NATIONAL FUTURES ASSOCIATION
200 W. MADISON ST. • CHICAGO, IL • 60606-3447 • (312) 781-1300

October 13, 1994

Via Overnight Courier Delivery

Ms. Jean A. Webb
Secretariat
Commodity Futures Trading Commission
2033 K Street, N.W.
Washington, D.C. 20581

Re: National Futures Association: Proposed Amendments to Article VII of NFA's Articles of Incorporation

Dear Ms. Webb:

Pursuant to Section 17(j) of the Commodity Exchange Act, as amended, National Futures Association ("NFA") hereby submits to the Commodity Futures Trading Commission ("Commission") proposed amendments to Article VII of NFA's Articles of Incorporation ("Articles"). The Articles amendments were ratified by NFA's Board of Directors ("Board") on August 18, 1994, and have since been adopted by a two-thirds vote of those NFA Members actually voting in the Contract Market category and a majority of those Members actually voting in the FCM, LTM and IB category and the Industry Participant (CPO and CTA) category.

NFA intends to make the amendments effective ten days after receipt of this submission by the Commission unless the Commission notifies NFA within the ten-day period that the Commission has determined to review the amendments for approval.

THE PROPOSED AMENDMENTS

The proposed amendments to Article VII are as follows (additions are underscored and deletions are bracketed):

ARTICLES OF INCORPORATION
OF
NATIONAL FUTURES ASSOCIATION

* * *

ARTICLE VII: BOARD OF DIRECTORS

* * *

Section 2: Composition of the Board.

The Board of Directors shall be comprised as follows:

* * *

(b) Futures Commission Merchant, Leverage Transaction Merchant and Introducing Broker Representatives

(i) [Sixteen (16)] Seventeen (17) elected representatives of registered Futures Commission Merchant (hereinafter "FCM") Members, registered Leverage Transaction Merchant (hereinafter "LTM") Members, and registered Introducing Broker (hereinafter "IB") Members, divided as follows:

(A) Three (3) representatives of FCMs and LTMs having 1-15 offices.

(B) Three (3) representatives of FCMs and LTMs having 16-50 offices.

(C) Two (2) representatives of FCMs and LTMs from either category A or B above.

(D) Six (6) representatives of FCMs and LTMs having 51 or more offices.

(E) One (1) representative of IBs required to maintain minimum adjusted net capital.

(F) One (1) representative of IBs not required to maintain minimum adjusted net capital.

(G) One (1) representative of IBs from either category E or F above.

An FCM and an LTM Member's offices shall include the offices of any affiliate through which offices the FCM or LTM Member conducts its FCM or LTM business.

* * *

(iii) Not more than two (2) of [T]the IB Directors shall [not] reside in the same NFA Region. If the individual receiving the most votes for election to the Board in the IB category resides in the same NFA region as both of the IB representatives serving continuing terms on the Board, the individual with the next highest number of votes who does not reside in that region shall be elected. Ties shall be resolved by the Board by random draw.

* * *

(c) Industry Participant and Public Representatives

(i) Six (6) individuals (hereinafter "Industry Participants") as follows:

(A) Three (3) elected representatives of registered commodity pool operators (hereinafter "CPOs") that are NFA Members, including at least one representative of a CPO which ranks within the top one-third of CPOs with funds under management allocated to futures (as defined in Article XVIII(k)); and

(B) Three (3) elected representatives of registered commodity trading advisors ("CTAs") that are NFA Members, including at least one representative of a CTA which ranks within the top one-third of CTAs with funds under management allocated to futures (as defined in Article XVIII(k)).

If neither of the individuals serving continuing terms in a particular category is a representative of a firm within the top one-third of that category, the individual with the highest number of votes who is a representative of a firm within the top one-third shall be elected. Ties shall be resolved by the Board by random draw.

* * *

(iii) Not more than two (2) of the Directors in either of the categories (i)(A) and (B) above shall reside in the same NFA Region. [If more than two (2) of the individuals receiving sufficient votes for election to the Board in a particular category reside in the same NFA region, only the two individuals receiving the greatest number of votes from among those individuals shall be

> elected. The remaining representative on the Board for each of those categories shall be the individual not within that region who receives the greatest number of votes among such individuals.] Subject to the restrictions imposed by Section 2(c)(i) of this Article, if the individual receiving the most votes for election to the Board in a particular category resides in the same NFA region as both of the individuals in that category serving continuing terms on the Board, the individual with the next highest number of votes who does not reside in that region shall be elected. Ties shall be resolved by the Board by random draw.

