

March 9, 1983

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 Bylaws, Compliance
Rules, Code of Arbitration and
Financial Requirements.

Dear Ms. Stuckey:

Under Section 17(j) of the Commodity Exchange Act, as amended, (the "Act") National Futures Association ("NFA") hereby files with the Commission and requests review and approval of the following amendments to its Bylaws, Compliance Rules, Code of Arbitration and Financial Requirements, which were approved by the NFA Board of Directors at its meeting on February 17, 1983. In the following text, additions are underscored and deletions bracketed.

Amendments to Bylaws

Chapter 3

MEMBERSHIP AND ASSOCIATION
WITH A MEMBER

Bylaw 301. Requirements and Restrictions.

* * *

(b) Restrictions on Becoming or Remaining a
Member or Associated with a Member.

* * *

(ii) Except as provided in paragraph (b)(iii)
below -

(A) no person may become or remain
an FCM, CTA, CPD or Introducing
Broker Member or associated with



Ms. Jane K. Stuckey
March 9, 1983
Page Two

such a Member unless qualified to do so in conformity with such standards of training [,] and experience and proficiency testing requirements [other qualifications] as NFA [finds necessary or desirable] shall establish and such other qualification standards as NFA finds necessary or desirable; and

* * *

CHAPTER 13

DUES AND ASSESSMENTS

Bylaw 1302. Payment of Dues and Assessments.

Annual dues shall be payable in advance on the first day of January of each year, or at such other time or times as the Board shall determine. [Dues of a new Member shall be prorated from the first day of the month in which such new Member is admitted to membership, for the remainder of NFA's fiscal year.] Assessments based upon futures transactions shall be payable to NFA within thirty (30) days after the end of each NFA fiscal quarter for transactions effected during that quarter. Except as the Board may otherwise provide by resolution, each Member shall pay dues and assessments, as applicable, for each category in which the Member - or an affiliate thereof, unless such affiliate is a Member in its own right - is registered with the Commission and conducts business.

* * *

CHAPTER 15

MISCELLANEOUS PROVISIONS

Bylaw 1506. Amendments to Bylaws.

No Bylaw may be adopted, amended or repealed [unless the Board shall have considered the same at not less than two consecutive meetings] except as specified in a written notice sent to each Director at least two weeks prior to the meeting at which the Board considers the same: Provided, however, that[,] such prior notice is not required in an emergency as defined in Bylaw 507, [such action may be taken at a single meeting.] or where a majority of all Directors in



Ms. Jane K. Stuckey
March 9, 1983
Page Three

each of the membership categories set forth in Sections 2(a)-2(c) of Article VII (contract markets, FCMs and Industry Participants) approves.

Explanation of Amendments to Bylaws

Bylaw 301

This change conforms NFA Rules to the requirements of new Section 17(p) of the Act which requires NFA to adopt rules requiring NFA to establish training standards and proficiency testing for Members and Associates.

Bylaw 1302

This amendment eliminates the provision for the initial dues payment of new Members to be prorated for the remainder of NFA's fiscal year. NFA believes that it would be more efficient to accept annual dues for a full year from each new Member, thus avoiding the bunching of Membership renewals at the end of NFA's fiscal year. The Executive Committee adopted a resolution at its meeting of December 2, 1982 to make dues for new Members payable the next year on the first day of the month following admission to NFA.

Bylaw 1506

Present Bylaw 1506 requires that the Board consider amendment, adoption or repeal of a Bylaw at two consecutive meetings ("two meeting rule"). Under this amendment the Board will be able to enact Bylaw amendments absent the encumbrances of the "two meeting rule." However, the proposed amendment incorporates alternate safeguards. The requirements of two weeks prior notice will limit the amendment which can be made to that specifically set forth in the notice. The Board would be free to alter the amendment specified in the notice, or act to amend the Bylaws without notice, only with the protection of majority approval by all current Directors in each Membership category. The latter provision enables changes to be made by the Board without further delay, but ensures fair representation of the interests of each Membership category. The provision for single meeting emergency action remains unchanged since it provides the necessary degree of flexibility in handling such situations.



