

NFA 2017 Town Hall Webinar
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03:00 PM EDT

Tom Sexton:

Good afternoon. My name is Tom Sexton, and welcome to NFA's Third Annual Town Hall Webinar. This will be the first webinar for me as moderator. We've had a bit of a transition occur here at NFA over the last few months when Dan Roth retired as President and CEO of NFA effective March 1st. And, as was announced back in November, the Board appointed me to serve as NFA's next President and CEO.

I am honored to be selected and look forward to building upon Dan's success and working with NFA's Board and staff, Members, the CFTC, and other industry leaders to ensure that NFA continues its success in the future in safeguarding market integrity.

I am joined today by Ron Filler, who has participated in the last few Town Hall webinars with NFA staff. Ron is a Public Director on NFA's Board of Directors, and also a professor at the New York Law School. In addition, NFA's officers are here with me today.

The purpose of this Town Hall is to provide an opportunity for you, our Members, to ask questions of NFA's leadership. Like last year's Town Hall, after a short explanation of our program, we will spend the rest of our time answering questions. We want to hear from you. Please ask any type of question you may have about what's going on at NFA. Member feedback is extremely important to us.

Please note that although you are able to hear us over the phone today, you will not be able to 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 that they are received. You can submit your questions now or at any time throughout this webinar.

We will answer as many questions as we can in the hour we have, including those submitted in advance via e-mail. Should we not get to your question, an NFA staff member will respond to you within the next 24 hours.

Before we begin answering your questions, I'd like to turn it over to Ron Filler now for a few remarks.

Ron Filler:

Thank you, Tom, and good afternoon, everyone. I'm Ron Filler. Let me first just say a few words about both Dan Roth, NFA's former CEO and President, and Tom Sexton, NFA's new President and CEO. I want to take this time to thank Dan for his many years of service and, obviously, wish him well in retirement. But I also look forward to working with Tom in his new role.

Tom, as many of you may know, has been exposed to every facet of NFA's operations from technology to swaps compliance to registration as well as NFA's finances. He has the support of the entire Board and the senior management team and is best positioned to extend NFA's current direction into the future. I cannot think of anyone more qualified for this very important role.

Today's Town Hall Webinar is just another way for our Members to interact with our staff. During the past fiscal year, staff has also engaged with Members through a quarterly Board update video where we highlight notable information discussed at our

Board meetings. These videos are typically less than 10 minutes long, and they give you a quick resource to use so you can stay current with what's going on here at NFA.

If you are not already receiving the video by e-mail, sign up through the NFA's website. Also, webinars like today and an audio conference for swap dealers and webinars to understand the review and approval process for the initial margin models for uncleared swaps and NFA's ongoing monitoring of these new models.

NFA is also planning educational programs covering the reporting of two financial ratios regarding CPOs or a CPA's financial condition on the new quarterly PQR and PR forms, on cybersecurity, on upcoming swap dealer examinations and many more.

Tom?

Tom Sexton:

Thank you, Ron, for those very kind remarks, and let me—let's start by getting into the questions that we have received. I just also want to note that as part of the transition that occurred this spring, the Board appointed Carol Wooding, who has been a longtime colleague of ours here at NFA as General Counsel of NFA and Carol has a long depth of experience in our regulatory area dealing with both swaps and futures, and we have full confidence in Carol in her new role.

And I think it's appropriate that Carol receive our first question as the newest officer, so I'll turn it over to Carol Wooding. And, Carol, we have had a number of questions, I think, on the collection of financial information from CPOs and CTAs, and this was an issue that I know that you worked very closely with a number of officers here on, with regard to collecting that financial information through ratios. So maybe you could describe those ratios and when this rule will go into effect. And I think, in particular, we also had a question dealing with the cash method of accounting and how you would account for that with regard to these particular ratios. So I'll turn it over to Carol at this point in time.

Carol Wooding:

Okay, thanks, Tom. I'll first describe the ratios and then I'll get to the specific question that we received. What the new rule requires is effective with the June 30, 2017 PQR. CPOs and CTAs are going to be required to report two ratios on those forms.

The first one is a ratio of your current assets to your current liabilities. That's going to provide us with a measure of the firm's liquidity, and those numbers, that ratio will be based on the current asset and the current liability balances at the reporting quarter-end.

The second ratio is based on your total revenue versus your total expenses. That will give us an idea of the firm's operating margin and although the firms will report this ratio each quarter on each quarterly form, the ratio is supposed to reflect your revenue and expenses during the preceding 12 months. We recognize that this is a new requirement, and some firms may not have been fully accounting for those numbers over the last 12 months.

