



FUTURES

Futures Commission Merchant Firm Disclosure Document Pursuant to CFTC Regulation 1.55(k) (July 2019)

Table of Contents

- (1) The futures commission merchant's name, address of its principal place of business, phone number, fax number, and email address.
- (2) The name, title, business address, 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 Sec. 3.1 of Chapter I of Title 17 (Commodity Futures Trading Commission) of the Code of Federal Regulations.
- (3) 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.
- (4) 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 Sec. 1.25.
- (5) The material risks, accompanied by an explanation of how such risks may be material to its customers, of entrusting funds to the futures commission merchant, including, without limitation, the nature of investments made by the futures commission merchant (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 any significant liabilities, contingent or otherwise, and material commitments.
- (6) 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 are made available.
- (7) Any material administrative, civil, enforcement, or criminal complaints or actions filed against the futures commission merchant where such complaints or actions have not concluded, and any enforcement complaints or actions filed against the futures commission merchant during the last three years.
- (8) A basic overview of customer fund segregation, futures commission merchant collateral management and investments, futures commission merchants, and joint futures commission merchant/broker dealers.
- (9) Information on how a customer may obtain information regarding filing a complaint about the futures commission merchant with the Commission or with the Firm's designated self-regulatory organization.
- (10) The following financial data as of the most recent month-end when the Disclosure Document is prepared:

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- (i) The futures commission merchant's total equity, regulatory capital, and net worth, all computed in accordance with U.S. Generally Accepted Accounting Principles and Sec. 1.17, as applicable.
 - (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.
 - (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.
 - (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.
 - (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.
 - (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.
 - (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.
- (11) A summary of the futures commission merchant's current risk practices, controls and procedures.

Disclosures

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

The name of the Futures Commission Merchant ("FCM") is Charles Schwab Futures, Inc. (referred to throughout as "Schwab Futures," "the Firm," or "the FCM"). Until October 2017, the name of the Firm was optionsXpress, Inc. ("optionsXpress") and it operated as both a FCM and registered securities broker-dealer. In October 2017, the client securities accounts of optionsXpress were transferred to its corporate affiliate, Charles Schwab & Co., Inc. ("Schwab") and the Firm ceased its securities-related activities. Its principal place of business is located at 150 S. Wacker Dr., 12th Floor, Chicago, IL 60606. Our telephone number for general inquiries is (888) 280-8020, and our facsimile number for general support services is (312) 629-5256. There is no general corporate email address.

(2) The name, title, business address, 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 Section 3.1 of Chapter I of Title 17 (Commodity Futures Trading Commission) of the Code of Federal Regulations.

- a) Christy Silvanic, Vice President, Finance, Charles Schwab & Co., Inc., 211 Main Street, San Francisco, CA 94105. Ms. Silvanic is a Director of Schwab Futures. Ms. Silvanic oversees the financial results for the Investor Services and Digital Services enterprises. Prior to that she was a

Vice President in the Treasury department and has held numerous positions in Treasury over her first 18.5 years with the Firm. Prior to joining Schwab in 1996, Ms. Silvanic was an auditor with Ernst & Young. Ms. Silvanic received a Bachelor of Arts degree from the Michigan State University, majoring in Accounting. Ms. Silvanic holds a Series 27 license and an inactive CPA license.

