

August 21, 1984

Ms. Jane K. Stuckey
Office of the Secretariat
Commodity Futures Trading Commission
2033 K Street, N.W.
Washington, D.C. 20581

Re: National Futures Association, Proposed Amendments
to Sections I(b), I(d), I(e) and II(a) of Schedule
A to NFA Bylaw 305 and Adoption of Proposed NFA
Compliance Rule 2-25

Dear Ms. Stuckey:

Pursuant to Section 17(j) of the Commodity Exchange Act ("Act"), as amended, National Futures Association ("NFA") hereby submits the following amendments to Sections I(b), I(d), I(e) and II(a) of Schedule A to NFA Bylaw 305 and proposed NFA Compliance Rule 2-25 to the Commodity Futures Trading Commission ("Commission" or "CFTC") for review and approval. The amendments and proposed rule were unanimously approved by NFA's Board of Directors at its meeting on August 16, 1984. In the text below, where appropriate, additions are underlined and deletions are bracketed.

Amendments to NFA Bylaw 305 and Proposed NFA Compliance Rule 2-25:

BYLAWS OF NATIONAL FUTURES ASSOCIATION

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CHAPTER 3

MEMBERSHIP AND ASSOCIATION WITH A MEMBER

Bylaw 305. Registration and Proficiency Requirements.

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Schedule A

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I. Registration

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(b) Registration Procedures.

Persons required to register under the Act pursuant to Section I(a) of this Schedule A shall be subject to and NFA shall perform registration functions with respect

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to such persons in accordance with all of the Rules (except Rules 3.3, [and] 3.20 and 3.50 through 3.63) governing registrations contained in Part 3 of the Commission's Rules except that, with respect to such persons, all filings, applications, forms, certifications, notices and requests specified in those Rules to be filed with, submitted to or given by the Commission shall be filed with, submitted to or given by NFA at its Chicago office.

* * *

(d) Denial and Revocation Proceedings.

(i) If the President has reason to believe that NFA should refuse to register, register conditionally, suspend or place restrictions on the registration or revoke the registration of any person required to register under the Act pursuant to Section I(a) of this Schedule A the President shall promptly so notify the person in writing and furnish a copy of the notice to the Membership Committee, setting forth the specific grounds for the determination. If such person is an applicant for registration as an associated person acting in the capacity of an associated person pursuant to a temporary license, such temporary license shall terminate five days after mailing of the President's notice to such person referred to above. The person shall be given an opportunity to show to the President that the qualifications are met

* * *

(e) Registration Fees.

Associated Persons - Each Form 8-R submitted in connection with the registration of an associated person must be accompanied by a fee of \$30 for each registration capacity for which application is made.

Introducing Brokers - Each application for registration as an introducing broker must be accompanied by a fee of \$75 plus \$6 for each domestic branch office and each application for renewal of an existing registration as an introducing broker must be accompanied by a fee of \$25 plus \$6 for each domestic branch office.

Futures Commission Merchants - Each application for registration as a futures commission merchant must be



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accompanied by a fee of \$250 plus \$6 for each domestic branch office and each application for renewal of an existing registration as a futures commission merchant must be accompanied by a fee of \$100 plus \$6 for each domestic branch office.

Commodity Pool Operators and Commodity Trading Advisors - Each application for registration as a commodity pool operator or commodity trading advisor must be accompanied by a fee of \$50 plus \$6 for each domestic branch office and each application for renewal of an existing registration as a commodity pool operator or commodity trading advisor must be accompanied by a fee of \$25 plus \$6 for each domestic branch office.

* * *

II. Proficiency Requirements

(a) Associated Person Qualification Testing Requirement.

Any [person] individual applying to NFA for registration as an introducing broker or as an associated person of an introducing broker under the Act pursuant to Section I(a) of this Schedule A (except for persons who were registered as an associated person or who had applied for such registration as of August 1, 1983 and whose registration is not lapsed when application to NFA is made) shall not be [so] registered or temporarily licensed unless NFA receives satisfactory evidence that such individual [person] has taken and passed the National Commodity Futures Examination. If such an individual applies for registration as an associated person of an introducing broker on Form 8-S pursuant to the special registration provision of CFTC Rule 3.12(d), such individual's registration will lapse if NFA does not receive satisfactory evidence that such individual has taken and passed the National Commodity Futures Examination within sixty days of mailing the Form 8-S.

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COMPLIANCE RULES

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Part 2 - RULES GOVERNING THE BUSINESS CONDUCT OF MEMBERS REGISTERED WITH THE COMMISSION

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Rule 2-25. REQUIREMENTS FOR DEALER OPTIONS TRANSACTIONS OF FCMS.