So for the first three quarterly reports, you will only have to provide the information for the time period that the rule was in effect. So, for example, for the June 30th PQR, you will only have to provide the information for the prior quarter if that's all you have available. If you do have the information for the prior 12 months, we would expect to receive that information. The purpose of this rule is to provide NFA with information on the financial conditions of our CPOs and CTAs.

We collect a lot of information on all our Member categories, but we have little to no information on the actual financial position of a CPO or CTA. We do have information on the pools that CPS operate but not on the CPO itself and nothing on the CTA.

As we've explained in many of the materials that we've distributed on this new rule, there is no required ratio of a firm. We're not looking to say that your ratio is insufficient and take an enforcement action. It is simply information that we will use as part of our risk monitoring of firms.

We did get a specific question on the ratio. Some of the smaller firms are concerned about the fact that the ratios must be computed using the cash method of accounting, and they don't all...I'm sorry, they currently use the cash method of accounting and the ratios are required to be reported on the accrual method of accounting, and so there is a concern about how much work that will require of them to convert from cash to accrual.

And we wanted to emphasize that we're not requiring that firms now begin to keep their books using the accrual method of accounting. What they must do at the quarter end is do a reconciliation between their cash records to update them for any accruals that they haven't included.

So, for example, if you have received your electric bill, but you haven't paid it, you would update your liabilities to include the amount of the electric bill. Similarly, if you have earned some management fees during the quarter but you won't receive them until the next quarter, you would update your revenue figures to include those uncollected but already earned management fees.

So, again, we're not looking for firms to actually convert their books to accrual method, just update the numbers at quarter-end for reporting purposes.

Tom Sexton:

Thank you, Carol. And these ratios, as Carol indicated, are very important for us to collect some financial information with regard to our CPO and CTA Members, and I also wanted to take this time to thank those on our CPO/CTA Advisory Committee who spent several meetings reviewing these ratios and coming—helping NFA come up with this proposal and also the industry's trade associations also who gave NFA significant input with regard to these particular ratios.

So this was a long process and one that the Members truly were beneficial for in coming to terms with these ratios in the collection of this financial information.

So, let me turn to another question that we have received, and it deals with NFA's relationship with the CFTC and as many of you are aware, over time, NFA has assumed certain delegations from the CFTC. And I think that the question is, is what can be expected in the future with regard to NFA's relationship with the CFTC and these delegations.

And to answer this question, I think I'll turn it over to Dan Driscoll, who is our Chief Operating Officer.

Dan Driscoll:

Thanks, Tom. Acting Chair Giancarlo has reached out to us and indicated that he looks forward to having discussions with us about the possibility of further delegations to NFA. I think it's a little early now to talk about what specifics those might be, but we look forward to carrying on that discussion and, as Tom mentioned, we've undertaken a number of delegations over the years, and we stand ready to do that at the behest of the Acting Chairman.

Tom Sexton:

Thank you, Dan. One other question in several questions that we have received, focus on the collection of information from swap dealers, credit and market risk data. And I know that Jamila Piracci, who heads our OTC Derivatives area in our Compliance department has spent a lot of time on this issue in the last several months and, actually, close to a

year, and has worked closely with our Swap Dealer Advisory Committee with regard to this issue. And, Jamila, maybe you can just tell us what the proposal is at this point in time, and what our thinking is in collecting this type of information.

Jamila Piracci:

No problem, I'd be happy to do that. As Tom mentioned, over the past year or so, we've been thinking about what data filings would be appropriate from swap dealers. Until now and for a little bit longer here, we do not collect regular filings of financial or risk data from swap dealers, and we believe that the collection of such data would be valuable to us in terms of looking at the risk profiles of firms and helping us to prioritize the use of our resources.

So in order to more fully carry out the objectives of our swap dealer regulatory program, we began to develop credit and market risk-related metrics as we've said, about a year ago, that we believed would help us. We then began to talk with individual firms. We talked to a range of firms—large firms, mid-sized firms, banks, commodity firms, and non-US firms—to get a sense of the data we were looking at would be relevant to their businesses. And to get a sense of whether there would be an undue burden in this beginning to our collection of data.

We also took a look at the proposed capital rules to see if there would be any potential overlap between possible CFTC filings versus the filings we were looking at. So we've been in very close contact with the Division of Swap Dealer and Intermediary Oversight.

The bottom line is that we did come to the point where, based on discussions with industry participants and through the Swap Participant Advisory Committee, which has represented on it two of the industry bodies, we came to a consensus around what kind of data would be valuable without unduly burdening the industry. We also received a tremendous amount of support from CFTC senior staff regarding this information.

