

**2019 NFA Town Hall Webinar**  
**April 10, 2019**  
**02:00 PM ET**

Tom Sexton: Good afternoon, and welcome to NFA's fifth annual Town Hall webinar. My name is Tom Sexton, and I'm NFA's President and CEO. I am joined by all of NFA's officers today.

Input from NFA Members is very important to us. The purpose of this Town Hall is to provide an opportunity for you, our Members, to ask questions of NFA's leadership. After a short explanation of our program and a brief summary of current initiatives, we will spend the rest of the time answering your questions. We want to hear from you. Please ask any question you may have about what's going on at NFA.

Please note that although you are able to hear us, you cannot verbally ask questions. To ask a question, locate the box labeled "Ask a Question" on the left side of your webinar screen. Type your question into the box and press the "Send" button. We are able to see questions as they are submitted and will answer questions in the order in which they are received. You can submit your questions at any time throughout this webinar.

We will answer as many questions as we can in the time permitted. Should we not get to your question, or if you ask a firm-specific question, we will make sure that an NFA staff member reaches out to you via email.

Before we begin answering your questions, I'd like to ask a few of the officers to discuss some of NFA's recent initiatives, and I'll start with Karen Wuertz, who heads up our Strategic Planning and Communications area. And I've asked Karen to talk about our new swaps proficiency requirements.

Karen Wuertz: Thanks, Tom. I'd just like to take a couple moments to talk about our new swaps proficiency requirements program and just quickly give a little bit of the background, describe a few of the details related to the program, and just mention a few current events related to this program.

But just to give some background, last year we announced the development of our swaps proficiency requirements program for all individuals engaged in swaps activities. These requirements will be applicable to all APs engaging in swaps activities at intermediary firms, such as FCMs, IBs, CPOs, and CTAs, and those individuals who act as APs at swap dealers. For any APs at swap dealers located outside the U.S. that may be participating today, these requirements will not apply to you if your activities are related to counterparties that are non-U.S. persons or non-U.S. branches of U.S. swap dealers, but be sure to go to our Interpretive Notice for those specific details.

But just a little bit on why we implemented these requirements. Essentially, we implemented these requirements because the Commodity Exchange Act does require NFA to establish training standards and proficiency testing for persons involved in transactions that are subject to the provisions of the Commodity Exchange Act. And for many years, we have required APs engaged in futures activities and forex activities to take and pass proficiency examinations, but there have not been any analogous requirements applicable to swaps-related activity. And many of you may also know that

this initiative is also a priority for CFTC Chairman Giancarlo, as he highlighted in one of his white papers on swaps regulations a few years back.

To develop this program, we received a lot of input and assistance, and we worked very closely with our Swaps Proficiency Requirements Advisory Committee, which was made up of individuals, representatives from our Board and from other Members that may be impacted by these requirements. We also worked with the CFTC, as I said, our Board, other NFA Members, and then the relevant trade associations.

So that's a little bit on the background regarding some of the details of the program and how it's going to work, but essentially, these requirements will consist of a series of discrete modules, each containing a training and a testing component. And an AP, in order to complete these requirements, there is, again, as I mentioned, a training component and a testing component, and they will have to pass the testing component of each module in order to complete the requirements. The modules will be available online, so you won't have to go to a testing center. And then, we've also developed the requirements in such a way that there is a longer track, which is designed for APs at swap dealers, and then there's a shorter track designed for APs at intermediaries.

And just a little bit about current events. Just recently, we did send out a Notice to Members, letting the Members know that our rules have been amended and that we have adopted a new Interpretive Notice to implement these requirements. The Notice is available on our website, and it also does, as I mentioned earlier, summarize the types of APs that will be subject to these requirements. It also includes links to our relevant rules and the Interpretive Notice, provides a link to some FAQs and some other helpful educational information.

The last thing I just wanted to cover is just the implementation launch and compliance dates that I'm sure everyone is interested in, but the Notice does remind our Members that individuals may begin taking the requirements in January of 2020, early next year. But the compliance date is not until January 2021, allowing APs plenty of time to complete these requirements.

So, Tom, that's my brief summary.

Tom Sexton:

Thank you, Karen, for that summary. Next, I'd like to move on and ask Tim McHenry, who heads up our information systems area, to talk about cybersecurity and our approach to cybersecurity, as well as our recent SOC 2 examination that we had conducted. Many Members frequently ask questions about how we protect their data, Tim, and this is something that we take, obviously, very seriously, and Tim's efforts in that area, as I said, I'd like him to describe now.

Tim McHenry:

Thanks, Tom. As you said, protection of Member data is obviously a very top priority for us, so we have an extensive security program in place that focuses on a multi-layered defense in depth strategy.

Now, what do I mean by defense in depth? Well, defense in depth is a strategy where, if one layer fails in your defenses, then there are redundant layers on top of that to compensate for it. So, for example, it's important to note that we encrypt all Member data while it's in transit in our systems, and also while it rests in our databases. But on top of that, we also have other layers of controls in place, on our perimeter and internally, to help us ensure that Member data remains safe. So, again, the concept here is to have

multiple layers in place to protect our Member data.

