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9070 - NFA COMPLIANCE RULES 2-9, 2-36 AND 2-49: INFORMATION SYSTEMS SECURITY PROGRAMS¹

(Board of Directors, August 20, 2015, effective March 1, 2016 and April 1, 2019.)

INTERPRETIVE NOTICE

NFA [Compliance Rule 2-9](#) places a continuing responsibility on every Member futures commission merchant (FCM), commodity trading advisor (CTA), commodity pool operator (CPO), and introducing broker (IB) to diligently supervise its employees and agents in all aspects of their commodity futures activities. Compliance Rule 2-36 places identical supervisory obligations on retail foreign exchange dealers (RFED) for their forex activities. Additionally, NFA Compliance Rule 2-49, which adopts by reference CFTC Regulation 23.602, places a continuing responsibility on every Member swap dealer (SD) and major swap participant (MSP) to diligently supervise its business. These rules are broadly written to provide Members with flexibility in developing procedures tailored to meet their particular needs. On certain issues, however, NFA issues Interpretive Notices to provide more specific guidance on acceptable standards for supervisory procedures.

Over the years, information technology has changed nearly every aspect of how Members conduct business. For example, Members may use electronic means to collect and maintain customer and counterparty information. This information may include personally identifying information (PII) for individuals such as social security numbers and confidential or sensitive information for institutional customers and counterparties, including corporate records and financial information. Additionally, Members may have websites that are available to customers and counterparties for opening accounts, trading, and accessing account information, and rely upon electronic means to enter customer, counterparty and proprietary orders. Moreover, Members either directly or indirectly connect electronically with other Members, exchanges, clearinghouses, third-party service providers, NFA and the CFTC. NFA's Board of Directors believes that Members should have supervisory practices in place reasonably designed to diligently supervise the risks of unauthorized access to or attack of their information technology systems, and to respond appropriately should unauthorized access or attack occur.

NFA recognizes that, given the differences in the type, size and complexity of operations of Members' businesses including but not limited to their customers and counterparties, markets and products traded, and the access provided to trading venues and other industry participants, Members must have an appropriate degree of flexibility to determine how best to diligently supervise information security risks. Accordingly, this Interpretive Notice is designed to establish general requirements relating to Members' information systems security programs (ISSPs) but leave the exact form of an ISSP up to each Member

thereby allowing the Member flexibility to design and implement security standards, procedures and practices that are appropriate for their circumstances. Given the rapidly changing nature of technology and threats to information systems, NFA's policy is not to establish specific technology requirements.

We also recognize that practices other than those described in this Interpretive Notice may comply with the general standards for supervisory responsibilities imposed by Compliance Rules 2-9, 2-36 and 2-49. For example, CFTC Regulations 160.30 and 162.21 require all FCMs, RFEDs, CTAs, CPOs, IBs, MSPs and SDs (Registrants) to adopt policies and procedures that address administrative, technical and physical safeguards to protect customer information. CFTC Regulation 162.30(d) requires some Registrants to develop and implement a written Identity Theft Prevention Program designed to detect, prevent and mitigate customer identity theft.² Moreover, CFTC Regulations 1.11 and 23.600 also require certain FCMs and SDs to adopt risk management policies and procedures addressing operational risks. The CFTC Division of Swap Dealer and Intermediary Oversight (DSIO) also issued guidance on what it considers to be best practices for privacy and security in connection with these rules.³ Finally, almost all states have data protection laws that govern the loss of customers' PII.

Further, NFA recognizes that Member firms may be part of a larger holding company structure that shares common information systems security personnel, resources, systems and infrastructure. In these circumstances, the top level company in the holding company structure may be in the best position to evaluate the risks associated with the use of information technology systems, as privacy and security safeguards are often adopted and implemented organization-wide. Therefore, to the extent a Member firm is part of a holding company that has adopted and implemented privacy and security safeguards organization-wide, then the Member firm can meet its supervisory responsibilities imposed by Compliance Rules 2-9, 2-36 and 2-49 to address the risks associated with information systems through its participation in a consolidated entity ISSP. If a Member firm is participating in a consolidated entity ISSP, then the Member firm still has an obligation to ensure that the written policies and procedures relating to the program are appropriate to its information security risks, are maintained in a readable and accessible manner and can be produced upon request to NFA⁴ and the CFTC.

