

## **INTRODUCTION**

**Nanhua USA LLC** is a Futures Commission Merchant (“FCM”) registered with the Commodity Futures Trading Commission (“CFTC”) and a member of the National Futures Association (“NFA”).

An FCM is an individual, association, partnership, corporation, or trust that solicits or accepts orders for the purchase or sale of any commodity for future delivery on or subject to the rules of any exchange and that accepts payment from or extend credit to those whose orders are accepted. See 7 USC 1a (28).

The CFTC Regulation 1.55 and other regulations require FCMs 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, securities, or other property with the FCM. Except as noted below, the information set out is as of June 1, 2017. NANHUA USA will update this information annually or as needed if any material change to our business operations, financial condition occurs.

## **REQUIRED DISCLOSURES AND HELPFUL INFORMATION**

### **Contact Information**

Nanhua USA LLC

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### **Nanhua USA LLC and Our Principals**

Nanhua USA LLC is a wholly owned subsidiary of HGNH Financial LLC, an Illinois holding company which is owned by HGNH International Financial Co., Limited. HGNH International Financial Co., Limited is a Hong Kong holding company which is owned and controlled by Nanhua Futures Co., Limited. Nanhua Futures Co., Limited is an FCM and member of all of China's futures exchanges and is regulated by the China Securities Regulatory Commission.

#### **Lian Hao, Principal & Chief Executive Officer**

Mr. Lian Hao has over 15 year of experience in the futures industry. He joined the CME Group in 2001 and played a role in GLOBEX development. From 2007 to 2011, Mr. Hao was appointed as the CME's Chief Representative to China. In this role, Mr. Hao enhanced the financial communication and cooperation between the U.S. and China. In 2011 Mr. Hao founded Chicago Institute of Investment Inc., which provides financial training for students from different Chinese institutions, government, regulatory department, exchanges, and FCMs. In 2016, Mr. Hao joined Nanhua USA LLC and currently is a Principal and the Chief Executive Officer.

#### **Lingfang Li, Principal & Director**

Ms. Lingfang Li has over 11 years of experience in the futures industry. She joined Nanhua Futures in 2003 and worked various key positions in Nanhua Futures. Currently Ms. Li is a Vice President of HGNH International Financial Co., Limited.

#### **Runzhe Xia, Principal & Director**

Mr. Runzhe Xia has been in the futures industry for more than 6 years and has held senior compliance and executive level of roles within HGNH Group as compliance supervisor and assistant general manager. He has experience in the rules and regulations of the futures industry, as well as the operational and risk management aspects of running an FCM. His capabilities ensure the various developments of Nanhua USA are working towards the organization's goal.

#### **Yun Zhang, Principal, General Counsel, & Chief Compliance Officer**

Mr. Yun Zhang (Alan) is an attorney admitted to the State of Illinois and a licensed Chinese attorney. He obtained Juris Doctor (J.D.) in the U.S. and Bachelor of Laws (LL.B.) in China. Mr. Zhang joined Nanhua USA in 2016 and works on legal, compliance, and regulatory matters.

### **Kimberley Vercoe, Principal & Chief Financial Officer**

Ms. Kimberley (Fenghong) Vercoe has over 16 years of experience in futures industry including 5 years in accounting/ auditing. She joined the firm in May 2017 and is in charge of accounting and financial reporting. During her career, Ms. Vercoe worked as the Director of International Market Development at CME Group and Senior Auditor at Chicago Board of Trade (CBOT). Over the years, Ms. Vercoe has accumulated extensive experience in accounting, auditing, and compliance in futures industry. Ms. Vercoe is a Certified Public Accountant (CPA) and currently works as the Chief Financial Officer of the firm.

### **Regulatory Oversight**

Nanhua USA is subject to regulatory oversight by the CFTC, NFA, and the exchanges and clearing organizations to which we conduct our business. Pursuant to CFTC Regulation 1.52, Nanhua USA's Designated Self-Regulatory Organization ("DSRO") is the CME Group ([www.cmegroup.com](http://www.cmegroup.com)). As DSRO, the CME conducts an annual risk based examination and various other interim reviews.

### **Business Activities**

Nanhua USA is an FCM registered with the CFTC and a member of the NFA. Nanhua USA's only business is the clearing of exchange-traded futures and options on futures. Nanhua USA's customer base includes commercial and institutional accounts, professional traders, managed futures accounts, and retail customers. Our customers are located across the globe with the majority of them located in mainland China and Hong Kong. Nanhua USA's primary product markets are grains, livestock, energies, precious metal, soft commodities, interest rates, equity indexes, and currencies. Nanhua USA provides clearing services to its affiliate HGNH International Futures Co., Limited.