- b) Barry S. Metzger, Senior Vice President, Charles Schwab & Co., Inc., 150 S. Wacker Dr., 12th Floor, Chicago, IL 60606. Mr. Metzger is a Director and CEO of Schwab Futures. As a SVP at Schwab, Mr. Metzger is the head of the Trading Services department within the firm's Investor Services enterprise. As such, he is responsible for long-term, strategic development of Schwab's trading services offering for its clients, including equities, options and futures. Mr. Metzger has been in this role since November 2014. He also oversees Schwab's International Services operations and the Planning and Portfolio Group. He was also the CEO of optionsXpress, Inc. from November 2014 until October 2017, when optionsXpress changed its name to Schwab Futures. Mr. Metzger has also been the Chief Operating Officer of optionsXpress where he was responsible for the daily operations of the Firm, overseeing operations, futures, and international. Before that, Mr. Metzger was the CEO of brokersXpress, Inc., an affiliate of optionsXpress which was a broker-dealer that provided independent Registered Representatives, Financial Planners, and Registered Investment Advisors with a trading and clearing platform to service their clients. Prior to brokersXpress, Mr. Metzger worked in several roles at Morgan Stanley. Mr. Metzger is a graduate of the University of Illinois in Urbana-Champaign. He has an MBA degree from the Kellogg School of Management at Northwestern University. Mr. Metzger holds Series 7, 24, 27, 31, and 66 licenses.
- c) Lynn M. Konop, Vice President, Compliance Department, Charles Schwab & Co., Inc., 2309 Gracy Farms Lane, Austin, TX 78758. Ms. Konop is the Chief Compliance Officer ("CCO") of Schwab Futures. As the CCO, Ms. Konop is responsible for managing the development, implementation, maintenance and administration of reasonably designed and effective compliance programs that meet Corporate Compliance standards and the requirements of the functional regulators of Schwab Futures, including, but not limited to, the U.S. Commodity Futures Trading Commission ("CFTC"), National Futures Association ("NFA"), U.S. Securities and Exchange Commission ("SEC"), and the Financial Industry Regulatory Authority ("FINRA"). Lynn attended St. Peter's College where she received a degree in Marketing with a minor in Economics. Ms. Konop holds Series 4, 7, 9/10[8], 23, and 24 licenses.
- d) Daniel E. O'Neil, President, Schwab Futures, 150 S. Wacker Dr., 12th Floor, Chicago, IL 60606. Mr. O'Neil is the President of Schwab Futures, and futures designated supervisory principal ("DSP") at the Firm. Mr. O'Neil is responsible for the strategic direction, growth, and business of the FCM. Previously, Mr. O'Neil was a founder and principal of Xpresstrade, LLC, one of the first online futures trading firms and which was acquired by optionsXpress in 2007, and then served as the head of the futures business at optionsXpress. Mr. O'Neil began his career in financial services as an independent trader on the floor of the Chicago Mercantile Exchange and then at the Chicago Board Options Exchange ("CBOE"). He also served as a risk manager and client relationship manager at Anspacher & Associates, Inc., a Chicago-based futures brokerage firm. Mr. O'Neil earned an undergraduate degree from Middlebury College and an MBA from the University of Chicago and holds the Series 3, 4, 7, 24, and 63 licenses.
- e) Chris Bakke, Vice President, Charles Schwab & Co., Inc., Financial and Regulatory Reporting, 9800 Schwab Way, Lone Tree, CO 80124. Mr. Bakke joined the firm in March 2018 and currently serves as the Chief Financial Officer for Schwab Futures. Mr. Bakke oversees the financial and regulatory reporting areas of Charles Schwab Corporation and Charles Schwab Futures. Prior to joining the firm in March 2018, Mr. Bakke worked for CPI Card Group, Inc. since November 2015, most recently as their Chief Accounting Officer. Before that, Mr. Bakke served in various capacities

at Western Union from May 2002, most recently as Senior Vice President Global Operations from August 2012 to September 2015. Prior to his time with Western Union, Mr. Bakke served in the Assurance and Advisory Business Services practice at Ernst & Young LLP for eight years. Mr. Bakke holds a Bachelor's Degree from the University of Colorado at Boulder and is a certified public accountant in the State of Colorado.

(3) 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.

The Firm provides internet-based futures brokerage services to retail clients located throughout the United States ("U.S.") and certain foreign countries. All of the Firm's clients are required to maintain a securities brokerage account at its affiliate, Charles Schwab & Co. Inc. The FCM transacts business on an agency basis and does not take positions in futures contracts, except to facilitate customer accommodations and/or correct error transactions. All of the Firm's assets and capital are used in support of this activity.

(4) 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 permitted transactions under Sec. 1.25.

As an FCM, Schwab Futures provides or arranges for execution and clearing services in exchange-traded commodity futures and options on commodity futures (collectively, "futures") for its clients, as well as the clients of certain international affiliates (Charles Schwab Australia, Pty Ltd and Charles Schwab Singapore, Pte. Ltd). The Firm's clients are principally individual retail investors who enter futures orders on a self-directed basis via one of our online portals (website, mobile device application or website). Certain corporations, partnerships, limited liability companies, trusts or other business organizations may also open futures accounts. The Firm does not transact on a principal basis with its clients. The business of the FCM is limited to exchange-listed futures, and it does not offer execution or custody services for over-the-counter derivatives such as commodity swaps. Its clients' futures transactions are executed on U.S. futures exchanges.

