



**DORMAN TRADING, LLC
FCM Risk Disclosure
December 2017**

Table of Contents

	<u>Page</u>
Introduction	2
Dorman and Its Principals	2
-FCM Contact Information	
-Principal Bios	
Dorman’s Business	3
FCM Customer Business	3
Permitted Depositories and Counterparties	3
Material Risks	4
Material Complaints or Actions	4
Customer Funds Segregation Overview	5
-Customer Accounts	
-Customer Segregated Account	
-30.7 Account	
-Cleared Swaps Customer Account	
-Investment of Customer Funds	
-No SIPC Protection	
Filing a Complaint	8
Relevant Financial Data	9
Summary of Risk Practices and Controls	9



Introduction

The Commodity Futures Trading Commission (“Commission”) requires each Futures Commission Merchant (“FCM”), including Dorman Trading, LLC (“Dorman”), to provide the following information 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. Except as otherwise noted below, the information set out is as-of October 31, 2017. Dorman will update this information annually and as necessary to take account of any material changes to its business operations, financial condition or other factors that Dorman believes may be material to a customer’s decision to do business with Dorman. Nonetheless, Dorman’s business activities and financial data are not static and will change in non-material ways frequently in any 12-month period.

Dorman and Its Principals

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CME Group (www.cmegroup.com) is Dorman’s Designated Self-Regulatory Organization (“DSRO”).

The following individuals are registered Principals of Dorman and all are located in the Chicago office.

Dennis Dorman

Serves as Managing Member of Dorman. Dennis has been a CBOT Member since 1973 and has worked at Dorman since its establishment in 1982.

Birju Patel

Serves as Chief Compliance Officer of Dorman. Has worked in varying Compliance roles (private side – at various trading firms and public side – as a regulator/examiner for the NFA and FINRA) in the futures industry for over 10 years.

Daniel Dorman

Serves as Dorman’s AML Officer as well as New Accounts and Risk Management responsibilities. Has been with Dorman nine years and holds a law degree from Chicago Kent College of Law.

Robert Sheeren

Has served as CFO of Dorman for 30 years and also manages certain Human Resources functions. Holds a BA from Xavier University.



Dorman's Business

Dorman is registered with the CFTC and NFA as a Futures Commission Merchant. Dorman maintains memberships at the CME Group Exchanges, ICE US and Eurex Exchange.

Dorman has relationships with approximately 30 Introducing Brokers, including 3 Guaranteed Introducing Brokers. Dorman also maintains several omnibus relationships for US registered non-clearing FCMs.

Dorman has a small proprietary trading group that accounts for approximately 5% of the FCM's capital.

The remaining 95% of Dorman's assets and capital are currently dedicated to its business as an FCM. At this time, Dorman does not participate in any other business activities or product lines.

The firm has no unsecured lines of credit.

FCM Customer Business

Dorman's customers fall into the following categories: self-directed retail customers, retail managed accounts, professional traders (including floor traders), institutional traders, execution groups and several omnibus accounts of US registered non-clearing FCMs. The largest category of customer is self-directed retail and the majority of those accounts are introduced to Dorman through Introducing Brokers.

Dorman customer's trade on the following Exchanges: CME Group Exchanges, ICE US and UK, EUREX, CFE, LIFFE and ERIS. Dorman clears directly on the CME Group Exchanges (CME Clearing) and ICE US (ICE Clear US) and is an NCM on EUREX. Dorman uses the following as carrying brokers for access to the other Exchanges: Rosenthal Collins Group, LLC (US Registered FCM), ADM Investor Services Inc. (US Registered FCM), Wedbush Securities Inc. (US Registered FCM) and ADM Investor Services International Limited (an FCA regulated entity).

The firm provides no financing for customer transactions involving illiquid products.

Aggregate notional value by asset class of all non-hedged, principal OTC transactions the firm has entered in to is zero; there are no non-hedge principal OTC positions.

Permitted Depositories and Counterparties

Pursuant to CFTC Reg 1.11(e)(3)(i)(A) the Firm evaluates banks holding Segregated Funds based on the following criteria:

- Capitalization;
- Creditworthiness;
- Operational reliability;
- Access to liquidity;
- Availability of deposit insurance; and
- Regulatory supervision of the depository



The Firm selects bank counterparties that present a very low likelihood of default. The Firm bases new and on-going bank relationship based on: Money, Mechanics, and Management.

- Money: The Firm will only utilize large, U.S. national banks that are also approved settlement banks at a CFTC registered Derivative Clearing Organizations and foreign banks owned by a U.S. bank holding companies, that are also affiliates of approved settlement banks at a CFTC registered Derivative Clearing Organizations.
- Mechanics: The bank must have operational capabilities sufficient for the Firm to efficiently and compliantly operate its FCM, including BC/DR;
- Management: The Firm must have a direct and open relationship with senior account managers, and acceptable experience with the level of services provided and the customer service.

Pursuant to CFTC Reg 1.11(e)(3)(i)(F) the Firm assesses the appropriateness of specific investments of Segregated Funds in permitted investments in accordance with CFTC Reg 1.25. The Firm takes into consideration the market, credit, counterparty, operational, and liquidity risks associated with such investments, and assess whether such investments are consistent with the objectives of preserving principal and maintaining liquidity.

