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CLIENT MEMORANDUM

Financial Ratios to be Reported on CPO-PQR and CTA-PR

Information will assist NFA in assessing financial condition of member firms

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The Commodity Futures Trading Commission has approved amendments to National Futures Association Rule 2-46 and a related Interpretive Notice.[1] These amendments generally will require each registered commodity pool operator and commodity trading advisor to report to NFA on Form CPO-PQR and Form CTA-PR, respectively, certain financial ratios directed at reflecting the financial condition of the CPO or CTA. The new requirements will be effective with respect to filings made for quarters ending on and after June 30, 2017.

Background

In January 2014, in the wake of a series of events involving shortfalls in certain commodity pools, NFA published a Notice to Members in which it requested comments on ways to provide greater protection for customer funds. At the time, NFA

[1] For more information on NFA's proposal, please see our client memorandum entitled "NFA Proposes Reporting of Financial Ratios for CPOs and CTAs," dated September 22, 2016, found here.

was contemplating, among other things, imposing minimum capital requirements on CPOs and CTAs.[2] For the time being, NFA has determined to collect financial ratios on Forms PQR and PR.

Forms PQR and PR

NFA Rule 2-46 generally requires a registered CPO or CTA subject to reporting requirements under CFTC Rule 4.27 to file Form PQR or PR, respectively, on a quarterly basis. Forms PQR and PR collect general identifying information regarding the CPO or CTA, as well as specific information on the pools operated by the CPO and the assets directed by the CTA.

Financial Ratios

For filings with respect to quarters ending on and after June 30, 2017, each CPO and CTA will have to report two financial ratios: (i) current assets/current liabilities (the "Assets/Liabilities Ratio") and (ii) total revenue/total expenses (the "Revenue/Expense Ratio").[3] The Assets/Liabilities Ratio is meant to measure a firm's liquidity, and is computed as of the end of the reporting quarter. The Revenue/Expense Ratio is meant to measure a firm's operating margin, and is computed based on revenues and expenses during the prior 12 months.

Neither Rule 2-46 nor the Interpretive Notice specifies any minimum ratios that a CPO or CTA must maintain.

A CPO or CTA that is part of a holding company/subsidiary structure may elect to report the ratios at the parent level. However, the CPO or CTA will be required to indicate on its Form PQR or Form PR, as applicable, whether the firm is reporting on the parent/holding company or the subsidiary.

Recordkeeping

Each CPO and CTA will have to maintain records that support the ratio calculations. Such records will be subject to inspection by NFA during an examination or upon request.

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2 For more information, please see our client memorandum entitled "NFA Contemplates Capital Requirements for CPOs and CTAs," dated January 24, 2014, found here.

3 The ratios would generally be computed using the accrual basis of accounting and in accordance with U.S. generally accepted accounting principles or another internationally recognized accounting standard, consistently applied.

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