Schwab Futures maintains futures trading accounts for its clients on a fully-disclosed basis, in which it records their futures transactions, the funds it receives from clients to margin and settle their transactions, gains and losses on their positions and other account activities. The Firm provides various back office functions for futures trading, including preparing client trade confirmations and account statements, performing designated cashing functions, including the receipt of funds from the client to support futures trading, possession and control of client's futures positions, and safeguarding client funds and transmitting tax accounting information to the client and to the applicable tax authorities.

The FCM processes all of its futures transactions as a non-clearing Futures Commission Merchant through an omnibus account arrangement with its clearing Futures Commission Merchants ("clearing FCMs"). Currently, Schwab Futures uses R.J. O'Brien & Associates LLC and ADM Investor Services, Inc. as its clearing FCMs, but reserves the right to use other clearing FCMs at some point in the future. As of the date of this document, Schwab Futures transmits orders via the clearing FCMs or through other executing FCMs to the following futures exchanges: Chicago Board of Trade ("CBOT"); CBOE Futures Exchange ("CFE"); Chicago Mercantile Exchange ("CME"); ICE Futures US (NY Board of Trade); Minneapolis Grain Exchange ("MGE"); New York Mercantile Exchange ("NYMEX"); and the Commodity Exchange, Inc., ("COMEX"). The clearing FCMs are responsible for settling futures transactions on the various futures exchanges with their associated clearinghouses. For example, the clearinghouse for futures transactions executed on the CBOT, CME, NYMEX and COMEX is CME Clearing.



As an FCM, Schwab Futures is subject to requirements under the Commodity Exchange Act (“CEA”) and regulations of the U.S. Commodity Futures Trading Commission (“CFTC”) regarding how it holds the funds of its futures clients. The Firm is required to hold the funds that its futures clients deposit with it to margin and settle their futures transactions, along with any funds accruing on those transactions, on a segregated basis. That means, for example, the Firm cannot commingle those funds with its own operating funds, and holds those funds in accounts at a custodian bank or in omnibus accounts with a clearing FCM under account names indicating that the funds are held on behalf of the Firm’s futures customers. The Firm’s clearing FCMs are subject to the same regulatory requirements concerning the custody of client funds and assets, and are required to maintain adequate control over the futures contracts which they hold on behalf of the Firm’s clients.

Schwab Futures maintains client segregated funds accounts with a major U.S. banking institution to hold any uninvested funds of its futures clients that it has not pledged as collateral with the clearing FCMs to maintain client open positions. Any proposed new banking relationships must be approved by Corporate Credit Research group of the Firm’s Schwab affiliate. In evaluating a potential new banking relationship, the FCM (via the Schwab Corporate Credit Research group) would review the creditworthiness and reputation of the banking entity. The Corporate Credit Research group will evaluate factors such as the depository’s capitalization, creditworthiness, and access to liquidity. The Corporate Credit Research group also monitors each approved depository on an ongoing basis to assess the depository’s continued satisfaction of its criteria, including a thorough due diligence review at least annually. Various members of the Firm’s management team would be required to approve the new relationship and counsel would review and approve the bank acknowledgement letter required by CFTC Regulations 1.20.

(5) The material risks, accompanied by an explanation of how such risks may be material to its customers, of entrusting funds to the futures commission merchant, including, without limitation, the nature of investments made by the futures commission merchant (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 any significant liabilities, contingent or otherwise, and material commitments.