We also place a great deal of emphasis on having independent third parties come in and evaluate our security program. Every year, for the past 10 years, we've had an independent third party come in and perform a comprehensive security assessment. This involves penetration testing, vulnerability testing, configuration checks, internal pivot testing, et cetera. But this past year, in addition to our normal security assessment, we also added an extra layer of independent review, where we had a third party come in and perform what's called a SOC 2 review. In this case, they did a SOC 2 review on the security we have in place for our Member filing systems, our ORS and EasyFile systems.

Now, SOC, S-O-C, stands for system and organization controls, and the SOC 2 is a widely accepted security control framework that was developed by the American Institute of Certified Public Accountants, the AICPA. The SOC 2 process is pretty extensive, and we had a team of independent examiners come in, on site to our facility, to review the security controls that we have in place. They also talked extensively with our staff to determine if the controls in our program were sufficient to meet the required SOC 2 standards.

So our examiners reviewed close to 100 security controls in our program, and they determined that our program was adequately—or that the program did adequately meet the SOC 2 standard. So, when you go to our website, you'll see the SOC 2 certification logo under NFA's security section. And just in general, this certification just helps to provide an independent assurance that NFA is following good security practices when it comes to processing and storing data.

And, Tom, that concludes my overview on security.

Tom Sexton: Thank you, Tim. Next, I'd like to move on to Member cybersecurity requirements, and we recently have made amendments that were approved by the CFTC to our Cybersecurity Interpretive Notice, and I'd like our General Counsel, Carol Wooding, to describe those recent changes.

Carol Wooding: Okay, thanks, Tom. Just very briefly, as a reminder, in March of 2016, our Interpretive Notice that requires all Members to have an information systems security program became effective, and after we had a little bit over two years' experience with that Notice, we started making sure that it was as airtight as it could be, and to really try to address concerns that Members had raised with us. So, effective April 1 of this year, we implemented some amendments to the Interpretive Notice. One of those changes addresses who can approve the Members' ISSP. When we adopted the requirement, we wanted to ensure that the program really garnered the attention of top management at a firm, so we required that the program be approved in writing by the Members' Chief Executive Officer, their Chief Technology Officer, or other executive-level official.

Now, Members have repeatedly sought clarification from us on who at the firm really would qualify as an executive-level official, and they also wanted to know if we could expand the requirement to allow other technology-related employees at the appropriate level to approve the program. So we took a look at the Members' concerns, and we made the following amendments, really to address those concerns.

First of all, we amended the Notice to specify that the program can be approved by, as currently, the CEO or any other senior-level officer who is a listed principal and who has

primary responsibility for information security, so that gave a little bit more detail on who we meant by that executive-level official. And then, as examples, we used the Chief Technology Officer or, at the request of Members, the Chief Information Security officers, because a number of firms do have such an officer and they wanted to specifically know that that person would be an appropriate person to approve the program. And then, the amendments also permit any other senior official, as I said, who is a principal of the firm and has the authority to supervise the Members' execution of their ISSP.

There was also concerns with some of our larger swap dealer firms, because they're part of a consolidated entity program, and so they were concerned at the Member level that they couldn't actually approve the entire program because the entire program was not relevant to the Members' operations. So we made some changes to the Notice to take that into account, and what the Notice says now is that if Members participate in a consolidated entity program that's been approved at their parent level, that will satisfy our requirement, as long as someone at the Member level, either their CEO, CTO, CISO or one of the other persons that are permitted, takes a look at the consolidated entity level program and makes sure that the written policies and procedures are appropriate for the Members' information security risk. So they're not looking at the whole program and approving it; they're just making sure that that program addresses the risks that are relevant to the Member firm.

Now, as I mentioned, the Notice has been around since 2016, and it's always included a requirement that the ISSP address an incident response plan, who the Member would communicate with in the event of a cyber incident, but there was no requirement that the Members specifically notify NFA if there was a cyber incident. And firms have asked us on a number of occasions when they're supposed to notify NFA, and we've also realized over the years that it is important that NFA get this information in certain circumstances, because there are things that we can do with that information, both to assist NFA and to assist our Members. So what we've done is we've updated the Notice, and we've added the requirement that Members notify us of a cybersecurity incident, but in very narrowly drawn circumstances.

In particular, a Member will be required to notify us of a cybersecurity incident if it first involves their commodity interest business. And then, if it involves their commodity interest business, they need to see if it resulted in the loss of customer or counterparty funds, or of the Members' own capital. In that situation, then they would be required to notify us. And another situation that they would be required to notify us if, again, it involves their commodity interest business and they notified customers or counterparties of the incident, pursuant to a state or federal law.

So, as I said, it's very narrowly set circumstances, and those are the types of information that NFA thinks would be useful for us, because first of all, we can follow up with the member to make sure that they're addressing the incident properly, particularly if it does involve their customers. It's also another source of information for NFA. It helps our staff ensure that our examinations are really looking at risk-based areas and that our exam modules are properly addressing those areas. And we think that, over time, we might be able to use this information to identify trends that we can share with Members through Notices to Members. And, finally, it helps us when we're working with other regulators that oversee our Members to coordinate on these types of events and make sure that NFA has the information it has to assist in not only overseeing the Members, but working with other regulators.

And then, finally, we made an amendment to provide more guidance on employee training. Our Interpretive Notice requires that employees be trained, but it wasn't specific, and we had a lot of questions on what was required on that. So we've updated the Notice to say that employees must be trained when they're hired, and then annually thereafter. And then, our Interpretive Note—I'm sorry, our FAQs to the Interpretive Notice also provide some information on the types of topics that could be included in an employee training program.

