FIA

2016 YEAR IN REVIEW

OUR MISSION

TO SUPPORT open, transparent and competitive markets

TO PROTECT and enhance the integrity of the financial system

TO PROMOTE high standards of professional conduct

363

Firms Represented

28,653

Individuals Represented

MESSAGE FROM WALT LUKKEN

Dear members,

I'm proud to share with you FIA's 2016 Year in Review, detailing the work we have done on behalf of our industry and membership over the past year. This year, we've introduced a new format for the annual report that allows you to quickly access key information and dive deeper into the issues that matter most to you.

FIA began 2016 by merging into a single, global organization to allow us to better serve our members. Our merger has allowed us to leverage our global presence by finding synergies in our advocacy efforts, delivering improved conferences, and supporting best practices that drive uniformity, compliance and reduced costs.

FIA has been hard at work advocating on behalf of our industry, expanding the resources we offer our membership and helping market participants address the challenge of meeting new regulatory requirements.

Our policy work centered on the health and stability of the clearing ecosystem. We ensured policymakers understood that the regulated and cleared derivatives industry was not the cause of the financial crisis and, in fact, was singled out by the G20 as a model for making the marketplace safer. Our work on capital requirements, cross-border harmonization, MiFID II implementation and a host of other issues was driven by quantitative analysis, member input and this commitment to healthy markets.

As I reflect on 2016, I am struck by both the enormity of change we saw and the constancy of our industry. When I wrote to you last January to summarize FIA's work in 2015, the Brexit vote was still six months in the future, and there were 18 candidates in the running to be the next president of the United States.

Today, we face a much different political landscape than we did a year ago, and that will have a direct impact on our industry. In my experience, the paradigm on regulations tends to swing like a pendulum. In the years since the financial crisis, the focus has been on ensuring market safety through a more prescriptive approach. Now, it seems we're swinging back towards a focus on competition. That's a good thing; it's important to find a balance in regulation that allows for growth, innovation and stability.

As we move forward into 2017, FIA has urged U.S. policymakers to conduct a comprehensive review of regulations to determine which are working and which may need reform. European policymakers have already begun reviewing their clearing regulations, and we have been actively participating in that process. U.S. policymakers would benefit » from a similar analysis of these financial reform policies—complete with public input—that aims to improve and simplify these regulations.

When conducting this review, we are urging policymakers to keep the following principles in mind:

- **Smart regulation and enforcement that aims to keep markets safe without stifling growth.** Policies should take into account cost-benefit analyses and public input to ensure they are properly tailored to the risk of the activity posed.
- **Globally accessible markets that promote competitiveness.** In order for U.S. customers to use markets wherever they may be located, regulators must create a regime that allows for cross-border access without overly burdensome and duplicative regulations.
- **A focus on innovation and competition that recognizes the tremendous potential of new technologies.** Rules should be crafted in a way that not only protects the marketplace but also incentivizes innovation and healthy market behavior.

I look forward to working with you in this coming year as we build consensus around these principles and work toward a brighter and more prosperous future for our industry.

Walt L. Lukken

Walt Lukken
FIA President & CEO


Video Message from Walt Lukken

YIR2016.FIA.org

GLOBAL MARKETS

EXPANDED GLOBAL REACH

In 2016, FIA continued its advocacy work across Asia, Europe and North America. Throughout the year, FIA held fast to its call that there should be greater collaboration and coordination among legislators and regulators across the globe with regard to consistency in global timelines for implementation of high-level political commitments. We submitted more than 70 responses to regulators and policymakers around the globe.

During the year, FIA focused on the impact of the proposed Basel III leverage ratio on clearing and — ultimately — end-users. Other advocacy priorities included the European Union's Markets in Financial Instruments Directive (MiFID II), the regulatory uncertainties surrounding the U.K.'s vote in June to exit the European Union and a range of cross-border oversight issues, such as third-party equivalence of clearinghouses.

FIA also worked with a wide cross-section of industry leaders and policymakers in Asia on issues related to global trading and clearing. We continued our advocacy with a number of Asian clearinghouses to improve risk management standards. ››

CAPITAL STANDARDS THAT WORK

FIA undertook substantial work throughout the year to convey the industry's concerns regarding customer initial margin treatment in the Basel capital requirements, following the publication of a proposal by the Basel Committee in April to amend the leverage ratio.

The Basel Committee standards are a framework for bank capital requirements being adopted by regulators around the world. Of particular concern is the proposed treatment of customer initial margin under the leverage ratio. The Basel Committee's proposed standards do not recognize the risk-reducing impact of client-segregated margin collected, thereby reducing the bank's exposures and protecting the clearing system in the event of a customer default.

FIA collected data from 15 FIA member firms showing the impact the leverage ratio would have on clearing members if client margin offsets are not recognized.

Aggregate leverage exposure calculated using the Standardized Approach for Counterparty Credit Risk (SA-CCR) with an offset for initial margin vs. SA-CCR without an offset. (July 2016)

In addition, FIA testified before Congress on this issue and many lawmakers raised similar concerns. Other top officials, including the Bank of England, have echoed many of FIA's concerns.

House Agriculture Committee Chairman discusses impact of leverage ratio.

