



NATIONAL
FUTURES
ASSOCIATION

Educating and
Protecting Investors



Fighting Fraud and Abuse



Safeguarding the Integrity
of the Derivatives Markets



Regulation. Redefined.



Introduction

National Futures Association (NFA) is the industrywide, self-regulatory organization for the U.S. futures industry. We strive every day to develop rules, programs and services that safeguard market integrity, protect investors and help our Members meet their regulatory responsibilities.

Managing risk by trading futures and options on futures contracts is a vital component of the global economy. Every business day tens of millions of futures contracts are traded on an increasingly broad spectrum of products, including agricultural commodities, oil, precious metals, equities, treasury bonds, financial indexes and foreign currencies.

Investor confidence is crucial to the success of the futures markets, and the best way to gain investor confidence is to ensure that the highest levels of integrity are demanded of all market participants and intermediaries.

Membership in NFA is mandatory, assuring that everyone conducting business with the public on the U.S. futures exchanges—more than 4,200 firms and 55,000 associates—must adhere to the same high standards of professional conduct.

NFA is an independent regulatory organization with no ties to any specific marketplace. We operate at no cost to the taxpayer. We are financed exclusively from membership dues and from assessment fees paid by the users of the futures markets.

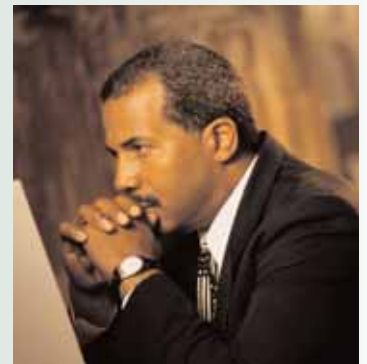


NFA's Role in the U.S. Futures Industry

In 1974 Congress established the Commodity Futures Trading Commission (CFTC), a federal regulatory agency with jurisdiction over futures trading. The same legislation authorized the creation of “registered futures associations,” giving the futures industry the opportunity to create a nationwide self-regulatory organization.



The CFTC provides government oversight for the entire industry. Each U.S. futures exchange operates as a self-regulatory organization, governing its floor brokers, traders and member firms. NFA regulates every firm or individual who conducts futures trading business with public customers. Although the various regulatory organizations in the futures industry have their own specific areas of authority, together they form a regulatory partnership that oversees all industry participants.



How NFA Fights Fraud and Abuse

Rigorous registration requirements. NFA thoroughly screens all firms and individuals wishing to do business with the public on any U.S. futures exchange. Applicants must meet stringent fitness requirements, including providing fingerprint cards for background checks. In addition, registrants must pass comprehensive proficiency testing requirements. We also have the authority to deny, revoke, suspend, restrict or condition any firm's or individual's registration.

Comprehensive compliance rules. Over the years, NFA has adopted stringent rules covering a wide variety of areas such as advertising, telephone solicitations, risk disclosure, discretionary trading, disclosure of fees, minimum capital requirements, reporting and proficiency testing. Just as importantly, we perform audits and examinations of our Members to monitor compliance with those rules. We also conduct financial surveillance to enforce compliance with NFA's financial requirements.

Strong enforcement authority. NFA has the authority to take disciplinary actions against any firm or individual who violates its rules, ranging from Warning Letters for minor rule infractions to formal Complaints in cases where rule violations warrant prosecution. Penalties resulting from Complaints include expulsion, suspension for a fixed period, prohibition from future association with any NFA Member, censure, reprimand and a fine of up to \$250,000 per violation. NFA often collaborates with the CFTC, the FBI and other law enforcement agencies to ensure successful prosecutions.

Trade practice and market surveillance. The futures industry has changed dramatically in the past few years. Long-established methods of trading, such as open-outcry, have given way to electronic trading at both traditional and new all-electronic exchanges. NFA provides a variety of regulatory services and programs to electronic exchanges to ensure the fair treatment of customers and to maintain orderly markets.



Resources for Investors

Investor protection begins with investor education. From its inception, NFA has committed resources to provide investors with the tools they need to make informed financial decisions. We have developed several publications that discuss a variety of futures-related topics. All of the publications are available on NFA's Web site (www.nfa.futures.org) and through NFA's Information Center (800-621-3570).

In 1991, NFA created the nation's first clearinghouse of disciplinary information about futures firms and salespeople. This clearinghouse allowed investors and others for the first time to get a "one-stop" background check from government and self-regulatory sources about the disciplinary history and other background of 150,000 individuals and 10,000 firms that either are now or have been involved in the futures industry.

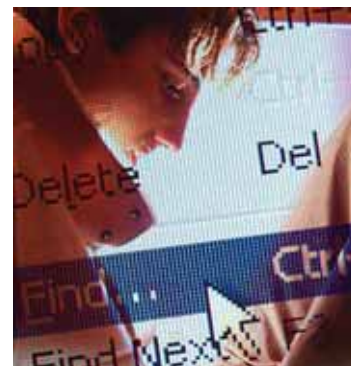
NFA moved its extensive database of information online in 1998 when we introduced the Background Affiliation Status Information Center (BASIC). BASIC, which can be accessed through our Web site, contains current and historical registration information concerning all current and former CFTC registrants. It also provides information concerning disciplinary actions taken by NFA, the CFTC and all the U.S. futures exchanges. Investors and other industry participants conduct more than 600,000 BASIC searches every year.