So, at this point, the Advisory Committee has gotten comfortable, again, after taking their comments into account with what we're looking to do, and we'll be presenting market and credit risk data for Board approval here soon, and we anticipate that we'll be able to start collecting this data toward the end of the year.

We'll use this data to identify changes in the risk of swap dealers as measured by the metrics they identified. And to the extent that information is comparable—and not all of it will be exactly comparable, but to the extent it is—we'll be able to see if certain risk profiles are anomalous.

And then, again, we'll use this to help us prioritize the order and scope of examination so that we pay attention where we should, and so that we don't overestimate the attention we should pay to a particular firm or a particular set of issues when it's not appropriate.

In the future, we will look at other areas of risk as well, but we believe that the data we've identified so far will take us a long way toward a more in-depth understanding of the risk profiles of swap dealers. And we look forward to working with industry participants on both an individual basis and through our Advisory Committee, again, with representation from trade groups to identify the best way to measure other kinds of risk in the future.

Tom Sexton:

Thank you, Jamila, and I just wanted to make sure that we are clear that this particular proposal, the intention is that it applies to all swap dealers, US and non-US and all different types of swap dealers within those two categories. Correct?

Jamila Piracci:

That's correct, Tom.

Tom Sexton:

Thank you, Jamila.

Jamila Piracci: You're welcome, you're welcome.

Tom Sexton: Why don't we turn to another question that we got, and that is with regard to our ORS redesign and Yvette Christman, who is Vice President of Registration here. I'm going to turn it over to her to answer this question. And the question, Yvette, is we rolled out with our new dashboard last year, and they're just wondering what else is in the plans for ORS redesign in the future. So I'll turn it over to Yvette.

Yvette Christman: Thank you, Tom. So currently we have in development a redesign of the individual registration processes, and I'm just going to highlight a few of the changes that we're making.

The NFA ID assignment process: we've added a date-of-birth field, and we're also going—firms are also going to be able to assign an NFA ID for individuals that do not have a US Social Security number. And that's the reason why we added the date-of-birth field, so we'd have at least some identifying information.

With the individual application process, for privacy concerns, we are adding a validation feature at the beginning of the application process. So if an individual already has a record in ORS, you will need to provide some identifying information for the individual such as his social security number or his date and place of birth. And this information will ensure that the application is being processed for the correct person.

Also, if an individual is applying as a principal, we've updated the principal title page where you will be able to indicate that an individual has multiple titles. So if someone is a President and a CEO, you can identify both instead of choosing one as you do currently.

In the Disciplinary Information section, we've made a couple of changes there as well. The current matter pages that display if you have a "yes" answer to any of the disciplinary questions, has been eliminated from the Form 8-R, and it's being replaced by a new, single page that will request more specific information related to the type of matter that's being reported.

This new page can be completed and filed after the application, and you will also be able to upload any supporting documents with that new page. Also in the Disciplinary Information section, any disclosures that have previously been reported to NFA will be viewable, and that's so their firms and the individuals can see what has already been disclosed. So, hopefully, that will help with any potential failure to disclose issues that we might have.

We will be hosting a webinar prior to implementation where we will cover all of the changes in more detail. And in addition to the changes that we've just mentioned, we're also going to have some new navigation as well as updated instructions. We do anticipate that these changes will go into effect sometime in early July and then after that we will probably be addressing the firm issues.

Tom Sexton: Thank you, Yvette. I just wanted to go back with regard to a question that we received on the risk metrics that we intend to collect and I think I can answer this question. And that question is whether or not the risk metrics that we will start collecting replace—will that replace the quarterly Risk Exposure Reports that swap dealers have to currently file under Regulation 23.600? And the answer is, at least for the time being, those risk metrics will not replace the Risk Exposure Reports. Member swap dealers will both have to file their risk metrics with us at the end of each month and also have to file the quarterly Risk Exposure Reports.

One of the issues, I think, with the quarterly Risk Exposure Reports is that they don't contain all the particular types of risk metrics, that each firm doesn't have, necessarily, the identical type of risk metrics in their reports. So we wanted to collect standardized-type risk information and that's why we're doing it in the manner that we are with the reporting of these risk metrics to us rather than relying on the Risk Exposure Reports.

So I hope that answers that particular question.

Another question that we have, and I'll turn it over to Regina Thoele, who has our Futures Compliance area, deals with our examinations of futures firms and, in particular, some questions about how we staff those exams, how we select firms to examine, and so I think I'll turn it over to Regina to talk about those particular issues.