This Notice provides guidance regarding information systems security practices that Member firms should adopt and tailor to their particular business activities and risks.

Information Security Program

- Written Program

Each Member firm should establish and implement a governance framework that supports informed decision making and escalation within the firm to identify and manage information security risks. In implementing an ISSP, each Member must adopt and enforce a written ISSP reasonably designed to provide safeguards, appropriate to the Member's size, complexity of operations, type of customers and counterparties, the sensitivity of the data accessible within its systems, and its electronic interconnectivity with other entities, to protect against security threats or hazards to their technology systems.⁵ The Member's ISSP should be approved, in writing, by the Member's Chief Executive Officer or other senior level officer with primary responsibility for information system security (e.g., Chief Technology Officer (CTO) or Chief Information Security Officer (CISO)) or other senior official who is a listed principal and has the authority to supervise the Member's execution of its ISSP. If the Member has a committee that approves the ISSP, then it must include one of these individuals. In those instances where the Member meets its obligations through participation in a consolidated entity ISSP, which has been approved at the parent

company level, the Member's CEO, CTO, CISO (or person with equivalent responsibility), or a senior official who is a listed Principal of the Member firm, must approve in writing that the written policies and procedures relating to the program are appropriate for the Member's information security risks. Additionally, if applicable, the Member's senior management should periodically provide sufficient information about the Member's ISSP to the Member's board of directors or similar governing body, the board's or governing body's delegate or a committee of the board or body to enable it to monitor the Member's information security efforts.

In order to develop and adopt appropriate ISSPs, Members may consider several resources available appropriate to their size, sophistication and role in the financial industry. For example, in developing procedures, NFA suggests that Members review the cybersecurity best practices and standards promulgated by the various professional associations identified in the Frequently Asked Questions on Cybersecurity issued by NFA.

NFA does not require a Member to utilize any of these resources in developing its ISSP, but each Member must formally adopt an ISSP appropriate for the Member's business.⁶

- Security and Risk Analysis

Each Member firm has a supervisory obligation to assess and prioritize the risks associated with the use of its information technology systems. In appropriate circumstances, personnel from a Member firm's business unit(s), information technology, back-office, risk management and internal audit, if applicable, may be included in performing this assessment.

Members should maintain an inventory of critical information technology hardware with network connectivity, data transmission or data storage capability and an inventory of critical software with applicable versions. Members should identify the significant internal and external threats and vulnerabilities to at-risk data that is collected, maintained and disseminated, including customer and counterparty PII, corporate records and financial information; assess the threats to and the vulnerability of their electronic infrastructure including any systems used to initiate, authorize, record, process and report transactions relating to customer funds, capital compliance, risk management and trading; assess the threats posed through any applicable third-party service providers or software; and know the devices connected to their network and network structure.

Generally speaking, threats include loss, destruction or theft of critical hardware containing at-risk data; insertion of viruses, spyware and other malware; and interception and compromising of electronic transmissions (*e.g.*, email and payment processing systems). In assessing security risks, Members should estimate the severity of the potential threats, perform a vulnerability analysis, and decide how to manage the risks of these threats. A Member's assessment should address past internal and external security incidents at the firm and, to the extent applicable and within a reasonable time, consider known threats identified by the firm's critical third-party service providers, the industry or other organizations.

