The estimated net periodic post-retirement benefit cost for the Plan for the year ended June 30, 2018, is $600,996. The breakdown of the cost is as follows:*

| Net periodic post-retirement benefit cost | |
|---|---|
| Service cost | $587,856 |
| Interest cost | 296,957 |
| Amortization of prior service cost | (305,492) |
| Net loss amortization | 21,675 |
| **TOTAL NET PERIOD POST-RETIREMENT BENEFIT COST** | **$600,996** |

The accumulated post-retirement benefit obligation was determined using an assumed weighted-average discount rate of 4.10% at June 30, 2018, and 3.65% at June 30, 2017. The rate of increase in the gross cost of covered health care benefits was assumed to be 5.50% for fiscal year 2018. The rate of increase is assumed to decline by 0.17% for each year after 2018, to 5.00% in 2021 and after.

## 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 the Association entered into a lease for this space through June 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, 2018 and 2017, was $4,238,812 and $5,093,559, 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, 2018 and 2017, the Association's rent expense was as follows:*

| | 2018 | 2017 |
|---|---|---|
| Cash payments for rent | $4,156,642 | $4,082,257 |
| (Less) amortization of deferred rent credits | (854,747) | (833,972) |
| **RENT EXPENSE** | **$3,301,895** | **$3,248,285** |

## NOTE I

### SUBSEQUENT EVENTS

The Association evaluated its June 30, 2018, financial statements for subsequent events through October 22, 2018, 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 Members meet their regulatory responsibilities.

**1982**

NFA began its regulatory operations, marking the end of an extraordinary organizational effort that had spanned more than six years.

# NFA OFFICERS

**Thomas W. Sexton III**
President & CEO

**Daniel A. Driscoll**
Executive Vice-President & COO

**David Hawrysz**
Sr. Vice-President & CFO Treasurer

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

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

**Yvette Christman**
Vice-President Registration

**Edward J. Dasso**
Vice-President Market Regulation

**Timothy J. McHenry**
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

# NFA MEMBERSHIP

**As of June 30, 2018**

NFA had approximately 3,700 Members and nearly 50,000 Associate Members.

**Membership by Registration Category:**

| | | | |
|---|---|---|---|
| **SD:** | 100 | **CPO:** | 1,503 |
| **RFED:** | 2 | **CTA:** | 1,616 |
| **FCM:** | 64 | **Exchange:** | 6 |
| **IB:** | 1,166 | | |

*Total membership counts each Member entity once. However, many Members are registered in multiple categories. Therefore, totaling all categories will not equal the total membership count.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