Any Member who violates any of the CFTC Part 32 Regulations shall be deemed to have violated an NFA requirement. Each Member required to file any documents with or give notice to the CFTC under the CFTC Part 32 Regulations shall also file one copy of such document with or give such notice to NFA at its Chicago office no later than the date such document or notice is due to be filed with or given to the CFTC.

Explanation of Amendments to NFA Bylaw 305 and Proposed NFA Compliance Rule 2-25:

Section I(b) of Schedule A to NFA Bylaw 305. This Section establishes the procedures to be followed by NFA in processing registration applications by incorporating all of the Registration Rules contained in Part 3 of the CFTC Rules, except CFTC Rule 3.3, which sets forth CFTC registration fees, and CFTC Rule 3.20, which concerns registration denial procedures. After NFA's Board of Directors adopted Section I(b), the CFTC promulgated additional regulations (CFTC Rules 3.50 through 3.63) concerning denial, revocation and suspension procedures based on statutory disqualifications. NFA intends to conduct registration denial, suspension or revocation proceedings pursuant to the procedures set forth in Section I(b), which are equivalent but not identical to the procedures described in CFTC Rules 3.20 and 3.50 through 3.63. The proposed amendment would merely update the reference to CFTC Rules.

Section I(d) of Schedule A to NFA Bylaw 305. NFA is authorized to grant temporary licenses according to standards set out in the CFTC's registration rules. However, NFA's rules do not provide for the automatic termination of a temporary license in cases where NFA begins a proceeding to deny the application of someone working under a temporary license. Although NFA has not yet been granted the authority to begin such denial proceedings, it would be appropriate to begin putting the necessary rules in place so that they may be applied when that authority is granted. The proposed amendment would address this concern.



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Section I(e) of Schedule A to NFA Bylaw 305. Before NFA assumes registration responsibility for FCMS, CPOs and CTAs, registration fees to be charged by NFA must be established to accommodate those additional categories. The current NFA registration fees for IBs were set with three principles in mind: (1) fees for renewals of registration should be less than fees for initial applications to reflect the reduced cost of processing such applications; (2) registration fees set by NFA should be equal to or less than comparable fees set by the CFTC; and (3) to the extent possible, registration fees should be gauged to recover the cost incurred by NFA in processing such applications. The proposed NFA registration fees listed below were set with those three principles in mind, and the proposed amendment would incorporate them.

	<u>CFTC</u> <u>Registration Fees</u>	<u>Proposed NFA</u> <u>Registration Fees</u>
FCMs		
Initial Applications	\$275	\$250
Renewals	275	100
Branch Offices	6	6
CPOs/CTAs		
Initial Applications	\$ 50	\$ 50
Renewals	50	25
Branch Offices	6	6

NFA has established these registration fees at the proposed levels in order to recover NFA's anticipated costs in processing registration applications for the FCM, CPO and CTA categories. Those costs include staff time of NFA's registration department (including compensation, benefits and travel); the background review prepared by the Federal Bureau of Investigation, the Securities and Exchange Commission and the Commission of each individual applicant and principal to determine whether that individual has been the subject of criminal or regulatory proceedings; printing costs; automated data processing services including staff time; staff time in the General Counsel's Office and the Compliance Department directly associated with the registration function; costs associated with convening meetings of,



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and conducting hearings before, NFA's Membership Committee; and overhead costs (office space, utilities, etc.).

Section II(a) of Schedule A to NFA Bylaw 305. On August 13, 1983, the NFA Board of Directors adopted Section II(a) of Schedule A to NFA Bylaw 305. That Section required that applicants for registration as APs of IBs (who were not "grandfathered") have taken and passed the National Commodity Futures Examination. Since the IB testing requirement was adopted, NFA staff has identified and the NFA Board of Directors has approved three technical changes which would be appropriate:

1. The Requirement should be changed to clearly state that testing is required before a temporary license can be granted.

2. The Requirement should be made to apply to persons who become registered automatically as an AP of an IB under the special transfer provisions.

3. NFA has consistently interpreted the current Requirement to apply to individuals who seek registration as IBs (sole proprietors). The Requirement should be amended to make this interpretation explicit.

The proposed amendment to Section II(a) of Schedule A to NFA Bylaw 305 addresses these concerns.

