

**National Futures Association
Member Town Hall Webinar**

March 23, 2015

Dan Roth: Hi, everybody. This Dan Roth from the National Futures Association. I'm the President of NFA, and I'd like to welcome you all to our Town Hall webinar. I am joined here today by the Chairman of our Board, Chris Hehmeyer; and by Ron Filler, who is a public director on our Board of Directors. And Ron is also a professor at the New York Law School.

We also have most of the officers from NFA. And we're here really to answer your questions today. And that's really what we like to do, it to hear from you. Find out any type of question you have about what's going on at NFA, why we do certain rules certain ways. Any questions you have, if you can type them into your little - in the lower left-hand corner, I think there's a box on your screen to type your questions.

And we'll get to all the questions we can in the hour that we have. If there are questions that we don't get to today during the phone call, we will get you an email response within 24 hours.

So before we start looking at some of the questions, maybe I could just turn to our Chairman Chris for a minute, and see if he'd like to make a few remarks.

Chris Hehmeyer: Yes. Thank you, Dan. Good afternoon, everybody. I'm Chris Hehmeyer. And one of the initiatives that Dan just mentioned is the development of NFA's Board Update videos. This is in line with the Board of Directors trying to get information, and impart information to the members. We launched this after our November Board of Directors meeting.

And we'd like you all to be aware that the videos are an excellent source of information for the members about the important topics discussed at the NFA Board of Directors. Immediately following

each of our NFA quarterly Board meetings in February, May, August and November, Dan and I discuss the highlights, and other notable information from the meetings.

You can sign up in the News Center section of NFA's website to receive an email alert when each Board Update video is posted. The archived videos can also be found in the News Center section of NFA's website. Ron?

Ron Filler: Thank you, Chris. Good afternoon, everyone. My name is Ronald Filler. Another way in which we have recently reached out to our members is through a series of member regulatory conferences over the past several months. I've had the good fortune to travel with NFA's senior staff to present at several of these conferences across not only the US, but we also had one in London. These in-person sessions have allowed us to both deliver important information about members' regulatory obligations, but also more importantly to hear directly from our members and attendants.

At these conferences we have received lots of excellent feedback, and members have asked many great questions. As an educator as well as a public director, I'm a big supporter of these programs. And now we feel that today's Town Hall session will provide us with another chance to hear from the rest of our members. Dan?

Dan Roth: Thanks, Ron. Thanks, Chris. Why don't we just sort of start getting into the questions here? Because a number of them have already come in. One question, the first question we can touch on is a question whether we-- one of the members wants to know whether we think there will be a large consolidation in the FCM side during the next five years. And so maybe I could turn to either Chris or Ron. You're probably best suited to answer that type of question.

Ron Filler: Dan, I'd be happy to. I think the answer is yes to that question. And I think it's a lot driven by not only the revenue or lack of revenue, especially in the low-interest environment. But more importantly, I think we've seen a huge decrease in FCMs due to the regulatory capital requirements there in the post-financial crisis of 2008.

You're seeing an increased requirement for not just FCMs, but many of them are affiliated with banks. The financial regulators here in the US, but also abroad and Basel III, have increased the capital requirements for banks and their affiliates. With respect to just FCMs alone, they need to have as a minimum, 8% of the

amount of funds held in segregation, as well as 8% of the amount held in clear swaps.

If you ever go to the CFTC website, at the bottom of that page, you'll see something called Financial Data of FCMs. And it lists all the FCMs that are in the business. And if you scroll down to the bottom, you'll see that the total amount of segregated assets held by FCMs. And if you looked at each territory over the last several years, the amount of seg funds held by FCMs is around \$140 billion to \$175 billion.

It is estimated that the amount for clear swaps assets could reach over \$1 trillion, and that's a huge increase, and an increase requirement for capital. And we've already seen some FCMs decline to change their status from FCM to IB status, and some are not even entering some of the cleared swap business.

So I think there is a big issue. And I hope that the regulators address this issue.

Chris Hehmeyer: This is Chris Hehmeyer. I agree with Ron. Just I've been in the FCM business for 30 years, as some of you may know. And the pressures are huge from a variety of different factors. Certainly there's the technology factors that put pressure on consolidation. And then the interest rate factor, the interest rate environment being what it is, puts a lot of pressure on the FCMs' profitability.

And then the last but not least, as Ron said, the capital requirements on the regulatory side create pressures that sort of push it over the top, as I would describe it. And there are a couple of moves afoot to try to create. There's people discussing the ideas of a utility FCM where people can introduce the business to one big utility FCM. I don't know if that will happen or not. But certainly the pressure on the FCM community is as high as it's ever been.

Dan Roth: Thanks, you guys. Let's get to some more of the questions here. Regina, we have a question. Someone would like to talk about how NFA uses the information gathered in the form CTA-PR. Could you talk about that a little bit? I should mention Regina Thoele is the head of our Compliance Department. Thanks, Regina.

Regina Thoele: Thanks, Dan. So with regards to the form CTA-PR, this is a form that both the CFTC and NFA has adopted in the sense that we needed additional information with regards to the operations of our CTAs. So we felt that it was important to have this data in order to be able to better utilize our resources to take that data and see

which firms pose the greatest risk based on the data that we collected.

So there's just a few things that are required. It's the rates of returns, the programs, your assets under management. And we take that data, and we look at it from quarter to quarter. And we look for changes or unusual changes that may prompt us to then schedule a particular firm for an examination.

