

Firm Specific Disclosure Document  
Required by CFTC Rule 1.55

**TRADESTATION SECURITIES, INC.**

September 2018

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## Introduction

In late 2013, the Commodity Futures Trading Commission (**CFTC**) adopted a rule entitled ‘Enhancing Protections Afforded Customers and Customer Funds Held by Futures Commission Merchants (FCM) and Derivatives Clearing Organizations’ (**Enhanced Customer Protection Rule** or the **Rule**), to strengthen the CFTC’s disclosure and financial responsibility framework. The Rule, which became effective January 13, 2013, provides, among other things, that the following information be provided to a customer prior to the time the customer first enters into an account agreement with the FCM or deposits money or securities (funds) with the FCM.

This Firm Specific Disclosure Document (this **Disclosure Document**) contains the disclosures required to be provided by **TRADESTATION SECURITIES, INC.** (the Firm, the **FCM** or **TSI**) pursuant to the Rule. Except as otherwise noted below, the information set out is current as of August 31, 2018. TSI will update this information annually and as necessary to take account of any material change to its business operations, financial condition or other factors that TSI believes may be material to a customer’s decision to do business with TSI. Nonetheless, TSI’s business activities and financial data are not static and will change in non-material ways frequently throughout any 12-month period.

A paper copy of the Disclosure Document can be provided to a customer of the FCM upon request.

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## 1. Rule 1.55 (k)(1) – FCM Name and Address

*The futures commission merchant's name, address of its principal place of business, phone number, fax number, and email address.*

**Name:** TRADESTATION SECURITIES, INC.  
**Address:** 8050 SW 10 STREET, SUITE 2000  
PLANTATION, FL 33324 UNITED STATES  
**Phone Number:** 954-652-7000  
**Fax Number:** 954-652-7599  
**Email Address:** [CLIENTSERVICES@TRADESTATION.COM](mailto:CLIENTSERVICES@TRADESTATION.COM)

## 2. Rule 1.55 (k)(2) – Biographies

*The name, title, business background, areas of responsibility, and the nature of the duties of each person that is defined as a principal of the futures commission merchant pursuant to CFTC Regulation §3.1 . All of the principals below (unless otherwise noted) are located at TSI's headquarters in Plantation, FL.*

### **Takashi Oyagi**

**Chief Strategic Officer of TradeStation Group, Inc.**

**Member of the Board of Directors of TradeStation Securities, Inc.**

Takashi Oyagi joined TradeStation Group, Inc. as Chief Strategic Officer, and has been a member of its Board of Directors, since 2011. He has also served as Chief Strategic Officer of Monex Group, Inc., the parent company of TradeStation Group, and has been a member of the Monex Board of Directors, since 2011.

Prior to that he served as an Executive Director of Monex Group, responsible for business development in China and Hong Kong. He is one of four founding members of Monex, Inc., an online securities broker subsidiary of Monex Group, that was established in 1999.

Prior to joining Monex, Mr. Oyagi served as a Director at the Global Markets Division of Deutsche Bank Securities, Inc. in New York, covering institutional clients for fixed-income products, and prior to that at Goldman Sachs (Japan) Ltd. in the Asian Special Situation Group, trading non-performing loans. He started his career with the Bank of Japan.

Mr. Oyagi earned a bachelor's degree in Law from the University of Tokyo and holds an MBA degree in Analytic Finance and Statistics from the University of Chicago.

**Areas of Responsibility: Strategy**

**Duties: Mr. Oyagi oversees all strategic initiatives of the Firm and of TradeStation Group, Inc.**

**John Bartleman**  
**President of TradeStation Group, Inc.**

John Bartleman was appointed President of TradeStation Group, Inc. in April 2016. Prior to this role, Mr. Bartleman was Chief Growth Officer of TradeStation Group, Inc. He was responsible for overseeing the company's Product Management, Marketing, Client Training and Education and Active Trader Sales departments and for coordinating the implementation of programs and products designed to achieve the company's global vision.

Previously, Mr. Bartleman served as Vice President of Product Management for TradeStation Securities, Inc., Director of Product Management for the TradeStation platform and Product Manager. Prior to joining TradeStation, Mr. Bartleman was a Research Systems Analyst for Franklin Templeton Investments.

Mr. Bartleman received a bachelor's degree in International Relations and Political Science from Florida International University and a Master's degree in Business Administration from Nova Southeastern University in Fort Lauderdale, Florida.

**Areas of Responsibility: President of TSG**

**Duties: As President of TradeStation Group, Inc., Mr. Bartleman serves as the Chief Executive for the TradeStation group of companies, and performs the duties customarily designated to a Chief Executive, including the general charge and supervision of each such company's business, affairs and administration, subject to the oversight and direction of each such company's board of directors**

**Peter Korotkiy**  
**President and Chief Operating Officer ("COO") of TradeStation Securities, Inc.**

Peter Korotkiy joined TradeStation Securities, Inc. in August 2015 as its COO and offers core competencies in several areas of the brokerage business. These competencies include brokerage development, clearing firm management, margin and risk management, order management, clearing platform integration, and back-office conversions in the equities, options, futures and forex asset classes. In April 2016, Mr. Korotkiy took on the additional position of President of TSS.