Ms. Jane K. Stuckey
March 9, 1983
Page Four

Amendments to Compliance Rules

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

* * *

Rule 2-2. FRAUD AND RELATED MATTERS.

No Member or Associate shall -

- (a) Cheat, defraud or [willfully] deceive, or attempt to cheat, defraud or [willfully] deceive, any commodity futures customer;
- (b) Bucket a customer's commodity futures order or engage in a business that is of the nature of a bucket shop;
- (c) Willfully make or cause to be made to a customer a [materially] false report, or willfully to enter or cause to be entered for a customer a [materially] false record, in or in connection with any commodity futures contract;
- (d) [Willfully] Disseminate, or cause to be disseminated, [materially] false or misleading information, or a knowingly inaccurate report, that affects or tends to affect the price of any commodity that is the subject of a commodity futures contract;

* * *

Rule 2-10. RECORDKEEPING.

Each Member shall maintain adequate books and records necessary and appropriate to conduct its business[.] including, without limitation, the records required to be kept under CFTC Regulations 1.18 and 1.32 through 1.37 for the period required under CFTC Regulation 1.31.

* * *

Rule 2-13. CPO/CTA REGULATIONS.

Any Member who violates any of CFTC Regulations 4.16 through 4.41 shall be deemed to have violated an NFA requirement. Each Member required to file any document with or give notice to the CFTC under CFTC Regulations 4.13 and 4.16 through 4.32 shall



Ms. Jane K. Stuckey
March 9, 1983
Page Five

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 filed with or given to the CFTC.

* * *

Rule 2-22. PROHIBITED REPRESENTATIONS.

No Member shall represent or imply in any manner whatsoever that such Member has been sponsored, recommended or approved, or that such Member's abilities have in any respect been passed upon, by NFA; provided, however, that this Rule shall not prohibit a Member from stating the fact of Membership, if the effect of NFA Membership is not misrepresented, or from discussing or explaining the functions and purposes of NFA.

Explanation of Amendments to Compliance Rules

Rule 2-2

In its Order Granting Registration and Approving Rules dated September 22, 1981, the Commission objected to Compliance Rule 2-2 on the ground that certain subsections of the Rule were less stringent than the analogous sections of the Act. The Commission registered NFA, but indicated that it would not confer upon NFA authority to regulate in the options area or to conduct registration unless Rule 2-2 were amended. The amendment to Compliance Rule 2-2 submitted herewith has been discussed with Ms. Karen Matteson of the Division of Trading and Markets and is intended to meet the Commission's objection to Compliance Rule 2-2.

Rules 2-10 and 2-13

These proposed Compliance Rule amendments are necessary for the efficient, complete and independent exercise by NFA of its compliance function. The amendment to Compliance Rule 2-10 adds to the NFA general recordkeeping requirement the specific requirements under Commission rules. NFA believes such an amendment is necessary to put Members on notice that "adequate" records include at least those records required by law. It is also necessary to ensure that NFA can itself take appropriate enforcement action in this area without the need to refer a matter to the Commission for enforcement.



Ms. Jane K. Stuckey
March 9, 1983
Page Six

The amendment to Compliance Rule 2-13 requires that all CPO/CTA filings, such as disclosure documents and annual reports for pools, are also routinely made with NFA. NFA cannot adequately and efficiently carry out its audit and surveillance functions with respect to CPOs and CTAs unless it receives and routinely reviews these documents. In addition, this amendment will facilitate the possible future assumption by NFA of the Commission's current function of receiving and reviewing these documents.

Rule 2-22

This proposed new Compliance Rule would make it a violation of NFA rules for an NFA Member to represent that NFA Membership is equivalent to an NFA endorsement. In the experience of NFA's compliance staff, many unscrupulous operators have attempted to use Commission registration in that manner and may try to do the same with NFA Membership. Under this proposed rule a Member would not, however, be barred from merely stating the fact of Membership or from explaining the purposes and functions of NFA.

Amendments to Code of Arbitration

CODE OF ARBITRATION

SECTION 1. DEFINITIONS.