Nanhua USA provides our customers access to the futures and options on futures markets as a clearing member firm of the following exchanges and related clearing organizations:

- CME Group, which includes the CME, CBOT, NYMEX, and COMEX
- Dubai Mercantile Exchange
- Intercontinental Exchange US ("ICE US")

### **Material Risks**

NANHUA USA actively manages the risks associated with operating as an FCM. Such material risks may include:

- CFTC Regulation 1.25 permits FCMs to invest customer segregated and secured funds deposited by customers. FCMs may also invest its own funds but will be responsible for any investment losses. Currently Nanhua USA holds all customer segregated funds and company funds in cash. All customer segregated funds are deposited at BMO Harris Bank, which is a settlement bank approved by the CME Group. Nanhua USA's capital funds are deposited at both BMO Harris Bank and Bank of China, Chicago Branch.

Nanhua USA's policies and procedures concerning the choice of bank depositories, custodians, and counterparties to permitted transactions under § 1.25.

Nanhua conducts due diligence when selecting depositories including examining the depositories' capital, operational liquidity, access to liquidity, concentration risk and creditworthiness.

As is the case with Nanhua USA's various exchanges and/or clearinghouses, depository reviews are conducted by Nanhua USA's Finance Department. These periodic credit reviews are performed on each of these entities to assess their financial strength and reliability. Credit will also take into consideration opinions of external rating agencies as they can provide the broadest set of credit risk factors and are not limited in scope for those entities that are rated.

New depository relationships will be introduced to the Finance Department accompanied by the following information. This ensures that the Finance Department will be provided with, but not limited to, the following:

- Legal name of entity
- Nature of exposure
- Exposure limit required
- Rating (if available)
- Audited financial statements for the past three years (unless public)

Depositories will be vetted by primarily financial statement analysis and by other means as they become available. Concerns and recommendations via credit write-up will be escalated for the approvals of the Senior Risk Manager and the CFO.

- HGNH International Financial Co., Limited and Nanhua Futures Co., Limited provide the member equity and capital to Nanhua USA and may be a source of additional liquidity. Material change in the capital structure or ownership of HGNH Group may impact Nanhua USA operations. However, HGNH Hong Kong Group operates in a highly-regulated environment.

Nanhua USA would be required to notify the CFTC and exchanges and clearing organizations of any material change in our capital structure or ownership, as well as, any impact it would have on our operations.

- The preponderance of Nanhua USA's volume is executed through electronic trading platforms. We offer several trading platforms to brokers and customers. Trading platforms can be adversely impacted by a variety of technology issues including, but not limited to, exchange connectivity, exchange matching engine outages, internet availability, software configurations, and hardware performance. If one or more of Nanhua USA's trading platforms were not available for an extended period, we could suffer a reduction in trading volume and operating income. However, a substantial portion of Nanhua USA's brokers and customers have access to more than one trading platform and/or have access to voice execution in the event of a trading platform failure.
- Nanhua USA's electronic trading platforms have risk control functionality. These individual risk control systems could conceivably fail, thereby allowing traders to exceed pre-set risk and trading limits. However, Nanhua USA employs multiple procedures for risk control and does not rely on any one risk control system. Nanhua USA also has robust procedures for employing kill switches in the event of any failure by a single risk control system.
- Nanhua USA maintains a technology network through which we interact with our customers and counterparties. A material breach within the network could result in a disruption of business and failure to meet our obligations to our customers or counterparties. Nanhua USA actively monitors our technology network to ensure that we meet the requirements of our customers and counterparties. We also maintain a business continuity plan to manage potential problems in our technology network.
- A substantial portion of Nanhua USA's net revenue is derived from commissions generated from customer transactions. The loss of a significant customer could negatively impact our volume and operating income. As of April 1, 2017, our omnibus client HGNH International Futures Co., Limited accounts for more than 99% of our net revenue.
- If a customer were to default on its obligations to Nanhua USA, we may have to liquidate open positions and could ultimately be responsible for any resulting debit balance. Nanhua USA manages this risk by requiring material margin deficiencies to be met on an intra-day or next business day basis via wire transfer and, in many instances, holding the broker introducing the customer responsible to Nanhua USA for any debit balance. We also regularly review customer trading activity and the current financial position of our significant customers, and actively monitor their open interest.

- Nanhua USA's principal liabilities are to our clearing customers. In the event Nanhua USA is not able to meet our obligations owed to customers this may significantly impact our business operations. Nanhua USA manages this risk by preparing daily segregation and secured fund statements identifying our customer liabilities, which are submitted to the CFTC and CME. The CME also receives direct confirmation from our segregation and secured funds depositories verifying the availability of assets to meet our customer obligations.
- An event or series of events that causes a significant increase in net capital required or a change that negatively impacts our sources of liquidity could impact our business operations. Nanhua USA manages this risk through a strong risk management program designed to anticipate and/or prevent such occurrences.
- Nanhua USA is subject to the regulatory authority of the CFTC, NFA, and exchanges and clearing organizations where we are a member and conduct our business. These regulatory authorities impose a wide range of financial, operational and business rules and regulations and have broad powers of enforcement. Material changes in these rules and regulations could have an effect on Nanhua USA's business.