Before joining TradeStation, Mr. Korotkiy spent eight years at Trade Monster as its Vice President of Operations and then Chief Operating Officer. Prior to his tenure at Trade Monster, Mr. Korotkiy spent eight years at E\*TRADE as their Senior Manager – Global Trading, Margins, P&S and then as their Director – Global Trading/Product Development. Mr. Korotkiy holds the Series 4, 7, 24, 55, and 63 securities licenses. Mr. Korotkiy is located in TradeStation Securities' Chicago office at 120 S. Riverside Plaza, Suite 1650.

**Areas of Responsibility: COO and President of TSS.**

**Duties: Mr. Korotkiy oversees all strategic and operational areas for TradeStation Group, Inc. and acts as the Chief Executive of TSS.**

**Herbert Walton**  
**Chief Risk Officer of TradeStation Securities, Inc.**

Herbert Walton was made the Chief Risk Officer of TradeStation Securities, Inc. and IBFX, Inc. in November 2015. Mr. Walton joined TradeStation in 2004 as an Institutional Compliance Analyst. In 2007, Mr. Walton was promoted to the Director of Compliance. He served as Chief Compliance Officer of TradeStation Securities, Inc. since 2008 and IBFX, Inc. since its inception in 2011 until February 2016. Mr. Walton was the lead Client Administrator for the Miami office of Neuberger Berman and previously was a Financial Advisor at Prudential Securities. Mr. Walton received an associate's degree in Business Administration from Miami Dade College and holds the Series 3, 7, 14, 24, 30, 34 and 63 licenses.

**Areas of Responsibility: Risk Management and Compliance**  
**Duties: Mr. Walton oversees all risk management functions for TradeStation Group, Inc.**

**Terrence B. Clarke**  
**Chief Compliance Officer of TradeStation Securities, Inc.**

Mr. Clarke was appointed to the position of Chief Compliance Officer of TradeStation Securities, Inc. and IBFX, Inc. in February 2016. Prior to joining TradeStation in December 2015, Mr. Clarke spent approximately four years at ETRADE as the Chief Compliance Officer for futures and forex.

Mr. Clarke has over thirty years' compliance related experience in the financial services industry and holds a Series 3,4,6,34 and 55 license and successfully passed the CPA. Mr. Clarke is located in TradeStation Securities' Chicago office at 120 S. Riverside Plaza, Suite 1650.

**Areas of Responsibility: Compliance**  
**Duties: Mr. Clarke is currently the Chief Compliance Officer for the futures business of TradeStation Securities, Inc. responsible for the Firm's futures compliance.**

**Jason Geringer**  
**Chief Financial Officer**  
**Designated FINOP and Treasurer of TradeStation Securities, Inc.**

The CFO, Jason Geringer, joined TradeStation in 2011 as the Controller for TradeStation Securities, Inc. In 2015, Mr. Geringer was promoted to Chief Financial Officer and the Designated FINOP for TradeStation. Mr. Geringer was a Senior Manager for Deloitte & Touche, LLP from September 1999 through September 2009.

Mr. Geringer received a bachelor's degree of Business Administration with a concentration in Accounting from Emory University in Atlanta, GA and holds the Series 27 Financial and Operations Principal license.

**Areas of Responsibility: Regulatory Reporting and Financial Accounting**  
**Duties: Mr. Geringer oversees finance and reporting functions of the Firm.**

**John Mitchell Bolek**

**Vice President of Trading Operations of TradeStation Securities, Inc.**

John Bolek, joined TradeStation Securities, Inc. as part of TradeStation's acquisition of Online Trading, Inc. In 2000, Mr. Bolek was promoted to Director of Trading at Online Trading and continued to serve in this capacity upon the acquisition by TradeStation. In 2010, Mr. Bolek was promoted to Vice President of Trading Operations.

Mr. Bolek received a bachelor's degree Illinois State University with a major in Finance and a minor in Economics and International Business. In 2007, Mr. Bolek received a Master in Business Administration from the University of Miami. Mr. Bolek holds the Series 3, 4, 7, 24, 30, 55, 63.

**Areas of Responsibility: Trading Operations**

**Duties: Mr. Bolek oversees the operational trading aspects for the Firm**

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**3. Rule 1.55 (k)(3) – Business Activities; Percent of Assets/Capital Per Activity**

*The significant types of business activities and product lines engaged in by the futures commission merchant, and the approximate percentage of the futures commission merchant’s assets and capital that are used in each type of activity.*

Activity/Product Line	Percentage of Assets	Percentage of Capital
<i>Inventory by Business Line</i>		
<i>As of July 31, 2018</i>		
<i>Equities</i>	9%	11%
<i>Options</i>	14%	19%
<i>Futures</i>	10%	14%
<i>Securities Lending</i>	11%	15%

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#### 4. Rule 1.55(k)(4) – Client Activity Type; Policies for Depositories/Custodians

*The futures commission merchant’s business on behalf of its customers, including types of customers, markets traded, international businesses, and clearinghouses and carrying brokers used, and the futures commission merchant’s policies and procedures concerning the choice of bank depositories, custodians, and counterparties to permitted transactions under § 1.25.*

**Types of Customers:** Institutional (Introducing Brokers, Commodity Pool Operators, Commodity Trading Advisors) and retail customers.

