

**TESTIMONY OF KAREN K. WUERTZ  
SENIOR VICE PRESIDENT  
NATIONAL FUTURES ASSOCIATION**

**BEFORE THE  
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS  
AND THE  
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS  
AND CONSUMER CREDIT**

**OF THE  
U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON FINANCIAL SERVICES**

**MARCH 6, 2001**

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My name is Karen Wuertz, and I am Senior Vice President for Long Range Planning and Development of National Futures Association. NFA appreciates the opportunity to appear here today to present our views on increasing data sharing between financial service industry regulators. NFA fully supports the concept of using technology to facilitate the exchange of information maintained by financial services industry regulatory bodies about the firms and individuals they regulate and discipline. NFA has a long history of cooperating with other regulators and welcomes the opportunity to work with this Committee to develop an efficient and cost effective method of systematically sharing information.

I would like to take just a minute to describe NFA and its regulatory mission. Since 1982, NFA has been the nation-wide self-regulatory organization for the US futures industry and the only registered futures association under the Commodity Exchange Act. NFA's primary mission is to protect the public from unscrupulous, fraudulent and unethical business practices through efficient and effective regulation of its Members. NFA's current membership includes approximately 4,000 firms and 50,000 individuals. NFA's regulatory process begins with screening firms and individuals when they seek registration to conduct futures-related business and continues with regular examinations of them throughout their business lives. NFA also monitors its Members' sales practices. When appropriate, NFA initiates formal disciplinary actions, and these actions can prohibit firms or individuals from conducting futures business ever again. As a result of its activities and because it is the sole nation-wide SRO in the futures industry, NFA maintains a large, centralized and the most comprehensive database containing disciplinary, registration, background and financial information about the firms and individuals operating in the futures industry.

We are all well aware of the damage that “rogue brokers” can do when they use their unscrupulous practices to take advantage of unsuspecting investors. Since its inception, NFA has tracked their migration within the futures industry. As technology has developed over the years, NFA has embraced those changes to create increasingly sophisticated and computerized methods of tracking them. Because of specialized rules that NFA has adopted, since 1988 the number of “rogue brokers” in the futures industry has decreased by 75% and since 1983, customer complaints have decreased by 72%.

Historically, NFA provided futures industry disciplinary information about firms and individuals to regulators and the public at large through a toll-free telephone system. While NFA still offers that service, in 1999, NFA became the first financial services industry SRO to make disciplinary information available to the public on the web when it introduced its BASIC system. BASIC contains not only disciplinary information but also registration status and history information about all firms and individuals ever registered in the futures industry. It is hard to overstate the value of this system and its easy availability. Last month alone, there were over 35,000 BASIC searches conducted, and this number increases monthly. We expect that well over 400,000 BASIC searches will take place this year.

NFA also maintains a variety of information about firms and individuals in its databases that we do not make public but that we routinely share with regulators on request. This includes information on customer complaints that have not resulted in formal disciplinary actions, referrals from other regulators, open investigations, matters arbitrated at NFA and regulatory and criminal information that individuals and firms have disclosed on their application forms. The value of this information to other regulators would be significantly increased if an efficient and cost-effective means for them to access it were developed.

NFA concurs with the Committee’s concern that disreputable individuals could easily move from one financial services industry to another. It is possible that this problem will be exacerbated as the various sectors of the financial services industries meld together. The distinctions between the financial services industries are quickly diminishing. For example, in the near future, NFA will expand its regulatory responsibilities by becoming a limited purpose securities association and oversee its Members’ activities regarding the sale of securities futures products.

NFA also agrees that being able to easily access information about “rogue brokers” from other financial service industry regulators will allow us to more effectively prevent them from coming into the futures industry. We already do this with the securities industry. When individuals seek registration in the futures industry, we routinely review any information about them in the CRD database, to which we have access under an agreement with the NASDR. Consequently, we are able to identify and screen out disciplined securities brokers who seek to ply

their trade in the futures industry. Frankly, there has not been much migration of brokers from the insurance industry to the futures industry. NFA has not encountered a situation in which we have disciplined a broker for sales fraud only to discover that the broker had a checkered past in the insurance industry that NFA had been unaware of. However, this could become an issue as the financial services industry unifies and NFA would certainly find it helpful to have access to an insurance industry database of background information.

In closing, let me state that NFA is committed to exploring every avenue that will assist in maintaining the integrity of the financial services industry. NFA has a background in developing its own tracking systems and information databases, NFA already has significant amounts of futures industry data in its databases and NFA is the front-line regulator in the futures industry. As a result, NFA believes that it would be an extremely helpful participant in developing an anti-fraud network. NFA stands willing to help in that effort in any way Congress deems appropriate.

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## **BIOGRAPHY**

### **KAREN K. WUERTZ**

Karen K. Wuertz became Senior Vice President, Strategic Planning and Development of National Futures Association (“NFA”) in February of 2000. As Senior Vice President, she is a senior officer of NFA. This association was authorized in the fall of 1981 but officially began operations on October 1, 1982. NFA is the futures industry’s first self-regulatory association and, as such, is designed to provide consistent and effective self-regulation to the diverse segments of the futures industry.

Ms. Wuertz joined NFA in May of 1983 as an Auditor and subsequently was promoted to Compliance Manager responsible for audits, financial surveillance and investigations of NFA Members. In 1994, Karen left NFA to become the Assistant to the Chief Financial Officer at the Chicago Stock Exchange. In 1996, Karen returned to NFA as Special Projects Manager and was subsequently promoted to Vice President, Strategic Planning and Development. In this role, one of Karen’s responsibilities included the design, development and implementation of NFA’s Background Affiliation Status Information Center, NFA’s database of registration and disciplinary information available via Internet access. Prior to coming to NFA, Ms. Wuertz was an auditor with Peat, Marwick, Mitchell and Company. She is a Certified Public Accountant in the State of Illinois.

Ms. Wuertz holds a Masters in Management from the Kellogg Graduate School of Management at Northwestern University and earned her Bachelor of Science degree in Accounting from the University of Illinois.