### **Customer Segregated and Secured Funds**

FCMs generally can maintain three different types of accounts for customers, depending on the products traded (but Nanhua USA's focus on futures means we only hold Segregated Funds):

- A customer segregated account for customers that trade futures and options on futures listed on U.S. futures exchanges and ICE Futures Europe. The CFTC issued a specific order authorizing products traded on ICE Futures Europe to be held in a customer segregated account.
- A customer secured funds account (CFTC Regulation 30.7) for customers that trade futures and options on futures listed on foreign boards of trade.
- A cleared swap customer account for customers trading swaps that are cleared by a clearing house registered with the CFTC.

Nanhua USA only maintains customer segregated funds and not secured accounts, and we do not clear swap trades nor maintain a cleared swap customer account. The requirement to maintain these separate accounts reflects the different risks posed by the different products. Customer money, securities and other property held in one type of account may not be commingled with funds required to be held in another type of account, however as Nanhua USA limits its business activity to clearing futures, the industry's separate designations and treatment of such funds is irrelevant.

### **Customer Segregated Accounts**

Customer money, securities, and other property deposited with Nanhua USA, or that are otherwise required to be held for the benefit of customers, to margin, guarantee or secure futures and options on futures contracts traded on U.S. futures exchanges are held in a customer segregated account in accordance with section 4d(a)(2) of the Commodity Exchange Act and the CFTC Regulation 1.20. Customer segregated funds held in a customer segregated account may not be used to meet the obligations of Nanhua USA or any other person, including another customer.

All customer segregated funds may be commingled in a single account and held with a bank, clearing organization or another FCM that clearly identifies the account as “customer segregated funds”. Each bank or other FCM signs a written acknowledgment letter that indicates (i) the segregated funds are held in the account in accordance with the Commodity Exchange Act and CFTC regulations, (ii) the bank or other FCM will separately account for and segregate the customer funds, (iii) the CFTC has the right to examine the customer segregated account without permission from Nanhua USA, (iv) customer segregated ending account balances are electronically transmitted to the CFTC at the end of each business day for verification, and (v) a copy of the written acknowledgment letter is provided to the CFTC.

Nanhua USA must hold enough U.S. dollars in the U.S. to meet all of its U.S. 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 U.S. dollars) as follows: (1) U.S. dollars may be held in the U.S. or in a money center country to meet obligations denominated in any other currency, and (2) funds in money center currencies may be held in the U.S. or in money center countries to meet obligations denominated in currencies other than U.S. Dollars.

Nanhua USA’s risk management policies and procedures require us to regularly evaluate the depositories used to hold customer segregated funds. Our evaluation includes a review of the depository’s financial capitalization, creditworthiness, operational reliability, access to liquidity, concentration thresholds, availability of federal government deposit insurance, and regulatory oversight structure. The evaluation is presented to Nanhua USA’s Executive Committee and may result in changes in the use of depositories.

Each business day, Nanhua USA prepares a daily segregation statement reflecting the amount of customer funds held in segregation and the amount of segregated funds owed to customers for the prior

business day. The prior year's daily segregation statements are available on our website, Financial Information.

As a clearing member FCM holding customer funds, Nanhua USA is obligated by the CFTC to separately account for all futures customer funds and segregate such funds as belonging to its futures customers. Nanhua USA is further required to deposit futures customer funds in an account(s) which clearly identifies such funds as futures customer funds and shows that such funds are segregated as required by the Commodity Exchange Act ("CEA"). Nanhua USA must at all times maintain in the separate account or accounts money, securities and collateral property in an amount at least sufficient in the aggregate to cover its total obligations to all futures customers.

Nanhua USA may deposit futures customer funds, subject to the credit risk management policies and procedures with the following depositories:

- A bank or trust company;
- A derivatives clearing organization; or
- Another futures commission merchant.

The Nanhua USA's credit risk management policy works hard to attempt to mitigate risks associated with the credit exposure, including the risk of failure of clearing counterparties and custodians of client funds. Nanhua USA performs appropriate due diligence before a counterparty is approved to hold customer funds to ensure that the financial entity where the Nanhua USA would deposit such funds is financially sound. Nanhua USA requires custodians of client funds to be established, well capitalized institutions.