**Markets Traded:** Equity Index, Energy, Agricultural, Softs, Foreign Currency, Metals, and Interest Rate.

**International Businesses:** Europe, Asia, Latin America

**Exchange Memberships:** Chicago Mercantile Exchange, Inc. (“CME”)  
New York Mercantile Exchange, Inc. (“NYMEX”)  
Commodity Exchange Inc. (“COMEX”)  
Chicago Board of Trade Inc. (“CBOT”)  
ICE Clear US, Inc. (“ICE”)  
Arca (NYSE Arca, Inc.)  
NYSE (New York Stock Exchange)  
BATS-YX (BATS Y-Exchange, Inc.)  
BATS-ZX (BATS Z-Exchange, Inc.)  
EDGA (EDGA Exchange, Inc.)  
EDGX (EDGX Exchange, Inc.)  
IEX (Investors Exchange LLC)

**Clearing Organization:** CME Group  
ICE Clear US, Inc.  
Depository Trust & Clearing Corporation  
National Securities Clearing Corporation  
Options Clearing Corporation

**Domestic and Foreign Carrying Broker:** WedBush Securities, Inc.

## Permitted Depositories and Counterparties

TradeStation is responsible for establishing, monitoring, and reviewing policy and procedures concerning the choice and ongoing maintenance of banks, depositories and custodians. CFTC Rules 1.20 and 30.7 require written acknowledgement from depositories holding customer segregated and secured funds and that the funds being held are for the benefit of customers. Additionally, it is required that the account title clearly indicate that the account is holding funds for the benefit of customers. The process for choosing a new depository involves a due diligence questionnaire and formal approval by TSS management to ensure the appropriate levels of service, control, and financial stability are satisfied. Annual diligence reviews are conducted to ensure compliance with regulatory requirements.

## 5. Rule 1.55 (k)(5) – Material Risks

*The material risks, accompanied by an explanation of how such risks may be material to its customers, of entrusting funds to the FCM, including, without limitation: the nature of investments made by FCM (including credit quality, weighted average maturity and weighted average coupon); the futures commission merchant's creditworthiness, leverage, capital, liquidity, principal liabilities, balance sheet leverage and other lines of business; risks to the futures commission merchant created by its affiliates and their activities, including investment of customer funds in an affiliated entity; and other lines of business; any significant liabilities, contingent or otherwise, and material commitments.*

*Below is a brief discussion of the material risks, accompanied by an explanation of how such risks may be material to its customers, of entrusting funds to TradeStation.*

### Customer Creditworthiness:

Credit risk arises from the potential inability of a customer or counterparty to perform in accordance with the terms of open contracts. Exchange-traded financial instruments, such as futures, generally do not give rise to significant counterparty exposure due to the cash settlements procedures for daily market movements or the margin requirements of the individual exchanges. TradeStation uses strong pre-execution controls on buying power, max contract size and max daily loss in customer accounts along with daily enforcement of margin requirements to mitigate this risk.

### Counterparty Risk:

In the normal course of business, the firm enters into various transactions with carrying brokers, banks and other financial institutions. The firm is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. Management monitors the financial condition of such financial institutions and does not anticipate any losses from these counterparties.

**Market Risk:**

As an executing broker, the firm has limited exposure to market risk. When the firm acts as a broker on behalf of customers, it generally is only subject to market risk if it executes customers' transactions in error. In this regard, operation problems can expose the firm to market fluctuations in contracts' values. The firm may engage in extremely limited proprietary trading and for a brief amount of time would be exposed to market risk. Although the firm may have some open positions in proprietary accounts, these positions are generally used for testing purposes. The firm has established market-risk and trading parameters in place for firm positions.

**Liquidity Risk:**

TradeStation measures liquidity risk as the ability for an entity to efficiently meet both expected and unexpected current and future cash flow and collateral needs without adversely affecting daily operations or the financial condition of the entity. TradeStation maintains liquidity reserves in the form of highly liquid Class A securities (US Treasuries and Agencies) to fund activity and for contingency stress events. Internal stress test are performed for TradeStation to ensure the entity has adequate liquidity to support contingent stress outflows.

**The Firm's creditworthiness, leverage, capital, liquidity, principal liabilities, balance sheet leverage and other lines of business:**

TradeStation is registered as a Broker Dealer("BD") and Futures Commission Merchant("FCM") and as such, is required to maintain capital sufficient to meet its regulatory obligations. Such capital is reported on a monthly basis to its BD and FCM regulators and if any deficiencies in capital do occur, the reporting of such a deficiency must take place immediately. The Firm has maintained sufficient regulatory capital which is \$97,874,861 as of July 31, 2018. The Firm's liquidity is supported by a line of credit which is further enumerated in Section 10 of this document.

As of July 31, 2018, TradeStation's Leverage Ratio was 4.43. Leverage Ratio is a measure of the Firm's adjusted assets compared to equity as defined by NFA Financial Requirements Section 16. Higher ratios indicate more leverage. Leverage Ratios are also required to be reported to regulators.

