

July 10, 2014

**Via Federal Express**

Ms. Melissa D. Jurgens  
Secretary  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

Re: National Futures Association: Composition of Board – Proposed  
Amendments to NFA's Articles of Incorporation to Increase CPO/CTA  
Representation on NFA's Board of Directors

Dear Ms. Jurgens:

Pursuant to Section 17(j) of the Commodity Exchange Act, as amended, National Futures Association (“NFA”) hereby submits to the Commodity Futures Trading Commission (“CFTC” or “Commission”) the proposed amendments to NFA's Articles of Incorporation to Increase CPO/CTA Representation on NFA's Board of Directors. NFA's Board of Directors (“Board”) ratified the proposal on May 15, 2014, and NFA respectfully requests Commission review and approval of the proposal.

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**PROPOSED AMENDMENTS**  
**(additions are underscored and deletions are ~~stricken through~~)**

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**ARTICLES OF INCORPORATION**

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**ARTICLE VII: BOARD OF DIRECTORS**

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**Section 2: Composition of Board.**

The Board of Directors shall be comprised as follows:

\* \* \*

**(c) Commodity Pool Operator and Commodity Trading Advisor Representatives.**

~~Four (4)~~ Five (5) elected representatives of registered Commodity Pool Operators and registered Commodity Trading Advisors that are NFA Members, including at least ~~two (2)~~ three (3) representatives of CPOs or CTAs that rank within the top 20 percent, one (1) of which must rank within the top 5 percent of CPOs or CTAs with reporting any funds under management allocated to futures and swaps (as defined in Article XVIII) on NFA Form PQR and NFA Form PR as of June 30 of the prior calendar year.

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**EXPLANATION OF PROPOSED AMENDMENTS**

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On May 15, 2014, NFA's Board of Directors (Board) ratified a proposal to amend Article VII of NFA's Articles of Incorporation (Articles) to increase CPO/CTA representation on the Board. Currently, there are four CPO/CTA representatives on the Board, and at least two of the four representatives must rank in the top 20 percent of funds under management allocated to futures and swaps. The amendment to Article VII increases the number of CPO/CTA representatives from four to five, and requires that at least three representatives of CPOs or CTAs rank within the top 20 percent, one of which must rank within the top 5 percent of CPOs or CTAs reporting any funds under management allocated to futures and swaps (as defined in Article XVIII) on NFA Form PQR and NFA Form PR as of June 30 of the prior calendar year.

Since its initial application to the CFTC in 1981, NFA's Board has recognized several basic principles in structuring NFA's Board, including (1) those who provide the bulk of NFA's funding should be adequately represented on NFA's Board; (2) larger firms may have a different perspective on regulatory issues than smaller firms; (3) each category of Board representation should include both larger and smaller firms; and those Members that have greater levels of commodity business activity should have greater representation than others.

In addition to the aforementioned four basic principles, NFA's Board has also recognized over the years that proportionate representation among NFA's various membership categories based on the number of Members in each category is not appropriate. This argument was first raised when NFA applied to be a registered futures association (RFA) over 30 years ago. At that time, it was noted that CPOs and CTAs would have the greatest number of Members but five of NFA's thirty-seven Board seats. In granting NFA's registration as an RFA, the Commission stated, in part, "The Commission believes that the Act and regulations are not so narrowly drawn that CPOs and CTAs must have more directors than the Articles currently provide simply because

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their aggregate membership will be numerically greater than other NFA constituents. The basic principle underlying NFA's governing structure is to provide each membership constituency with an equitable opportunity to voice its concerns and provide its input into NFA's overall development and operation." The Commission also noted that NFA's determination to base representation on the concentration of commodity activity and funding sources, among other things, did not appear inconsistent with principles of fair and equitable representation.

Based on these principles, since 1994 the Articles have provided that two Board seats should be reserved for CPOs and CTAs with the most funds under management. The cutoff was originally set at firms that rank in the top one-third of CPO and CTA Members in terms of funds under management. In 2001, when NFA dramatically reduced the size of the Board, the Board set that figure at the level in place today, the top 20% of firms with funds under management.

Since early 2013, there has been a sharp increase in both the number of CPO/CTA Members and CPO/CTA funds under management. Specifically, in the early 2000s, the CFTC adopted widely-held exemptions from CPO registration. Likely as a result, from 2003 through 2012, total CPO Members dropped by 40% from 1,790 to 1,089. CPO Member numbers rebounded in 2013, increasing to 1,677. During this period, the number of CTA Members remained relatively flat, 1,893 CTA Members in 2003 and 1,910 in 2013.

When considering the amount of funds invested in pools, the certified annual statements that each CPO Member must file with NFA for each of its regulated pools show the total net asset value (NAV) for all pools reported to NFA grew dramatically through 2005, reaching almost \$1.4 trillion that year. Presumably as a result of the exemptions from CPO registration, total NAV then dropped steadily to \$420 billion in 2012, roughly the same level it was in 2001 when the size of the Board was dramatically reduced. However, given the CFTC's recent rescission of the CPO registration exemptions, the total NAV for all pools has significantly increased. Although approximately 25% of the pool financial statements for 2013 are not yet due, the total NAV for the pool financial statements received to date, however, is approximately \$2 trillion. For CPO equity in futures accounts, which is also drawn from the annual certified statements filed with NFA, from 2003 through 2012 the number remained in a band between \$26 billion and \$41 billion. For the 2013 pool financial statements received to date, the equity in futures accounts is approximately \$68 billion.

CTAs began filing quarterly reports with NFA in September 2013 and those reports include information on the total CTA funds allocated to futures and swaps. The most recent CTA quarterly reports reflected a total of over \$210 billion.

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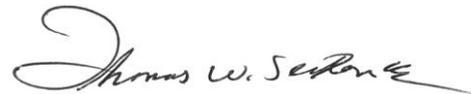
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The Board believes that the growth in the amount of funds under management warrants an additional seat on the Board. CPOs and CTAs ranking in the top 5% in terms of funds allocated to futures and swaps control over 70% of the funds under management. To ensure that larger CPOs and CTAs are adequately represented on the Board, the Board determined to add an additional CPO/CTA representative to the Board that ranks within the top 5%.

Upon the Board's ratification of the amendment, the proposal was submitted to a ballot vote of the Members pursuant to Article XVII. To be counted, ballots had to be returned to Grant Thornton LLP by June 30, 2014. In early July 2014, Grant Thornton LLP reported that Members in the Contract Market; FCM, LTM, and IB; CPO and CTA; and SD, MSP, and RFED categories affirmatively voted in favor of the amendment to Article VII. NFA's CPO and CTA Members strongly favored this amendment and voted 448-32 in favor.

NFA respectfully requests that the Commission review and approve the proposed amendments to NFA's Articles of Incorporation to increase CPO/CTA representation on NFA's Board of Directors.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas W. Sexton". The signature is fluid and cursive, with a long horizontal stroke at the end.

Thomas W. Sexton  
Senior Vice President and  
General Counsel