



NFA Compliance Workshop

June 4, 2018 | Chicago, Ill.



Agenda



- Recent NFA Updates & Initiatives
- Cybersecurity
- NFA Examination Process



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RECENT NFA UPDATES & INITIATIVES

Long-Range Planning



- Opportunity for NFA's Executive Committee to:
 - Discuss future NFA challenges and opportunities
 - Set priorities for the next 2-3 years



Other NFA Initiatives



- ORS and BASIC system enhancements
- Review of NFA Rulebook



Anti-Money Laundering Updates



- NFA Compliance Rule 2-9(c) and Interpretive Notice *NFA Compliance Rule 2-9: FCM and IB Anti-Money Laundering Program*
 - Expected to be amended to incorporate new FinCEN regulations
- New FinCEN regulations require:
 - Identification and verification of beneficial owners of legal entity customers
 - Implementation of risk-based procedures for conducting ongoing customer due diligence

Cryptocurrency Derivatives



- Investor Advisory issued in December 2017
- Notice to Members I-18-07
 - Reminder to update Annual Questionnaire regarding virtual currencies
- Proposed Interpretive Notice
 - Enhanced disclosure requirements for FCMs, IBs, CPOs and CTAs trading virtual currency derivatives

Internal Controls



- Testing of Internal Controls
 - Will focus on:
 - Reviewing design of controls
 - Testing to ensure effective control operation
 - Walk-throughs
- CPO Members
 - Will focus on:
 - Subscriptions, redemptions and transfers of money between funds
 - Investments and valuations
 - Use of administrators



CYBERSECURITY

NFA Interpretive Notice



- Effective March 2016 – Interpretive Notice 9070
- Illustrates requirements regarding:
 - Security and risk analysis
 - Protective measures
 - Response and recovery
 - Training
- Annual review



Next Steps



- Review of Interpretive Notice 9070
 - Reporting of breaches to NFA
 - Training
- Enhancements to NFA examinations
 - Updated testing procedures
 - Hiring subject matter experts



Known Events



- Ransomware
- Fraudulent requests to transfer funds
- Unauthorized access to sensitive information



Cybersecurity Panel Discussion



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NFA EXAMINATION PROCESS

Risk Management



- Mission:
 - Continuously identify, assess, evaluate and monitor the membership population
 - Prioritize and propose highest risk Members for examination



Risk Management



- Methods:
 - **Quantitative:**
 - Models
 - Alerts
 - Ad hoc data analyses
 - **Qualitative:**
 - Data validation and assessment
 - Firm prioritization
 - Data conveyance
 - Reevaluation

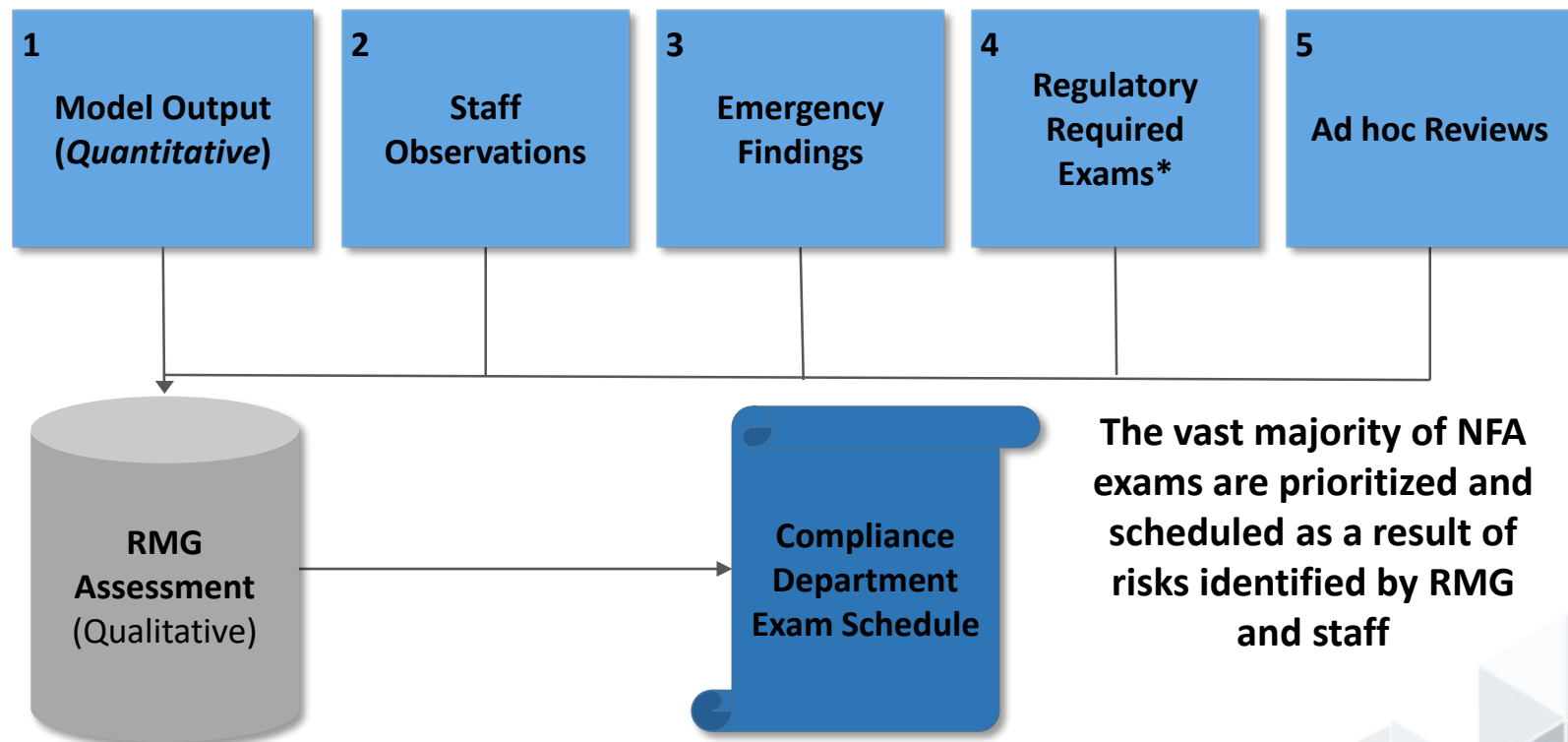


Risk-Based Examination Selection



Approach to scheduling is influenced by the following sources:

1. Prioritize list of candidate firms
2. Schedule based on prioritized firms, available resources, and logistical constraints
3. Relay pertinent risk information to exam teams



* Regulatory Required covers registration categories routinely examined in accordance with CFTC regulations.

CPO and CTA Financial Ratios



- “Quick Ratio” and “Expense Ratio”
- Use in NFA’s risk analysis
- Examination findings



Pre-Exam Work



- Planning interview
- Initial record request



Fieldwork

- Interviewing key personnel
- Reviewing records
- Monitoring firm operations
- Areas of testing

Communicating Deficiencies/ Exit Interviews



- Report of findings
- Demonstrating corrective action



Common Deficiencies and Areas of Focus



- Unlisted principals
- Unregistered APs
- Promotional material
- Disclosure Documents
- Pool account statements
- Overdue items
- Recordkeeping



International Exams



- Cooperation with local authorities and regulators
- Virtual exams
- Considerations for on-site visits:
 - Immigration issues
 - Privacy, secrecy and blocking laws



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