So prior to the adoption of this form in the last two years, there really wasn't a whole lot of information, for example, with regards to CTAs who operated pursuant to a 4.7 exemption. Because those entities didn't have information that they had to file with us on a regular basis.

So again, the simple form that we have adopted we use to then feed into our risk system to help us identify the firms that we think pose the greatest risk. Now I will point out that we have recently asked the CFTC to give relief to the CTA members who similarly to the CPO members, do not have to make a quarterly filing if they do not operate any funds. So in the CTA area, if you are not managing any accounts, we have asked the CFTC to give a CTA member relief from having to file the PR form each quarter.

So we'll keep you abreast of where that status is. And hopefully that relief will come out shortly.

Dan Roth: Thanks, Regina. You know, we also get questions, Regina, from time to time on guidance. There seems to be a fair amount of confusion over the quarterly reports from both CTAs and CPOs. And I know we've been working on trying to provide some guidance on that. Could you bring us up to date on where we are on that project?

Regina Thoele: Sure Dan. So I think for those of you who aren't familiar with what we've done in this area, let me back up for a minute, and just say that we have worked very closely with ICI, IAA, and managed funds associations, or MFA, to develop guidance for the commodity pool operators who have to file pool quarterly reports.

We have taken what's about a 20-page document, frequently-asked questions that we've received, and are both of the CFTC form PQR, and the NFA form, and have put answers to pen to paper here. And put answers down for each question that we have received, working again with the various trade associations, to come up with guidance that we can give to the CPO members.

Now unfortunately, we have been working very closely with the CFTC on this. And we just have not gotten them to move to the point where we can get this issued. We will continue to check in with the CFTC, and see if we can't get something issued shortly. Our hope would be that we would have this out before the next March quarterly ones that are due, so that firms can have guidance with regards to how they file this and answer this form, and answer the questions on those forms.

Dan Roth:

Yes. Just to emphasize, because that report is really not solely an NFA report, we're just not in a position where we can completely on our own provide that guidance. It's a CFTC form. And the CFTC has to sign off on that guidance, which has complicated the process a little bit. But we're trying to work through that.

And I really hope that we've got this thing out and ready to issue relatively soon. I wish I could be more specific. But sometimes it's just-- the process doesn't lend itself to that sort of precision. We'll get that out as soon as we can. Because this has been an area where I think, in our meetings with Chairman Massad we've made it clear that there are certain areas where there is really a need for some guidance for registrants and members. And this is one of the areas that we identified in our conversations with him. So we hope to get that out soon.

There are some other questions here. Regina, one of the questions that came in had to do with-- I'm sorry. Where is it here, the certified annual statements that pool operators file, and why we can't just sort of upload certain information from those certified statements into these other forms, rather than having the CPO enter that information manually. Could you talk about that?

Regina Thoele:

Sure. So let me give a little background here too. We have gone from-- NFA's commodity pool operator membership has gone-- dramatically increased from about 1200 CPO members to 1800 CPO members. Likewise, the funds that those commodity pool operators operate, we've seen an increase of about 1600 to 1700 funds to close to 6,000.

So part of the reasons that we have always asked for the key financial balances to be inputted by the CPO members is so that we can streamline our review process. And it's even more imperative now in terms of the increase in the funds that are actually filing. So what we're looking for is we can take the key balances that a firm files, and compare those across the

membership. We can now actually do more of an automated review in looking at the actual filings by the CPO members.

And it's just a problem in general, because it's not a standardized form. All pool financials or certified pool financial statements, are done in a free form, by the CPA. So when we go to review and analyze those financial filings, it's imperative that we have them in a standardized kind of presented method, so that we can compare balances not only within the actual pool financial filing, but also across our pool commodity pool operator members, and look at the different filings.

And we also then are able to take the data that is entered by members in these key balances, and again, use it as part of our risk system to identify firms that pose the greatest risks that we think deserve to be examined by our examination staff. So that's a couple reasons why the key financial balances have to be entered by our commodity pool operator members when filing their certified financial statements, in addition to uploading the actual hard copy of the financial statement.

Dan Roth:

Thanks, Regina. You know the member that asked that question also included a question just about how we interact with the members. And really felt that there are times when either when dealing with NFA people on the phone or I assume also in the field that we seem to have the operating assumption that all the members are crooks, that they're all crooks. And that's actually a serious question. I mean that's a serious issue.

And I just wanted to talk about that for a little bit. Because it's-- you're trying to strike a balance here, because we've always tried to make sure that our employees recognize that they're dealing with a membership organization. And these members are people that we're here to serve. We're here to try to make it easier for them to comply.

But it's also a bit clear (ph), in everything that's happened over the years, that it's imperative that our staff maintain an attitude of professional skepticism. That's the only way to do this job. And I think in all the stuff that we've been doing and reviewing with outside consultants about our examination program and our processes and everything. The recurring theme is that we have to preserve an attitude of professional skepticism.

So if the staff at times seems skeptical, that's right. They're instructed to act that way. But the question of course is

professional skepticism. And I hope that we always hit that tone. But it's a tricky balance to strike.

There's some other questions here. Yvette, one of the question is the update on the ORS design process, the online registration system. Excuse me when we lapse into speaking with acronyms that not everybody might be familiar with. But our online registration system is one of the systems that a lot of members interact with most.

And it's something that's going through a redesign right now. And Yvette, we've been asked if we could give just sort of an update on where we are with that.