Acceptance criteria are established for the Firm's Investment of Segregated Funds. The criteria are designed to provide a baseline at which the Firm would be comfortable accepting and using the collateral to margin Customers' trading activities.

Risk Tolerance Limits are established to determine the size of investment of Customer Segregated Funds the Firm is willing to accept based on liquidity needs and marketability of the financial instruments.

The Firm's investment criteria for Segregated Funds is each investment must be readily marketable and highly liquid. The Firm's Risk Tolerance Limit for investments of Segregated Funds is very low. As such, the Firm only invests in:

- US Government Treasuries less than one year ("USTB")[per 1.25(a)(1)(i)]

Material Risks

A material risk to customers depositing funds at any entity is the possibility of losing a portion of their deposit. In order to ensure that it is in compliance with its regulatory capital requirements and that it has sufficient liquidity to meet its ongoing business obligations:

- Dorman holds a significant portion of its assets in cash and US Treasury securities guaranteed as to principal and interest. The maturity of all investments is less than twelve months.
- Dorman maintains strong risk controls on its proprietary trading and it accounts for a very small portion (approximately 5%) of the FCM's capital.
- Dorman does not have any short or long term debt and does not plan on acquiring any debt of this nature.
- Dorman's primary focus is on clearing customer business in futures and options on futures.



Material Complaints or Actions

In the normal course of business, Dorman may be named from time to time as a respondent in legal proceedings arising out of its business as an FCM and clearing member. Dorman may also be involved from time to time in investigations and proceedings by governmental and/or regulatory agencies or self-regulatory organizations, which may result in adverse judgments, fines or penalties. As of the date of this document, Dorman does not have any material actions pending.

Customer Funds Segregation Overview

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 Account** for customers that trade futures and options on futures listed on US futures exchanges;
- (ii) a **30.7 Account** for customers that trade futures and options on futures listed on foreign boards of trade; and
- (iii) a **Cleared Swaps Customer Account** for customers trading swaps that are cleared on a DCO registered with the Commission.

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.

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.

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:

- (i) Obligations of the United States and obligations fully guaranteed as to principal and interest by the United States (U.S. government securities);
- (ii) General obligations of any State or of any political subdivision thereof (municipal securities);
- (iii) Obligations of any United States government corporation or enterprise sponsored by the United States government (U.S. agency obligations);
- (iv) 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;
- (v) 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);
- (vi) 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



(vii) Interests in money market mutual funds.

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

An FCM may also engage in repurchase and reverse repurchase transactions with non-affiliated registered broker-dealers, provided such transactions are made on a delivery versus payment basis and involve only permitted investments. All funds or securities received in repurchase and reverse repurchase transactions with Customer Funds must be held in the appropriate Customer Account, *i.e.*, Customer Segregated Account, 30.7 Account or Cleared Swaps Customer Account. Further, in accordance with the provisions of Commission Rule 1.25, all such funds or collateral must be received in the appropriate Customer Account on a delivery versus payment basis in immediately available funds.

No SIPC Protection- It is important to understand that the funds you deposit with Dorman 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 Dorman to hold funds deposited to margin futures and options on futures contracts traded on US designated contract markets in Customer Segregated Accounts. Similarly, Dorman 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, Dorman 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 under margined account.

For additional information on the protection of customer funds, please see the Futures Industry Association's "Protection of Customer Funds Frequently Asked Questions" located at http://www.futuresindustry.org/downloads/PCF_questions.pdf

Filing a Complaint

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

A customer that may file a complaint about Dorman or one of its employees with the National Futures Association electronically at <http://www.nfa.futures.org/basicnet/Complaint.aspx> or by calling NFA directly at 800-621-3570.

A customer that wishes to file a complaint about Dorman 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.



Relevant Financial Data

Copies of Dorman's recent audited financials are available on the Dorman website, at <https://www.dormantrading.com/financials-details/>

The following financial data is as-of October 31, 2017:

Total Equity-	\$14,987,501
Adjusted Net Capital-	\$12,788,076
Excess Net Capital-	\$ 10,336,460

Proprietary margin requirement as a percentage of aggregate customer margin requirement is 2%.

183 customers comprise 50% of Dorman's total segregated funds held for customers and 25 customers comprise 50% of Dorman's total secured funds held for customers.

Dorman has not written off any customer receivable balances as uncollectable during the past 12-month period.

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

Customers should be aware that the National Futures Association (**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, 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 Commission 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 a specific FCM in NFA's BASIC system (<http://www.nfa.futures.org/basicnet/>) and then clicking on "View Financial Information" on the FCM's BASIC Details page.

Summary of Dorman's Risk Practices and Controls

Dorman has a Risk Management Unit ("RMU") that monitors and addresses the following risks: market, credit, segregation, capital & liquidity and operational & technology. The RMU adheres to a "risk management program" mandated by the CFTC to properly protect customer and firm funds as well as maintaining sound business practices and controls. The RMU reports directly to Senior Management.