In November, FIA participated in a coalition of 15 industry bodies representing clearing members, asset managers, insurance companies, commodity end-users, hedge funds, derivatives exchanges and clearinghouses that warned that the leverage ratio component of the Basel III capital requirements would harm the strength and stability of the cleared derivatives markets worldwide.

FIA welcomed the European Commission's proposal on capital requirements released in November and the proposal to offset client initial margin when calculating leverage exposure for clearing members.

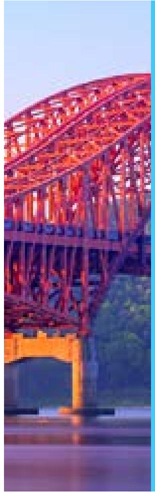
2016 – A FOCUS ON EUROPE

One of our top priorities in 2016 was to address the issues raised by the implementation of the European Union's Markets in Financial Instruments Directive (MiFID II), which is scheduled to take effect in January 2018. Throughout the year, FIA submitted several responses and comment letters regarding several aspects of this sweeping European financial framework.

One specific area of concern in MiFID II relates to indirect clearing. FIA sought to ensure the provisions for this are workable, asserting above all that indirect clearing rules are intended to bring greater access to clearing for end-users and to reduce default risk for clients further down the chain.

FIA also focused on several other elements of MiFID that impact derivatives markets, including position reporting requirements, position limits for commodity derivatives, and straight through processing.

To reinforce our advocacy, a delegation of senior executives from FIA member firms traveled to Brussels, Paris and Frankfurt in September. The delegation, which was led by FIA officials Walt Lukken, Simon Puleston Jones and Jackie Mesa, conducted 10 meetings with European policymakers and discussed a wide range of pending concerns, including Brexit, the leverage ratio, MiFID II and third country equivalence.



FIA Seeks Indirect Clearing Reforms

- Simplification of account structure requirements at the CCP level
- Removal of porting requirement for simple indirect client omnibus accounts

OUR WORK IN ASIA

In 2016 FIA strengthened its relationships with key stakeholders in the region, with a particular focus on China and Japan.

FIA President and CEO Walt Lukken and other FIA representatives traveled to China to meet with high-level government officials and industry executives.

The meetings included visits with the China Securities Regulatory Commission, the China Futures Association and the Shanghai International Energy Exchange (INE). The discussions covered a wide range of topics, including the development of rules for automated trading and international access to futures contracts such as the crude oil futures contract awaiting launch on INE and the iron ore futures contract currently trading on the Dalian Commodity Exchange.

The FIA delegation also met with representatives of exchanges, clearinghouses and government regulators in Japan. The discussions covered topics such as clearinghouse recovery and resolution, third-country recognition and error trade policies.

In October, Lukken and Yasuo Mogi, vice chairman of FIA Japan, signed an agreement affiliating the two organizations. The affiliation creates a more formal relationship between the two organizations in order to better coordinate policies and promote the cleared derivatives industry.

KEY CONSULTATIONS IN ASIA

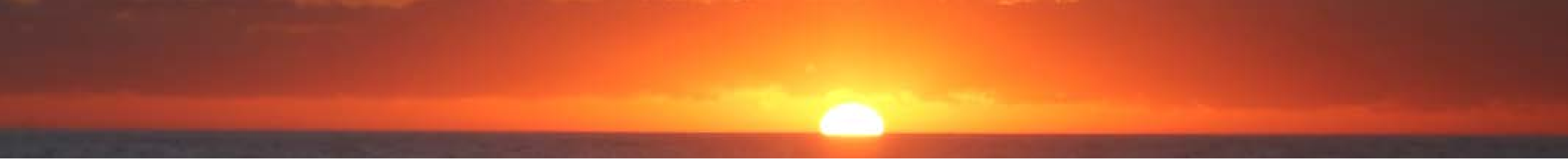
1. **FIA responds to the Monetary Authority of Singapore** on its proposals to enhance the regulatory regime governing the protection of client money and assets held by capital markets intermediaries.

2. **FIA responds to the Hong Kong Securities and Futures Commission** and separately to the Hong Kong Exchanges and Clearing Ltd. on position limit proposals.

3. **FIA responds to Australia's Council of Financial Regulators'** consultation paper jointly with two other financial trade groups on financial benchmarks regulatory reform.

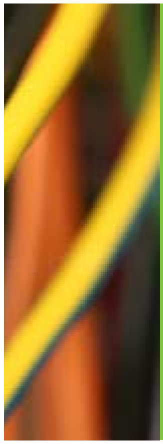
4. **FIA responds to the Hong Kong Securities and Futures Commission** jointly with ISDA and ASIFMA on automated trading services guidelines.

5. **FIA responds to the China Securities Regulatory Commission** on the regulator's automated trading proposal.



THE SAFETY AND SOUNDNESS OF CLEARINGHOUSES

The resiliency and recovery of clearinghouses continues to be a critical focus for FIA. During 2016, FIA held a number of meetings with clearinghouses in the U.S., Europe, China, India and Japan to discuss long outstanding risk concerns.



FIA CCP Risk Review™ A Global Tool

- 60 CCPs
- 30 Jurisdictions

FIA joined four industry trade associations in a response to proposed guidance from the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) on resilience and recovery of central counterparties (CCPs). While the associations were broadly supportive of CPMI-IOSCO's work, in some areas, the trade associations recommended that the guidance be enhanced or clarified to provide greater transparency to clearing members. The trade associations' comments touched on governance, stress testing, coverage, margin, CCP contributions to losses and recovery. FIA also joined other trade associations in filing a response to the Financial Stability Board's discussion note on CCP resolution.

