

RJO'Brien News

INTRODUCING BROKER NEWSLETTER

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Commodity Futures Trading Commission Reauthorization

March 25, 2015

On March 25, 2015, the House Agriculture Committee had a series of hearings for the writing of legislation to reauthorize the CFTC, which expired in September 2013. Representative Austin Scott (R-GA) held this public hearing on the reauthorization of the CFTC so that the players in the markets could have their views addressed.

Scott stated “ This week’s hearings are an important first

step towards gaining a full understanding of the new regulatory challenges facing derivatives market participants. After hearing from representatives of the futures and swaps industries, we know there is still work to be done as these financial intermediaries and institutions adjust to new and changing rules. Derivatives markets exist for those who have risks to hedge. I look forward to a bipartisan solution that strikes a balance

between market integrity and market access.”



The witness list had many well-known and influential people in the industry. The list consisted of:

- **Mr. Gerald Corcoran**—on behalf of the Futures Industry Association
- **Mr. Shawn Bernardo**—on behalf of the Wholesale Market Brokers Association
- **Mr. Terrance A. Duffy**—CME Group
- **Mr. Benjamin Jackson**—ICE Futures
- **Mr. Daniel J. Roth**—NFA



For more information, please visit agriculture.house.gov

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DID YOU KNOW?

The CME Group has announced that it will be closing most of its futures trading pits in Chicago & New York by July 2015. The open outcry futures trading has fallen to just one percent of the company’s total futures volume. However, the floor-based S&P 500 futures market and select options markets will stay open on the CME Group’s Chicago trading floor.

We have updated our exchange time sheet to reflect these July 2015 changes. For a PDF version of this new exchange time sheet, please contact Client Services at 1-877-396-9316 or clientservices@rjobrien.com.



Important Reminders

Audits, Procedures & Records, Anti-Money Laundering, Trading Activity, Supervision, and Product Presentations

Audits

RJO has created a checklist that will help ensure that you are always ready for auditors making it less disruptive for your daily business operations. The checklist is broken down into six sections:

- 1.) General Firm Information, Procedures & Records
- 2.) Anti-Money Laundering
- 3.) Cash Activity & Financials
- 4.) Trading Activity & Order Tickets/Logs
- 5.) Communication with the Public
- 6.) Supervision

General Firm Information and Procedures & Records

The NFA, before coming for an audit, will give you a list of documents & information they would like to see. All documents should be provided electronically. It is extremely important that the firm's organizational



documents, contracts, & registration information is always current. The second group of standard documents you should have available at all times is customer records. This should include a full listing of all customers, a discretionary account listing, and all of your customer files. A major focus of NFA audits has been the training, policies, and procedures. You must make sure that you have: written policies and procedures governing your business, employee policy review attestations, and proof that policies are being followed. **The RJO Compliance Department can not stress enough the importance of making sure trainings are scheduled, documented, and completed on time.** Enforcement actions from the NFA & CFTC recently have mentioned a lack of written procedures and training.

Anti-Money Laundering and Cash Activity & Financials

Anti-Money Laundering regulatory requirements apply to both RJO as well as the IB. All IBs will receive a CIP agreement shortly after their clearing agreement is finalized as well as annual certifications from RJO stating that the agreement is valid for another year. The NFA is looking to ensure that RJO or the IB have reasonable knowledge of the identity of the customer. AML testing will also focus on the systems or procedures used to detect and report suspicious activity once the account is opened or even after an account is closed. You must also have documentation for training; therefore, the certificate of completion must be kept as a record. GIBs do not have a financial reporting requirement, but IIBs must submit semi-annual financial statements to the NFA. In addition to the semi-annual filings, it is important to keep all of your financial records up to date as you are expected to be calculating your minimum net capital requirement on a monthly basis.

Trading Activity and Order Tickets/Logs

Trading activity records are extremely important. IBs need to ensure they are retaining them, reviewing them, and identifying and following up on any suspicious activity. You must document the fact that you are reviewing daily trading activity. In addition to trade activity, IBs should be monitoring and reviewing commission to equity ratios monthly. Both trade activity and commission to equity ratios can be documented by keeping a log.

Communication with the Public and Supervision

Promotional material in use by the IB will be reviewed during the NFA Audit process or potentially as part of the routine surveillance conducted by NFA. An area of focus on this type of regulatory review will consistently revolve around procedures, reviews, and approvals. To ensure this process is as easy as possible, you must have a

promotional material file inclusive of websites, blogs, newsletters, seminar materials, radio or video advertisements, and social media. This file must include a written review record and approval from an AP or principal for every piece of material. For GIBs you must also receive RJO compliance approval for all materials.