* * *

Section 1 of the Code of Arbitration is amended by deleting subpart (a) and the definition which follows and redesignating subparts (b) through (j) as (a) through (i) and adding new subpart (j) which reads as follows:

(j) "Introducing Broker" - means an introducing broker as that term is used in the Commodity Exchange Act, and that is required to be registered as such under the Commodity Exchange Act and Commission Rules.

* * *

Section 2. ARBITRABLE DISPUTES.

(a) Mandatory Arbitration.

(1) Claims. * * *



Ms. Jane K. Stuckey
March 9, 1983
Page Seven

- (i) A dispute for which arbitration is sought by a customer against a Member or employee thereof, or Associate, [where the customer's aggregate claim (including interest) does not exceed \$15,000,] provided -

* * *

- (D) if brought against a Member or employee thereof, the Member is an FCM, an [Agent thereof] Introducing Broker, a Commodity Pool Operator or a Commodity Trading Advisor.

* * *

(2) Counterclaims. * * *

- (i) arises out of an act or transaction that is the subject of the customer's claim; and
- [(ii) does not exceed in the aggregate \$15,000 (including interest); and]
- (ii) [(iii)] does not require for its adjudication the presence of witnesses or other third parties over whom NFA lacks jurisdiction and who are not otherwise available.

* * *

Explanation of Amendments to Code of Arbitration

The Futures Trading Act of 1982 requires the elimination of the \$15,000 limit on arbitrable claims and amendments deleting reference to Agents and adding appropriate reference to Introducing Brokers. The proposed amendments make NFA's Code of Arbitration consistent with the current law.

Amendment to the Financial Requirements

FINANCIAL REQUIREMENTS

* * *



Ms. Jane K. Stuckey
March 9, 1983
Page Eight

Section 8. Treatment of Customer Property.

Any FCM Member who violates any of CFTC Regulations 1.20 through 1.30 shall be deemed to have violated an NFA requirement.

Explanation of Amendment to Financial Requirements

This amendment conforms NFA requirements for segregation of customer funds to Commission rules, as required by new Section 17(p) of the Act.

Conclusion

NFA respectfully requests that the foregoing amendments to the Bylaws, Compliance Rules, Code of Arbitration, and Financial Requirements be declared effective upon approval by the Commission.

Very truly yours,

NATIONAL FUTURES ASSOCIATION

by:

A handwritten signature in dark ink, appearing to read 'Joseph H. Harrison, Jr.', written over a horizontal line.

Joseph H. Harrison, Jr.
General Counsel and Secretary

JHH:ep

cc: Chairman Philip McBride Johnson
Commissioner Susan M. Phillips
Commissioner Kalo A. Hineman
Commissioner Fowler C. West
Andrea M. Corcoran
Theodore W. Urban

UNITED STATES OF AMERICA
COMMODITY FUTURES TRADING COMMISSION

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



APR 14 1983

April 11, 1983

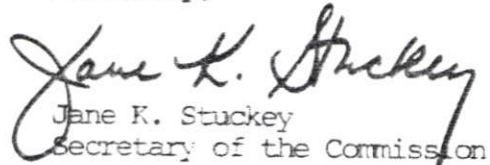
Mr. Joseph H. Harrison, Jr.
General Counsel and Secretary
National Futures Association
200 West Madison Street
Chicago, Illinois 60606

Re: Proposed Amendments to NFA Bylaws, Compliance Rules,
Code of Arbitration and Financial Requirements

Dear Mr. Harrison:

By letter dated March 9, 1983, NFA submitted the above proposed rules and amendments for Commission approval pursuant to section 17(j) of the Act. The Commission approved the proposed amendments to NFA Bylaws 301(b)(ii)(A), 1302 and 1506; Compliance Rules 2-10, 2-13, and 2-22; Code of Arbitration sections 1 and 2(a); and Financial Requirements section 8 on April 11, 1983. The Commission understands that the amendments are effective immediately.

Sincerely,


Jane K. Stuckey
Secretary of the Commission