So those, Tom, are really the substantive changes that we made to the Notice, and as I've said, those became effective just the beginning of this month.

Tom Sexton:

Thank you, Carol. Next, I'd like to move on to another recent rulemaking or Interpretive Notice that we issued, and that deals with CPO internal controls. And to describe the requirements in this Interpretive Notice, I'm going to ask Regina Thoele, who heads up our Futures Compliance area, to give a brief summary of—a little bit of a background and some of the requirements in this Notice, so I'll turn it over to Regina.

Regina Thoele:

Sure, Tom. So, as Tom said, we just recently adopted a new Interpretive Notice. It's our NFA Compliance Rule 2-9: CPO Internal Control System. This was adopted just less than two weeks ago, on April 1st, and right now I just wanted to point out we're taking a very educational approach. We're going to work with the Member firms, as we have some upcoming CPO exams. You may have been contacted with regards to a CPO Questionnaire on internal controls that we're going to work with you to complete.

But as a way of background, let me just tell you where this started from and what our focus was when we decided to put together this Interpretive Notice. So the last several years, we have focused greater attention on internal control systems, and really, it's very important in the CPO area because it relates to the handling and safekeeping of customer funds, and then also, your financial reporting with regards to those customer funds and investments. We believe that, really, a strong internal control system is the foundation for building a framework at your firm that's going to deter errors and fraudulent activity.

The Interpretive Notice requires CPO Members to implement an internal control system that is designed first to protect customer funds, and then it's to provide reasonable assurance that your books and records of the CPO's pools are reliable, and that the CPO itself is in compliance with all CFTC and NFA regulations. In drafting this Interpretive Notice, I want to point out that we worked with the CPO membership, including trade associations, then also, our CPO/CTA Advisory Committee, before we took it to our Executive Committee and Board, and finally, to the CFTC for approval.

So let me just highlight a few key areas in it. The framework, as I said, is going to have to be reasonably designed, according to the size and complexity of your firm's operation. So this isn't a one-size-fits-all. This is something that you're going to look at your own operations and design an internal control system that would be appropriate to the operations of your entity.

But one key theme is that all firms will have to have written policies and procedures, and those procedures are then there so you can ensure that the compliance with the rules and the regulations occurs, and that you've shared those policies and procedures with the employees within your organization to ensure they understand what's expected to them.

In doing your policies and procedures, one key area that you want to keep in mind is making sure that you have some type of escalation policy. So if you have an individual who is trying to override any type of controls, you would want to make sure that employees know that that would be something that should be escalated to senior management. As part of adopting your controls, your internal control system, you're going to do a risk assessment of your operations. You're going to identify your most critical risk areas, and then you're going to need to do this on a periodic basis to just reassess risk in order to identify any new risks that may have arisen since you did your first risk review. Then you'll adopt your—or develop, I should say—your design and implement your controls that are going to address those key areas that you identified where risk exist. You want to monitor the effectiveness of those controls, and then adjust your controls as necessary.

So, just briefly, a couple of the key controls that we identify in the Interpretive Notice and help you to focus on covers four different areas. The first area, and probably the most key area, is the separation of duties. So I realize that we have a wide variety of firms in terms of size and operations and complexity, but one thing that you want to do is to make sure that no single employee is in a position to carry out or conceal an error or fraud, or to have control over any two phases of a transaction or operation. So, basically, that's like initiating, approving a redemption, recording, reconciling. And given the fact that we do have smaller firms, one of the ways that you can help to do this is to use some type of automated controls to assist with your separation of duties. So that is something that you can think about if you are more limited in the number of employees.

The next area would be the three areas that we focus on as being areas of risk for all CPOs, and they cover pool subscriptions, redemptions, and transfers is the first area. The second area is risk management and investments and valuation of pool funds. And the third area is the use of administrators. In each of the areas, our Notice goes through some of the key controls that you could include as part of your internal control systems. So, for example, reviewing and approving general ledger and subsidiary ledger entries, reconciling transactions between the pools—general ledger, banks—approving new depository accounts, including verifying that assets are held in properly titled counts with the pool's name, and then not comingled with the assets of any other person.

I won't go through all of the various suggestions that we make in the Notice, but suffice it to say that each of the areas that I just discussed, those three areas, are addressed in more detail in the Notice. But couple things that I do want to point out is, during our exams, we're going to work through, like I said, with the firms, to ensure that they're adopting and developing and implementing an internal control system that's designed appropriate.

And I think a couple of the things to just point out in terms of a key control—or designed system would include looking at the competency and the authority of the personnel that are performing the controls, correlations of the controls to your identified risk, consistent performance of all the controls. So, during our examinations, we'll walk with the firms, do walk-throughs that we will actually look at the control that you've identified. We'll look at the individual who is performing that control. We'll observe the control in action, and we'll inspect any documents that you have maintained or prepared in your systems of internal controls to make sure that everything seems to be properly functioning.

And I will point out that tomorrow, we'll be hosting a webinar that you can sign up for, where we'll go through in more detail each of the areas, these key areas that I focused on.

So, Tom, I think that's a brief—maybe not so brief—but overview of our internal control system.

Tom Sexton:

Thank you, Regina. I know that quite a few Members have signed up for the webinar, so that will also serve as an educational resource for them.