A particular focus has been on margin and governance issues, particularly in times of market stress. FIA engaged directly with global clearinghouses and futures commission merchants on a number of priority areas. These areas include reviewing CCP practices, rule-changes, account structural changes and their impact on clearing members.

In addition, FIA CCP Risk Review™ continued to be a valuable source for our industry. This interactive tool helps market participants analyze and compare the rules and procedures of more than 60 CCPs.

CLEARING: THIRD COUNTRY EQUIVALENCE

One of FIA's top goals in 2016 was to encourage European regulators to recognize the equivalence of regulatory regimes for clearinghouses in other jurisdictions. Without an equivalence determination, EU clearing firms would have to meet much higher capital requirements to do business with non-EU clearinghouses, creating the potential for a significant disruption in cross-border trading and clearing.

FIA advocated for the industry on this issue in several ways, including:

- Submitting a letter to the European Commission supporting an extension of the transitional period for capital relating to the exposures to CCPs.
- Submitting a letter on ESMA's consultation on margin relating to margin period of risk for client accounts.
- Writing a letter to the Securities and Exchange Commission encouraging adoption of final rules for SEC-registered clearing agency standards in order for those clearinghouses to receive equivalence from the EC.
- Engaging with the International Organization of Securities Commissions and other regulators to promote consistent approaches to recognition.
- Working with other trade associations on a letter to the European Commission on the impact of EU rules on Asian clearing members.

During 2016, FIA submitted several comment letters relating to third-country equivalence for CCPs.

BREXIT: THE REGULATORY LANDSCAPE AHEAD

Many uncertainties lie ahead for the industry after the U.K. voted in June to leave the European Union. While many of the details and timing remain unclear, FIA has been working with industry leaders and regulators to emphasize the need to:

- **Avoid fragmentation of liquidity** by currency so that products remain freely tradable/clearable globally
- **Minimize disruption**, as it is critical that transitional provisions be agreed upon to facilitate a smooth transition to the new relationship
- **Ensure continuous regulatory** approvals of U.K. market infrastructure so that U.K. trading venues, clearinghouses and trade repositories will continue to be used by EU market participants to meet mandatory trading/clearing obligations and reporting obligations without interruption

FIA is also seeking to strengthen its key relationships with European institutions and competent national authorities such as BaFin, AFM, AMF, FCA and the Bank of England, as well as German, French, Dutch and U.K. finance ministries.

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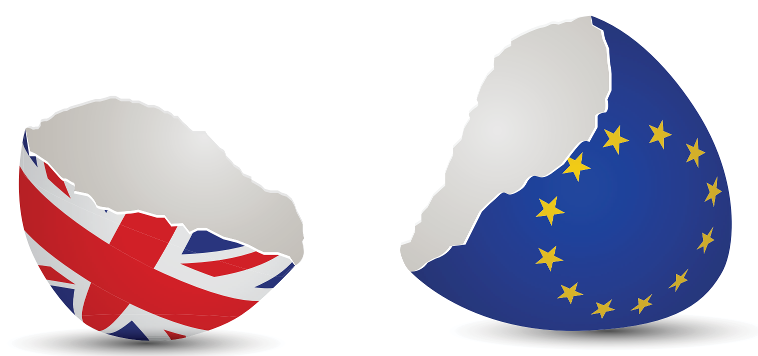


INDUSTRY VOICE

WASHINGTON: A NEW ADMINISTRATION, A NEW LOOK AT FINANCIAL OVERSIGHT

Since the 2008 financial crisis, much of the focus in Washington has been on implementing the regulatory reforms mandated by the Dodd-Frank Act.

While many of these regulations have been completed, U.S. lawmakers are now examining a number of reporting obligations, trading facility constraints, capital requirements and other regulations with a focus on end-user accessibility.

FIA continued to serve as a voice for the industry in Washington. Throughout the year, FIA testified before Congress, participated in regulatory roundtable discussions and held numerous meetings with lawmakers and regulators to discuss various Dodd-Frank provisions as well as global capital standards. ››

FIA

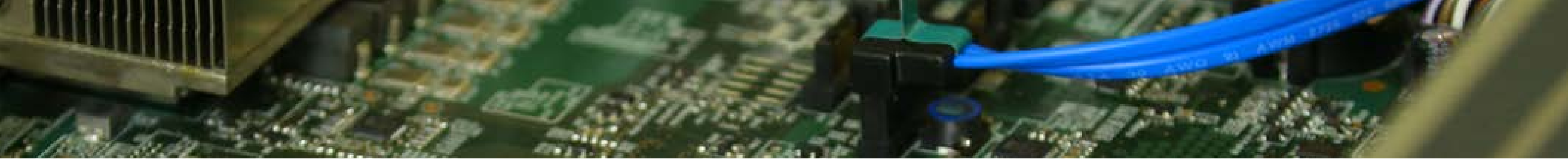
With the election of a new president and Congress in November, the stage is set for policymakers in Washington to take a hard look at Dodd-Frank. Now is the right time to take stock of the regulatory structure governing our markets and assess whether it meets the objectives set out in the post-crisis reform process.