Schwab Futures believes that it has taken reasonable and adequate precautions to protect the funds of clients entrusted to the FCM. However, the Firm recognizes that it cannot eliminate all conceivable risks no matter how remote, particularly those which could arise from either extreme market movements or the actions or omissions of third parties such as futures exchanges, clearinghouses, bank custodians and other clearing or executing FCMs. The FCM has in place appropriate and effective policies and procedures to safely and reliably custody client assets deposited with it. Clients who deposit funds with Schwab Futures are free to withdraw excess funds (to the extent that those funds are not collateralizing a futures position or other instrument) through their securities account at the Firm’s affiliate via customary and established processes such as check-writing, ACH requests and wire transfers. Nevertheless, funds entrusted by clients to the FCM would potentially be at risk in the unlikely event that the Firm becomes insolvent, particularly in a sudden and abrupt fashion. Theoretically, clients of the Firm are also subject to the indirect risk of the insolvency of a third-party with which the Firm transacts business, such as its clearing FCMs. Similarly, there is also a potential indirect risk to clients based on the insolvency of a futures exchange, clearinghouse, or bank which custodies client funds. An indirect risk to clients for a third-party insolvency exists largely to the extent that client funds entrusted to the third-party and which are not recoverable are of sufficient magnitude that the Firm cannot immediately make good on the obligations owed to clients. The FCM’s policy is to perform appropriate due diligence to the extent feasible of its third-party vendor relationships. Since these third-party vendors are independent actors, however, their conduct is normally outside of our control and therefore the Firm cannot guarantee that they perform their functions in an entirely risk-free manner. Moreover, certain entities with which the FCM conducts business, such as futures



FUTURES

exchanges, clearinghouses and market data providers, are centralized, mandatory counterparties in financial services transactions. The Firm has little or no ability to conduct due diligence of such entities or assess or impose controls on any risks inherent in their operations.

Schwab Futures does not believe that a material risk of a sudden or unforeseen insolvency of the FCM exists. The Firm has a long history of profitability and does not risk its capital by engaging in proprietary trading activities. The FCM is part of the Charles Schwab family of companies, which share a similar history of profitability and are likewise risk-averse by nature. Moreover, the risk that clients would lose funds safeguarded by Schwab Futures even in the circumstances of an insolvency proceeding of the Firm or its corporate affiliates is not material given the manner in which such funds are custodied. With the exception of warehouse receipts, funds deposited by clients with Schwab Futures are custodied with major U.S. banking entities in segregated bank accounts in compliance with all applicable CFTC regulations. For these purposes, a segregated bank account means one which is specifically identified as being for the exclusive benefit of customers. Pursuant to CFTC Regulations, the bank holding funds in a client segregated funds account must agree in writing that funds in that account may not be used by the Firm for its own proprietary purposes, e.g., to secure or obtain credit or to offset or be subject to a lien for Firm obligations or indebtedness. Additional CFTC rules and internal firm policies restrict the manner and type of investments of such funds to certain conservative investments (See, Section 8, *Investment Policy for Client Segregated Funds, infra*, for description of permitted investments). Thus, even in the unlikely event that the FCM, or its control affiliates, became insolvent, there does not appear to be a material risk that clients would lose the funds which they had deposited with the Firm. Since all future events cannot be foreseen, however, some risk of loss may exist.

Client funds may also be held by our clearing FCMs as security or collateral for open futures contracts carried by the clearing FCMs on behalf of the Firm's clients. The clearing FCMs may in turn pledge such funds as collateral for open positions at federally-licensed and regulated Designated Contract Markets. As registered FCMs the clearing FCMs used by the Firm are also subject to the same CFTC rules regarding the segregation and investment of clients' funds. Assuming that the clearing FCMs comply with the CFTC regulations regarding the custody and investment of client funds, client funds held by the Firm's clearing FCMs should not be at a material risk of loss even if one or more of the clearing FCMs became insolvent. Unforeseen events or non-compliance with these regulations by the clearing FCM may, however, result in a risk of a loss in some circumstances. The Firm does not believe that any material risk to clients is presented by such arrangements, however, as both the Firm and its clearing FCM remain obligated to clients based on the above-mentioned CFTC regulations on segregation of client funds entrusted to the Firm.

CREDITWORTHINESS – The Firm's principal investments consist of cash and cash equivalents (which include highly liquid investments with original maturities of three months or less). When establishing banking relationships, the Firm takes into consideration the market, credit, counterparty, operational, and liquidity risks associated with such investments.

The Firm's objective is to ensure that working capital is managed in a sound and prudent manner. Within this context, the primary considerations are to:

- ensure the safety and preservation of the Firm's capital;
- provide adequate liquidity for Schwab Futures to meet anticipated and unanticipated cash needs; and



FUTURES

- achieve an optimal rate of return consistent with the proper appraisal and control of credit and market risk, such that the Portfolio earnings are maximized consistent with prudent risk management.

Other assets of the Firm include margin collateral collected from its clients in futures transactions.