I'd like to now pivot, just for a moment, to our OTC Derivatives program and ask Jamila Piracci, who heads up that program, to address several issues. One, a recent amendment that we made with regard to our supervision requirements, and in particular with regard to swap dealers, and then also, some of the efforts that we've made in the last year with regard to our swap dealer oversight strategic direction. And also, I know that we recently put out a Notice with regard to swap valuation disputes. So, I'll turn it over to Jamila now.

Jamila Piracci:

Thank you, Tom. I'd be happy to cover those topics.

So, starting with the supervision requirement for swap dealers, we have undergone some looks at our rules, and one of the things we identified was the need to incorporate swap dealers in certain areas. And a key component of our rules involves supervision requirements of firms, of Member firms. And we noted, in response to industry comment that the interplay between the CFTC's substituted compliance regime with the need for diligent supervision was raising—causing some confusion as we looked at this.

So what we did was, in looking at those comments, put out an Interpretive Notice to clarify what supervisory requirements would mean for swap dealers. And in that Notice, we acknowledged that substituted compliance exists, and that we respect it. I think, as firms know, our examinations of non-U.S. swap dealers cover requirements that are not covered by substituted compliance. But, like the CFTC, we do retain enforcement authority, and so if a Member is charged for a violation of an applicable NFA rule or CFTC requirements, and circumstances indicate that there has been a failure to supervise, then NFA could charge that as well. We think that this has been responsive to industry questions, and certainly, folks have an open door to reach out to us. But this approach to supervision was, we think, an important clarification because of that nexus between substituted compliance and other Member requirements.

The next area that I'll cover is with regard to the swap dealer oversight in general. Over the years, as swap dealers were new Members, the very first exams we conducted were topical, and we conducted exams on the same topic across every swap dealer. We've moved on from that, and as we looked at the topical exams, we decided we needed to put in place a plan to become more risk based. And over the last couple of years, we've transitioned away from those topical exams toward a risk-based approach. We put in place a system that allows us to analyze filings and other data that we collect from swap dealers. And in addition to reviewing that data for any anomalies on a regular basis, we use that data to help us prioritize our regulatory oversight work, in particular, the order of our exams.

So, when we for example collect valuation dispute notices, and we collect risk data, that information is all used by a system that we created to analyze where we think the regulatory priorities should be. So at this time, this allows us to have a more tailored approach to each firm so that their particular regulatory needs can be addressed, and we can engage in that dialogue in a more realistic manner as opposed to looking at the same topics across every single dealer.

Finally, speaking of the use of data, we collect valuation dispute notices and have done so since the beginning of 2018. We clarified how the reporting works under the CFTC regulations, and we came up with that in collaboration with CFTC staff. And, over time, we've been collecting those disputes, and over time, we have had some questions come up about the applicability to non-U.S. swap dealers. So recently, we issued a Notice that reminds firms that that filing requirement is required of all swap dealers, not just U.S. swap dealers. We note that while valuation dispute filing requirements under CFTC regulations are a part of substituted compliance. However, those filings are also collected by NFA for its independent needs to oversee Member firms. Therefore, the reporting obligation is relevant to all swap dealers, U.S. or non-U.S., in order to meet a reporting obligation to NFA. This Notice was issued in March, and I recommend that folks take a look at that. We also recently held a workshop, and I recommend that folks take a look back at the information from that workshop and certainly reach out to us on any of these topics.

Tom Sexton: Jamila, thank you for addressing those three topics. I'd like to turn it back over to Tim, now, who is going to discuss our system modernization efforts here. This is the—we've focused in the last several years on modernizing some of our systems, and we recognize that those systems are very important, not only to internal staff, but also to our Members in our outward facing. So, Tim, could you talk a little bit about the system modernization project, and then maybe turn it over to a few others who have more direct oversight of those modernization projects?

Tim McHenry: Sure, no problem, Tom. So, in addition to our security initiatives, another key focus for us from an IT perspective has been the redesign and modernization of our critical systems. We have a myriad of unique systems that we've developed internally, both for our firms to use and for our staff to use in analyzing the data that comes in.

This year, a number of unique systems really makes it difficult to keep up, but we've been making a really concerted effort lately to modernize many key systems and make them easier to use, both for our Members and the general public, as well as our own staff. So that means we're completely rebuilding a number of key systems, with an emphasis on a lot of important design elements like easier navigation, more context-sensitive help built into the systems, more advanced data visualization—graphs and charts and things like that—and an overall more intuitive look and feel.

So our BASIC system, that's the Background Affiliation Status Information Center system, it's a really good example of a critical system that's going through this modernization process right now. It's a particularly good example because we have a lot of improvements there in terms of data visualization. So without further ado, I'm going to turn it over to Karen Wuertz, our Senior VP of Strategic Planning and Communications, to cover the important aspects of this rebuild.

Karen Wuertz: Thanks, Tim. So, as Tim mentioned, our BASIC system, which is accessible through our website, is one of our most frequently used online systems. It's basically—and that's why we've used the word "BASIC"—it's an online database that contains lots of important registration information, as well as disciplinary background information on both firms and professionals who are either currently employed in the derivatives industry, or have been in the derivatives industry in the past. And, really, it's one of the systems that receives the most hits from all of our outward-facing systems, and it's used by NFA Members, it's used by NFA staff, it's used by other regulators. And it's also a very important tool for the investing public in order to do due diligence on firms and



individuals that they may want to consider doing business with.