FIA will continue its advocacy work to ensure that the regulatory landscape evolves with the ever-changing needs of the industry. Competitive, fair and accessible markets will be the focus going forward.

As the new administration considers changes to the regulatory framework for financial markets, we will urge officials to focus on the following areas:

- Swap clearing procedures and clearing certainty such as Rules 1.73 and 1.74
- Swap execution facility requirements
- Equivalence processes for clearinghouses and trading platforms
- Automated trading rules
- Position limits rules, particularly as they related to the *bona fide* hedge definition
- Ownership and control reporting requirements
- Regulatory capital obligations

FIA.org/video

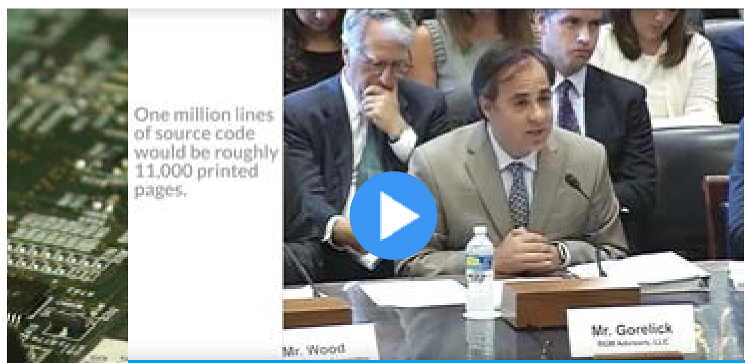


CFTC'S AUTOMATED TRADING PROPOSAL

During 2016, FIA, together with its affiliate organization the FIA Principal Traders Group (FIA PTG), spent considerable time analyzing, discussing and responding to the Commodity Futures Trading Commission's proposed automated trading rules that were first published in late 2015, and then opened for further comment and supplemented during 2016.

The proposal would require registration for so-called "AT Persons" as well as risk controls for futures commission merchants, exchanges and trading participants. The rules would also require extensive software development, testing and record keeping for "AT Persons," including allowing the CFTC to inspect their proprietary source code through a special call procedure rather than through the traditional subpoena process used in an enforcement case.

FIA and FIA PTG filed an extensive, 100-page comment letter in March in response to the CFTC's initial proposal and organized several other trade groups for an industry-wide comment filed in response to the re-opening of the comment period over the summer. ››



Source Code Proposal Challenged at Congressional Hearing

What's the big deal about source code?

Additionally, FIA and FIA PTG members testified before Congress about the importance of source code and the risks of this provision in the proposed futures regulator's rule.

FIA and FIA PTG officials are currently working with a large member committee and smaller steering committee to draft a response to the supplemental proposal released late in 2016. FIA, FIA PTG and six other industry groups sent a joint letter to the CFTC requesting an extension of the supplemental proposal's comment period "to accommodate the complexity of this particular suite of new automated trading regulations as well as the imminent period of transition at the Commission."

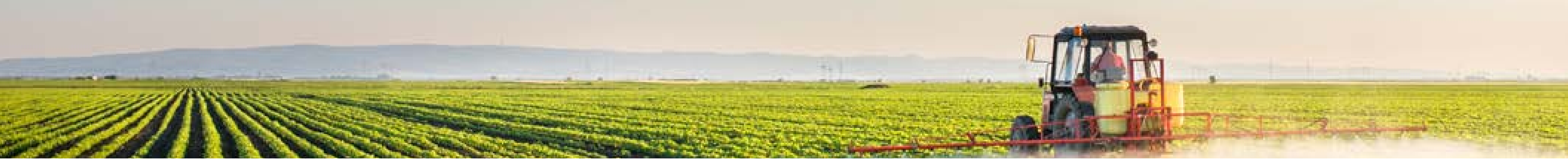
Areas of interest in the most recent supplemental proposal include:

- Registration of "AT Persons"
- Definition of "direct electronic access"
- Designated contract market controls and certifications
- Third-party systems
- Source code
- Risk controls

In Europe, members of FIA, the FIA European Principal Traders Association (FIA EPTA) and the FIA PTG are analyzing and working with officials on proposals related to direct electronic access under MiFID II, including access to European trading venues by so-called third-country market participants. Such proposals have the potential to affect a wide range of industry participants, not just those engaged in automated trading, and discussion will continue throughout 2017 as the January 2018 deadline for implementation approaches.

In Asia, proposals for automated trading are under consideration as well. We submitted comment letters to Japan's Financial Services Agency, Hong Kong's Securities and Futures Commission and the Securities and Exchange Board of India.

CFTC's Christopher Giancarolo, acting chairman of the agency, has repeatedly raised concerns over the proposed automated trading rule.



A FOCUS ON COMMODITIES

During 2016, FIA strengthened its activities in support of the commodities sector, forming an internal team to assist commodity members globally and launching a program of commodity-related webinars and new working groups.

Working in London, Singapore and Washington we continued our advocacy efforts on a number of policy issues impacting commodity firms. For example, we continued advocacy with the European Securities and Markets Authority, the European Commission and national regulators on the introduction of position limits, the ancillary exemption and position reporting under MiFID II as well as reporting requirements for European energy markets under REMIT.