Schwab's Corporate Risk Management ("CRM") group is responsible for the Firm's credit risk monitoring and reporting. Key activities and elements that are reviewed in order to provide insight and support for credit risk monitoring and reporting include issuer and counterparty exposure and bank loan portfolios. Issuer credit exposure monitoring includes initial CRM approvals and comprehensive analysis, ongoing monitoring, and annual reviews. In all cases involving counterparty and issuer credit exposures, credit limits are established and monitored. Collateral quality, in the case of counterparty exposures, and issuer credit quality in the case of unsecured exposures, is rigorously monitored. Credit exposures, including concentrations, are reported to various internal oversight committees. CRM performs monitoring of the monthly bank loan portfolio reports, reviewing key performance indicators to identify impacts of potential emerging risks and to take mitigating actions as appropriate.

Schwab Futures is an indirect subsidiary of The Charles Schwab Corporation ("CSC"), a publicly traded holding company whose principal operating subsidiaries include Schwab, a registered broker-dealer, and the Charles Schwab Bank, a federally chartered thrift institution, in addition to Schwab Futures. In addition, the Firm has a \$200 million line of credit from CSC. Schwab Futures enables domestic clients to sweep excess funds held in brokerage accounts into deposit accounts at Charles Schwab Bank. The excess funds of foreign clients are swept back to a linked account at Charles Schwab & Co., Inc. and are invested either in free credit balances interest program or a money market sweep fund.

GENERAL CONTINGENCIES – The Firm facilitates leveraged futures transactions by its clients and collects initial and maintenance margin collateral from clients in connection with such transactions. Leverage involves securing a large potential future obligation with a lesser amount of funds or securities. Margin collateral is generally received in the form of cash or US Treasury securities and is deposited with our clearing FCM. The risks associated with leverage and margin collateral increase during periods of volatile markets or in cases where leverage or collateral is concentrated and significant market movements occur. During such times, clients who trade futures using leverage may find that their positions have a rapidly depreciating value. Clients may be required by either the regulations of the designated contract market or the credit policies of the Firm to deposit additional margin collateral to support their futures position(s). The Firm may be exposed to credit risk to the extent that clients fail to deposit additional collateral and the value of the futures positions and other assets in their accounts are insufficient to offset the position at prevailing market prices.

The margin and leverage requirements that the Firm imposes on its client accounts meet or exceed those required by various regulatory requirements, such as the rules of designated contract markets and their clearing organization. The amount of this risk is not readily quantifiable since the risk is dependent upon analysis of a potential significant and undeterminable rise or fall in futures prices. As a result, the Firm may be exposed to significant off-balance sheet credit risk in the event client collateral or assets is not sufficient to fully cover losses that clients may incur. In the event clients fail to satisfy their obligations, the Firm may be required to purchase or sell financial instruments at prevailing market prices to fulfill the clients' obligations.

COLLATERAL MANAGEMENT – The Firm limits the types of margin collateral it accepts to cash and highly liquid investment securities, e.g., US Treasuries.



LEGAL CONTINGENCIES – In the ordinary course of business as an FCM, the Firm may be subject to lawsuits, arbitrations, claims, and other legal proceedings. The FCM cannot predict with certainty the outcome of pending or threatened legal proceedings. A substantial judgment against the Firm or other resolution regarding the proceedings could have a material adverse effect on the Firm's financial condition.

GUARANTEES – The FCM clears its clients' futures transactions on an omnibus basis through one of its clearing FCMs. The Firm has agreed to indemnify its third-party clearing FCMs for losses that it may sustain in the handling of orders, instructions and transactions for the FCM's clients or the failure of the FCM's clients to meet obligations owed in connection with their trading of futures contracts, such as meeting margin calls or paying amounts due. The Firm's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the Firm believes that it is unlikely that it will have to make any material payments under these arrangements.

(6) The name of the futures commission merchant's designated self-regulatory organization and its Website address and the location where the annual audited financial statements of the futures commission merchant is made available.

The designated futures self-regulatory organization for Schwab Futures is the NFA. The address of the NFA's public website is <http://www.nfa.futures.org/>. The annual audited financial statement of Schwab Futures can be found on the public website of its affiliated broker-dealer, Charles Schwab & Co., Inc., at http://www.schwab.com/public/schwab/nn/legal_compliance/important_notices or by following the link titled "Important Notices" on the Schwab home page.