If you have any questions or concerns, you can always reach out to the RJO Compliance department at compliancedept@rjobrien.com or audits@rjobrien.com.



2015 Product Presentation

Webinar Schedule

**Subject to change*

Aug. 11th	Compliance
Aug. 18th	Hightower Teleconference
Aug. 20th	WebOE
Aug. 27th	Mobile Trader
Sept. 3rd	Portal
Sept. 8th	Compliance Q&A
Sept. 17th	WebOE
Sept. 22nd	Hightower
Sept. 24th	Reference Tools
Oct. 1st	Portal
Oct. 13th	Compliance Q&A
Oct. 15th	Mobile Trader
Oct. 20th	Hightower Teleconference
Oct. 22nd	Reference Tools
Oct. 29th	WebOE
Nov. 5th	Portal
Nov. 10th	Compliance Q&A
Nov. 17th	Hightower Teleconference
Nov. 19th	Mobile Trader
Dec. 3rd	WebOE
Dec. 8th	Compliance Q&A
Dec. 15th	Hightower Teleconference
Dec. 17th	Reference Tools

CME Group - US Economic Update

Equities: Beware of Calm Waters

Erik Norland, Senior Economist and Executive Director, CME Group



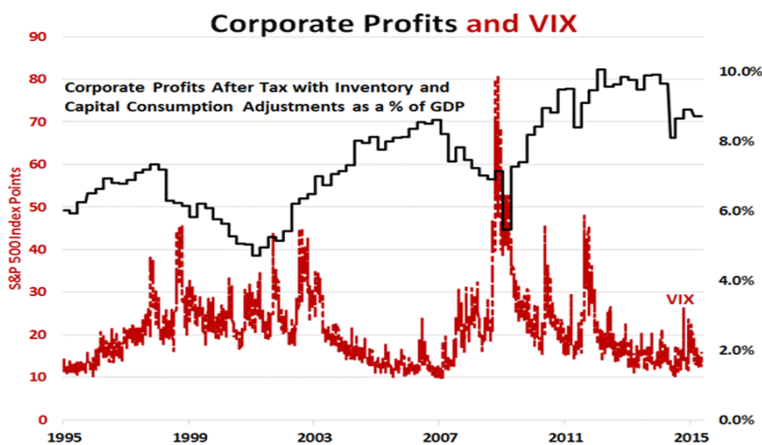
All examples in this report are hypothetical interpretations of situations and are used for explanation purposes only. The views in this report reflect solely those of the author and not necessarily those of CME Group, its affiliated institutions, or RJO. This report and the information herein should not be considered investment advice or the results of actual market experience.

In recent years, U.S. stocks have been heading higher along a low-volatility path. The last major correction occurred in the summer of 2011 and the VIX index, which measures the implied volatility of options on the S&P 500, has been trading near historic lows. These might change due to three reasons 1) corporate profits have stopped growing, 2) equity valuations are reasonably high, and 3) the Fed might begin to tighten monetary policy.

Corporate profits peaked out around 10% of gross domestic product (GDP), a level corporate profits has never historically exceeded (Figure 1).

Past peaks in corporate profits occurred before tops in the equity markets. For instance, during the 1990s expansion, corporate profits peaked at around 7% of GDP in 1997 and began to decline about three years before the equity market itself peaked in 2000. Likewise, during the growth cycle from 2002-2007, corporate profits peaked at around 8.5% of GDP in 2006 and began to decline more than a year before the equity market itself peaked in October 2007. Once again, the current expansion in corporate profits appears to have reached a cyclical peak, plateauing from 2011 through 2014, and now appear to be declining as costs rise faster than revenue. This has not yet led to a correction in the equity market but it might at some point.

Figure 2

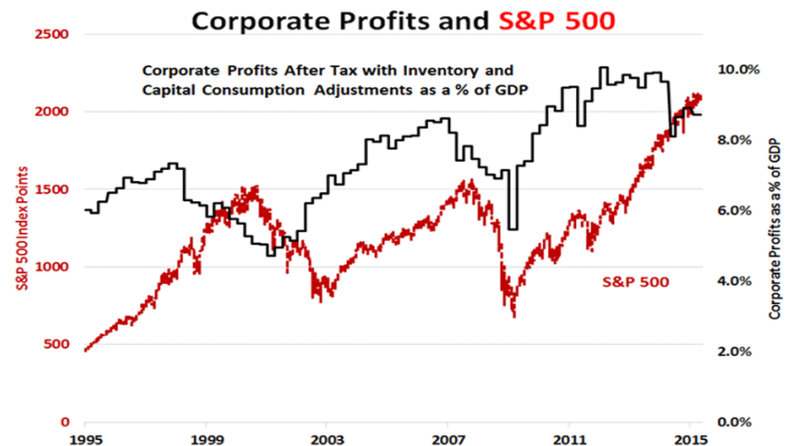


Source: Bloomberg Professional (GDP CURS, CPBICPAT and VIX)