As Tim said, it's been a while since we've updated that system, and there's just a lot more tools that are now available to us. Instead of displaying information in just a table format, we can use a lot more graphics and visualizations to explain the data, because the data may not always be easy to understand, especially from a user that goes to the system infrequently. I think, you know, from a staff perspective, we use that system all the time, but we thought it was very important, especially when we started this system, to go out and reach out to our Members and other users and regulators who use this system to see what we could do to make the system and the data that we display easier for them to understand. You know, for example, making it very obvious whether a firm is a Member or not a Member, whether they're registered with the CFTC or not, that's just, again, very critical data that users—again, staff members—need to know, so we wanted to make that very obvious on the website.

So, again, we used a lot of the input that we received, and we've spent the last year or so doing the—completing the design and the implementation. And, again, we've improved the functionality. The display is in a much more user-friendly manner. And then, we've also optimized it for use on mobile devices, since everyone seems to be pretty close to their phone or their iPad. Our plan is to launch it this summer.

Tim McHenry: Thanks, Karen. Another system that's undergoing a major rebuild, and it's actually been a multi-year rebuild, is ORS, our Online Registration System. We've done a lot of work here in order to improve navigation and usability, and Yvette Christman, our VP of Registration, is here to comment on that. Yvette?

Yvette Christman: Thanks, Tim. As Tim mentioned, this has been a multi-year process to rebuild ORS. As you may recall, we implemented the NFA Dashboard, and we also have rebuilt our individual application process, and the next phase that we're working on is a rebuild of the firm application and the annual registration update processes. So in addition to the system changes that we are doing, we also made a few minor changes to the actual firm application, so I will just mention a couple of those.

We did some minor, non-substantial changes to the disciplinary information questions. And the big change that we made was, if you recall, there's a single freeform matter page, where you're supposed to give us information concerning any "Yes" answers to any of the disciplinary information questions. We've eliminated that freeform page, and we've replaced that with firm disclosure matter pages, just as we did on the individual side. So the disclosure matter pages gives us more information that we need as far as, you know, the case name, details about the cases, and things of that nature. And as you know, the matter pages also were never updatable. The firms could not view those in ORS, so changes to the disclosure matter pages, there's a screen in ORS where you can see a summary of all disclosure matter pages that have been filed, and all the old single form matter pages that were filed, they've been converted to DMPs. You have the ability to update those, and as I said, there's a screen where you can actually go and see a summary of all the filings that have been made. And when firms are filing their annual registration updates, there will also be a summary within that process where you'll see every DMP that's been filed on behalf of the firm. So this way, you know what's been disclosed and what's not been disclosed.

That's basically the biggest change that we're making as far as the firm application and your registration update.

Tim McHenry: All right, thanks very much, Yvette. Finally, our internal exam software is another major system that we're rebuilding. This is an internal system that our examiners use to conduct their examinations in the field. So, even though this is an internal system, it has broader external implications, because by making this system more efficient, that will hopefully translate into lessening the impact on Members during their audits. So, Regina Thoele, our Vice President of Compliance, is here to talk a little bit more about that system. Regina?

Regina Thoele: Okay, Tim, but I think you stole my thunder. So, as Tim said, this is very much an interfacing software that we have developed, and we worked with the OTC Derivatives group, too, so Jamila's group in the swaps area, as well as the examiners in the Compliance Futures area, along with Tim's group, to really make, as Tim said, a lot more efficiencies in completing our work.

So the hope will be that, based on these efficiencies, we will spend probably a little bit less time with the firms. Hopefully, we will be able to get things done more quickly. There is a lot of smart technology that's being used in the actual exam modules, so that if an answer to a particular question is that a firm doesn't engage in a particular activity, that the questions that would normally be displayed if there was a "Yes" answer will be greyed out, and so we will be able to move from those steps to steps that are applicable to the firm quicker. And we will also be able to use a lot more of—more of like a tick mark, or information that will document consistent information where there's not a lot that we have to write, so for example, if it's not applicable to a firm. So there are various things that may not sound like a lot, but it will definitely work towards the advantage of the examiners probably getting things done more quickly while out in the field at the firms.

So, you'll see more of that as we engage this new software, probably starting in the fall of this year.

Tim McHenry: Thanks very much, Regina. So I guess that summarizes our most significant efforts in terms of modernization. I'd stress that—I'd invite Members, if they have any suggestions on further enhancements, they can always feel free to submit those suggestions through our website.

And with that, I'll turn it back over to you, Tom.

Tom Sexton: Tim, thank you, and thank you all for the description of those, as Tim indicated, those system modernization projects. Those are very important to us. Now I'd just like to turn it over to Ed Dasso, who heads up our Market Regulation area. And, Ed, if you could just spend a few minutes talking about market regulation and a little bit about what it does, and then also, the CTC's recent SEF market reform proposal, I think that would be helpful.

Ed Dasso: Thanks, Tom. So market regulation, for those Members that may not be aware, we actually provide outsourced regulatory services to both SEFs and DCMs. This is on a contractual basis, obviously, so it's voluntary. Currently, we have 13 SEFs that we provide services for, 3 DCMs that are active, and then another DCM that is in the middle of their application process with the CFTC.

So once a contract market or a SEF becomes—or is registered with the CFTC and we provide services, we do trade practice and market surveillance services on their behalf.