Yvette Christman: Okay. Thank you, Dan. I can. NFA's goal this year is to review the system and determine how best that we rebuild it, so that it not only meets higher technical standards, but more effectively addresses member needs through design and functional enhancements.

So our information systems and registration department is working together to identify potential functional and design needs for the new system. A key component in this process has been to solicit feedback from primary users of the system, which include not only NFA members, but also NFA staff as well as CFTC staff.

We have conducted internal focus groups to find out what questions members typically raise about ORS, and to gather information on how staff uses the system, and how best to address our internal needs.

In December we also sent out a comprehensive survey to member firms to solicit ideas for improvement of the system. We received over 500 responses to the survey. And some of the themes identified in those survey responses include simplified navigation process, a single screen that summarizes all outstanding filing requirements, and simplified help text and instructions.

In addition, we have also conducted focus group with member firms to discuss their ideas in greater detail. From each of these sources we have gathered valuable input that will help us to finalize the most important design concepts.

Dan Roth: Thanks, Yvette. But just can we get a timeframe? And Tim McHenry is here as well from our IS Department. And I know that the-- we're sort of in the design phase of ORS. Now I don't want people to think that they're going to start seeing changes to the

screen next week. I mean we're right now in the design phase. And after that we have to-- once we've redesigned it, do the necessary coding and implement those changes.

So maybe just a little discussion about the timeframe for those types of changes.

Tim McHenry: Sure, Dan. I think the objective is to wrap up our research on ORS with a design by August of this year. And we're looking at, again, we don't know in terms of a timeline. We don't know the exact timeframe. Because we have to work through the design first.

But the objective will be to finish it up probably in early 2017. It's a large system, and it's going to take approximately that long to get everything in place.

Dan Roth: Jamila Piracci is the Vice President of our Swaps Compliance. And she tried to fly here, to Chicago today from New York, and got as far as Dayton. So if any of you are in the Dayton airport and see Jamila, please tell her we said hi. But in the meantime, Michael Brosius, who is a director in our Swaps Compliance Department is here. And Michael, there's a question whether NFA plans to assign an NFA rep to each swap dealer, just like FINRA has. Could you talk about that a little bit?

Michael Brosius: Yes, Dan. Currently as we know, NFA is managing two parallel processes for its swap dealers and major swap participants. There's the registration function, which involves a review of firms submitted 4S (ph) policies and procedures. And for that effort there has been a 4S documentation compliance manager that is assigned to specific swap dealers and MSPs.

NFA is also managing its swap examinations process, which requires deploying teams in field examinations of its member firms. There's also an exam manager that is assigned to specific firms for the swap dealers and MSPs that would cover the examination.

So SDs and MSPs may also contact any swaps senior staff member if they have questions about registration, exams or other regulatory questions. So for right now, while those two processes run together, we'll most likely have two distinct managers. But certainly both are available to answer questions.

Dan Roth: Thank you, Michael. I think we had a-- there was another swap question here. I'm sorry. Michael, there's a question on-- I don't know-- question 22 here Michael, on the trade reconstruction

solutions. Or actually, I'm sorry. Was there one on the voice technology? Where did that question go? I'm sorry.

Let me find that question. But in the meantime, Regina, there's another question here about financial statements. And the question is there aren't very clear requirements about yearend financials and the items to be submitted along with them. And will the CFTC and NFA be posting requirements for future yearend audits? And they made specific reference to since the time that the PCA will be-- has taken from the AICPA. Could you address that a little bit?

Regina Thoele: Sure. So on the requirement that I think this question is referring to, has to deal with the CFTC's new customer protection rules that were adopted. And it does require that an FCM's audited financial statement be done by a peek-a-boo (ph), or a PCAOB registered entity.

So I think we can look at this and see if there's additional guidance that we can put out. But I think it's limited. And so those who are listening, if you have additional requests regarding this, I think it's something we can look at and see if we can put some additional information out so that we can give some clarity to anybody. But feel free to update the question if there's more that you're looking for than just what I've spoken about. Thanks.

Dan Roth: Michael, the question I was looking for before asks whether NFA expects all swap dealers to have voice analytic capability for voice recordings, despite the fact that the technology is evolving. And these types of questions come up sometimes where the regulation has imposed requirements that it's really, really hard to comply with. And I just wondered if you know if we've had any discussions with the commissioner, just where we are on that specific issue.

Michael Brosius: Yes, Dan. We have had some discussions with the commission, and also with some firms that have called in to express similar concerns with respect to the requirement for voice recording.

I believe that there was a no-action issued by the CFTC with respect to the requirement that all pre-execution data including voice, be kept in an identifiable and searchable manner. And I believe that there is a common understanding that the technology to implement that fully may be still in development.

Dan Roth: And we've had that same conversation with various commissioners, and with the Chairman's office, and letting them know that there are regulatory requirements that literally can't be complied with. And

certainly we're taking that into account when we review these actions. And I can guarantee you, you won't be seeing NFA ever take a disciplinary action to enforce a rule which the member had no means of complying with.

And although I don't-- surprisingly enough, I'm not authorized to speak for the CFDC. But I think they basically share that same sort of approach and philosophy. Dan did you want to say something?

Dan Driscoll: Yes, Dan. And we've really been dealing with this same sort of issue for the last 30 years, where at times the CFTC has requirements that are very granular, very specific, that are difficult for firms to comply with.

