## Introducing Broker Defined

An Introducing Broker ("IB") is an organization that can solicit or accept orders to buy or sell futures or options contracts, but does not accept money or other assets from customers to support such orders. IBs have agreements with one or more Futures Commission Merchants ("FCMs") that allow clients to open accounts with multiple FCMs. In return for introducing the client business to the FCM, the commission revenue paid by the client to the FCM is shared with the IB.

An IB acts as an overlay between the FCM and its clients. Every account that is opened through an IB is papered using the FCM's standard Account Agreements and the account is maintained directly by the FCM. The client has access to all products and services directly from the FCM; an IB relationship does not in any way inhibit the client from going to the FCM directly.

| Moving from FCM to IB Model | |
|---|---|
| **Cost** | No difference. Revenue sharing is done between IB and FCM. |
| **Counterparty Risk** | No difference. FCM continues to hold all assets, cash, and collateral. Margin paid to FCM. |
| **Value Added Services** | Client can elect to use FCM service or opt in to value added services provided by IB. |
| **Service Level** | Clients may contact FCM directly or use IB staff to service accounts through all FCMs. |

Most IBs will offer additional services to clients. These services might be an extended reporting package that offers a bigger benefit compared to the stock FCM reporting. Other services could include business development, allocation and reconciliation automation. Clients who use the IB's value added services receive a synchronized service level for each account no matter what FCM is used or even if multiple FCMs are used under the same beneficial owner.

## Account Onboarding

To establish an IB relationship the client needs to complete the standard FCM Account Documentation, with one additional step. There is a line on the FCM's Agreement that asks if the account was introduced, the client simply checks the box and lists Thalēs Trading solutions LLC as the IB.

When an account is opened under an IB arrangement, it dictates that the clearing and execution revenues collected by the FCM will be shared with the IB. Each FCM will have an IB Agreement in place with the IB that dictates the details of the revenue share and other terms of the IB relationship. The terms might vary for different FCMs.

## Disclosure Requirements

Because the arrangement does not require direct payment from the client to the IB, there is not an explicit legal obligation for the client to detail the IB arrangement in its disclosure documents to investors. However, it is good practice to include such a disclosure. The IB can provide recommended sample verbiage and other potential useful information.

### Regulatory Requirements

IBs must be registered with the Commodity Futures Trading Commission ('CFTC') and must be members of National Futures Association ("NFA"). To become registered, IBs must adhere to net capital requirements and also establish and maintain a robust set of compliance policies and procedures not dissimilar to that of an FCM.

IBs must maintain an Anti-Money Laundering program, establish and test yearly a Disaster Recovery Plan, provide Ethics Training to all employees, and supervise the activities of all Associated Persons who must also be registered and member of the NFA.

### Commission Sharing

From the client perspective, the commission structure is the same as a traditional FCM account. All commissions and fees are charged on the brokerage statement on a per-trade basis and collected directly by the FCM. No compensation is paid directly to the IB for brokerage services as they are compensated directly from each FCM.

Because of the economies of scale and volume IBs bring to their relationships with the FCMs, it's not uncommon for the commissions paid by the IB's clients to be equal to or in some cases less than the commissions the client would be able to negotiate on their own.