The following criteria, without limitations, are considered:

- Investment grade/debt rating
- Minimum equity and financial results
- Net capital and capital ratios
- Publicly listed companies or government guaranteed organization
- Location
- Operational reliability
- Access to liquidity
- Availability of deposit insurance

Extent of regulation and regulatory supervision of the depository Reputation  
in the industry

Customer segregated and secured bank and counterparty accounts are approved the CFO and the Board of Directors of Nanhua USA.

### **Investments of Customer Segregated Assets**

CFTC Regulation 1.25 permits FCMs to invest customer segregated and secured funds in certain financial instruments. Commission rules further provide that the FCM may retain gains earned and is responsible for investment losses incurred in connection with such investments. Nanhua USA's current policies limit investments to cash bank deposits, U.S. government securities with the duration of any government security limited to 5 years or less, reverse repurchase transactions, and money market mutual funds.

The duration of the securities in which an FCM invests in customer segregated and secured funds cannot exceed, on average, 2 years. Nanhua USA's current average duration is less than 12 months.

Nanhua USA provides a daily summary of our current customer segregated investments, which is updated on a daily basis on our website.

### **Financial Information**

Nanhua USA must comply with the financial requirements pursuant to the CFTC and NFA rules and regulations. In addition, Nanhua USA must comply with any additional financial requirements at an exchange or clearing organization where we are a member and conduct our business. These requirements include daily and month-end financial reporting, minimum net capital requirements, and annual certified financial audits. Nanhua USA prepares our financial statements in accordance with generally accepted accounting principles. Management is not aware of any material liabilities that are not properly disclosed within our financial statements. The aggregate uncollected customer balances which Nanhua USA records as a bad debt expense during the past 12 months is zero. Nanhua USA does not engage in proprietary trading or offer over-the-counter ("OTC") products. Nanhua USA does not provide customer financing in any respect.

As of April 30, 2017, financial data required to be disclosed is as follows:

Member Equity	\$ <u>91,202,453</u>
Net Capital	\$ <u>18,141,481</u>
Adjusted Net Capital	\$ <u>18,141,481</u>
Excess Net Capital	\$ <u>14,147,055</u>
Available Subordinated Debt	\$ <u>0.00</u>

The significant types of business activities and product lines engaged in by Nanhua USA LLC, and the approximate percentage of FCM's assets and capital that are used in each type of activities are:

Activity/ Product Line	Percentage of Assets	Percentage of Capital
Future Commission Merchant	100%	100%

At this time the firm maintains no committed unsecured lines of credit.

NANHUA USA's December 31, 2016, certified financial statement is available on our website:

[Annual Audited Financial Statement.](#)

Additional financial information on all FCMs is also available on the CFTC website at:

<http://www.cftc.gov/MarketReports/financialfcmdata/index.htm>

Financial information regarding Nanhua USA LLC, including how we invest and hold customer funds, may be obtained from the National Futures Association. A helpful link to that information is provided below:

<http://www.nfa.futures.org/NFA-investor-information/fcm-financial-information.HTML>

### **Compliance and Legal**

Nanhua USA may be subject to litigation, arbitration and regulatory matters in the normal course of business, in which we believe the resolution of these matters will not result in any material adverse effect on our financial position.

As of June 1, 2017, Nanhua USA is involved in no material litigation matters and has no material litigation issue to report in the last 5 years.

### **Risk Management Program**

NANHUA USA maintains a robust risk management system, which includes the following:

- Risk management tools that provide real-time updates for substantially all customer trading activity and underlying market moves.
- Material margin calls are typically collected via wire transfer on the day the margin call is issued. In addition, Nanhua USA reserves the right to collect margin deficiencies on an intra-day basis, which may occur when there are significant underlying market moves.
- Daily customer open positions stress testing based on underlying market moves with the stress testing results review by management.
- Daily risk management reports to management that summarize current customer trading activity, trading gains or losses, and material margin calls.
- Risk Committee reporting structure in which material risk items are discussed with senior management and the principals.
- Electronic trading platforms have pre-execution risk limits. For internal control purposes, electronic trading limit setting process is separate from the trading limit approval process. Further, Nanhua USA has risk management tools that summarize all customer electronic trading limits for the major electronic platforms offered by NANHUA USA. We regularly review electronic trading limits to ensure the limits are appropriate for the customer's current trading activity and financial position.

### **Filing a Complaint**

There are several ways a customer may file a complaint against NANHUA USA or one of our employees:

A customer may file a complaint with the CFTC by contacting the Division of Enforcement at:

<http://www.cftc.gov/ConsumerProtection/RedressReparations/index.htm> or by phone at (866)366-2382.

A customer may file a complaint with the NFA by contacting them at:

<http://www.nfa.futures.org/basicnet/Complaint.aspx> or by phone at (800) 621-3570.

A customer may file a complaint with the CME by contacting them at:

<http://www.cmegroup.com/market-regulation/file-complaint.html> or by phone at (312) 341-7970.