Regina Thoele:

Thanks, Tom. So, as Tom said, the question deals with, and one aspect of it is how we pick the firms that we choose to go out and do an examination of. And so this is an area that's constantly been evolving. We have had risk systems that look at different data points regarding a firm's operations for many years and looks at those data points and how they differ from one point to another, if there's conflicting information between certain data points. But, really, in the last few years, we've gotten a much more robust risk system where we now have hired various individuals who have quants background, who have come in and have done some risk modeling for us.

So, as I said, this is constantly evolving. We have about 4,000 Member firms to schedule and to monitor on an ongoing basis, every day looking at the different data points that are either filed by the Member through some type of financial filing, a Disclosure Document, a piece of promotion material—all things that we can look at and make sure that the information seems to make sense at the face of whatever particular piece of information that we're looking at.

But, really, our goal is to identify the firms that we think pose the greatest risk. So we look at these different data points and, again, they cover many aspects of the firms' operations. For a CPO or a CTA, it could be the assets under management, it could be the background of firm personnel, it could be prior examination findings, did a firm receive a staff letter as a response to the prior examination that we performed? Did it possibly have a Business Conduct Committee Complaint? Or was it just a thank-you letter where there were no findings on that particular exam?

We are also looking at the volatility of rates of returns. So, we were talking earlier about the pool quarterly reports and the CTA-PR. In those forms, through the PQR, we get rates of return for each month of the quarter that the filing is for. That's another area where we look at the rates of return, over time, and look to see if there's a lot of volatility. Is there some reason for that volatility? Or is there something that appears to be an outlier, which we want to examine further and then decide whether or not we should go out and perform an examination?

We also look at financial issues. If you're an introducing broker, and you have a financial filing requirement with us, we look at the financial statements, and we look at the various trends from one financial filing to the next. Likewise, for our FCMs, we would do the same thing.

And, again, a lot of what we're looking at is the difference and inconsistency between certain data points that may alert us to a potential problem with the firm, which will cause us to do additional research on that firm and decide whether or not that firm is somebody that we need to go out and examine.

Once we've done that analysis, we put together a schedule. We have an individual whose primary responsibility is to schedule our examiners, and that person will then look at, collectively, the population of firms that we've identified to examine. So that can range from a firm in a particular location where we have decided to go out and visit it. But in some circumstances, we may decide to look if there's other firms in a particular area.

So if we are going to a particular city that may be more remote, we might also include on that exam group another firm that is in a particular location. But, by and far, our goal is to go out and examine the firms that we think pose the greatest risk and look at the information that we have and decide whether or not that is a good use of our resources in identifying the firms that we have chosen to examine.

I think the question also focused on the number of examiners that we send. For the most part, we will always send out a field supervisor who will run the examination in the field along with, probably, most likely, two staff examiners that will join the field supervisor. Typically, the manager will then come out into the field towards the end of the examination and review the information that's been documented by our examiners, and I will note that in certain cases, if we bring on additional staff, that there may be times where you could see an extra examiner in the field because we have new staff that are going through training.

There are times when we hire people who have prior work experience, so you could possibly even see somebody at a more senior level be shadowing a manager or a field supervisor. But, again, typically, for our non-FCM audits, you are going to see two to three people in the field, and then a manager joining them towards the end of that examination.

So that pretty much covers how we determine who to examine and the staffing that we put on a particular exam.

Tom Sexton: Thanks, Regina. And we had a question come in with regard to the financial ratios that we're going to be collecting, and I think I'll turn it over to Tim McHenry, who heads up our IT area to respond to this question. And the question focused on whether or not we will have an XML schema that supports the collection of these two particular ratios. So, Tim, do you want to respond to that one?

Tim McHenry: Sure, Tom, thanks. We do publish an XML schema for Members who want to automate the filing of their PQR. In this case, since we're changing—we're updating the PQR for the two new ratios, we will be publishing updates to that schema so firms can stay in sync with that new data.

Tom Sexton: Tim, while I have you on, we also have a few questions dealing with cybersecurity and the protection of Member firm data with regard to cybersecurity. I know that this is an effort that we have spent a great deal of time on in the last few years, and if you, maybe, you could talk about some of NFA's cybersecurity efforts with regard to protection of data.

Tim McHenry: Sure, Tom, thanks. In terms of security, we remain committed to protecting our Member data. For obvious reasons, I can't really divulge the details of our security control structure, but I can say that we continue to follow the NIST 800-53 standard to secure our systems. NIST is a very high-level standard. It's a government standard, so it is the best for us in terms of protecting data.

In addition, we also hope to complete a SOC 2 audit of our security in the near future. This is a third-party audit of our security controls that go against the AICPA's service organization control standard. We have an auditor come in and review our security

controls in comparison to that standard. Once the audit is complete, this third-party auditor would then issue a report attesting to our security. This report wouldn't include any potentially compromising information, so it's a good resource that we can then show others to assure users that we are—to reassure users of our ongoing security. So it's an effective way of confirming to those who submit data to us that their data is, indeed, secure.