We successfully advocated for a three-year extension of the exemptions for commodity dealers from CRD IV/CRR. In addition, we responded to various consultation papers that impact commodity members. These include:

- Consultations from the Financial Conduct Authority and European Securities and Markets Authority on the Market Abuse Regulation
- ESMA consultation on the Securities Financing Transactions Regulation

We also continued advocacy efforts with the Commodity Futures Trading Commission on position limit rules in the U.S. The CFTC re-proposed its long-awaited position limit rules for public comment in December, and FIA is working on an extensive response to the proposal.

During the year we also commenced our Commodities Webinar Series. We held the first webinar in October on access to Chinese futures and commodities markets and plan to hold quarterly webinars on commodities issues in the U.S., EU and Asia.

In December, we launched our FIA Commodities webpage, commodities.FIA.org. This page is intended to serve as a one-stop shop for FIA's commodities information and working groups.

A FOCUS ON COMPLIANCE ISSUES

2016 was a busy year for FIA in terms of regulatory responses. More than 70 comment letters and regulatory responses were submitted to regulators around the world, often in collaboration with the FIA Law & Compliance Division and other FIA working groups. Our responses covered key regulatory issues such as the Commodity Futures Trading Commission's proposed automated trading rules, the CFTC's ownership and control reporting requirements, the Internal Revenue Service's tax provisions and various critical exchange rules impacting FIA members.

For example, FIA continues to provide IRS Code 871(m) resources on our website. The resource page includes survey results from CCPs and vendors regarding listed products that are in scope of the rules and operational tools and solutions that will be offered to help firms with compliance.

In Canada, FIA L&C assisted firms in obtaining registration relief in Ontario and Quebec for non-Canadian firms that clear Canadian customers' trades. The relief will permit Canadian-registered executing brokers to give up the trades to non-Canadian clearing firms. In particular, FIA helped prepare a "lead filing" application, which firms used as a template for submitting their own applications in June to meet the deadlines established by the Ontario Securities Commission (OSC) and Autorité des marchés financiers (AMF) for the relief requests.

In August, with help from FIA L&C, FIA filed *amicus* briefs in two pending court proceedings, the Sentinel bankruptcy and the CFTC's enforcement action against Donald Wilson and his firm, DRW Investments LLC. Our Sentinel brief concerned the proper treatment of customer funds in a bankruptcy, an issue that remains to be decided on appeal. Our brief in the DRW case objected to the CFTC's request for the trial court to apply an unprecedented and expansive interpretation of manipulation to the case. The court agreed with our position and rejected the CFTC's novel definition of manipulation.

Complete list of FIA comment letters

Additionally, we were excited to launch the L&C Webinar Series this year. We hosted 13 webinars on law and compliance topics with member law firms. We also hosted separate webinars on CME, ICE and Nasdaq revisions to their block trade pre-hedging rules; CME's revisions to its exchange for related positions (EFRP) rules; and the CFTC's re-proposal of position limits and approval of final aggregation rules. FIA L&C also hosted "Futures 101" events in New York and Chicago as an introduction to futures market structure and regulation. We plan to offer more educational programs in 2017.

FINANCIAL MANAGEMENT COMMITTEE AT WORK

FIA's Financial Management Committee membership consists of a cross-section of professionals performing the capital, operations, treasury and financial reporting and investment compliance functions of futures commission merchants.

During 2016, the Financial Management Committee focused on issues surrounding the Securities and Exchange Commission's Rule 2a-7, which requires prime money market funds (MMFs) and government MMFs to retain authority to suspend participant redemptions and impose liquidity fees under certain conditions.

These SEC rules, which took effect in October, effectively prevent FCMs from investing customer funds in a wide range of MMFs.

In August, the CFTC announced steps to address the impact of the SEC's money market fund rules. The agency's division of clearing and risk issued a staff interpretation that beginning on Oct. 14, clearinghouses could not hold or accept as initial margin shares in a prime fund or government MMF that retains the ability to suspend redemptions. However, the letter provided relief to FCMs that invest funds held in segregated accounts in MMFs that retain authority to impose redemption restrictions as long as the investments are limited to the amount of funds the FCM holds in excess of the firm's targeted residual interest.

The relief also covers FCMs that invest customer funds in a government MMF without regard to the CFTC's Regulation 1.25 concentration limits, as long as the government MMF has $5 billion or more in assets and does not retain authority to impose redemption restrictions.

HEALTHY MARKETS

AN INDUSTRY PREPARED: CYBER THREATS ON THE FOREFRONT

In 2016, FIA continued our work to support the mission of the Financial Services Sector Coordinating Council to strengthen the resiliency of the financial sector against attacks and other threats to the nation's critical infrastructure by identifying threats and promoting protection and ultimately coordinating crisis response. FSSCC has 70 members consisting of major financial trade associations, financial utilities and the most critical financial firms. FSSCC has built and maintains relationships with the U.S. Treasury and Homeland Security Departments, and all the federal financial regulatory agencies including the Securities and Exchange Commission and the Commodity Futures Trading Commission.

During the year, FSSCC members met regularly with these government officials as part of a public–private partnership, which was initiated under President George W. Bush and built on by every succeeding president. ››

As a trade association, our particular focus during the year was on the ongoing work FSSCC supported in collaboration with the U.S. federal government on crisis response, including joint FSSCC and Financial Services Information Sharing and Analysis Center (FS-ISAC) work with the government on a series of cybersecurity exercises. The purpose of the exercises was to better prepare the financial sector to address significant cybersecurity incidents.