The Firm's principal liabilities (approximately 86% of total Firm Liabilities) are to its futures and brokerage customers and can be found in the certified financial statements of the Firm dated March 31, 2018 the link to which is located within this document. The Firm does not maintain any other lines of business beyond its BD and FCM Activities.

TradeStation does engage in a number of activities with certain of its affiliates, but does not believe that any such activities present a material risk to its customers. For example, TradeStation leases the trading platform from its affiliated entity, TradeStation Technologies Inc. TradeStation approves new development items released by TradeStation Technologies Inc. that could potentially impact customers or TradeStation's ability to comply with industry rules and regulations. TradeStation is a privately held entity and as such, does not hold a formal credit rating with a rating agency. TradeStation's ultimate parent company, Monex Group, Inc. is a publically held entity in Japan and maintains a long term credit rating of BBB. Credit ratings may be subject to change at any time by the rating agency assigning the credit rating.

## 6. Rule 1.55 (k)(6) – Self Regulatory Authority Information and FCM Financial Statements

*The name of the futures commission merchant's designated self-regulatory organization and its Web site address and the location where the annual audited financial statements of the futures commission merchant is made available.*

**Designated Self-Regulatory Organization - Futures:**

TSI's self-regulatory organization is CME Group, Inc. and its website is [www.cmegroup.com](http://www.cmegroup.com).

**Designated Self-Regulatory Organization – Securities:**

TSI is also registered as a broker-dealer and its self regulatory organization for its broker-dealer business is FINRA. FINRA's website address is <http://www.finra.org/>.

**Annual Audited Financial Statements:**

TSI's annual audited financial statements can be found by clicking FCM Information Related to [CFTC Rule 1.55\(o\)\(1\)\(v\)](#).

## 7. Rule 1.55 (k)(7) – Material Complaints and Actions

*Any material administrative, civil, enforcement, or criminal complaints or actions filed against the FCM where such complaints or actions have not concluded, and any enforcement complaints or actions filed against the FCM during the last three years.*

As part of this document, TradeStation is required to disclose any material administrative, civil, enforcement or criminal complaints or actions filed against FCM where such complaints or actions have not concluded, and any enforcement complaints or actions filed against FCM during the last three years.

All of this information can be found by reviewing the **Litigation and Claims** section of TSI's Annual Audited Financial Statements which can be found [here](#), or by visiting the NFA BASIC system at [www.nfa.futures.org](http://www.nfa.futures.org) or at FINRA BrokerCheck Report at <http://brokercheck.finra.org>.

## 8. Rule 1.55 (k)(8) – Overview of Fund Segregation, Collateral Management, Etc.

*A basic overview of customer fund segregation, futures commission merchant collateral management and investments, futures commission merchants, and joint futures commission merchant/broker dealers.*

Customer Accounts. FCMs may maintain up to three different types of accounts for customers, depending on the products a customer trades:

- i) A **Customer Segregated Rule 1.20 Account** for customers that trade futures and options on futures listed on US futures exchanges;
- (ii) A **Customer Secured Rule 30.7 Account** for customers that trade futures and options on futures listed on foreign boards of trade; and
- (iii) **Cleared Swaps Customer Account** for customers trading swaps that are cleared on a derivatives clearing organization (**DCO**) registered with the CFTC.

The requirement to maintain these separate accounts reflects the different risks posed by the different products. Cash, securities and other collateral (collectively, Customer Funds) required to be held in one type of account, e.g., the Customer Segregated Account, may not be commingled with funds required to be held in another type of account, e.g., the 30.7 Account, except as the Commission may permit by order. For example, the Commission has issued orders authorizing ICE Clear Europe Limited, which is registered with the Commission as a DCO, and its FCM clearing members: (i) to hold in Cleared Swaps Customer Accounts Customer Funds used to margin both (a) Cleared Swaps and (b) foreign futures and foreign options traded on ICE Futures Europe, and to provide for portfolio margining of such Cleared Swaps and foreign futures and foreign options; and (ii) to hold in Customer Segregated Accounts Customer Funds used to margin both (c) futures and options on futures traded on ICE Futures US and (d) foreign futures and foreign options traded on ICE Futures Europe, and to provide for portfolio margining of such transactions.

**Customer Segregated Account.** Funds that customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on futures exchanges located in the US, i.e., designated contract markets, are held in a Customer Segregated Account in accordance with section 4d(a)(2) of the Commodity Exchange Act and

Commission Rule 1.20. Customer Segregated Funds held in the Customer Segregated Account may not be used to meet the obligations of the FCM or any other person, including another customer.

All Customer Segregated Funds may be commingled in a single account, i.e., a customer omnibus account, and held with: (i) a bank or trust company located in the US; (ii) a bank or trust company located outside of the US that has in excess of \$1 billion of regulatory capital; (iii) an FCM; or (iv) a DCO. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's customers. Unless a customer provides instructions to the contrary, an FCM may hold Customer Segregated Funds only: (i) in the US; (ii) in a money center country, or (iii) in the country of origin of the currency.