Proposed NFA Compliance Rule 2-25. The dealer option related activities of Member FCMS which solicit or accept orders for dealer options is subject to NFA Requirements under NFA's Bylaws. To audit those FCMS NFA has designed audit programs to test compliance with the Part 32 Regulations. However, if violations of those Regulations are found, NFA's Business Conduct Committees cannot charge such violations directly because NFA's Rules do not incorporate the requirements of the Part 32 Regulations. Instead, the Business Conduct Committees are required to issue Complaints under general NFA Rules such as Compliance Rule 2-4 requiring observation of "high standards of commercial honor and just and equitable principles of trade." NFA staff recommended and the Board of Directors approved the incorporation of Part 32 Regulations as NFA requirements in order to permit NFA to directly enforce the requirements set forth in the Part 32 Rules.



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NFA respectfully requests that the amendments to Schedule A to NFA Bylaw 305 and the addition of NFA Compliance Rule 2-25 be declared effective upon approval by the Commission.

Very truly yours,

NATIONAL FUTURES ASSOCIATION

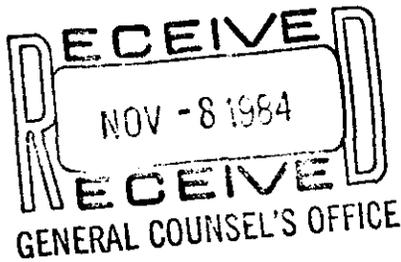
By: 
Joseph H. Harrison, Jr.
General Counsel and Secretary

JHH:cm

cc: Chairman Susan M. Phillips
Commissioner Kalo A. Hineman
Commissioner Fowler C. West
Commissioner William E. Seale
Andrea M. Corcoran, Esq.
Kenneth M. Rosenzweig, Esq.
Linda Kurjan, Esq.

UNITED STATES OF AMERICA
COMMODITY FUTURES TRADING COMMISSION

2033 K Street, N.W.
Washington, D.C. 20581



November 5, 1984

Joseph H. Harrison, Jr., Esq.
General Counsel and Secretary
National Futures Association
200 West Madison Street
Chicago, Illinois 60606

Re: NFA Bylaw 305, Schedule A, Sections I(b), I(d),
I(e) and II(a); and Compliance Rule 2-25

Dear Mr. Harrison:

This is to notify the National Futures Association that on November 5, 1984, the Commission approved the amendments to the captioned NFA rules which were submitted for Commission review and approval pursuant to section 17(j) of the Commodity Exchange Act by your letter dated August 21, 1984. These rule changes relate to registration as performed by NFA, to proficiency testing, and to the dealer options activities of futures commission merchants ("FCMs"). While the amendments to NFA's rules are effective immediately, the changes in Section I of Schedule A have no practical effect until, with respect to the fees in Section I(e), the transfer of registration processing responsibility occurs for FCMs, commodity pool operators and commodity trading advisors or, with respect to the procedural amendments in Sections I(b) and I(d), the Commission authorizes NFA to deny, condition, suspend or revoke registrations.

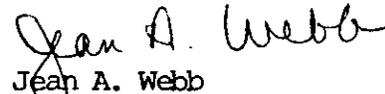
Regarding the registration application fees adopted by NFA, the Commission understands that the fees have been set at levels intended to defray but not exceed the costs expected to be incurred in processing applications of the particular categories of registrants. It will, of course, be incumbent upon NFA to continue to evaluate the fee structure as NFA gains experience in performing registration functions under the Act in order to ensure that the fees remain fair and reflect actual costs.

In addition, although the Commission has approved Sections I(b) and (d) and the current amendments, NFA is reminded that before the Commission authorizes NFA to take adverse registration actions, the Commission intends to propose and adopt rules to govern NFA's procedures for performing such aspects of the Commission's registration functions. At the time the Commission promulgates such regulations, there will be further opportunity for both NFA and the Commission to examine NFA's procedures to assure that they will adequately execute the intent of the statutory disqualifications and related standards set forth in the Act and for NFA to amend its rules if necessary.

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Finally, the Commission notes that the latest rule amendments concerning proficiency testing close certain gaps in the requirements as previously drafted and are thus appropriate, albeit relatively minor, moves in furthering NFA's statutory mandate. Nevertheless, there are various individuals and classes of persons for whom NFA has not yet established and submitted proficiency testing standards. The Commission again urges NFA to continue to develop, extend and refine the proficiency testing and training standards program required by sections 17(p) and 17(q) of the Act. The Commission also encourages NFA to begin considering the creation of supplemental requirements for persons who perform particular management or supervisory functions within a firm, such as principals, or other specialized activities.

Very truly yours,



Jean A. Webb
Acting Secretary of the Commission