As part of this program, a U.S. Treasury-sponsored exercise was held in November at the CFTC to simulate a cyber attack on trading platforms operated by futures exchanges. FIA and FIA PTG member firms participated in the cyber attack simulation and provided comments on the potential for market disruption, the channels of communication and coordination, the data recovery process and the role of the exchange in notifying regulators and market participants of their operational and business process decision-making. A formalized role for FIA during market disruptions (cyber and non-cyber related) was also discussed during the November exercise and will be explored further in 2017 with FS-ISAC and regulators.

Information on communication during this and other exercises is aiding the development of an improved *FS-ISAC All Hazards Crisis Response Playbook* (The Playbook). FS-ISAC, its members and critical infrastructure partners have developed the Playbook to guide how the financial sector will respond during a crisis event, how the sector will coordinate partnership activities and how and where the sector will make decisions.

FIA and the trade associations working as part of FSSCC have also supported the NIST Cybersecurity Framework as a model for all future cybersecurity endeavors both in the U.S. and elsewhere.

FIA and FIA PTG member firms participated in the cyber attack simulation.

FIA'S BUSINESS CONTINUITY AND DISASTER RECOVERY TESTING

In October 2016, FIA and a broad cross-section of market participants, exchanges and clearinghouses administered their thirteenth annual continuity of business and disaster resilience test.

Organized by the FIA Market Technology Division's Business Continuity Committee, the test is an industry-wide effort to prepare for potential market disruptions, including natural disasters and cyber attacks.

Preparations for test day began during the first quarter of 2016, and from May to October, the committee held regular calls, including two symposiums, and pre-testing in September and October. Key service providers and independent software vendors were also involved.

The test, which focused on disaster recovery back-up connectivity and functionality, was successfully conducted among 31 domestic and international futures exchanges, clearinghouses and swap execution facilities as well as 62 clearing/non-clearing firms. Participation involved firms that handle the vast majority of volume on the participating exchanges, indicating that the test covered a critical mass of the industry. ››

FIA's Worldwide Disaster Preparedness Exercise

Up to 93%

Market volume and order flow represented

Participant firms represented the majority of worldwide derivatives order flow and liquidity.

31

Major global futures exchanges, swap execution facilities, clearinghouses

62

FCMs and Intermediaries participated

The 2016 test was highly successful, in large part due to the excellent working relationship between exchanges and firms. Participants demonstrated that their systems, processes and procedures worked well, communicating from back-up systems and sites. Organizations also indicated that the exercise helped them identify single points of failure, better understand the need for cross-training, and to tighten up and improve documentation of business continuity procedures. The continuation of this practice creates familiarity with running operations from these sites and systems, promoting industry composure during a real world event.

As the threat landscape expands to new variants of attack, such as cyber, we are reminded of the importance of this coordinated industry effort. Going forward, testing may also incorporate additional scenario-based elements. In its coordinating role, FIA will continue to work to increase participation.

MARK YOUR CALENDAR

- **2017 Disaster Recovery Test: Saturday, October 14**
- **Test registration will open approximately in mid-June. Please contact Steve Proctor at sproctor@fia.org, to be added to the distribution list for upcoming calls and related announcements.**
- **FIA DR Test page**

OPERATIONAL EFFICIENCY, STANDARDIZATION AND LOWER COSTS

FIA Technology Services, a wholly owned subsidiary of FIA, serves as an innovative force to make derivatives market infrastructure more efficient and scalable. During 2016, FIA Tech launched its Ownership and Control Reporting system, which is designed to help firms comply with the Commodity Futures Trading Commission's OCR reporting rules. 2016 was also a successful year for improving industry performance. Utilizing FIA Tech's Electronic Give-Up System (EGUS), 95% of give-up transactions were executed electronically, a major milestone.

FIA Tech continues to work with the industry to address outstanding brokerage payments going forward resulting in more than a 52% reduction of pre-2016 balances since July.

500+ Customers

This includes FCMs, brokers, investment managers, proprietary traders, commercial hedgers, end-users and more.

FIA Tech plans to go live with its new brokerage platform during the first quarter of 2017.

Additionally, FIA Tech is evaluating certain fintech technologies going forward such as a cloud infrastructure. FIA Tech is implementing a secure, scalable cloud with Amazon Web Services, which will allow a reduction in operational costs, and improved services for users.

Another area where FIA Tech sees the potential for applying fintech is in its EGUS system. At present EGUS agreements are highly structured, with more than 95% based on standard terms. As FIA Tech migrates EGUS onto its new technology platform, the new system will ultimately include smart contract technology.

COLLABORATING THROUGH FIA DIVISIONS

Throughout 2016, the Market Technology, Operations Americas and Law & Compliance Divisions increasingly worked together on various industry issues to ensure that FIA served as an efficient vehicle for discussion, advocacy and implementation. Trading, technology, operations, legal and compliance participants worked together on exchange audit trail requirements, block trading rules, average pricing workflows and establishing forums with exchanges to discuss upcoming initiatives.