(7) Any material administrative, civil, enforcement, or criminal complaints or actions filed against the futures commission merchant where such complaints or actions have not concluded, and any enforcement complaints or actions filed against the futures commission merchant during the last three years.

There are no material proceedings against Schwab Futures acting in its capacity as an FCM which were filed in the last three years. Other proceedings against the Firm filed in the last 3 years arising out of its activities as a securities broker-dealer when it was known as optionsXpress are as follows:

- a) *In re: optionsXpress, Inc.*, Letter of Acceptance, Waiver and Consent ("AWC") No. 2014041865201 (Sept. 19, 2016). In a settled matter, the Firm consented to entry of an Order finding that in 29 instances it routed agency orders to the BATS Exchange and executed them by pairing them with principal orders without first exposing them to the market for at least one second, in violation of BZX Rule 22.12. The Firm was censured and fined \$60,000.
- b) *In re: optionsXpress, Inc. and Jonathan Feldman*, Exchange Act Rel. No. 78621, AP File No. 3-14848 (Aug. 18, 2016). On appeal from the decision of the SEC Administrative Law Judge in 2013, the full Commission found that optionsXpress violated Rules 204 and 204T of Regulation SHO by failing to close out a number of fail-to-deliver short positions. optionsXpress was ordered to cease and desist from violating Rules 204 and 204T, make disgorgement of \$1,574,599, plus interest, and pay a civil monetary penalty of \$2,000,000.

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

Funds and other assets segregated and on deposit for regulatory purposes include interest-bearing cash deposits, including open trade equity and cash deposits with a clearing FCM, that have been segregated



for the benefit of futures clients according to the regulations of the CFTC governing a futures commission merchant.

Pursuant to CFTC regulations, funds of clients are maintained in a segregated bank account. As noted above, the bank holding these assets is required to keep them in a separate account which is specifically identified as being for the exclusive benefit of the Firm's customers. CFTC Regulations require that any custodial bank agree in writing that it will not permit those funds to be used to pay, offset or secure any obligation or indebtedness of the Firm. Client funds deposited in the Segregated Funds account are permitted to be commingled with funds deposited by other customers of the Firm. Net additions or subtractions to the Segregated Funds Account are based on changes in clients' margin requirements. Schwab's Treasury Department will determine the required minimum balance to be maintained in the account and direct the Cash Management Department to make any required deposit or withdrawal not for the benefit of customers.

Pursuant to futures industry regulations, the Firm is required to maintain a residual interest consisting of its own proprietary funds in the client segregated funds accounts. The Firm's residual interest must exceed the "undermargined amount" of clients' futures accounts as defined by CFTC Regulation 1.22 (basically, the amount, if any, by which the total amount of collateral required to support the futures positions in clients' accounts exceeds the value of futures clients' funds in the futures account, calculated daily at the end of the business day). The Firm may not withdraw proprietary funds in the clients' segregated funds accounts beyond its residual interest. Furthermore, under applicable regulations, the FCM must ensure that management properly authorizes any withdrawal of more than 25% of its targeted residual interest from the clients' segregated funds accounts not for the benefit of customers, and immediately notifies the NFA of the withdrawal.

Investment Policy for Client Segregated Funds

The objective of the Firm's Investment Policy is to ensure that the investments of the Segregated ("CFTC Regulation 1.20") Portfolio ("Segregated Portfolio") are managed in a sound and prudent manner. Within this context, the primary investment considerations are to safeguard excess customer credit balances, ensure the safety and preservation of the FCM's capital and principal, set forth permissible securities and investments for the portfolio, provide adequate liquidity for the Firm to meet anticipated cash needs through maturing investments, provide adequate liquidity to meet unanticipated cash needs through the selection of investments with liquid and efficient markets or investments for which an efficient repurchase market exists, achieve an optimal rate of return consistent with the proper appraisal and control of credit and market risk, and take into account regulatory capital haircuts applied on investments in the portfolio.

Investments for the Segregated (CFTC Regulation 1.25) portfolio will be limited to the following classes of securities, which are all permissible under CFTC Regulation 1.25:

- Direct U.S. Government obligations in the form of bills, notes, bonds and STRIPS and other instruments explicitly guaranteed by the U.S. Government;
- Participation Certificates or Mortgage-Backed Securities guaranteed by the Government National Mortgage Association ("GNMA"), including GNMA REMIC Collateralized Mortgage Obligations;
- Certificates of Deposit of approved U.S. Banks and Thrifts as defined by Section 3(a)(6) of the Exchange Act;
- Reverse Repurchase Agreements collateralized by any of the above, subject to certain repurchase transaction requirements;



- Cash or Trust Deposit accounts.

