



## **2021 Initial Futures Ethics and Periodic Futures Ethics Training Outlines**

### **Introduction**

The provisions of Section 4p(b) of the Commodity Exchange Act (Act) (7 U.S.C. 6p(b) (1994)) set forth requirement regarding training of Registrants as to their responsibilities to the public. This section of the Act requires the Commodity Futures Trading Commission (CFTC) to issue regulations requiring new Registrants to attend ethics training sessions within six months of registration and periodically thereafter. The CFTC, in its Statement of Acceptable Practices (Statement), states: "The awareness and maintenance of professional ethical standards are essential elements of a Registrant's fitness. Further, the use of ethics training programs is relevant to a Registrant's maintenance of adequate supervision, a requirement under Rule 166.3".

The Statement is intended to serve as a "safe harbor" concerning acceptable procedures for Intermediaries regarding fitness and supervision of Registrants. The Statement lists the following topics to be addressed in training programs for this purpose:

1. An explanation of the applicable laws and regulations, and the rules of self-regulatory organizations or contract markets and registered derivatives transaction execution facilities;
2. The Registrant's obligation to the public to observe just and equitable principles of trade;
3. How to act honestly and fairly and with due skill, care and diligence in the best interest of customers and the integrity of the markets;
4. How to establish effective supervisory systems and internal controls;
5. Obtaining and assessing the financial situation and investment experience of customers;
6. Disclosure of material information to customers;
7. Avoidance, proper disclosure and handling of conflicts of interest.

## **Exchange Analytics 2021 Initial Ethics Program**

All topics required by the CFTC's Statement of Acceptable Practices are addressed in Exchange Analytics' Initial Ethics training program. Exchange Analytics was originally authorized to provide ethics training by the Commodity Futures Trading Commission in 1995. The program is designed to take approximately 90 to 120 minutes to complete.

The course outline is as follows:

1. Introduction
  - a. Training Responsibilities
  - b. Purpose of Course
2. Industry Structure & Rules
  - a. The CFTC and the NFA
  - b. The Exchanges
  - c. Registration Categories
  - d. Proficiency Requirements
  - e. NFA Bylaw 1101
  - f. COVID-19 Relief
3. Supervisory Systems & Internal Controls
  - a. Supervision
  - b. Internal Controls
  - c. The Compliance Department and the CCO
  - d. Reporting Breaches
  - e. Whistleblowers
  - f. Protecting Customer Information & Privacy
  - g. Identity Theft & Cybersecurity
4. Acting Honestly & Fairly; Customer Finances & Investment Experience
  - a. Code of Ethics
  - b. Know Your Customer
  - c. Suitability
  - d. Collecting and Evaluating Customer Information
  - e. Eligible Contract Participants
  - f. Anti-Money Laundering
  - g. Beneficial Ownership
  - h. Risk Management & Ownership Control
  - i. Customer Margins
5. Customer Disclosures
  - a. Risk Disclosures (Futures, Options, Cleared Swaps)
  - b. Firm-Specific Risk Disclosure

- c. Web Posting
  - d. Annual Update and Retention Requirements
  - e. Customer Account Funding & Segregation of Funds
  - f. Promotional Material
  - g. Disclaimers
  - h. Misrepresentation
  - i. Recordkeeping
  - j. Oral Communications
6. Avoidance & Disclosure of Conflicts of Interest
- a. Understanding Conflicts of Interest
  - b. Managing Potential Conflicts
7. Observing Just & Equitable Principle of Trade
- a. Who May Place Orders
  - b. Discretionary Trading Authority
  - c. Unauthorized Trading
  - d. Broker Discretion
  - e. Order Execution & Errors
  - f. Best Execution & Liquidations
  - g. Trading Recommendations
  - h. Fiduciary Duty
  - i. Commissions
  - j. Trading Ahead/Churning
  - k. Bunched Orders/Suspense Accounts
  - l. Average Pricing Systems
  - m. Automated Order Routing/High-Frequency Trading
  - n. Avoiding Ethical Dilemmas
  - o. Fraud
  - p. Manipulation/Insider Trading/Disruptive Practices
  - q. Pre-Arranged Trading
  - r. Wash Sales
  - s. Block Trades & EFRPs
  - t. Position Limits
  - u. Ownership & Controls
  - v. Deliveries
  - w. Option Exercises and Assignments
  - x. Trading Practices & General Offenses
  - y. False Statements
8. Case Studies (Examination of questionable conduct and ethical dilemmas with commentary from the perspectives of an associated person, a compliance officer and an attorney.)
9. Final Quiz

## **Exchange Analytics 2021 Periodic Ethics Program**

### Exchange Analytics' Periodic Ethics Program

All topics required by the CFTC's Statement of Acceptable Practices are addressed in Exchange Analytics' Periodic Ethics training program. This Periodic course is considered to be a "refresher" course, whereby certain timely topics are explored. Exchange Analytics was originally authorized to provide ethics training by the Commodity Futures Trading Commission in 1995. The program is designed to take about 45 minutes to complete.