Tom Sexton:

Thank you, Tim. We just had another question with regard to the protection of customer seg funds, and just in light of the events of MF Global and Peregrine, the question was posed as to what NFA has done to further protect the recurrence—or further prevent the recurrence—of those types of situations and to protect seg funds in the future.

I'll turn it over to -- first, I'll turn it over to Ron Filler just to talk generally about this topic. And then I'll turn it over to Regina Thoele, I think, or he can turn it over to Regina, to talk about our daily confirm process and the requirement that notice be provided -- certain notice and approvals for the withdrawal of seg funds. So first I'll turn it over to Ron.

Ron Filler:

Thank you, Tom. And on this particular subject, it's very important to me. I've written several articles on customer asset protection, which I think is the most important protection. The industry regulations laws provide for the people who use the industry, and since you really go back to Lehman in 2008 and then MF Global in 2011 followed by Sentinel before that and then Peregrine, I think the NFA has taken a lot of positive steps to improve every situation regarding customer protection.

As Tom had mentioned, we have now the daily reports from FCMs that acknowledge the amount of the money they have on a daily basis versus the monthly basis that they were once subject to. But more importantly, NFA and the CME, as well, are getting daily feeds from the custodians that hold the monies. And so the NFA and CME together regarding, especially the FCM community, can determine how much of an imbalance, if at all, exists between what the FCMs are reporting versus what is being held at the custodial bank in the various customer seg fund accounts.

So that is just one particular change. Another one is regarding the residual interest, the amount of capital that FCMs are put into the seg fund accounts. There's a new rule, started and really initiated by NFA and then later codified by the CFTC is that if, any time an FCM withdraws a certain amount, it's around 25%, they have to provide immediate notice to NFA regarding such a large type of withdrawal of the residual interest.

So those are just two examples, but I think the monitoring on a daily basis is the key from that perspective. And I'll turn it over to Regina how that process is going.

Regina Thoele:

Thanks, Ron. So as both Ron and Tom mentioned, every day we get information from our firms, which we have for many years, in terms of the customer seg funds that they have on deposit, and those numbers then are verified by receiving from the depositories where those funds are held, a separate, independent file directly from that depository telling us how much money they have on deposit for that particular FCM.

We are then capable, we and the CME, are able to then look at the information that was reported by the FCM by noon that business day and compare it to the information that we receive from, like I said, independently, from the third party depositories. We will review those numbers, and we have systems now that go in and look at any differences between the data that's reported by the FCM and the information that's reported by the depository.

As management and the manager for those particular FCMs, they immediately get alerts for when a depository is not reported or that there is a difference between what the firm reported and what the depository reported. And I'm happy to say that in the beginning, I think the process was a little bit challenging to get everybody on the same page and make sure that the information that was being reported, we could reconcile differences. But at this point, we have very, very, if at all, differences between what's reported by the FCM and what's reported by the outside depository.

And I think you may be, well, why's there even any differences? Well, there's outstanding checks, deposits in transit, and those are things that we reconcile and immediately know that the information then ties out to get to the reconciled amount. So those are instances where something can happen, but we're able to actually look at the information that a firm can present or that we can get from the depository.

Now, that's one aspect of it. There are a couple of other. As Ron mentioned, there's residual interest. So every day the firm reports what the residual interest balance is and, again, we have alerts that generate. So if a firm is below the residual interests, we can make sure that the appropriate notice was filed but, more importantly, that we've contacted the firm, and we know what transpired to cause them to go below their residual interest level.

Additionally, there is what we call the "25% notice." So if a firm makes a withdrawal that is not for the benefit of a customer, they have to file notice with us immediately. That notice, under our rule, NFA Financial Requirement, Section 16, is a notice that the firm has to file, and there has to be an appropriate management-level person sign off and approve that that authorization for that transfer is approved by that management-level person. That is all part of the notice that is then provided to us on a daily basis.

So these are things that have been put into place that have really improved the day-to-day monitoring and for us to be able to know pretty much as quickly as possible if there is some type of issue that we need to further delve into. So it has worked out very well.

Tom Sexton:

Thank you, Regina, and thank you, Ron. Ron, I just wanted to also thank—he served on the special committee—Ron and all our Public Directors served on the special committee that helped staff navigate these two particular requirements: the daily confirm and the notice and approval requirement for the residual interest. And both are very important steps with regard, in our view, with regard to the protection of seg funds.