Prior to establishing any omnibus account on behalf of a Segregated Portfolio, the custodian bank ("Bank") must execute an acknowledgement letter which provides that the Bank will hold the funds in a separate account titled for the exclusive benefit of customers of the FCM and by which the Bank agrees not to use the funds in the account to secure or guarantee any obligation of the FCM to the Bank or assert any right of offset or lien for any indebtedness, obligation or liability of the FCM owed to the Bank, as required by applicable law. U.S. Government and Agency-backed investments do not require prior credit approval; all other investment and counterparties can only be made subject to approved credit limits.

(9) Information on how a customer may obtain information regarding filing a complaint about the futures commission merchant with the Commission or with the firm's designated self-regulatory organization.

Information for Schwab Futures customers about how to file a complaint with the CFTC or the NFA can be found at the public website for each respective organization by searching the term "File a Complaint."

(10) The following financial data as of the most recent month-end when the Disclosure Document is prepared:

(i) The futures commission merchant's total equity, regulatory capital, and net worth, all computed in accordance with U.S. Generally Accepted Accounting Principles and Sec. 1.17, as applicable.

Equity: \$71,761,265
Net capital: \$68,323,906
Net worth: \$71,761,265
(as of March 31, 2019)

(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.

Not applicable.

(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 March 31, 2019, our 60 largest accounts represent 50% of the total funds we hold for futures clients in our Segregated futures balance. As of March 31, 2019, the Firm does not offer trading in any 30.7 futures contracts. The Firm does not engage in swaps trading activity and therefore has no Cleared Swaps customers or funds.

(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.

The Firm does not enter into any principal over-the-counter transactions.

(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 noted above, the Firm has a \$200 million line of credit from CSC.

(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.

Except in highly unusual circumstances and/or temporary periods of extreme volatility or market disruption which are difficult to anticipate or quantify, the exchange-traded products offered by the Firm are not illiquid to the extent that it is difficult to obtain timely and accurate prices.

(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.

There have been no amounts written-off as uncollectible between April 1, 2018 and March 31, 2019. As of March 31, 2019, the current balance of funds held for futures customers was \$122,560,778 (Segregated assets).

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

As noted above, the FCM is part of The Charles Schwab Corporation corporate hierarchy. As such, it benefits from the risk management framework of this network of companies. For example, many of the support services discussed below are provided by Schwab employees or departments or by using Schwab systems and control processes. Schwab Futures leverages the existing risk management control structure at Schwab, supplemented by systems and activities of Schwab Futures and its personnel, as described herein.

As part of The Charles Schwab Corporation family of companies, Schwab Futures is committed to the highest standards of ethical conduct. The Code of Business Conduct and Ethics ("Code") applies to an individual's service as a director, officer, or employee of CSC and its subsidiaries and affiliates. The Code outlines ethical conduct in several key areas:

- Ethical behavior and legal compliance;
- Conflicts of interest;
- Confidentiality of information;
- Employment practices;
- Business practices; and
- Compliance and reporting

While the Code outlines key areas of ethical conduct, more detailed information is set forth throughout the Compliance Manual applicable to the Firm, policies and procedures for individual business units, and policies with which employees must comply as a condition of employment with the Firm (collectively referred to as "company policies"). Employees are responsible for reviewing the Code and company policies that



apply to them and their business unit and are expected to act in compliance with the Code and company policies in their daily activities.

The FCM has adopted a Risk Management Program pursuant to CFTC Regulation 1.11 which is designed to help the Firm identify risks and set reasonably appropriate risk tolerance limits across a number of areas, such as Market, Operational, Technology, Legal, Liquidity, Segregation, Settlement, Credit, and Capital risk. The departments overseeing functional areas of the Firm's business are responsible for monitoring and managing relevant risks to the Firm. In addition, these departments are expected to maintain procedures and systems which are reasonably designed to comply with this Policy. Such procedures must include the following essential elements:

- Description of applicable risks in the functional areas or business activities overseen by the department, along with specific risk tolerance limits;
- Methodology for monitoring these risks and the risk tolerance limits;
- A process for detecting breaches of these tolerance limits and alerting the appropriate members of the Firm's senior management, the Firm's Risk Management Unit ("RMU") Steering Committee and/or Executive Committee in the event of breaches;
- Policies for determining when exceptions to the risk tolerance limits are allowed, and a process for seeking and receiving approval for any such exceptions; and
- Regular reports, not less than quarterly, to the Firm's RMU Steering Committee.