And when we do our examinations, our primary purpose is to make sure that you have the records, that you can get them to us when we ask for them, and we're not going to be crossing t's and dotting i's with regard to disciplinary actions.

Dan Roth: Thanks. Again, I would just remind people that if you want to ask questions, there's the chat room box in the lower left-hand corner, where you can type your question. Here's a question that I think I can answer. So I'm going to go to that one.

Is there an annual requirement for audited financials for firms registered as a floor trader? And to my knowledge, the answer to that question would be no. So we'll move on from that, unless somebody around the table here wants to correct me.

There have been questions here on let's see-- okay, here we are. Regina, question 20 here, in the annual financial statements filing, asks if the statements are audited, and if not, one possible selection is that all the investors have signed off that no audit will be done. And the question is which funds are able to do this. Can you talk about that exemption exception from the filing requirement?

Regina Thoele: Yes. When a committee pool operator or member wants to have relief from filing its certified financial statement at yearend, it can do so if it's a liquidation statement, and it gets relief from all of the underlying investors. So the underlying investors have to provide waivers, saying that they waive the requirement to file a certified financial statement.

And so that is the way that a commodity pool operator could get that relief, if that situation is applicable to them.

Dan Roth: Thanks, Regina. And Regina, if you can look at-- yeah. Go ahead, Regina.

Regina Thoele: So another question that we received said that sometimes we receive the same question from different staff members on filings, or exactly the same questions on various quarterly filings, where the responses would not have changed. Is there a way for the NFA to gather those responses previously filed, and use them for the current filing?

So this is something that we've tried to look at very closely. And I think with the influx that I referred to earlier, and the number of pool quarterly reports that we're getting each quarter and the pool financial statements, we've now been able to add some capabilities to our systems that would allow us to make sure that we're grouping all filings with a particular person. And then the capability where previous filings, and the questions that were asked on those previous filings, can be recorded with those filings. So that a particular individual who's doing a financial surveillance or analysis of a particular filing can go back and look at any questions that have been asked in the past. And hopefully that will suffice for any current questions.

So we are cognizant of that. And I apologize for that. We're trying to work very closely where we can use that capability, which would make it hopefully a lot easier for the member. So we'll continue to move forward on that, and hopefully be more successful in the upcoming filings.

Dan Roth: We also had a question. And I'm going to have to hope that I understand this question correctly. But it had to do with the relationship between associated persons, and in this particular case an IB. Although I guess it could really relate to any category of registration.

And the question basically had to do with the relationship between the AP and his employer, if I understand the question correctly. And in this particular case, the AP feels he may not be getting information and responses from the member firm that he wants or that he's entitled to. And they basically say, what recourse do I have as a member?

So if I understand this question correctly, and it's a question of as an associated person, what recourse do you have with respect to your employer who is an NFA member, if you feel that that member

is not giving you the information that you need or is in some way misleading you as an AP.

And the only thing I can tell you there is that all of NFA's rules really have to do with protection of customers and how our members interact and deal with customers. With respect to member-to-member disputes or disputes between members and their employees, really NFA's only role there is in the arbitration program. And we have a member-to-member arbitration program. So that if you'd like to, if you have a dispute and you can't resolve it with your employer, and you want to submit it to arbitration, that would be subject to mandatory arbitration at NFA.

Ron Filler wanted to talk about that a little bit.

Ron Filler: No. I just want to expand. I'm sorry. Sorry. So I just want to expand on Dan's question. And I've been in the industry for 35 years, and been involved with NFA for most of that career. And I highly recommend to our membership. We spoke about these on these membership training programs to encourage members to reach out to the NFA's Information Center. I think it's a valuable tool to help our members not only comply with the regulations, but if they have questions regarding forms or any other regulations, to reach out. And hopefully a staff member may be able to answer their questions. But I have used the information center in my whole career. And I think it's a great tool for our membership.

Dan Roth: Yeah. It's-- the Information Center people, and I'm glad none of them are in the room, so I can say this, they're the nicest people at NFA. And they're the most knowledgeable people at NFA. So we really-- they do a great job of not only answering questions, but basically acting as ambassadors. So I would very much encourage you to make use of that resource and call the 800 number with any questions that you have had.

Here's a question, question 28, Michael, we've heard that there have been a few swap dealers approached to do a trade reconstruction. Will NFA and the CFTC pick up the pace on these requests?

Michael Brosius: Dan, to my knowledge, I'm not sure that NFA has requested any trade reconstructions of swap dealers or major swap participants to date, from the swap side.

Dan Roth: Ed, is that-- we also obviously do surveillance work on behalf of most of the SEFs. Ed Dasso sort of oversees that. Does this question have any applicability in your area?

Ed Dasso: Dan, potentially. So what I would say here, as far as the trade reconstruction, NFA as a service provider to 16 SEFs, this is actually going back about three years. We developed our own data specification for our clients that we require that those SEFs meet that specification each day. So they send us a reconstruction of the trades as they occur on their marketplace, which would include all the messages, electronic messages, so the bids and offers and the quotes, as well as any trades or deals as they occur.

We have been, that being NFA, been in discussions with the CFTC about sharing our data specification for trade reconstructions for their own purposes. So that might be where some of the swap dealers have been approached. But I'm just making that assumption.

Dan Roth: Karen Wuertz head our Communications Department. Karen, there's a question 31 here that-- asking whether all the Town Hall webinars that Ron talked about, asking whether they're monthly or quarterly, and can we hold them on a more consistent basis, so that we can hear about FCM-IB community updates and questions. Can you talk about that a little bit?