MARKET TECHNOLOGY

FIA Market Technology Division

The FIA Market Technology Division hosted three events during 2016: a panel discussion educating members on the topic of "Communicating to Influence;" the Annual Meeting and a panel on "Transformative Trends in Technology;" and a holiday party and networking event for members. The division also hosted a webinar showcasing three of the top fintech innovators from Expo 2016. Numerous working groups also met throughout the year including the Business Continuity Management Committee, Event and Communications Committee, IRS 871(m) Working Group and Market Access Working Committee.

OPERATIONS AMERICAS

FIA Operations Americas Division

The FIA Operations Americas Division concluded the 2016 membership year with almost 400 members. During the year, the division hosted numerous events including its Annual Meeting and Washington Update, two events with CME Clearing leadership in New York and Chicago and several social events for members. The Division also hosted a successful webinar featuring "An Introduction to Bitcoin & Blockchain" as the topic. Five active committees met on a regular basis including Brokerage, Clearing, Deliveries, Financial Management and Events & Communications. For the 11th consecutive year, 10 $2,500 scholarships were awarded to children of division members with funds raised from memberships and division events.

LAW & COMPLIANCE

FIA Law & Compliance Division

During 2016, The FIA Law & Compliance Division collaborated on dozens of regulatory responses to regulators around the world. Comments were on a range of regulations proposed and being implemented by the Commodity Futures Trading Commission, the Internal Revenue Service, the Securities and Exchange Commission and several international regulators.

During 2016, the division launched its webinar series to educate members and market participants on key regulatory issues.

More than 600 industry professionals are members of the FIA L&C Division.

A FOCUS ON FINTECH

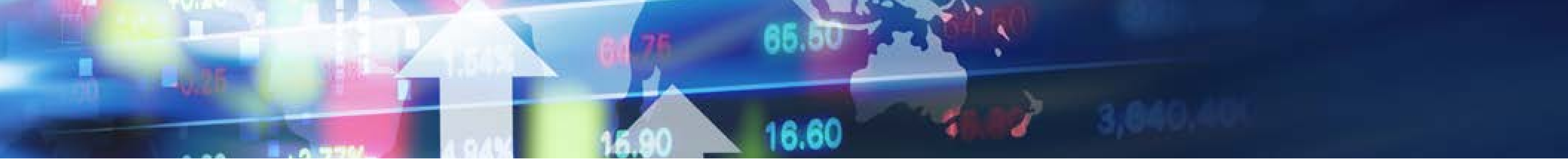
In the new regulatory landscape, operational efficiency and innovation have become even more critical. FIA's internal Fintech Committee worked to develop a strategy to ensure FIA members have the resources they need to understand the impact of new technology on their business. Fintech has also been featured heavily within our conference programming and was highlighted in the Innovators Pavilion featured at FIA Expo.

Throughout the year, FIA worked to ensure that new regulatory frameworks being created for emerging technologies fell in line with the specific needs of our members and our markets. We continued building relationships with key players, with a focus on distributed ledger technology, smart contracts and other next-gen technologies with the potential to reduce costs and transform business practices in the exchange-traded and cleared swaps industry. We invited fintech experts to participate in our flagship conferences, division meetings and other events, and encouraged fintech firms to focus on delivering solutions that meet the needs of our membership. In addition, an increasing number of fintech firms are becoming members as they look to become providers of market infrastructure, regulatory compliance and other technology solutions.

Going forward, FIA will work to develop and execute plans in four areas:

- Regulatory engagement and advocacy
- Member communications and events
- Working groups/division engagement
- FIA Tech as applied POC and implementation opportunity

At our second annual Innovators Pavilion, 18 fintech startups demonstrated their products and services to market participants attending the FIA Expo.



FIA AFFILIATES

EUROPEAN
PRINCIPAL TRADERS
ASSOCIATION

FIA European Principal Traders Association

2016 marked the fifth anniversary of the FIA European Principal Traders Association, a group affiliated with FIA that represents traders in Europe that trade their own capital.

As the European regulatory landscape continued to be very dynamic, FIA EPTA worked as an industry voice toward improving regulation that creates better functioning markets.

Among key areas of interest during the year were provisions in MiFID, Basel Committee capital reforms, Brexit and a range of reforms related to automated trading. Another focus for FIA EPTA was on clearing-house recovery and resolution issues and the impact the regulatory framework would have on firms that trade their own capital.

PRINCIPAL TRADERS
GROUP

FIA Principal Traders Group

2016 was an active year for FIA PTG, with members drafting 13 regulatory comments over the course of the year. The Commodity Futures Trading Commission's proposed regulation of automated trading was the dominant issue of 2016, prompting two comment letters, congressional testimony and a variety of media interviews. FIA PTG members' advocacy for principles-based risk controls and our work on the issue of source code access earned the group a reputation as a valuable thought leader on the proposed regulation.

On the equities front, 2016 was the year of the speed bump. FIA PTG presented comprehensive and detailed arguments against allowing intentional delays in protected quotes. After establishing the group as a thoughtful voice on liquidity in Treasury markets in 2015, FIA PTG continued this work in 2016, submitting detailed comments to the Treasury Department on the challenges and opportunities presented by the evolution of Treasury market structure.