Dispute Resolution

Disputes occasionally occur in any business, and the futures industry is no exception. In 1983, NFA began an arbitration program, providing a convenient, inexpensive and prompt method for investors to resolve futures-related disputes. Since that time, NFA arbitration has become the primary venue for dispute resolution in the futures industry.

Since August 1991 we have also offered a mediation program to provide a faster and less expensive alternative to arbitration. To date, more than 1,500 cases have been referred to mediation.

In October 2001, we became the first regulatory organization in the financial services industry to accept arbitration claims online. Customers are now able to file their initial arbitration or mediation claims on NFA's Web site. Within minutes, we send a reply stating that the claim has been received. As the case progresses, claimants and respondents can check the status of the case online.



Making Self-Regulation Work

Keeping the self in self-regulation. An important element of self-regulatory success is active, voluntary Member involvement. NFA's 25-member Board of Directors consists of representatives of every category of membership. These representatives, elected by their peers, are joined by representatives from U.S. futures exchanges and non-industry Board members to form a governing body that is responsible for interpreting the mission of the organization, developing policy and ensuring a sound financial structure.

NFA's organizational structure gives our Members many opportunities to participate in the self-regulatory process, from rule making to rule enforcement. Members sit on NFA's Business Conduct Committees, Advisory Committees and numerous special committees appointed by the Board of Directors to ensure maximum Member involvement in all of our regulatory efforts.

Operating efficiently. NFA is constantly looking for new ways to use technology to streamline work processes and increase efficiency. For example, in June 2002 we launched our Online Registration System (ORS), leading the futures industry into a new era of increased registration efficiency. In 2004, we began submitting digital images of fingerprint cards to the FBI, shortening the background check procedure from an average of three weeks to as little as several hours. Later that year we introduced Easy File, an online system that allows certain membership categories to file financial statements with NFA electronically.

Many regulatory efficiencies also have been achieved through the delegation of regulatory responsibilities to NFA from the CFTC. Throughout NFA's history, the CFTC has authorized NFA to conduct additional regulatory functions. For example, NFA now processes registration applications for all futures industry participants, initiates actions to revoke and/or deny registrations, acts as agent for service of process for foreign firms under Part 30 of the Commodity Exchange Act and reviews pool financial statements, as well as CPO and CTA Disclosure Documents.

Providing leadership. NFA's accomplishments and reputation are a direct result of the commitment to quality work exhibited by each and every NFA employee on a daily basis. Their professionalism, expertise and commitment to NFA's mission and goals are key elements of our success.

NFA has also developed an extensive Member outreach program to help our Members understand and fulfill their regulatory obligations. We publish several regulatory guides, offer educational visits to new Members to help them establish sound business practices, and periodically host Member meetings at various locations around the country.

Adding value to the industry. Even in areas where we do not have regulatory jurisdiction, NFA constantly looks for opportunities to provide additional value to the industry. For example, NFA's restitution program helps customers involved in commodity fraud cases recover some of the money they lost dealing with dishonest salespeople.

The program usually applies to judgments awarded in cases brought by the CFTC involving commodity fraud by unregistered firms and individuals. Although the majority of these cases do not involve NFA Members, offering the restitution program reflects our commitment to market integrity and investor protection. And because NFA does not charge any fees for administering the restitution service, we are able to return as much money as possible to the victims.





Meeting the Regulatory Needs of an Evolving Industry

In 1982, NFA began its mission to strengthen the integrity of the U.S. futures industry and protect investors. More than two decades later, the futures industry is a thriving, integral part of the country's economy. Trading volume on the nation's futures exchanges continues to set new records. At the same time, the number of customer complaints has decreased dramatically, a direct result of the collaborative work done by NFA, the CFTC and the futures exchanges to ensure the integrity of the markets.

As the financial markets have evolved, NFA has taken a leading role in addressing new regulatory issues and has earned a worldwide reputation as a model for self-regulation. Every year NFA hosts visitors from many countries wanting to learn more about NFA's self-regulatory structure and methodology. NFA has also provided formal training programs to regulators, government officials and exchange representatives from several countries.

In today's rapidly changing marketplace, the need for regulation that is both effective and efficient has never been greater. NFA pledges to always strive to be a unique and exemplary self-regulatory organization.

One that safeguards the integrity of the marketplace.

One that is not affiliated with any marketplace, assuring its independent status.

One that provides valuable programs, services and information to its Members.

One that actively solicits Member participation in the self-regulatory process.

One that operates with a low-cost, results-focused mentality.

We are confident that we have the experience and expertise to meet whatever regulatory challenges may arise. We are first, foremost and only a regulatory body devoted to investor protection and market integrity.





NATIONAL
FUTURES
ASSOCIATION

Information Center
1-800-621-3570

World Wide Web
<http://www.nfa.futures.org>

Offices

CHICAGO HEADQUARTERS

200 West Madison Street, Suite 1600
Chicago, IL 60606-3447
312-781-1410

NEW YORK

120 Broadway, Suite 1125
New York, NY 10271-0085
212-608-8660

© 2005 National Futures Association

