

## FUTURES INDUSTRY SERVICES

S. D. Daniels & Co, P.C. (“SDDCO-PC”) the founding, CPA entity of the SDDCO Group provides outsourced professional support to the futures services industry. Our seasoned accountants and consultants guide commodity entities with their firm formation and registration, compliance program development, alongside ongoing compliance, reporting, bookkeeping, and accounting assistance.

### **CATEGORIES SERVED**

Futures Commission Merchant (“FCM”): individual or organization soliciting or accepting orders to buy or sell futures contracts or options on futures *and* accepting money or other assets from customers to support such orders. The FCM category includes the Retail Foreign Exchange Dealer (“RFED”), which is an individual or organization acting as counterparty to an off-exchange foreign currency transaction with an ineligible contract participant where the transaction is external to any exchanges.

Introducing Broker (“IB”): individual or organization soliciting or accepting orders to buy or sell futures contracts, options on futures, retail off-exchange forex contracts or swaps *without* accepting money or assets from customers to support the orders.

Commodity Pool Operator (“CPO”): individual or organization operating or soliciting funds for a pool of funds contributed by many that are bundled for futures contracts, options on futures, retail off-exchange forex contract or swaps, or to invest in another commodity pool.

Commodity Trading Advisor (“CTA”): individual or organization, for profit or compensation, advising others on the value or advisability of buying or selling futures contracts or commodity options. Advising may include exerting trading authority over customer accounts and providing customized client advice.

### **REGISTRATION SERVICES**

SDDCO-PC provides full service Commodity Futures Trading Commission (“CFTC”) registration and National Futures Association (“NFA”) membership assistance, identifying the proper registration category, targeting the entity’s exemptions and obligations, filing necessary forms and documents, advising on financial requirements, assisting the creation of manuals, and responding to requests by regulators. We also assist with securing exemption status where applicable.

### **▲ Who Must Register?**

Unless approved for exceptions, all firms and individuals planning to do business in the futures industry are required to register with the CFTC under the terms of the Commodity Exchange Act. To conduct business with the public, such professionals must also gain membership with the NFA.

The NFA, a registered futures association or RFA, is the self-regulating association performing all CFTC registrations, accepting/rejecting applicants. It also administers customer protection standards, monitors the financial compliance of members, and provides an arbitration forum. NFA entrance is available to all CFTC registrants (and exempted) that satisfy the criteria, including FCMs, IBs, RFEDs, CPOs and CTAs.

## CFTC Registration Steps

SDDCO-PC fully manages your registration with the Commodity Futures Trading Commission and membership application to the National Futures Association, by guiding each aspect of the process and reviewing all content with your management team.

As applicable to each registering person or business entity, we will:

- Guide financial requirements:
  - Net capital expectations and the related reporting
- Guide financial statement filing:
  - FOCUS report or Form 1-FR-FCM
  - Review audited financial statements to ensure financial statements meet the initial filing requirements of the CFTC and NFA
- Prepare and file Form 7-R:
  - Listing employees, job functions and contact information
- Supervising the registration of individuals as Principals and APs:
  - Form 8-R completion, fingerprinting, and proficiency testing (National Commodity Futures Exam -NCFE Series 3 or other qualifying exams: Series 30, 31, 33 and 34)
  - One company position must register as both AP and Principal
  - Parent company must register as Principal of the firm
- Guide any CFTC registrants in retail off-exchange forex activities to fulfill these *added* requirements:
  - A Principal must be approved as Forex AP
  - Application for Forex Dealer Membership
- Guide any CFTC registrants in swap transactions to fulfill these *added* requirements:
  - A Principal must be approved as Swap AP.
- Guide all registration fees, exam fees, and membership dues;
  - Act as Security Manager to file application via NFA's Online Registration System (ORS)
- Draft and/or review all business manuals including:
  - Anti-Money Laundering (“AML”) Procedures
  - Business Continuity and Disaster Recovery Procedures
  - Supervision of Sales Practice and Associated Person Procedures
  - Promotional Materials and Customer Complaints Procedures
  - Margin/Segregation Procedures
  - Privacy and Ethics Training Policies

- Draft and/or assemble NFA analysis docs including:
  - Source of Assets Letter
  - Copy of Subordinate Loan Agreement
  - Copy of SRO report and responses from broker dealers
  - Unaudited financial statements
  - Business plan including, client types, commodities to trade, service professionals (CPA, legal counsel), and carrying broker
  
- Draft follow-up responses to regulators as needed

### **▲ CFTC Registration Timeline**

The overall CFTC registration process can take six (6) months or more, depending on the complexity of your business. Here’s a general timeline.

Within ninety (90) days of initial 7-R filing, key steps must be satisfied:

- Applications for the entity and all individuals
- Successful completions of proficiency exams
- Submission of fingerprint cards
- Infusion of capital
- Submission of financial statements

Within three (3) weeks of key steps, an NFA analyst is assigned:

- NFA analyst will request all business manuals, business plan, financials, list of service professionals, and the carrying broker

Within two (2) additional months

- NFA will respond

## **DEVELOPMENT AND MAINTENANCE SERVICES**

### **▲ Compliance Services for Commodity Brokers:**

SDDCO-PC works closely with management to understand your business model in order to draft your Written Supervisory Procedures (“WSP”), internal and external compliance documents, and a customized compliance program. Our consultants can be engaged, on a project or retainer basis, to provide continued assistance to firms old and new to help personnel maintain compliance with changing industry rules.

Compliance retainer functions include:

- Review compliance manual policies and procedures for sufficient representation of business operations and applicable industry rules, regulations, and updates
- Update plans and policies as required, including:
  - Business Continuity Plan
  - Ethics Policy
  - AML policy and others

- Perform online registrations and memberships
- File quarterly reports as applicable
- Review website and promotional materials
- Assist the annual compliance meeting
- Assist in preparation for regulatory examinations
- Assist firm self-examinations

### **▲ Financial Services for Commodity Brokers:**

SDDCO-PC assists commodity brokers with all accounting procedures, as applicable, including the monthly maintenance of books & records, required computations, reporting, and filings. Our accountants can setup and manage a robust system of financial reporting and recordkeeping.

#### Accounting retainer functions for FCMS and IBs include:

- Setup & upgrade of QuickBooks accounting software systems
- Oversee NFA members' books and records
- Preparation and analysis of general ledger & financial statements
- Preparation of accountant compiled reports including footnote disclosures
- Preparation of 1099, 1096 and other year-end reports
- Performance of budgets and forecasting
- Computation of monthly net capital and all related items, such as Haircuts
- For FCMs: review of segregation and secured account computations
- Filing Form 1-FR-FCM monthly or 1-FR-IB semi-annually
- Interfacing with outside auditors or regulators during audit exams and as needed

#### Accounting retainer functions for CPOs and CTAs include:

- Setup & upgrade of QuickBooks accounting software systems
- Preparation and analysis of general ledger and financial statements
- Preparation of client statement monthly and quarterly
- Computation of net asset value ("NAV")
- Filing Form PF or PDQ quarterly
- Disclosure document review
- Disclosure document capsule preparation
- Performance table reporting

### **CONTACT US**

Call SDDCO to discuss the commodity broker registration process or your regulatory compliance and financial services needs. Speak with an SDDCO partner at 212-751-4422 or email [info@sddco.com](mailto:info@sddco.com).