- Deployment of Protective Measures Against the Identified Threats and Vulnerabilities

Members should document and describe in their ISSPs the safeguards deployed in light of the identified and prioritized threats and vulnerabilities. Adopted safeguards will be highly dependent upon a Member's size, business, technology, electronic interconnectivity with other entities and the potential threats identified in its risk assessment. Examples of these safeguards may include:

- protecting the Member's physical facility against unauthorized intrusion by imposing appropriate restrictions on access to the facility and protections against the theft of equipment;
- establishing appropriate identity and access controls to a Member's systems and data, including media upon which information is stored;
- using complex passwords and changing them periodically;
- using and maintaining up-to-date firewall and anti-virus and anti-malware software to protect against threats posed by hackers;
- using supported and trusted software or, alternatively, implement appropriate controls regarding the use of unsupported software;
- prevent the use of unauthorized software through the use of application whitelists;
- using automatic software updating functionality or, alternatively, manually monitoring the availability of available software updates and installing updates, and spot check to ensure that updates are applied when necessary;
- using supported and current operating systems or, alternatively, implement appropriate controls regarding the use of unsupported operating systems;
- regularly backing up systems and data as part of a sustainable disaster recovery and business continuity plan;
- deploying encryption software to protect the data on equipment in the event of theft or loss of the equipment;
- using network segmentation and network access controls;
- using secure software development practices if the Member develops its own software;
- using web filtering technology to block access to inappropriate or malicious websites;
- encrypting data in motion, (*e.g.*, encrypting email attachments containing customer information or other sensitive information), to reduce the risk of unauthorized interception; and
- ensuring that mobile devices are subject to similar applicable safeguards.

Members should also document and implement reasonable procedures to detect potential threats. These steps may include utilizing network monitoring software, watching for the presence on the Member's physical premises of unauthorized users and becoming members of threat/data sharing organizations such as the Financial Services Information Sharing and Analysis Center (FS-ISAC)⁷ or establishing procedures designed to identify unauthorized connections by employees to the Member's network.

- Response and Recovery from Events that Threaten the Security of the Electronic Systems

Members should create an incident response plan to provide a framework to manage detected security events or incidents, analyze their potential impact and take appropriate measures to contain and mitigate their threat. Members should consider in appropriate circumstances forming an incident response team responsible for investigating an incident, assessing its damage and coordinating the internal and external response. A Member should consider including in its incident response plan a description of how the Member will address common types of cybersecurity events or incidents related to its commodity interest business (*e.g.*, data loss, unauthorized access, malicious code, denial of service, ransomware attack and inappropriate usage), including how it will communicate internally with an appropriate escalation procedure and externally with customers/counterparties, financial industry regulators and self-regulatory organizations and law enforcement. The Member should be familiar with notice requirements contained in applicable U.S. and non-U.S. data security and privacy statutes and regulations. Members are encouraged

to obtain contact information for applicable regulatory bodies, self-regulatory organizations and law enforcement in advance of an event or incident. In addition, Members should consider providing details of any detected threats to an industry-specific information sharing platform such as the FS-ISAC.

As part of reporting cyber events to regulators and agencies, NFA Member FCMs and IBs should consider whether it is appropriate to file a suspicious activity report (SAR). A Notice to Members issued on October 31, 2016 (Notice I-16-24) includes further details regarding the Advisory and FAQ issued by FinCEN on cyber-events and cyber-enabled crimes. However, FCMs and IBs should not provide a copy of an actual SAR when providing notice to NFA. Rather, Members should prepare a written summary of the relevant details to the related cybersecurity event for submission to NFA.

Finally, the ISSP should contain a Member's procedures to restore compromised systems and data, communicate with appropriate stakeholders and regulatory authorities and incorporate lessons learned into the ISSP.

- Notice to NFA

The Member should have procedures to promptly notify NFA in the form and manner required of a cybersecurity incident related to the Member's commodity interest business and that results in: 1) any loss of customer or counterparty funds; 2) any loss of a Member's own capital; or 3) in the Member providing notice to customers or counterparties under state or federal law.⁸ In notifying NFA, the Member must provide a written summary of the incident with the relevant details. If the Member provides a notice to customers or counterparties, however, the Member may provide a copy of the notice to NFA in lieu of a written summary. If substantially identical notices regarding the same incident are provided to multiple parties (e.g. to all affected customers in a breach of personally identifiable information), the Member should only provide a copy of one particular notice as an example.