So in a nutshell, basically what that is, is core principal compliance for Part 37 for SEFs and Part 38 for DCMs, where we look for trade practice types of violations, so wash trading, trading ahead, money passing, and then market surveillance or macro type reviews, looking at the large trader position holders and any types of potential market manipulation.

So, moving on to the SEF market reforms, so I'm sure most of you are aware that back in November of 2018, by a four-to-one vote, the CFTC approved their proposed rulemaking to amend their current regulations regarding the swap trade execution requirement and the related rules under Part 37, or the SEF rules, of the Commodity Exchange Act. The Commission's stated proposal or purpose for this was to promote more trading on SEFs and to reduce complexity and costs associated with the current model and requirements.

Now, at a very high level, the proposal looks to broaden the SEF registration requirement, allow for more flexible execution methods on SEF, to establish requirements for SEF trading specialists, and to amend SEF compliance and SRO responsibilities. So the public comment period for the rule proposal expired on March 15th of this year. NFA did in fact submit a Comment Letter, based upon our experiences both as an SRO and as a regulatory service provider to SEFs and DCMs. And, you know, for the sake of time, I'm not going to go through the proposal, but if you're interested in reading our Comment Letter, it is available on our website under the News and Notices banner. And then, if you click on the Comment Letter hyperlink on the left of your screen, you'll see our comment letter that we submitted to the CFTC.

Now, with that, I'd just like to turn it back over to Tom.

Tom Sexton: Ed, thank you, and as Ed indicated, the Comment Letter is available on our website. So, now I'd just like to turn it back over to Carol very quickly. I know that Jamila touched upon the review that we're doing of our requirements here, the evolving regulatory approach is what we call it, and I'd like to just ask you to describe that approach and the progress that we've made thus far.

Carol Wooding: Okay, thanks, Tom. So, yes, we are engaged in really an entire review of our Rulebook right now. We're trying to identify provisions that are outdated, that maybe need to be updated to reflect new technology or just new ways that business is done. And we're also trying to identify areas where we should consider adopting new requirements, and one of the main things that we looked at at the beginning of this review is, does our Rulebook adequately cover the areas that we are now overseeing in the swaps area? Because in addition to our swap dealer Members, we also have intermediaries that are engaged in swap activities, so we've done a full review of our Rulebook to sort of make sure that any rule that should also cover our intermediaries' business in a swap product, that the rule clearly indicates that that is the case. And then also, really to emphasize that those rules that currently apply to all Members, if they really didn't apply to a swap dealer, we amended the rule to make it clear that those were rules that applied to our intermediaries.

We've also looked at some new things that are going on in the industry. I think you're probably all aware that we adopted some guidance and Interpretive Notice requirements related to virtual currencies and disclosures that our Members that are engaged in those activities have to make. In making all of these changes, we're working very closely with our Advisory Committees in all of our different Member categories, and we've also been working as best we can trying to reach out to the trade organizations, because they also have very good feedback on the different types of areas that we're looking at. And of

course, any rule changes that we make are reviewed by our Board of Directors and also go to the CFTC for their review.

Currently, we're in the process of taking a look at our branch office and guaranteed IB Interpretive Notice on what our Members have to do to supervise those branch offices and guaranteed IBs, and we hope to bring a proposal to our Executive Committee and Board this April and May. And that Notice is really trying to update the Notice, because the way that firms supervise have obviously changed over the last few years. Technology is much more a part of any Member supervision, and so we want to make sure that that Notice properly addresses the use of technology. So look for some changes to that Interpretive Notice, and as I said, hopefully going to our Board and Executive Committee in April and May, and then we will submit it to the CFTC.

So, Tom, those are really the main changes that we have accomplished so far, but this is an ongoing project and we are happy to take any suggestions from Members on any rules that they think we should look at in terms of they may be outdated and they'd like to see us amend them, or areas where you think we need to think about adopting additional rules.

Tom Sexton: Thank you, Carol, and that last point I think is very important, that we are very receptive to Member feedback with regard to this evolving regulatory approach process. So, thank you, Carol.

One area that Carol identified was cryptocurrencies and a recent Interpretive Notice we put out with regard to that in the last year or so, and I'm going to ask Regina just to touch upon that and some of the disclosure requirements required in that Notice.

Regina Christman: Thanks, Tom. So I think, as many people may realize, we have put out a couple of either Advisories or Notices to Members regarding cryptocurrency, and really keying in on making sure that firms are notifying us if they engage in this activity. They're required to under your Annual Questionnaire, so we had issued a Notice to Members back last year—actually, I think it was the end of '17—that required you to go in and update your Annual Questionnaire. So I'd just remind you to do that if you are engaging in these products, and make sure that you keep that information current.

But most importantly, as Tom mentioned, is we adopted on October 31st—it was effective October 31, 2018—an Interpretive Notice with regards to disclosures that needed to be made if you were engaging in either virtual currency or virtual currency derivatives. So after discussing with our Board at length, our Board felt that it was something that they were very concerned about, that investors may not fully understand the nature of virtual currency and virtual currency derivatives, the substantial risk of loss that could arise from trading these products, and some of the limitations of our regulatory authority over the spot market virtual currencies.