The risk management process at the Firm is delivered through three lines of defense, with clearly defined responsibilities at each level. In many cases, these activities may be performed on behalf of the FCM by employees of its Schwab affiliate acting pursuant to an Intercompany Service Agreement. The first level of risk management lies with the employees and managers of the FCM. Working with staff, management has the ownership, responsibility, and accountability for identifying, assessing, controlling, and mitigating risks in accordance with corporate standards, vision, values and strategy. Each business unit within the Firm has an appropriate business leader, who is responsible for designing, maintaining, and testing a system of staff-level and supervisory processes and procedures to comply with applicable laws and regulations, as well as company policies. Known risk events of sufficient magnitude are required to be escalated to Management, as well as the Supervision & Controls team.

The second level of risk management consists of the regular oversight of its business activities by the Firm's RMU Steering Committee and Executive Committee. In general, the governance committees work to manage risk by setting standards, monitoring the risk management practices, and reporting on risk activities and emerging risks. These committees meet periodically throughout the year to review the Firm's activities in their respective areas of responsibility and make decisions on the future direction of the Firm.

Additionally, the RMU Steering Committee receives and reviews a Risk Exposure Report ("RER") from the various operational units of the Firm within its purview. The RERs are generated through the Risk and Control Self-Assessment ("RCSA") Process. The RCSA process is a risk management framework used by Schwab and Schwab Futures to identify risk exposures and assess the strength of the control activities in place to mitigate those risks. RERs are issued no less than quarterly. The RERs will set forth all applicable risk exposures of the Firm, establish risk tolerance limits, disclose any breaches of risk tolerance limits, recommend changes to the Risk Management Program for the business unit to address or mitigate such risks, and review the status of any previously recommended changes. The Firm's RMU Steering Committee, which is composed of persons with sufficient authority and qualifications who are independent of the Business Unit of the Firm, reviews the RERs and discusses the material aspects of the reports with



FUTURES

the Firm's Executive Committee on at least a quarterly basis. The Program also specifies that the FCM's Executive Committee will review and approve the risk tolerance limits described in the RERs quarterly and that the Firm's Board of Directors will review and approve such risk tolerances annually.

At both levels, management and the various Schwab Futures committees are supported by a number of units and advisors. Some of these support personnel work directly for the Firm, while others provide these services through one of its corporate affiliates. Examples of these advisory units include Compliance, Supervision and Controls, Human Resources, Corporate Vendor Management, Anti-Money Laundering Office, Global Security Organization and Fraud Prevention Departments. In addition, there also are a number of Schwab oversight bodies whose scope includes the activities of Schwab Futures. These committees include the Global Risk Committee, Financial Risk Oversight Committee, Order Routing Committee, Investment Product Review Council, Information Security and Privacy Security Committee, Model Governance Committee, and Operational Risk Oversight Committee. These Schwab committees do not report to the FCM's Executive Committee.

The final level of risk management consists of the review by Schwab's Internal Audit department of the policies and procedures of the Firm, including the consistent application and compliance with those policies and procedures. Findings and recommendations made by Internal Audit are provided to appropriate members of the Firm's management and staff for implementation. Internal Audit tracks the resolution of its recommendations and reports on progress to Schwab Futures management and the Audit Committee of Schwab. Additional audits and reviews of the Firm may be performed from time to time by the Firm's Compliance Department. The Firm's financial statements are audited by an independent, third-party auditor (currently, Deloitte & Touche LLP).

Schwab Futures' Risk Management Program must be reviewed and independently tested by the Schwab Internal Audit Department on at least an annual basis, or more frequently upon any material change in the Firm's business that is reasonably likely to alter its risk profile. The annual review will include an analysis of adherence to, and the effectiveness of, the Firm's policies and procedures required by this Policy and any recommendations for changes or enhancements. Legal support to all levels of the Firm's risk management process is provided by Schwab's Corporate Legal Services department.

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