- Employee Training

A Member's ISSP should contain a description of the Member's ongoing education and training relating to information security for all appropriate personnel. The description should identify the topics covered in the training contents. Members should consider including as training topics social engineering tactics and other general threats posed for system compromise and data loss. This training program should be conducted for employees upon hiring and annually during their employment, but more frequently if circumstances warrant additional training. The program should also be appropriate to the security risks the Member faces as well as the composition of its workforce.

Review of Information Security Programs

Members should monitor and regularly review the effectiveness of their ISSPs, including the efficacy of the safeguards deployed, and make adjustments as appropriate. A Member should perform a regular review of its ISSP at least once every twelve months using either in-house staff with appropriate knowledge or by engaging an independent third-party information security specialist. Under appropriate circumstances, a Member's review may include penetration testing of the firm's systems, the scope and timing of which is highly dependent upon the Member's size, business, technology, its electronic interconnectivity with other entities and the potential threats identified in its risk assessment.

Third-Party Service Providers

A Member's ISSP should address in its security risk assessment the risks posed by critical third-party service providers that have access to a Member's systems, operate outsourced systems for the Member or provide cloud-based services such as data storage or application software to the Member. A Member should consider using a risk based approach to manage the information security risks posed by these providers. NFA recognizes that a Member's ability to manage the security risks posed by third-party service providers may be limited by the information these service providers elect to provide to the Member. Generally, a Member should perform due diligence on a critical service provider's security practices and avoid using third parties whose security standards are not comparable to the Member's standards in a particular area or activity. Members should consider including in their arrangements with critical third-party service providers appropriate measures that are designed to protect customer and firm confidential data. Members should also consider adopting procedures to place appropriate access controls to their information systems and data upon third-party service providers, and procedures to restrict or remove, on a timely basis, a third-party service provider's access to their information systems once the service provider is no longer providing services.⁹

Recordkeeping

All records relating to a Member's adoption and implementation of an ISSP and that document a Member's compliance with this Interpretive Notice must be maintained pursuant to NFA Compliance Rule 2-10.

NFA Compliance Rules 2-9, 2-36 and 2-49, as applicable, require NFA Members to develop, maintain and implement an appropriate ISSP in light of the importance of protecting the integrity of their technology systems. NFA recognizes that the particulars of a Member's ISSP will vary based on the Member's size, complexity of operations, type of customers and counterparties, and its electronic interconnectivity with other entities. There is no one-size-fits-all ISSP, and resources and processes that differ from those described above can be used to develop an appropriate ISSP.

¹ Nothing in this Interpretive Notice is intended to relieve Members from or reduce the obligations to which Members are subject under other state or federal statutes or regulations related to data security and privacy.

² The CFTC's adopted rules are designed to be consistent with the regulations of other financial regulators, including the Office of the Comptroller of the Currency, the Department of Treasury, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration and the Federal Trade Commission.

³ The guidance can currently be found at <http://www.cftc.gov/ucm/groups/public/@lrllettergeneral/documents/letter/14-21.pdf>

⁴ FCMs should be able to provide the ISSP to their DSRO.

⁵ The ISSP's policies and procedures may be documented in a single document or in documents maintained throughout a Member's various departmental areas so long as the ISSP can be made available upon appropriate requests by NFA and the CFTC. Additionally, a Member should consider including definitions of the terminology used in its ISSP in order to facilitate reviews of its ISSP.

⁶ In developing their ISSPs, Members are permitted to use more than one of these resources and use relevant portions of each as appropriate to their business and risk.

⁷ Through contributions from firms across the financial services sector, information sharing organizations like FS-ISAC can help mitigate the effects of cyber attacks by analyzing incoming threat information and promptly notifying participants of potential attacks.

⁸ FCM-only Members for which NFA is not the DSRO need not provide copies of notices to NFA.

⁹ Additionally, Members whose data resides in third-party service provider systems should consider including procedures to respond to notices from a service provider that it has experienced a data breach as state laws may require the Member to notify its customers of the breach.

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