Let's turn it over now to Ed Dasso. We have a market regulation question, and that question is fairly general and just notes that they are aware that NFA has a Market Regulation department and area, and the question is, is what exactly does that area do? And, in particular, I guess, do you service both designated contract markets and SEFs?

Ed Dasso:

Thank you, Tom. As Tom mentioned, my name is Ed Dasso, I'm the Vice President of Market Regulation here at NFA. And for those of you that might be relatively new to NFA Membership, what I'd first like to mention is that Market Regulation department acts as a regulatory service provider to both designated contract markets and swap execution facilities by assisting them in complying with their core principal requirements.

NFA has been providing regulatory services to designated contract markets for, I guess, almost half of NFA's existence, about 17 years now. And for swap execution facilities for the last three and a half years since the rules actually went—Part 37 rules went final. We currently have 21 markets that utilize NFA services in this capacity.

What I would say is, over the next year or so, the primary focus for SEFs is going to relate to the swaps trading market structure. As I'm sure all of you are aware, Acting

Chairman Giancarlo has publicly stated his desire through his white paper as well as public speeches to reform SEF rules.

While I do not have a timetable for when these reforms will occur, what I can say is as a service provider to 15 SEFs, NFA staff is working with these SEFs as well as with the CFDC Division of Market Oversight, on potential rule modifications to Part 37 requirements. If I was a betting man, I would say probably late in this calendar year would be the earliest we would see some type of Part 37 reform.

Tom Sexton: Thank you, Ed. Just before we move forward, I just want to make sure that if you have any questions that you submit them. I think the next question focused on NFA's website, and that there has been at least different groups put together to look at NFA's website and possibly redesign NFA's website. And I think I'll turn this over to Karen Wuertz, who heads our Strategic Planning area to answer that particular question. So, Karen?

Karen Wuertz: Thanks, Tom. One of the primary sources of information for our Members is our website, and over the years we've added content in a number of areas. And we've taken the last year to really do a top-down, holistic review of everything on our website, how it's used, and how we can modify that so it's easier for the Members to find the information they need at a particular time.

Also, as we all know, the technology for websites is constantly changing, so there's a lot of new functionality that we can look at to also improve our website. So the main drivers for a number of the changes to our website is, really, the Member input. We've had focus groups and done a number of surveys to ask the Members how we could improve the website. We've also used—looked at data analytics just to see what pages are used a lot and which ones are not used a lot and really focusing on bringing those pages and information that is used a lot, bringing them to a prominent spot on the website and making it easier for Members to navigate to get to that information.

We've also looked at a number of other websites from associations and groups in our industry to benchmark. So using these three sources, we are going to make a major overhaul to our website with the goals of streamlining navigation, enhancing the functionality of the website, and also, with the ever-increasing use of mobile devices such as phones and iPads and many other devices, to make our website responsive, which currently, it is not.

So the website is scheduled to launch this summer—hopefully, late June. One of the key features of the website is a really new look and feel of the homepage. And, again, the purpose and why you'll see a lot of changes on the homepages, we really want it to be a spot where if there is new information that needs to be conveyed to the Members, whether it's a new rule that's being considered, a press release about an enforcement action, or, as Ron mentioned, there is a new Board update video that's released, that that's very prominent on our website so that Members can stay up-to-date with the new initiatives that are occurring here at NFA.

Tom Sexton: Thank you, Karen. And, going forward, after we launch the new website, we, obviously, are interested in Member feedback to make sure that the items that they want posted on the homepage are posted, and if there's any changes that we should make, please let us know because we know that, as Karen indicated, the website is very important to us and is one of the main ways in which Members interact with NFA. So we want to make sure that we are satisfying your needs in that particular area.

I have one other question that came in, and that deals with, in particular, the current Acting Chairman at the CFTC's desire to look at regs and simplify regs. I know he gave an excellent speech at the FIA conference recently with regard to this and has echoed that

in other speeches that he's made. And the question is whether or not we anticipate changes to any of the newer rules, I think, since probably 2008, 2010, and, in particular, to make them less burdensome to comply with, some of the newer rules.

And I am happy to answer this question. I think we do anticipate that there will be changes to particular regulations going forward, some of the ones that have been adopted in the last few years. I think the DSIO, in particular, is undergoing a review of those regs and as well as other staff at the Commission. NFA has been in touch with Commission staff and offered our assistance with this particular review, and we will be doing our own internal review here of not only our rules but others in order to determine what we believe can be done in this particular area as far as changes to the regulations that make regulation smart and effective and perhaps less burdensome to Member firms.