Karen Wuertz: Sure. The Town Hall webinar that we're having today, we are now scheduling that on an annual basis. And then as Chris had mentioned, the way we're trying to keep the members informed is the quarterly Board Update video. And then we're also-- we've had several member workshops. And what we're trying to do for those members that aren't able to attend those workshops is we've included that information, the materials and transcripts, on our website.

Dan Roth: And I don't know whether Chris Hehmeyer might want to talk about this. But the-- we've done other webinars that have a more specific focus. This is sort of general, whatever questions you have we'd be happy to tackle them. But we've done them in the past for swap dealers and more narrowly focused topics, we've done these sorts of webinars.

As far as the in-person Town Hall meetings, there's a great place for those. Because you can't beat sometimes face-to-face communication. But on the other hand, in some ways, this is a much more economical way to reach a larger number of members.

And so I think we might-- we haven't done this too much in the past where we've done it for the whole membership on a wide range of topics. But it's certainly something we could consider doing more often, I think, in the future.

Chris Hehmeyer: I would say that the Board would be very interested in doing that if there's a demand for it. And this is a very good session here today. Because we get feedback about where there are frustrations, and where there is information that maybe we didn't know about, and it allows the staff to impart progress on programs that take a long time, and things that we're working on. And the regulatory structure can certainly be frustrating for the members. Because sometimes it's something that gets in between CFTC and NFA.

And sometimes that's not anybody's fault. But it allows us to get input from you all, and so this session, I'm fascinated by the questions that we're getting. And I think the Board would certainly be open to having it more often if we think that demand is there.

Dan Roth: Thanks, Chris. I'm sorry. Just looking over here. I'm sorry. There was a question here. Can you give any guidance as to what NFA expects from a swap dealer in trying to manage their foreign APs? And Dan or Michael, I'm not sure that-- whether we've addressed that.

I don't think we've-- this substitutive compliance obviously is an issue that remains unresolved, and therefore the extent of NFA's responsibilities in that area remain unresolved. But can you guys talk about that a little bit?

Michael Brosius: Dan, that's right. It is unresolved at this time. And with respect to the APs, there currently, as we know, there's no registration requirement for just the swaps APs at a swap dealer or major swap participant. Although if an AP happens to deal in swaps and is in a different member category at NFA, they are required to become a swaps AP as well, which requires a notification to NFA.

But with respect to the foreign firms, I don't think that there's anything that would be beyond the ensuring that the AP is not subject to a statutory disqualification.

Dan Driscoll: Thanks, Michael. This is Dan Driscoll again. The other thing I'd like to mention is that with regard to any firm that has APs that are in a different location than the home office, it does bring up special supervision type of issues, in my opinion. The key is you need to have qualified experienced professionals in those remote locations

that are qualified to be supervisors. And if you have that, it's not a failsafe. But you'll go a long way to complying with all of the rules.

Dan Roth: Thanks, Dan. Thanks, Michael. There's a question here on how can a user on the basic system, and again for people not familiar with it, the basic system is a portion of our website where people can go and just check out any firm or individual that's registered, and basically determine whether they have any sort of disciplinary history. And it's a helpful due diligence sort of tool.

And the question was, how can a user on the basic system, differentiate between an individual registered as a swaps AP, where there is no Series 3, and an AP who has a Series 3? Both individuals will show as associated persons. After the introduction of the swaps AP category, it has become difficult to tell the difference. And I think Yvette wants to talk about that a little bit.

Yvette Christman: If I can. Unfortunately on our basic system there is no way to tell the difference. Because as you indicated, they both do show as associated person. An associated person that is not doing swaps of course would not have the swaps AP designation. However, if you're a member firm, and it's one of your APs, you can find that information in the online registration system by looking at the proficiency screen, which you'll indicate if an individual has passed an exam or not, and also there's a swap AP list that will also indicate if an individual is doing swaps-exclusive activity.

Dan Roth: Thanks, Yvette. Regina, we had a follow-up question on the fact-- on the public accounting oversight board, they no longer require reports on internal controls. It's question 27. Could you just sort of go over question 27, and maybe see if we can give a follow-up answer on that?

Regina Thoele: Yes. So I think, now that I see the clarification, so under the SEC rule, the broker dealer FCM now has to do a compliance report under what they call a compliance report, which is similar to a material and adequacy or internal control review. That's now required under the SEC rules.

Unfortunately at this point, the CFTC did not codify the exact same rule requirement. So an FCM broker dealer is now left in a spot, for at least this year, to file both the material and adequacy and internal controls report, as well as the compliance report that is required under the SEC rules.

It's my understanding from discussion with the CFTC folks that they are trying to amend their rule requirements to now be moving forward to be consistent with what's required under PCAOB and the SEC rules. So hopefully this will be the only year that you'll have to do both reports to comply with both SEC rules and CFTC rules.

Hopefully that answers it.

Dan Roth: I'm sorry. Thanks, Regina. And thanks very much for the follow-up question. I appreciate your following up if we didn't answer the question to your satisfaction the first time.

Just to follow up, I think someone may have joined a little bit late. There was a question that came in about whether we expect to issue frequently-asked questions on the CPO-PQR. Regina talked about that earlier. We do have a draft of such guidance that we're waiting for CFTC approval on. So we hope to have that done soon.