RESOURCES & EVENTS

ALWAYS STRIVING TO SERVE

FIA continues to develop and produce valuable resources and events that give our members market intelligence on important legislative and regulatory developments, industry shaping trends and trading data for futures and cleared swaps. In 2016, FIA began development on new online compliance training modules, organized 23 webinars, introduced our interactive SEF Tracker, hosted over 25 regional events and held six major conferences. In the year ahead, we will continue to build the suite of data offerings, webinars and documentation services while staying engaged with our members and the broader derivatives community through our flagship conferences and regional events. ››

A CENTRAL PLATFORM FOR CRITICAL INDUSTRY DOCUMENTATION

FIA maintains a library of various legal opinions for regulatory capital purposes, standard terms of business and standard forms for execution and clearing agreements, regulatory disclosures and guidance notes.

In 2016, we brought all documents from Europe and the U.S. onto a single online platform to streamline our documentation offering and provide users a more user-friendly and self-intuitive experience when looking for a specific document. This migration of all documents to a central documentation hub will allow FIA to expand and enhance its documentation offering.

Regarding content, FIA procured and updated a number of different legal opinions and created — sometimes in conjunction with other trade associations — new regulatory-driven industry standard documents (e.g. SFTR Article 15 disclosure). FIA also embarked on a flagship project in Europe of updating its Terms of Business to 'refresh' them and make them regulatory-compliant. Furthermore, we also began analyzing the impact of the MiFIR indirect clearing requirements on contractual documentation and will be completing our work in this area in 2017.

FIA INDUSTRY TRAINING

During 2016, FIA launched an initiative to develop a training program for our industry, focusing on issues driving the integrity of our financial system, such as promoting high standards of professional conduct.

Education efforts being rolled out in 2017 cover several areas:

- Fundamentals of Market Conduct
- Overview of Exchange Rules
- Specific Exchange Rules

DATA: A KEY FIA MEMBER RESOURCE

In line with our mission to promote a better understanding of derivatives markets, FIA has launched several initiatives to provide members and the public with more quantitative information about trading volume and customer assets. The first initiative was to re-launch the FIA SEF Tracker, which is based on data published by more than a dozen swap execution facilities in the U.S. The new SEF Tracker, which went live on the FIA website in October, uses data visualization software to display trading activity, with filters that allow users to compare market share across these SEFs and adjust the time range of the data. The new SEF Tracker provides separate visualizations for interest rate swaps, credit default swaps and foreign exchange products, and allows users to interact with the data and adjust the visualizations in real time. Several hundred individuals have signed up to receive regular updates on SEF trading, and the SEF Tracker pages are among the most heavily visited on the FIA website, which demonstrates the high demand for data on market activity.

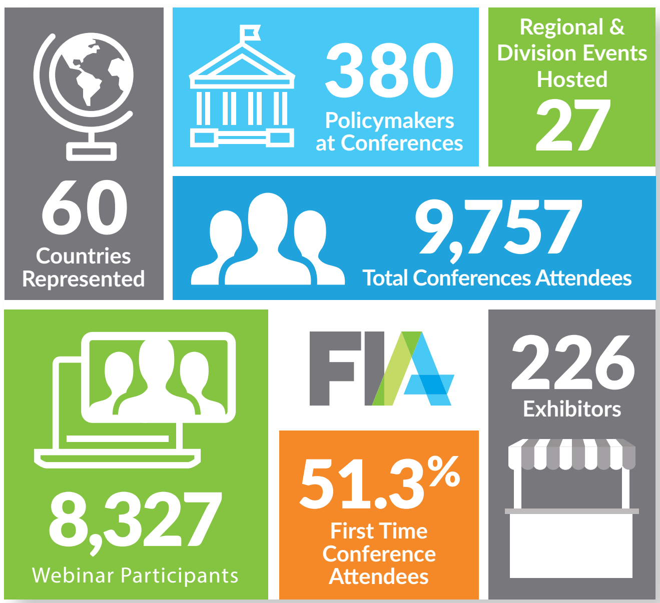
FIA.org/sef-tracker

A LOOK BACK AT FIA'S CONFERENCES AND EVENTS IN 2016

Not a month went by in 2016 without an FIA-hosted conference, event or webinar.

Our conferences and events served as a platform for building a collaborative strategy for the industry as major shifts occurred, like Brexit, the 2016 U.S. election and Regulation AT.

Our events provided a connection point for the different participants in the industry from clearing members to exchanges to service providers. The conferences also emphasized drivers of change in the industry from regulation to massive shifts in financial technology. FIA also used the conferences and the Innovators Pavilion at the Futures & Options Expo, to draw attention to and better understand the important innovations and new entrants into the cleared derivatives space.



With our 23 webinars, FIA drilled down on specific topics, ranging from presentations on Commodity Futures Trading Commission reporting rules, exchange amendments to block trade rules, and OTC margin to an introduction to bitcoin and blockchain, the impact of Brexit on cleared derivatives and a briefing on the new U.S. administration. Altogether, these webinars attracted more than 8,000 registrations spanning FIA's membership and industry participants.

In addition, FIA hosted 27 smaller events around the world, covering issues such as trading, managing clearing member defaults, legal issues in cleared derivatives, and prospects for the Hong Kong market. FIA and its divisions also organized many networking events from summer golf outings in Chicago and New York to the Clearing & Technology Dinner in London last December. These smaller events had more than 3,000 attendees.

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