* * *

EXPLANATION OF PROPOSED AMENDMENTS

Article VII, Section 2(b), presently provides for two IB representatives on the Board. In making its decision to increase the IB representation on the Board to three representatives, the Board noted that the numbers of CPO and CTA Members are similar to the number of IB Members. However, in spite of this similarity in numbers, CPOs and CTAs each have three representatives on the Board while IBs have only two. The Board felt that increasing IB representation on the Board would be in keeping with the requirements of both Section 17(b)(5) of the Commodity Exchange Act and CFTC Regulation 170.3 to assure fair and equitable representation on the Board of the various categories of NFA Members. The Board also realized that IBs provide a vital link to the agricultural community -- a traditional and important customer base for the industry -- and merit a stronger voice on the Board.

NFA recently amended its Articles to provide a third seat on its Board for CPO representation, increasing the total number of CPO and CTA representatives to six. This change raised issues concerning the exact structure of CPO and CTA representation on the Board. Specifically, the Board determined to amend Article VII, Section 2(c), to impose certain size restrictions to ensure that the larger CPOs and CTAs in terms of funds under management have a voice on NFA's Board. The Board noted that similar size restrictions already exist in both the FCM and exchange Board categories. The Board determined that one CPO and one CTA seat should be reserved for CPOs and CTAs in the top one-third of money under management in their respective categories, and that the other two seats in each category would have no size restrictions of any kind. For purposes of defining "money under management," only money allocated to products regulated by NFA would be considered. In other words, CPOs and CTAs which predominantly trade in securities or foreign exchange would not qualify for these seats unless they also do large amounts of trading in futures and commodity options.

Taking this approach, the Nominating Committee in any given year would have to consider whether any of the CPO or CTA Directors not up for election ranked in the top 33% in funds under management in their particular category. If there was already a CPO or CTA Director representing that subcategory, the Nominating Committee would not be under any size restrictions in selecting candidates. If, however, none of the existing Directors were from the "big firm" subcategory, only candidates from that subcategory could be placed on the ballot.

As stated above, NFA intends to make the amendments to Article VII effective ten days after receipt of this submission by the Commission unless NFA receives notification that the Commission has determined to review the amendments for approval.

Respectfully submitted,

Daniel J. Roth
General Counsel

DJR:ckm(sub\art7.894)

cc: Chairman Mary L. Schapiro
Commissioner Barbara Pedersen Holum
Commissioner Sheila C. Bair
Commissioner Joseph P. Dial
Commissioner John E. Tull, Jr.
Andrea M. Corcoran, Esq.
Dennis P. Klejna, Esq.
Alan L. Seifert, Esq.
Susan C. Ervin, Esq.
Lawrence B. Patent, Esq.
David Van Wagner, Esq.

COMMODITY FUTURES TRADING COMMISSION
2033 K Street, NW, Washington, DC 20581
(202) 254 - 8955
(202) 254 - 8010 Facsimile

DIVISION OF
TRADING AND MARKETS

October 18, 1994

Mr. Daniel J. Roth
General Counsel
National Futures Association
200 West Madison Street
Chicago, Illinois 60606

Re: Proposed Amendments to Article VII -- Composition of Board of Directors

Dear Mr. Roth:

By letter dated October 13, 1994, and received by the Commission on October 14, 1994, the National Futures Association ("NFA") submitted the above-referenced proposal to the Commission. NFA's submission invoked the "ten-day" provision of Section 17(j) of the Commodity Exchange Act ("Act") to permit the above-referenced proposal to become effective ten days after Commission receipt unless the Commission determined to review the proposal for approval and so notified NFA.

Please be advised that the Division of Trading and Markets has examined the above-referenced proposal and has decided to not review the proposal, as provided under Section 17(j) of the Act.

Very truly yours

John C. Lawton
Associate Director

AMENDMENTS TO ARTICLE VII

By letter dated October 13, 1994, NFA submitted to the CFTC proposed amendments to Article VII, Section 2, of NFA's Articles of Incorporation. NFA's submission invoked the "ten-day" provision of Section 17(j) of the Commodity Exchange Act to permit the proposed amendments to become effective ten days after Commission receipt unless the Commission determined to review the proposal for approval and so notifed NFA.

By letter dated October 18, the Commission informed NFA that it had decided to not review the proposal. Therefore, the amendments to Article VII shall become effective on October 24, 1994. The amendments to Article VII shall:

- increase IB seats on the Board from 2 to 3 and provide that not more than 2 IB representatives would reside in the same geographic region; and

- provide that one CPO and one CTA seat on the Board be reserved for representatives of firms within the top one-third of their respective categories in terms of funds under management based on funds committed to trading futures product.

C. Makino