Regina, there's a question on why we don't allow a few days extensions on filings if they're reasonable reasons to ask for an extension. This person was denied a request after their accountant was taken ill.

So could you talk about the circumstances under which-- I'm sorry. Are you having trouble finding it, Regina? It's question 34, extension requests, and how we handle those generally?

Regina Thoele: Sure. So with regards to any extension request, we will require a firm to file a request in writing to ask for whatever extension timeframe they're looking for, and then to provide us with the reason for why they are requesting an extension.

So I think that in each scenario, we look at the facts and circumstances. And we take an approach that if there's a reasonable explanation for why a firm has requested an extension, we typically try to give the firm some relief time.

Sometimes there are situations where we think there might be something that's going on, or an issue with a firm where, depending on what the reason is for the request of the extension, we do feel that firms are fully aware of what their filing requirements are. And typically to make sure that they are making changes or seeking out a CPA firm, if they're going to be aware that they're in a situation where they cannot make a timely filing because of the CPA firm's issues there.

So again, it's going to depend on the facts and circumstances. But we look at each individual one. And I do think that in the past we have been able to give some relief. And it's going to depend on what those circumstances were when we give the relief.

So it's not that we never do it. But we do look at the overall situation to determine whether or not relief should be given. Thanks, Dan.

Dan Roth: You know, I would also think, Regina, that if someone requests an extension of time, and they're denied by NFA staff, if you really feel that the response from NFA is unreasonable, I think you feel free to kick it up the chain and ask to talk to the next person up the higher rung. Or call Regina. Regina just rolled her eyes.

But don't feel that you have to-- I think generally we seldom invoke infallibility at NFA. And if you feel you got an unreasonable response, let someone here know. And we'll talk about it.

Regina Thoele: Sorry. I think one more thing Dan, you just made me think of, is sometimes with regards to relief in the commodity pool operator, we are tied somewhat in the sense of if a request comes in after the due date. So I can't emphasize enough, especially with us coming up on the March 31st deadline for those certified, if you find yourself in a spot where you're not going to be able to file, you need to file that request by March 31st. Because this is something that the CFTC holds us to very closely.

So I can't again, emphasize enough that if you right now know that you're going to be in a situation where you're probably not going to be able to make that deadline, get the request in immediately. So then we can handle it. But again, usually what it is, is you have to have asked for some type of relief before the actual filing is due. So make a note of that for future, or if you're going to have issues with this upcoming filing, get your relief request in as soon as possible.

Dan Roth: Thanks, Reg. There is a question that came in. There is talk that APs of swap dealers will need to be licensed. Is there a timetable for this?

And let me just mention that-- Tom, do you want to talk about it a little bit, Tom Sexton, our General Counsel.

Tom Sexton: Thank you, Dan. And that's a very good question. As of this time, we are not contemplating that APs of swap dealers will have to be

licensed. So there is no timetable for that at this particular time. If in the future we move in that direction, we'd discuss that with not only the CFTC but also our Board would have to make the determination.

Because as you know, pursuant to the Commodity Exchange Act, there is no requirement that the APs of swap dealers have to be registered APs. So in answer to that question, I think that the short answer is there's no timetable. And we'll see what the future holds.

Dan Roth:

Yeah. I'm not even sure that there's that much talk about it. Although this could be related to Commissioner Giancarlo's white paper. He came out with an extensive white paper on how he thought certain regulations, particularly pertaining to SEFs, should be changed. And in that discussion, in that paper, which I would recommend everybody read. It's a very thoughtful paper. But he talks a lot about trying to put less emphasis on regulations dictating the method by which certain orders had to be executed, and more emphasis on governing or addressing alleged wrongdoing by specific individuals.

That could implicate the registration of APs as swap dealers. But I'm not aware of anything that's going on with the commission right now. Certainly nothing in Congress that would change that provision of Dodd-Frank.

Dan, we had a follow-up questions kind of dealing with the APs in remote locations. Is NFA expecting an NFA branch manager at that location, or out of the nearest NFA-registered location? Can you talk about branch managers?

Dan Driscoll:

Sure, Dan. And it depends as to whether the member is a swap dealer or MSP or other type of member. Swap dealers and MSPs don't have to list their branch offices on their registration filings. And they're not required to have a branch manager that has passed any examination.

Obviously with swap dealers and MSPs, there's still a requirement to supervise diligently. And so when I was referring to having the qualified supervisors, you still-- even though you don't have to meet any particular requirements, you're better served to have good quality people there in that capacity.

With FCMs, IBs, CPOs and CTAs, in any branch office in the United States, you're certainly required to list your branch offices

and generally speaking you have to have a qualified branch office manager in each of those, with just one or two limited exceptions.

If you're those types of registrants, and you have foreign branch offices, if the APs in that office only deal with non-US customers, then you're not required to list them as a branch office, or have a qualified branch office manager.

Dan Roth: Thanks, Dan. I'm sorry, where was the question? Here we go. There was a question, Regina, number 30. There was a discussion a year ago, about a year ago, about an upcoming requirement for CPOs and CTAs to have a chief compliance officer. And they want to know whether that's going to become a formal requirement, and if so, when? And why is that question on the PR and the PQR?

Regina Thoele: So Dan, I think I see the question. And I know that we've always talked about if the firm has a chief compliance officer, they have to list them and put them under listed principals. But right now 3.3, CFTC commission rule 3.3 about having a chief compliance officer is limited to FCMs, swap dealers, and MSPs.