An FCM must hold sufficient US dollars in the US to meet all US dollar obligations and sufficient funds in each other currency to meet obligations in such currency. Notwithstanding the foregoing, assets denominated in a currency may be held to meet obligations denominated in another currency (other than the US dollar) as follows: (i) US dollars may be held in the US or in money center countries to meet obligations denominated in any other currency; and (ii) funds in money center currencies may be held in the US or in money center countries to meet obligations denominated in currencies other than the US dollar.

**30.7 Account.** Funds that 30.7 Customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on foreign boards of trade, i.e., 30.7 Customer Funds, and sometimes referred to as the foreign futures and foreign options secured amount, are held in a 30.7 Account in accordance with Commission Rule 30.7.

Funds required to be held in the 30.7 Account for or on behalf of 30.7 Customers may be commingled in an omnibus account and held with: (i) a bank or trust company located in the US; (ii) a bank or trust company located outside the US that has in excess of \$1 billion in regulatory capital; (iii) an FCM; (iv) a DCO; (v) the clearing organization of any foreign board of trade; (vi) a foreign broker; or (vii) such clearing organization's or foreign broker's designated depositories. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's 30.7 Customers. As explained below, Commission Rule 30.7 restricts the amount of such funds that may be held outside of the US.

Customers trading on foreign markets assume additional risks. Laws or regulations will vary depending on the foreign jurisdiction in which the transaction occurs, and funds held in a 30.7 Account outside of the US may not receive the same level of protection as Customer Segregated Funds. If the foreign broker carrying 30.7 Customer positions fails, the broker will be liquidated in accordance with the laws of the jurisdiction in which it is organized, which laws may differ significantly from the US Bankruptcy Code. Return of 30.7 Customer Funds to the US will be delayed and likely will be subject to the costs of administration of the failed foreign broker in accordance with the law of the applicable jurisdiction, as well as possible other intervening foreign brokers, if multiple foreign brokers were used to process the US customers' transactions on foreign markets.

If the foreign broker does not fail but the 30.7 Customers' US FCM fails, the foreign broker may want to assure that appropriate authorization has been obtained before returning the 30.7 Customer Funds to the FCM's trustee, which may delay their return. If both the foreign broker and the US FCM were to fail, potential differences between the trustee for the US FCM and the administrator for the foreign broker, each with independent fiduciary obligations under applicable law, may result in significant delays and additional administrative expenses. Use of other intervening foreign brokers by the US FCM to process the trades of 30.7 Customers on foreign markets may cause additional delays and administrative expenses.

To reduce the potential risk to 30.7 Customer Funds held outside of the US, Commission Rule 30.7 generally provides that an FCM may not deposit or hold 30.7 Customer Funds in permitted accounts outside of the US except as necessary to meet margin requirements, including prefunding margin requirements, established by rule, regulation, or order of the relevant foreign boards of trade or foreign clearing organizations, or to meet margin calls issued by foreign brokers carrying the 30.7 Customers' positions. The rule further provides, however, that, in order to avoid the daily transfer of funds from accounts in the US, an FCM may maintain in accounts located outside of the US an additional amount of up to 20 percent of the total amount of funds necessary to meet margin and prefunding margin requirements to avoid daily transfers of funds.<sup>1</sup>

**Cleared Swaps Customer Account.** Funds deposited with an FCM, or otherwise required to be held for the benefit of customers, to margin swaps cleared through a registered DCO, i.e., Cleared Swaps Customer Collateral, are held in a Cleared Swaps Customer Account in accordance with the provisions of section 4d(f) of the Act and Part 22 of the Commission's rules. Cleared Swaps Customer Accounts are sometimes referred to as LSOC Accounts. LSOC is an acronym for "legally separated, operationally commingled." Funds required to be held in a Cleared Swaps Customer Account may be commingled in an omnibus account and held with: (i) a bank or trust company located in the US; (ii) a bank or trust company located outside of the US that has in excess of \$1 billion of regulatory capital; (iii) a DCO; or (iv) another FCM. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's Cleared Swaps Customers.

**TradeStation Securities, Inc. does not offer Cleared Swaps to its customers, nor does it conduct Cleared Swaps activity.**

**Investment of Customer Funds.** Section 4d(a)(2) of the Act authorizes FCMs to invest Customer Segregated Funds in obligations of the United States, in general obligations of any State or of any political subdivision thereof, and in obligations fully guaranteed as to principal and interest by the United States. Section 4d(f) authorizes FCMs to invest Cleared Swaps Customer Collateral in similar instruments.

Commission Rule 1.25 authorizes FCMs to invest Customer Segregated Funds, Cleared Swaps Customer Collateral and 30.7 Customer Funds in instruments of a similar nature. Commission rules further provide that the FCM may retain all gains earned and is responsible for investment losses incurred in connection with the investment of Customer Funds. However, the FCM and customer may agree that the FCM will pay the customer interest on the funds deposited.