At that time, the Board had directed us to develop an Interpretive Notice that would emphasize certain key disclosure requirements that FCMs, IBs, CPOs, and CTA Members would need to make with regards to these projects, if they were engaging in them. The Interpretive Notice had two separate sections. One was for FCMs and IBs, and then a separate section for CPOs and CTAs. And basically, I won't go through the Interpretive Notice, but they just required the firms to actually make sure that these notices were delivered to participants at or before the time that they were actually engaging in these products. And I think you can understand our concern, even in the CPO

and CTA area, was that these types of products could be traded in a managed accounts program that a CTA was running. It could also be traded as part of a pools trading strategy, and there were additional concerns that we then had, given that you could be doing not only the virtual currency derivative, but the virtual currency itself, and as we said earlier, our limited oversight or regulatory authority over the actual virtual currency.

So the Notice actually goes into several key areas, as Tom said, that we want firms to make sure that they're adequately disclosing for commodity pool operators and commodity trading advisors those specific risks that would be associated with trading these products. A couple of them, just to mention a few, obviously cybersecurity, the risk of the wallets or the spot exchanges being hacked or vulnerabilities to being hacked. The virtual currency exchanges or intermediaries or custodians, they could also be subject to hacking, potentially. And also, the fact that there were some very unique characteristics of virtual currency trading products.

So the Notice, I would recommend that you all look at it. It goes into very specific detail on several of these areas, and some that I didn't even mention. And if you have any questions, please feel free to reach out to our Information Center or to the Compliance department, but we would be happy to answer any questions. But, again, this is a key area that our Board felt very strongly that we should get some type of disclosure out, or requirement for disclosure to be made to participants that would be engaging in these products.

Tom Sexton: Thank you, Regina. And before we get to questions, I just have one more area that I'd like to cover as far as our initiatives, and I'm going to turn it back over to Jamila Piracci to cover what we call Phase 5 margin here, and it deals with the Phase 5 margin requirements in the CFTC that will come into play on September 1st of 2020. So, Jamila, can you just briefly mention our preparation process for that?

Jamila Piracci: Absolutely. Thank you, Tom. So as many of you may be aware, the process for the compliance dates for uncleared margin roles, both from the CFTC and from prudential regulators in the US, was phased in over five years. The final phase is September 1, 2020, with the last compliance date falling there for initial margin requirements. There is actually a Phase 4 September 1st of this year. However, with respect to our work, we don't have any affected firms.

So I'll just mention that there are 17 swap dealer Member entities that appear to fall into the 2020 compliance date timeframe. And what we've done, given that this group of firms has a more diverse set of businesses and includes some firms that are smaller, we have begun working with those firms already. As many of you know, there are several hurdles that are faced. Some is with regard to papering, and other of those challenges is with regard to models. On our end, we're focusing very heavily on the review of the models and have begun those efforts already.

At this point, we are reviewing and trying to get our arms around risk model frameworks at those firms to become familiar, and then we will begin to review the initial margin model performance output in order to check on the success of firm implementation. We also want to acknowledge that the CFTC and the industry are working very heavily now on efforts to prepare for that September 1, 2020 deadline, and we work very closely with the CFTC to exchange ideas and ease the path toward that deadline. We are happy to answer any questions on this any time.

And, Tom, that concludes my update on that topic.

Tom Sexton: Thank you, Jamila. And obviously, a common theme of this webinar is that Member input is very, very important to us, and as we move forward with these initiatives, we look forward to collaborating further with our Members and apprise them of developments in the various areas.

The one thing I'd also like to emphasize at this time, just before we get to questions is, look, this webinar is just one means that we reach out to our Members to see what their thoughts are on different areas and topics. But as we've alluded to in the webinar, we do a number of in-person workshops and webinars on particular regulatory requirements, surveys, and I want to make sure that even with all of those touchpoints, that Members don't have to wait necessarily to reach out to us. You should feel free to call any member of our staff here, or our officers in particular, and ask questions about the topics discussed or any concerns that you may have about what NFA is doing.

So, not surprisingly, we received a number of questions with regard to our first topic that was discussed, and that's the swaps proficiency requirements. I'd like to maybe just go through a few of those questions, and we'll start—I think I'm going to have Dan Driscoll, who is our Chief Operating Officer, answer some of these questions. Dan has been working closely with the proficiency requirements for many, many years here.

So, Dan, why don't I start just with possibly a group of questions, and the first one is, are APs of FCMs in scope for the new proficiency requirements, and also, are APs of a swap dealer eligible to take the shorter track training if they are not APs of an FCM, IB, CPO, and CTA?

Dan Driscoll: Thanks, Tom. Certainly, a swap AP of an FCM would be in scope for this. And if you're a swap AP of an FCM, your requirement would be to take the short track. Most APs of swap dealers are required to take the long track. The exception to that is that, if you do have APs that are not involved in the sales and trading function of the firm, then you're eligible to take the short track. And in the first instance, it would be the responsibility of the swap dealer to determine which of those categories their various APs would be in.

Tom Sexton: Thank you, Dan. Next, I want to turn it over to Karen. We had a question also with regard to, can you please advise whether the status of a completed training will be tracked and visible somehow?

Karen Wuertz: So, obviously, that's a—thanks, Tom—that's a very important element of this program, is how to track those individuals that have completed these requirements. It's a system that we talked about earlier in this call is the Online Registration System. So we will incorporate those results of completion into the ORS system so that an individual AP or the firm will be able to see the status of whether they've completed the requirements or not. We're also looking again in making sure that we address the firm's needs, what type of reporting we may be able to generate from the system that would allow firms to easily monitor whether their APs that are required to complete these requirements actually do so.