The course outline is as follows:

#### I. Introduction of Course and Regulatory Information

- a. Course Overview
- b. Course Purpose

#### II. Industry Structure and Rules

- a. The CFTC and the NFA
- b. Dodd-Frank
- c. NFA Membership and Series Exams
- d. Swaps and Forex
- e. Principals and Branch Managers
- f. Exchange Jurisdiction
- g. Industry Obligations

#### III. Supervisory Systems and Internal Controls

- a. Supervision
- b. The CCO and the Compliance Department
- c. Reporting Breaches

#### IV. Act Honestly and Fairly

- a. Code of Ethics
- b. Privacy Policy
- c. Identity Theft/Cybersecurity

#### V. The Customer Relationship

- a. Know Your Customer
- b. Suitability

- c. Annual Update
- d. Anti-Money Laundering
- e. Beneficial Ownership
- f. Risk Management/Ownership and Control
- g. Customer Margins

#### VI. Customer Disclosures

- a. Risk Disclosures
- b. Firm-Specific Disclosures
- c. Web Posting
- d. Promotional Material
- e. Recordkeeping
- f. Record Retention

#### VII. Conflicts of Interest

- a. CFTC Regulation 1.71
- b. Ethical Dilemmas
- c. False Statements

#### VII. Just and Equitable Principles of Trade

- a. Anti-Fraud and Anti-Manipulation Provisions
- b. Insider Trading
- c. Disruptive Trading Practices/Spoofing
- d. CME Rule 575
- e. Pre-Opening
- f. Pre-Arranged Trading and Pre-Execution Communication Rules
- g. Consent and Disclosure
- h. Different Beneficial Owners
- i. Wash Sales
- j. Block Trades/EFRPs
- k. Bunched Orders
- l. Position Limits
- m. Accessing the Markets
- n. Trading Practices

#### VIII. Case Studies

#### IX. Quiz

## **Training Provider Qualifications**

### **(Supplied by Exchange Analytics)**

In its Interpretative Notice on Compliance Rule 2-9: Ethics Training Requirements, the National Futures Association states that 1) “Each Member should ensure that its selected provider is qualified and obtain proof that the provider has completed relevant proficiency testing and has three years of relevant industry experience, or similar experience;” and 2) that “Firms should only use providers that they reasonably in good faith believe are not subject to any investigations or bars from registration.” To address those requirements, Exchange Analytics presents the following information on the individuals who prepared this course material:

Marc Nagel serves as an advisor to Exchange Analytics and was the primary author of the courses. Mr. Nagel recently retired as Chief Operating Officer and Chief Compliance Officer of a clearing Futures Commission Merchant. He serves on the Futures Commission Merchant Advisory Committee of the National Futures Association and on the Advisory Board of the IIT- Chicago Kent College of Law Futures and Derivatives Conference. Mr. Nagel is employed as a futures industry compliance consultant and expert witness. He is a licensed CPA and attorney, admitted to the State of Illinois Supreme Court, the U.S. District Court for the Northern District of Illinois, and the U.S. Tax Court. Mr. Nagel is a registered Floor Broker and has held various Exchange memberships since 1979. Mr. Nagel received his BS in Accountancy and CPA from the University of Illinois and his JD from IIT/Chicago Kent College of Law. Mr. Nagel (NFA ID 0194163) is not subject to any investigations or bars from registration. He has no regulatory actions or other disciplinary history.

Joseph Adamczyk served as a co-author of the courses. Prior to his affiliation with Exchange Analytics, he served as the Chief Compliance Officer for Options Clearing Corporation (OCC). Mr. Adamczyk oversaw the firm’s compliance risk monitoring and governance programs, advised the board of directors and staff on compliance and regulatory requirements, and interacted with federal regulators on compliance, risk, and examination matters. Before joining OCC, Mr. Adamczyk worked at CME Group where he served as the Managing Director & Associate General Counsel overseeing the company’s non-U.S. legal staff and activities. In this role, he interacted with regulators from around the globe. He also handled CME Group’s interactions with U.S. regulators and other authorities on cybersecurity and technology controls, requirements, cyber incident response, and examinations. At CME Group, Mr. Adamczyk also served as the Global Head of Investigations and Enforcement in the Market Regulation Department. In that role, he oversaw teams responsible for monitoring, investigating, and enforcing the CME Group exchanges’ trade practice rules and other requirements. Mr. Adamczyk received his MBA from the University of Chicago, law degree from Loyola University Chicago School of Law, and undergraduate

degree from DePaul University. He has no regulatory actions or other disciplinary history.

Lawrence D. Israel served as co-author of the courses. He has been continuously registered with the National Futures Association from March 11, 1981 through the present, and is a 40-year member of the Chicago Board of Trade. During that time Mr. Israel has been extensively involved in the futures and securities industry, serving on a variety of committees at the CBOT, including Arbitration and Education. In 2008 Mr. Israel was appointed to both the Business Conduct Committee and Probable Cause Committee of the Chicago Board of Trade/CME Group. Mr. Israel was Chairman of the Associate Members Committee (financial traders), and serves as an Arbitrator for the National Futures Association. He has served as an expert witness in both Federal Court and arbitrations in disputes involving futures trading, as well as testifying in criminal proceedings for the United States Department of Justice. Mr. Israel served as an adjunct lecturer at Northwestern University where he taught courses about the futures, securities and options markets. Mr. Israel earned his BS in Economics from the University of Illinois Champaign-Urbana and his MBA from the University of Chicago. He is a Certified Anti-Money Laundering Specialist. Mr. Israel (NFA ID 0019703) is not subject to any investigations or bars from registration. He has no regulatory actions or other disciplinary history.