So I know this topic has come up in the past. And I'm not sure if it was at the CFTC roundtable. But right now we do not have a requirement, nor am I familiar with the CFTC having a requirement that the CPO or CTA have a chief compliance officer.

And with regards-- so I don't know that this will be a formal requirement any time in the near term. And then with regards to why is the question on the CTA-PR or CPO-PQR, I'm not sure that it is. So I'm looking at a form now. And I don't see it. So if the person who wrote this wants to send additional information, I'd be happy to look into it further for them. Thanks.

Dan Roth: Thanks, Reg. Let's see. I'm sorry. This is something. Maybe Michael and Regina can both help on this. Question 29 here, it says the OTC derivatives department had a call recently where they talked about CCO requirement, including reviewing operations, issues and so forth. And Regina, the question was does this apply to FCM CCOs as well. And in addition, does NFA plan to do a review of CCOs of FCMs or NFAs, not the DSRO? And I bet I know the answer to the last question.

Regina Thoele: And I'm sure you do. So yes, we are looking. There is a CCO report that is like the CCO report that has to be filed for the swap dealers. So FCMs are subject to the CCO report requirement. And in the rule there is specific areas that you have to cover in

reviewing the annual report that the CCO has to file on behalf of the FCM.

So that information is very much spelled out. It does include operational issues. You are required to review the operations at the firm and address specific areas that are outlined again in the rule. And it tells you that you have to address these, and any concerns that you might have in those areas.

Now, with regards to our exams, we are collecting, first of all, the CCO reports when they are filed by the FCMs. We will look at the CCO report when it's filed. And again, this is something that we would use in consideration of whether or not we would move up the timing of a particular FCM's audit. Because we go out and examine our FCMs on an annual basis.

But if we felt that there were concerns that were outlined in a CCO report, first of all, we're hoping that we've already-- we've learned about them in the past, that they've been corrected. That it's not when we get the CCO report that we're hearing about it for the first time.

So these will be part of our examinations. And I would also mention that we do kind of take the CFTC to see whether or not there are any issues with the actual report. Now if we are not the DSRO, that would be handled by the DSRO who's examining the FCM member. And it's my understanding that they are going to be doing a very similar review. They will contact the CFTC about those filings with the annual reports, and look at what the contents are.

And we use it to see if there's a particular area that we need to focus on. So again, it's my understanding that for even the firms that weren't at the DSRO, the DSRO will be doing a similar review when they go out and conduct their examination.

Dan Roth:

Thanks, Reg. We have two questions that have-- that relate trade reconstruction. One says that there have been numerous vendors claiming that they have trade reconstruction solutions, and is it possible to give guidance as to what type of info would be requested for trade reconstruction. Would it be for specific products, or all swaps?

There was another question that said that some banks have received requests that appear to be trade reconstruction requests over the last several months. And the information seems to be very

similar, the requirements of the regulations such as voice electronic communications that we talked about earlier.

Ed and Michael have both had some interaction with that. Michael, do you want to talk about that a little bit?

Michael Brosius: Yes, Dan. I think it might be helpful for us to take a quick look at the recordkeeping rules for swaps, as they can be fairly detailed regarding what swaps trade information needs to be preserved by the firm.

The rule 23.201, required records, lists transaction records as a requirement, and enumerates the types of information that would qualify as having to be documented by the firm, including records of all orders, correspondence, journals, memoranda, ledgers, et cetera.

We can also look at rule 23.202, daily trading records, which references pre-execution trade information, execution information, as well as post-execution information such as reconciliation and compression and margin and collateral information.

So I think that that forms the database of information that is required to be preserved by the firm with respect to its swap trading. And perhaps I could turn it over to my colleague Ed Dasso, to talk about some of the requests.

Ed Dasso: Thanks, Michael. So I'm going to make the assumption that in the question that the request came from either NFA staff here, as the SRO function, or from my department, Market Regulation, where we act as the service provider on behalf of the SEFs.

So for my department, if you've received a trade reconstruction request within the last several months, that's probably primarily due to the fact that similar to the swap dealers that have the requirement to maintain voice recordings, the swap execution facilities also have an audit trail rule.

That audit trail rule was written specifically for electronic marketplaces. And because of that the CFTC staff realized after the rules went final that it was nearly impossible for voice-based SEFs to comply with that requirement. So what the CDMO (ph) staff, or division of market oversight staff within the CFTC did, was they offered the SEFs a form of alternative compliance to that audit trail rule, where the SEFs or NFA as the service provider, can

conduct targeted and/or random reviews of voice-based audit trail transactions as they occur on the SEF.

So what we've done within the last quarter or so, on behalf of our 16 clients, is send out specific requests to the SEFs, as well as the dealers on those SEFs, requesting such things as voice communications, confirmations, and other trade-related information to assist those SEFs in complying with that method of alternative compliance that the CFTC has laid out for the SEF markets.

Dan Roth: Thanks, Ed. Cyber security has been a big issue among all regulators everywhere. And I think there's a question just sort of talking about-- asking whether we can provide guidance to members, Tom, on the type of cyber security issues that they may face. And also, Tim, the question just hints at a little bit, asking what sort of precautions NFA takes with respect to our security at NFA. Could you just give a quick description of that? And then maybe Tom, you could talk about the guidance issue.

Tim McHenry: Sure, Dan. So like you mentioned, right now we're looking at security from two sides, internally for our own systems, and externally in an effort to provide guidance to our member firms on how to maintain their own security.