Tom Sexton: Thank you, Karen. Yvette, another question that we had with regard to the swaps proficiency requirements is whether or not the requirements are an annual requirement or a one-time requirement, and maybe you could address that.

Yvette Christman: Okay, thank you, Tom. Yeah, that requirement to take the swap proficiency is just a one-time requirement and it's not an annual requirement.

Tom Sexton: Thank you, Yvette. And, Dan, I know we had another question with regard to the proficiency requirements, and that is, if a swap AP holds a Series 3 license, are they required to complete the swaps proficiency training? And along with that, as we know, there are certain exemptions with regard to the current proficiency requirements, and are we planning any with regard to the swaps proficiency requirements?

Dan Driscoll: Thanks, Tom. The answer to the first question is, if you're a swap AP at an intermediary, you're required to take the proficiency, regardless of whether you're also a Series 3-licensed AP for dealing in futures.

With regard to possible exemptions, currently there are no exemptions being contemplated. Obviously, NFA's Board, if at some point they determine that a particular exemption would be appropriate, what they would do would be to either adopt an amendment to the Interpretive Notice, or adopt a rule that would institute that exemption. But at this point, none is being contemplated.

Tom Sexton: Thank you, Dan, and I'd like to just turn it over to Carol to answer just a question with regard to CPO activities. If a CPO is engaged in swaps using EFRPs, would they have to meet the proficiency requirements?

Carol Wooding: Thanks, Tom. The way the proficiency requirements work, if you are a swap-designated AP at a swap firm, you are required to take the proficiency requirements. We don't get into any discussion of particular underlying swap products. It's, if you're designated as a swap AP, you're required to take the proficiency requirements.

Tom Sexton: Thank you, Carol. Karen, I think I'll turn this one back over to you, and again, heavily weighted towards swaps proficiency, but does it need to be completed before a new AP is hired, once the compliance date occurs?

Karen Wuertz: So, as I mentioned, the launch date of the program is in January of 2020, and the compliance date will be a year later, in January 2021. So, post-compliance date, an individual will need to satisfy these requirements before they engage in swaps activities.

Tom Sexton: Yvette, we also had a question with regard to ORS and a firm's ability to print out 7-Rs and 8-Rs, and perhaps you could address that.

Yvette Christman: Thank you. As we had mentioned, this is a multiyear project to rebuild ORS, and the current process that we're working on, there isn't going to be that option, but we will address that at some point before we're done with the complete rebuild of ORS.

Tom Sexton: Thank you, Yvette. A few more swaps proficiencies. The first is, will non-AP staff in support and delivery functions be required to take the swaps proficiency requirements, either the long track or the short track? I think I'll ask Dan to answer that.

Dan Driscoll: The proficiency requirements only apply to APs, so if you're truly in a function where you're not an AP or not required to be an AP, then the proficiency requirements would not apply.

Tom Sexton: Thank you, Dan. I think we have just a requirement just about NFA's budget process,

which I think I'll turn over to Dave Hawrysz, who is our CFO, to respond to that one. Dave, the question is, is could you just describe NFA's budget process, when it occurs, and how you go about it?

Dave Hawrysz:

Sure, Tom. There's actually three phases to NFA's budget process. The first phase is it's compiled internally, and that's where myself as CFO work with the department heads, and we collaborate, and we put together a budget. That's phase one, and that happens primarily in March.

Towards the very end of March, the second phase is a very rigorous internal review, and that internal review involves the department heads and myself meeting with both Tom Sexton, the CEO, and Dan Driscoll, the COO. And it's at that point that the budget is scrutinized and there's a lot of discussion.

The third phase, after it goes through the rigorous internal review, is there's a three-step process with regards to the Board review. The first stop is the Finance Committee. In fact, we met with the Finance Committee yesterday to review the budget. And then, the next step will be the Executive Committee, which will be later in April. And the final step for the budget is with the Board in May. And then, at May—and the Board reviews the budget. We will have a summary of the budget sometime in June that we have in a Notice to Members that goes out.

So that's pretty much the process, Tom.

Tom Sexton:

Dave, thank you very much. Unfortunately, we are running out of time with regard to the webinar at this time, the Town Hall webinar. And so, in closing, I certainly want to thank you all for your participation and all your questions. I know that there are questions that we have not been able to get to, mainly in the swaps proficiency area and some others, and I can assure you that a member of staff will contact you shortly by email to follow up with regard to those questions.

I certainly hope that the information we presented today was helpful, and certainly the questions that you presented for us were especially helpful and will assist us in tailoring our programs going forward, as well as our educational efforts, particularly, as I said, a number of questions were in the swaps proficiency area, which we recognize is new and members are going to have questions with regard to that.

I'd like to point out that you will be able to find a recording and transcript of today's Town Hall webinar on our website in the coming week. In addition, I'd just like to once again thank you for participating with regard to the webinar. As I said, this is just merely one of our educational forums, and we certainly offer many others that I hope that you will participate in during the course of the year. As I said, if you ever have a question with regard to any of the topics we discussed today, or just in general about NFA's activities, you should feel free to reach out to one of us, and we'll get back to you as soon as we can.

So I want to thank the officers for participating today, and again, thank you to the members for calling in and providing us with very helpful questions. So, thank you, and again, we appreciate your participation.