I know one of the issues that was mentioned, and this has been mentioned by a few IBs, deals with the taping component of the particular regulations and the necessity to have to tape. If you're an introducing broker that falls within certain revenue calculations, and I know that this is an issue that is very important to NIBA and has been over the years. It's important to NFA and something that we will have further discussions with the Commission staff about.

I'd like to -- with regard to another question that we have received, and I know that Ron Filler, in his introductory remarks had indicated that we were going to have future seminars with regard to, in part, the financial ratio requirement. I think some of those have been scheduled, and I'm happy to turn it over to Regina or Karen to answer that particular question as to when those are scheduled and what we'll be talking about. So I'll turn it over to Karen.

Karen Wuertz:

So we are going to have Member workshops scheduled for early in May, and in those workshops we are going to cover the financial ratio requirement that Carol discussed earlier. We're also going to provide a session on cybersecurity and also for our swap dealers, we're going to hold a session that will address our exams that we perform of swap dealers, some of the common deficiencies that we've seen, and what to expect during the swap dealer examination. So those are going to be scheduled. Those are live workshops, and they're going to be scheduled in early May. We'll be sending out Notices for those workshops in the next week or so.

Tom Sexton:

And one of the items that will be covered is cybersecurity, and we've had a few questions with regard to cybersecurity examinations of Member firms. We've been doing these exams for a little over a year now, I believe. And maybe Regina can answer just a few of the high-level -- some of the findings that we're finding during those exams and some of the assistance that we are providing Members.

Regina Thoele:

Sure, and I'll just -- again, as Karen just said, we will be talking about these at the workshops that we're going to be doing for the CPOs and the CTAs. And so we'll talk a little bit about what our approach has been, which is to make sure that the firms are educated on the requirements and the rules. I think that, for the most part, I would say we've had a couple of instances where firms were not even aware of the rule.

So we have worked with them to try and put together their policies and procedures that are required by the rule that was adopted on March 1st of last year. That has been something that has been easy to work with them. We do have in our annual Self-Exam Questionnaire, the questions that go through, the questions that you're supposed to be able to answer. And doing that program, your ISSP, or your information systems security program, we have in the various aspects of that program that you put together, the one thing that we point out is that all firms have to do a thorough assessment of their

hardware, their software, and then any of the third party vendors or devices that they may allow to connect to their network.

So in terms of deficiencies that we're finding during some of our exams is that when the firms are going through and doing their assessment of the hardware, the software, and the third party devices, I think many times we're seeing where firms neglect to realize that they have third party vendors that connect into their network and are they including them in their assessment of the risk that they face in terms of information security.

So that is one thing that you should make sure you go back and look at and to make sure that you've covered any of the outside parties that come into your particular systems and that you've adequately developed a security program that addresses those outside third parties. There's also a requirement under the program or under the rule that you do training with your staff. So many times we've come in and the training hasn't been done. And in both instances it's very difficult to make sure that the firm understands the responsibilities that they have in terms of protecting the information that they collect and in coming up with an incidence response plan that would address any type of potential problem that may occur.

So the training is very important, the response plan is very important and, again, those are two areas where we see, sometimes, lack of adequate preparedness by the firms. So, again, those would be things that you should look at. Also escalating incidence internally, making sure that individuals know what their responsibilities are, who they should be reporting to, when it should be escalated up to senior management and making sure that that information is conveyed to the employees so that everybody knows what the expectations are.

And the last thing is basically if you do have a particular cyber incident, make sure that you've gone back and revised your plans appropriately to ensure that you know how to address those situations and that you've learned from any prior security incident.

So those are kind of just a high level of some of the exam findings, but we will be going through those in more detail in our workshops that we'll be doing in early May—the financial ratios as well as cybersecurity.

Tom Sexton:

Thank you, Regina. We just also had a question with regard to swap dealer AP examinations and whether or not we foresee this. I know that this is a topic that has—proficiency requirements just in general are a topic that have—been discussed by the current Acting Chair at the CFTC, Chris Giancarlo, as well as Commissioner Bowen. And I think I'll turn this over to Dan Driscoll to answer this particular question.

Dan Driscoll:

We have had discussions with both Commissioner Bowen and Acting Chair Giancarlo generally about swap dealer professional proficiency. No decisions have been made yet as to whether there would be a requirement there or not. I could say that if we do have a requirement, one alternative would be to have a proficiency exam perhaps much like the Series 3. Another alternative would be to have a required training program. And any of that would take an extended period of time in order to develop either one of these types of requirements, because, at this point, we haven't begun that process. So I can't tell you exactly when such a requirement might come into play. If it is adopted, I can tell you that there will be plenty of advance notice of this, so the professionals can do the amount of studying and refreshing that they need to do.