Permitted investments include:

- Obligations of the United States and obligations fully guaranteed as to principal and interest by the United States (US government securities);
- General obligations of any State or of any political subdivision thereof (municipal securities);
- Obligations of any United States government corporation or enterprise sponsored by the United States government (US agency obligations);
- Certificates of deposit issued by a bank (certificates of deposit) as defined in section 3(a)(6) of the Securities Exchange Act of 1934, or a domestic branch of a foreign bank that carries deposits insured by the Federal Deposit Insurance Corporation;

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<sup>1</sup> The CFTC has granted a No-Action Relief for FCMs excluding 30.7 customer funds deposited with foreign banks or trust companies in calculating the 120 percent of the total margin requirements that the FCM may hold with depositories in accounts maintained outside of the US. To view the complete No-Action Relief letter please click on the follow link: <http://www.cftc.gov/idc/groups/public/@lrllettergeneral/documents/letter/14-138.pdf>.

- Commercial paper fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (commercial paper);
- Corporate notes or bonds fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (corporate notes or bonds); and
- Interests in money market mutual funds.

The duration of the securities in which an FCM invests Customer Funds cannot exceed, on average, two years.

**Nature of TradeStation's investments:** As an FCM and a Broker-Dealer, TradeStation is subject to capital, liquidity, leverage and other requirements designed to ensure that it is creditworthy and has sufficient financial resources to conduct its business activities.

The nature of TradeStation's investments can be found on the NFA's website. The weighted average maturity of TSI's portfolio is below the twenty-four month maximum allowed by Rule 1.25, with a weighted average maturity 8.1 months as of August 31, 2018 and is very highly rated given the focus on US Treasuries bills and cash.

**No SIPC Protection.** Although TradeStation is a registered broker-dealer, it is important to understand that the funds you deposit with TradeStation for trading futures and options on futures contracts on either US or foreign markets or cleared swaps are not protected by the Securities Investor Protection Corporation.

Further, Commission rules require TradeStation to hold funds deposited to margin futures and options on futures contracts traded on US designated contract markets in Customer Segregated Accounts. Similarly, TradeStation must hold funds deposited to margin cleared swaps and futures and options on futures contracts traded on foreign boards of trade in a Cleared Swaps Customer Account or a 30.7 Account, respectively. In computing its Customer Funds requirements under relevant Commission rules, TradeStation may only consider those Customer Funds actually held in the applicable Customer Accounts and may not apply free funds in an account under identical ownership but of a different classification or account type (e.g., securities, Customer Segregated, 30.7) to an account's margin deficiency. In order to be used for margin purposes, the funds must actually transfer to the identically- owned undermargined account.

For additional information on the protection of customer funds, please see the Futures Industry Associations "Protection of Customer Funds Frequently Asked Questions" by clicking the following link: <https://fia.org/articles/protection-customer-funds-frequently-asked-questions>

## 9. Rule 1.55 (k)(9) – How To File a Complaint Against the FCM

*Information on how a customer may obtain information regarding filing a complaint about FCM with the Commission or with FCM’s DSRO.*

A customer that wishes to file a complaint about TSI or one of its employees with the CFTC can contact the Division of Enforcement either electronically at: <https://forms.cftc.gov/layouts/PublicForms/TipsAndComplaints.aspx> or by calling the Division of Enforcement toll-free at 866-FON-CFTC (866-366-2382).

A customer that wishes to file a complaint about TSI or one of its employees with the Chicago Mercantile Exchange electronically at: <http://www.cmegroup.com/market-regulation/file-complaint.html> or by calling the CME at 312.341.3286.

A customer that wishes to file a complaint about TSI or one of its employees with the National Futures Association electronically [www.nfa.futures.org/basicnet/Complaint.aspx](http://www.nfa.futures.org/basicnet/Complaint.aspx) or by calling NFA directly at 800- 621-3570.

## 10. Rule 1.55 (k)(10) – Relevant Financial Data

- (i) *The futures commission merchant’s total equity, regulatory capital, and net worth, all computed in accordance with US Generally Accepted Accounting Principles and § 1.17, as applicable.*

<u>As of July 31, 2018:</u>	
<b>Total Equity:</b>	\$124,250,273
<b>Regulatory Capital:</b>	\$97,874,861
<b>Net Worth:</b>	\$124,250,273
<b>Leverage Ratio</b>	4.43
[i] Leverage Ratio derived from NFA Financial Requirements Section 16	

- (ii) *The dollar value of the futures commission merchant's proprietary margin requirements as a percentage of the aggregate margin requirement for futures customers, Cleared Swaps Customers, and 30.7 customers.*

As of July 31, 2018, TSI, in its capacity as an FCM, has no proprietary trading margin requirements. TSI does not offer Cleared Swaps as part of its business.

- (iii) *The smallest number of futures customers, Cleared Swaps Customers, and 30.7 customers that comprise 50 percent of the futures commission merchant's total funds held for futures customers, Cleared Swaps Customers, and 30.7 customers, respectively.*

As of July 31, 2018, the number of futures customers that comprise 50 percent of TSI's total segregated funds is 434. For 30.7 customers it would be 45 customers. TSI does not conduct Cleared Swaps business.

- (iv) *The aggregate notional value, by asset class, of all non-hedged, principal over-the-counter transactions into which the futures commission merchant has entered.*

As of July 31, 2018, TSI has not entered into over-the-counter transactions in a hedged or non-hedged basis.

- (v) *The amount, generic source and purpose of any committed unsecured lines of credit (or similar short-term funding) the futures commission merchant has obtained but not yet drawn upon.*

As of July 31, 2018, The Company has \$80 million available via a committed line of credit with its parent company, TradeStation Group, Inc. The Company has funds available under credit facility agreements to satisfy general operational needs.