So I'll just talk about our efforts internally. We've always taken security very seriously. And we do all we can to protect the confidentiality of the data that we maintain. So over the years we've developed a pretty extensive framework to defend our systems and member data from potential threats.

We also subject this framework to frequent independent reviews on a number of levels by third parties. So we're doing a lot to protect our data. But of course, a great defense doesn't mean as much today as it once did. Hackers are getting much more sophisticated. And their level of sophistication is beginning to surpass much of what can be done on the defensive side.

So we recognize that a breach is always a possibility. And as a result of that, we've been implementing a number of internal countermeasures to further protect the data inside our networks. So it's tough staying ahead of the bad guys. But we'll continue to work hard and enhance our own systems further to keep our data as safe as possible.

Tom Sexton: And this is Tom Sexton. And I've been asked to answer the question with regard to member guidance with regard to cyber

security. And as you are probably all aware, that there are various regulators that have issued guidance, mainly in the securities area, as well as the banking regulators have various speeches with regard to cyber security, and some very broad guidelines with regard to that area.

On the security side, the FINRA come out with a survey, rather a detailed survey of their member firms and some suggestions as far as what they expect their member firms to adopt as far as cyber security measures. And I know that SIFMA came out with some small firm guidance.

And we are certain that all our members, as we, take security seriously. And not only of member data, but of their systems. And I think that we would expect sometime later this year to adopt an interpretive notice that comes out with some very broad guidelines as far as cyber security. Not only the protection of data and systems, but how you recover from a data breach, if you were to experience one.

In doing so, we'll obviously work with our advisory committees and the CFTC as well as with our executive committee aboard. And one of the real challenges for us, as you can expect, is we have members from all different sizes, and all different types of businesses. And coming up with guidelines that they can adopt with regard to cyber security measures is the real challenge.

Because we have very detailed guidelines with regard to certain members that are very large organizations. And we have to be much more flexible for our smaller members in adopting those measures.

So I would expect sometime later this year to see something come out of NFA. And as I said, we'll work with our various committees in adopting this guidance. And if you have any suggestions as to what should be included in the guidance, we're always here to listen. And we'd be happy to have a call or meet with you. So thank you.

Dan Roth: Thanks, Tom. I'd also like to thank the member who just gave us a follow-up on the chief compliance officer thing, and pointing out exactly where on the form it is. Regina, did you want to talk about that a little bit?

Regina Thoele: Sure. So thank you for that, member. And I did find it on the PQR with your help. And so I think it says CPO's chief compliance

officer. So if you have one, you need to put that individual's name on that spot. And then again under, if you list an individual who's your chief compliance officer, they would need to be listed as a principal of the firm on your individual form for that firm. So they would file under the 8-R for that firm, you would list the compliance officer and denote that on that screen.

But again, I don't think there's any, I guess, progress or thought that the CFTC is going to come out with the requirement at this time that all commodity pool operators have a chief compliance officer. But we'll keep you posted. Thanks.

Dan Roth: So the form basically says if you've got one, list them, but it doesn't mean that you have to have one. We're just about out of time here. And this has been a lot of fun. I hope it's been helpful for the members. But it's been fun to look at the questions and try to get to as many of them as we can.

If we didn't get to your question today, you'll get an email response within 24 hours. And with that, we have a couple minutes. Chris, I don't know if you or Ron have any closing remarks that you'd like to make?

Chris Hehmeyer: It's Chris Hehmeyer. I would say quickly that this has been great. The feedback's been great. There have been very good questions. And thank you all for the participation. The regulatory world today can be frustrating and difficult to navigate. And the Board of Directors of course is made up of the members. And the tone at the Board of Directors and certainly at the senior management level, I can assure you is not one of trying to play gotcha and we've seen that in other places.

I know one participant who, his accountant filed on March the 31st on a leap year, and so the rule said that you had to file within 90 days of the end of the year, and because it was a leap year, it was the 91st day, and another regulatory agency came down on him for that. NFA is not out to try to catch people trying to-- that have been caught in something.

And the general, I think, motto, unwritten motto, has been that NFA is here to try to help the members who want to comply with the rules. And it will come down hard on those who don't want to comply with the rules.

And so I just want to thank everybody for the participation today, and for all these very good questions. Ron?

Ron Filler: I just want to add, expand on what Chris said. I'm a big believer that NFA has a tremendous responsibility to regulate this industry. But we also need to do so in an effective and efficient manner. We welcome issues, questions, problems from our membership. We all need to work together, hold hands together, and to make sure that NFA is doing its job as the industry self-regulatory organization.

And I just think these types of programs, the Town Hall today, and the membership programs that we've been doing over the past several months have been great. We want an educated membership. We also want an educated consumer end-user community customer base.

So we are big believers in providing these types of educational programs to the membership, as well as to the end users. So thank you for letting me be part of it.

Dan Roth: Thanks, both Chris and Ron, and for all the officers. And thanks to all the members for your questions. And we really are just about out of time. The only thing I would just remind you is that it's great to do these webinars. It's a handy way to get questions. But we're here every day at NFA. And if you ever have a question, don't feel you need to write it down and wait for the next webinar. Feel free to reach out to call any one of us, and we'll get you an answer just as quickly as we can.

So thanks, everybody, for your participation. And there will be an audio recording of today's activities and a transcript posted on our website. So if there's something you want to double-check, you can look for it there.

And thanks very much, and we'll talk to you again soon. Bye-bye.