I should also say that anytime you talk about proficiency, one issue that comes up is whether there would be a grandfather provision. When we adopted the Series 3 requirement, there was a grandfathering provision, so that's another issue that we would have to deal with along the way. So I wish I could give you a definitive answer, but it's

not going to be in the near-term future, but there may well be, over the next several years, the adoption of some sort of proficiency requirement, either in the form of an exam or training.

Tom Sexton: Thank you, Dan, and this will obviously be—if there is the adoption of that particular requirement—as Dan indicated, that will be something that we discuss with the Swap Dealer Advisory Committee and, obviously, the Executive Committee and the Board.

Karen, I know we had a question. We're just coming to the end of our hour here—just as to whether or not the webinar—a replay of the webinar and a transcript will be available and perhaps you can answer that question.

Karen Wuertz: Sure, Tom. The replay of the webinar will be available tomorrow, and then we'll also provide a transcript on our website that should be available in the next couple of weeks.

Tom Sexton: Thank you, Karen. And I'll ask if there's any additional questions at this point in time. Just coming to a close here, I do want to indicate that your participation was very important to us today, and we hope that the information that we relayed back to you was helpful and useful, and I know that your questions that you provided to us are very useful and assist us in better tailoring our Member educational programs, going forward.

If there are no additional—we have maybe one more additional question coming in. Not yet. So—why don't I turn it over to Ron Filler just for some closing remarks at this particular time?

Ron Filler: Thank you, Tom. And I, too, want to thank all the Members who joined us today and providing some great, important questions for us. Member feedback is so important to NFA, and NFA has a tremendous responsibility, in my view, to regulate the industry, but we also need to do so in a most efficient and effective manner. NFA has always and will continue to help Members that want to comply by providing the educational forms that we've been discussing, so far. But NFA will also take the appropriate disciplinary action against those Members that don't want to comply.

When I was in private practice many years ago, I would always feel free to call NFA to get important information to help me in providing important advice to my clients. If you have—any of you—if you have any suggestions regarding ways that NFA can help better educate our Members on their regulatory obligations, please, please let one of us know and, again, thank you very much.

Tom Sexton: Thank you, Ron, very much for participating once again with us this year in these very important webinars. We do have one additional question, and I think I'm going to turn it over to Jamila to answer, and it deals with NFA examinations of non-US swap dealers and when we may start those particular exams. So I will turn it over to Jamila to answer that particular question.

Jamila Piracci: Thanks, Tom. We've mentioned to swap dealers in the past that the commencement of the exams of non-US swap dealers depends both on our analysis of where the best prioritization of resources belongs based on the risk profile of the firm. And it also depends on a certain amount of coordination in certain cases with other regulators. In particular, non-US regulators.

With regard to non-US swap dealers, we've also said that any particular non-US swap dealer will not be surprised by our commencement of an exam because we'll be in touch with them way in advance. At this time we have begun some with non-US swap dealers and that work was—did start by coordinating with the firm as to where the best location would be. And so when we do commence exams of non-US swap dealers, we do reach

out to the firm well in advance in order to figure out where the best location of individuals and information would be.

So for the non-US dealers, I recognize that this is a bit of an awkward situation. It is for us as well, because we do need to make contact with the non-US supervisors and regulators and deal with issues ranging from—all the way from immigration to tax issues to privacy issues. And so we continue to work those things out, and we'll have to address each non-US exam based on the jurisdiction of the firm.

We'll continue to come back to you with more information as it's available. But if any particular non-US swap dealer needs more information, please don't hesitate to reach out to us.

Tom Sexton:

It appears that we have one additional swaps-related question, and that is would the Series 3 be advisable for swaps firm investment professionals. And I think what we would say with regard to that particular question is although there is no formal requirement that swaps professionals take the Series 3, that if those professionals or if that particular firm believes that it would be helpful with regard to those professionals in doing their swaps activities to take the Series 3, then you are free to do so. But, again, there's no particular requirement at this point in time that they do so.

I just want to check and make sure that we did not receive any additional questions. I think that we might be all set.

So, again, I want to thank Ron Filler and the rest of NFA's officers, I should say, in participating today. And I particularly want to thank the Members that had joined us today. And before we adjourn for this particular call, I want to remind you that these webinars are great and a great source of feedback both for us and, hopefully, for Members. But we are here every day at NFA working, doing regulatory work on behalf of the Members. And if you have any questions at any point in time, as Ron indicated, I can't stress enough the importance of feeling free to call NFA with regard to concerns or comments and any questions that you may have. So you should always feel to reach out to any one of us, and we will get an answer to you as quickly as we can.

So thank you again for participating today, and we look forward to doing these in the future once again. So thank you.