- (vi) *The aggregated amount of financing the futures commission merchant provides for customer transactions involving illiquid financial products for which it is difficult to obtain timely and accurate prices.*

TSI does not provide financing for customer transactions in any capacity. Furthermore, TSI does not offer illiquid financial products. All products offered to TSI customers are exchange listed, non-OTC instruments.

- (vii) *The percentage of futures customer, Cleared Swaps Customer, and 30.7 customer receivable balances that the futures commission merchant had to write-off as uncollectable during the past 12-month period, as compared to the current balance of funds held for futures customers, Cleared Swaps Customers, and 30.7 customers.*

TSI has written off as uncollectable less than 1% of its futures customer total receivable balances during the twelve months ended July 31, 2018.

Additional financial information on all FCMs is also available on the CFTC's website at:  
<http://www.cftc.gov/MarketReports/financialfcmdata/index.htm>

Customers should be aware that the NFA publishes on its website certain financial information with respect to each FCM. The FCM Capital Report provides each FCM's most recent month-end adjusted net capital, required net capital, and excess net capital. (Information for a twelve-month period is available.) In addition, the NFA publishes twice-monthly a Customer Segregated Funds report, which shows for each FCM: (i) total funds held in Customer Segregated Accounts; (ii) total funds required to be held in Customer Segregated Accounts; and (iii) excess segregated funds, *i.e.*, the FCM's Residual Interest. This report also shows the percentage of Customer Segregated Funds that are held in cash and each of the permitted investments under CFTC Rule 1.25. Finally, the report indicates whether the FCM held any Customer Segregated Funds during that month at a depository that is an affiliate of the FCM.

The report shows the most recent semi-monthly information, but the public will also have the ability to see information for the most recent twelve-month period. A 30.7 Customer Funds report and a Customer Cleared Swaps Collateral report provides the same information with respect to the 30.7 Account and the Cleared Swaps Customer Account.

The above financial information reports can be found by conducting a search for TSI in NFA's BASIC system (<http://www.nfa.futures.org/basicnet/>) and then clicking on "View Financial Information" on TSI's BASIC Details page.

## 11. Rule 1.55 (k)(11) – Summary of FCM’s Risk Practices, Controls and Procedures

*A summary of the futures commission merchant's current risk practices, controls and procedures.*

The firm has implemented a comprehensive risk management program. As with any risk management program, the risk management program cannot eliminate risk associated with the activities of the firm; however, TradeStation's risk management program seeks to, manage and mitigate risk to an acceptable level. The program identifies key risks of the firm and assigns risk tolerance limits. The Risk Management Program includes policies and procedures for detecting breaches of risk tolerance limits set by the firm, and alerting supervisors and senior management, as appropriate. Exceptions to risk tolerance limits are subject to written policies and procedures. Senior management reviews and approves risk tolerance limits on a periodic basis.

Additionally, TradeStation has established a risk management unit (RMU) with sufficient authority and resources to carry out the risk management program. The head of the RMU will be appointed by the board of directors. All members of the RMU will have qualifications reviewed and approved by the President. Criteria for determining qualification of RMU members include, but is not limited to, previous risk management experience, core competence in one or more specific risk area and at least 5 years of industry experience. The RMU is comprised of the Chief Risk Officer who may administrate the duties and responsibilities of this program through the Risk Management Oversight Committee in his capacity as Chairman. This department reports directly to the Chief Executive Officer/President and is independent from any department that engages in soliciting or in accepting orders for the purchase or sale of any commodity interest or other security and that, in or in connection with such solicitation or acceptance of orders, accepts any money, securities, or property (or extends credit in lieu thereof) to margin, guarantee, or secure any trades or contracts that result or may result. Independence is also maintained from any department that otherwise handles segregated funds, including managing, investing, and overseeing the custody of segregated funds, or any documentation in connection therewith, other than for risk management purposes. The risk management unit will also remain independent of any personnel exercising direct supervisory authority of the performance of the activities described above. Any member of the RMU who perform functions other than risk management, must not report to any officer in the business trading unit for any risk management or non risk management activity.

### **Risk Management Unit’s Responsibilities**

The RMU’s responsibilities shall generally include the following:

- An annual assessment of risk areas of TradeStation and a report (oral or written) to senior management.
- Evaluation and reporting to senior management of potential high-risk lines of business or other risk areas on an as-needed basis.
- Evaluation of new products and services for potential risk and recommendations of limitations or controls to minimize and/or monitor risk.
- Interface with senior management on risk-related matters including regulatory investigations and regulatory actions against TradeStation.
- Identification of risks and risk tolerance limits.
- Present to senior management quarterly risk exposure reports.
- Interface, when necessary, with TradeStation's public accounting firm during TradeStation's annual audits.
- Review of regulatory examination reports and identify high-risk areas for further review.
- Monitoring regulatory trends and rules that affect risk management practices at TradeStation.

