

**National Introducing Brokers Association
N.I.B.A.**

**55 W. Monroe, Ste. 3600
Chicago, IL 60603**

**312.977.0598
www.theniba.com**

July 25, 2012

Commissioner Scott O'Malia
Three LaFayette Centre
1155 21st Street, NW
Washington, DC 20581

Statement of the NIBA to the Technology Advisory Committee, CFTC

Commissioner O'Malia -

Thank you and the CFTC Technology Advisory Committee for inviting the participation of the National Introducing Brokers Association (NIBA) in the conversation regarding the issues of the Committee's meeting July 26, 2012.

The NIBA was founded in 1991 as a non-profit association, whose mission is to support the business efforts of retail futures professionals through education, information and networking. Membership is open to Introducing Brokers (both IIB and GIB), Commodity Trading Advisors (CTAs) and Associated Persons (APs) registered in the futures, options and forex industries. In addition to IBs, CTAs and APs, NIBA members include nine FCMs, all domestic exchanges and 20 service providers.

The NIBA Board of Directors members are elected from the membership of the Association, who then appoint FCM and Exchange representatives as advisors.

The NIBA publishes an electronic newsletter monthly which is distributed to over 3000 industry participants. The Association holds at least two conferences annually. The fall 2011 Chicago conference registered approximately 225 attendees; the spring 2012 New York conference was attended by 125 members.

Since 1994, NIBA has been asked to participate in roundtables at the CFTC, submitted opinions through the federal register on virtually every issue that had the potential to affect the retail business, and testified before the House of Representatives on several occasions.

Both current NFA IB Board of Director representatives are former NIBA officers, and many NIBA members belong to various NFA committees. The Association has ongoing dialogue with CME Group along with other SROs, and ongoing relationships with FIA, and other industry participants.

Introducing Brokers are a vital part of the futures, option and forex business because:

- * IBs are the industry professionals who deal directly with the client while the execution and back office work is done by the FCM. The FCM has basically outsourced prospecting and serving of various of the client accounts to IBs.
- * An FCM would need to hire brokers and maintain offices, in places other than at an FCM's home place of business, such as in rural areas or suburban communities, in order to attract and service customers, which would result in large expenses for the FCM.
- * IBs help clients develop a trading plan and help them stick to it.
- * IBs do a great deal of research so that clients do not have to spend their days being researchers.
- * IBs are experienced in spotting patterns/trends that lead to trading opportunities. This is particularly important for new clients.
- * IBs can prevent a client from making mistakes such as entering a trade incorrectly or misunderstanding the language of the industry.
- * IBs provide information to hedgers on cash markets.
- * IBs provide education to new clients.

In today's conversation with the Technology Advisory Committee, it is important to note that neither the MF Global or PFG collapse occurred due to an IB's failure or because those firms used the IB business model. In fact, the IB does not hold customers funds and cannot control the handling of those funds.

The CME Group proposal to hold segregated funds at the clearinghouses sounds like a good solution on its face, but there are many complicated issues involved. Foreign funds, and multiple clearinghouses, not to mention FCM acceptance of any such plan, are just a few of the intertwined issues.

Further, in the NIBA's opinion, the proposals submitted by the NFA and approved by the Commission on July 17, will help. FCMs must allow electronic monitoring by the NFA and CFTC of segregated funds held in banks or any other repositories. Additionally, FCMs should be required to disclose to the public a listing of the repositories in which they deposit segregated funds.

It is clear that whatever rules and regulations the Commission enacts, they must be easily available for review by IBs and the public. The CFTC, NFA, and DSRO websites, along with those of other industry participants, must label the rule, and explain in it lay

terms. There should be description of enforcement action and identification of who will take that action. An IB needs this essential information in addition to FCM disclosures, in order to make good risk assessment decisions regarding its relationship with an FCM.

Not all NIBA members were directly affected by the situations at MF Global and PFG, but we are all suffering from the loss of trust in the system itself. We need to overhaul the regulations to be:

- Practical enough for IBs and other professionals to be able to comply
- Transparent enough for clients and non-professionals to understand
- Enforced rigorously enough to restore market credibility

Introducing Brokers and our clients need a complete picture of an FCM prior to doing business with that entity. New rules, along with additional FCM disclosures, will help to provide the information needed to make good business risk assessment and management decisions. Thank you for the opportunity to participate in this Committee's conversation. The NIBA is eager to hear the recommendations of the Committee, and to continue to work with the Commission for solutions.

Respectfully Submitted,

Melinda Schramm, Chairman
National Introducing Brokers Association
www.theniba.com