Equity valuations are stretched by some measures as well. Cyclically adjusted earnings show that equities are at fairly high valuation levels that resemble levels seen around 2008 and exceed those of the mid-1960s. That said, they aren't nearly as high as they were in 1929 or in 2000. On a relative basis, however, compared to low yielding government bonds, equities don't look expensive at all. In other words, on an outright basis, equities look expensive, but on a relative basis they look cheap when compared to fixed income. If the corporate profits continue to fall and if the Fed hikes rates, it might create the conditions for either a sharp equity correction or at least a significant rise in equity market volatility. The Fed would clearly like to raise rates this year and have signaled that they will do so, if the economic data permits.

For more market commentary from Erik Norland and other CME Group affiliates, please visit cmegroup.com/marketinsights. Join RJO at our Regional Meeting in Des Moines, IA on October 22, 2015. Erik Norland will be giving an economic outlook followed immediately by dinner (co-sponsored by CME Group).

Figure 1



Source: Bloomberg Professional (GDP CURS, CPBICPAT and SPX)

During the 1990s and 2000s, after corporate profits peaked, equity volatility began to rise noticeably (Figure 2). Although the uptrend in equities continued for one to three years after corporate profits began to decline, the upward path of equities became much more jagged and prone to corrections. The cost of options also began to increase quite rapidly.

Given the recent decline in corporate profits as a percentage of GDP and the continued pressure on corporate margins stemming from rising labor costs, it will be interesting to see if the equity market becomes more prone to corrections and volatility going forward. The fact that stocks have rallied for so long with only minor pullbacks itself could be seen as a warning, but there are others.

With Sympathy

Margaret "Sis" Heinold



Margaret "Sis" Heinold of Heinold Commodities, Inc., in Kouts, Indiana died peacefully in her home on Thursday, December 18, 2014 at the age of 86. On December 5, 1948 she married Harold Heinold. Soon after their wedding, they began to haul hogs to Chicago for family and friends, which developed into their most predominant career with Heinold Hog Markets. As time went on, Sis & Harold branched into many facets of agriculture. Sis was influential in developing Heinold Hog Markets handling office management and bookkeeping, organizing conventions, and hosting meetings. They were married for 49 years. Sis & Harold had two daughters, Donna & Ann. She enjoyed spending the weekends at Lake Shafer and supporting her community. As a community member, Sis served on the county Liberty Board of Directors for 21 years. Sis was a friend to everyone and loved by all. Sis is survived by her daughter and son-in-law, Ann & Dan Hanson of Bozeman, MT; son-in-law Steve Hall of Greenwood, IN; three

grandsons: Brian Hall, Eric Hall, & Brendan Hanson; four great grandchildren Audra, Carter, William, and Ethan; brother Roy Yergler; sisters Karen Heinold & Kathleen Feller; sisters-in-law MaryAnn Feller, & Aggie Yergler, and many loving nieces, nephews, and friends.

Mark Your Calendars...

New Regional Meeting Speaker & Schedule

Welcome Erik Norland! Erik is the Executive Director and Senior Economist of the CME Group. He is responsible for generating economic analysis on global financial markets by identifying emerging trends and evaluating economic factors. Also, Erik is one of the spokespeople on global economic, financial, and geopolitical conditions for the CME Group. Norland has 15 years of experience in the financial services industry working for investment banks and hedge funds both in the United State and in France. Norland has a bachelor's degree in economics and political science from St. Mary's College of Maryland and an M.A. in statistics from Columbia University. Please find various articles written by Erik Norland at www.cmegroup.com/research.



As a part of our ongoing commitment to the Introducing Broker community, RJO hosts outlook presentations throughout the U.S. This year we have partnered with the CME Group to bring you a more diverse speaker line-up. Please be on the lookout for additional information on the meetings in the following areas:

Thursday, August 20, 2015—Sioux Falls, SD

Grain/Oilseed Outlook

Richard Feltes

Thursday, October 22, 2015—Des Moines, IA

Energy Outlook

Erik Norland

We invite you, your brokers, and any pertinent clients to these hour-long outlooks with dinner immediately following. Email all future regional meeting location suggestions to ibmarketing@rjobrien.com.



DISCLAIMER

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