Following implementation of CFTC Regulation 1.11, the Risk Management Unit (“RMU”) developed a formal committee structure comprised of the following committees to assist with execution of an enterprise wide comprehensive risk management program:

### [Risk Management Oversight Committee \(“RMOC”\)](#)

#### Functional Committees

- New Product & Operational Risk & Business Continuity
- Segregation, Settlement, Liquidity, Capital & Counterparty Risk
- Market & Margin Risk
- Fraud Risk
- Third Party Vendor & Affiliate Risk
- Best Execution
- Legal & Compliance Risk

#### **Risk Exposure Reports**

The RMU will provide to senior management and the board of directors quarterly written reports and, at the detection of a material change, interim written reports, setting forth all applicable risk exposures of the firm; any recommended or completed changes to the Risk Management Program; the recommended time frame for implementing recommended changes; and the status of any incomplete implementation of previously recommended changes to the Risk Management Program.

Material change is defined as any change that negatively impacts customers or causes or could cause a prolonged interruption in the Firm’s business or offering.

## **12. Rule 1.55 (o)(1)(i), (ii), (iii) – Daily Segregation and Secured Amount Statements**

*(i) The daily Statement of Segregation Requirements and Funds in Segregation for Customers Trading on US Exchanges for the most current 12-month period.*

This information can be found on TSI’s website by clicking on the following link:

[FCM Information Related to CFTC Rule 1.55\(o\)\(1\)\(i\)](#)

*(ii) The daily Statement of Secured Amounts and Funds Held in Separate Accounts for 30.7 Customers Pursuant to CFTC Rule 30.7 for the most current 12-month period.*

This information can be found on TSI’s website by clicking on the following link:

[FCM Information Related to CFTC Rule 1.55\(o\)\(1\)\(ii\)](#)

*(iii) The daily Statement of Cleared Swaps Customer Segregation Requirements and Funds in Cleared Swaps Customer Accounts Under Section 4d(f) of the CEA for the most current 12-month period.*

**TSI does not offer Cleared Swaps to its customers.**

### **13. Rule 1.55 (o)(1)(iv) – Schedule of Capital Amounts**

*A summary schedule of the futures commission merchant's adjusted net capital, net capital, and excess net capital, all computed in accordance with §1.17 and reflecting balances as of the month-end for the 12 most recent months.*

This information can be found on TSI's website by clicking on the following link:  
[FCM Information Related to CFTC Rule 1.55\(o\)\(1\)\(iv\)](#)

### **14. Rule 1.55 (o)(1)(v) – Certain Financial and Account Statements**

*The Statement of Financial Condition, the Statement of Segregation Requirements and Funds in Segregation for Customers Trading on US Exchanges, the Statement of Secured Amounts and Funds Held in Separate Accounts for 30.7 Customers Pursuant to CFTC Rule 30.7, the Statement of Cleared Swaps Customer Segregation Requirements and Funds in Cleared Swaps Customer Accounts Under Section 4d(f) of the CEA, and all related footnotes to the above schedules that are part of the futures commission merchant's most current certified annual report pursuant to §1.16.*

The Statement of Financial Condition is available at the following website:  
[FCM Information Related to CFTC Rule 1.55\(o\)\(1\)\(v\)](#)

The Statement of Segregation Requirements and Funds in Segregation for Customers Trading on US Exchanges is available at the following website: [FCM Information Related to CFTC Rule 1.55\(o\)\(1\)\(vi\)](#)

The Statement of Secured Amounts and Funds Held in Separate Accounts for 30.7 Customers Pursuant to CFTC Rule 30.7 is available at the following website: [FCM Information Related to CFTC Rule 1.55\(o\)\(1\)\(vi\)](#)

### **15. Rule 1.55 (o)(1)(vi) – FOCUS Report**

*The Statement of Segregation Requirements and Funds in Segregation for Customers Trading on US Exchanges, the Statement of Secured Amounts and Funds Held in Separate Accounts for 30.7 Customers Pursuant to CFTC Rule 30.7, and the Statement of Cleared Swaps Customer Accounts Under Section 4d(f) of the CEA that are part of the futures commission merchant's FOCUS Report for the most current 12-month period.*

This information can be found on TSI's website, available at [FCM Information Related to CFTC Rule 1.55\(o\)\(1\)\(vi\)](#).

## **16. Rule 1.55 (o)(3) – NFA Website Hyperlink – FCM Financial Information**

*Each futures commission merchant must include a statement on its Web site that is available to the public that financial information regarding the futures commission merchant, including how the futures commission merchant invests and holds customer funds, may be obtained from the National Futures Association and include a link to the Web site of the National Futures Association's Basic System where information regarding the futures commission merchant's investment of customer funds is maintained.*

Financial information regarding TSI, including how it invests and holds customer funds, may be obtained from the NFA basic system, available at: <http://www.nfa.futures.org/basicnet/>.

## **17. Rule 1.55 (o)(4) – CFTC Website Hyperlink – Additional FCM Financial Information**

*Each futures commission merchant must include a statement on its Web site that is available to the public that additional financial information on all futures commission merchants is available from the CFTC, and include a link to the CFTC's Web page for financial data for futures commission merchants.*

Additional financial information on all futures commission merchants is available from the following webpage: <http://www.cftc.gov/MarketReports/financialfcmdata/index.htm>

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