

## OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 102

SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549  
 Form 19b-4

File No.\* SR - 2012 - \* 024

Amendment No. (req. for Amendments \*)

Proposed Rule Change by Financial Industry Regulatory Authority  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial \* ☒ Amendment \* ☐ Withdrawal ☐

Section 19(b)(2) \* ☒ Section 19(b)(3)(A) \* ☐ Section 19(b)(3)(B) \* ☐

## Rule

Pilot ☐ Extension of Time Period  
 for Commission Action \* ☐ Date Expires \*

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)  
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)  
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

## Description

Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked \*).

Proposed Rule Change Relating to FINRA Rule 4210 Margin Requirements

## Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name \* Kathryn Last Name \* Moore  
 Title \* Assistant General Counsel  
 E-mail \* kathryn.moore@finra.org  
 Telephone \* (202) 974-2974 Fax (202) 728-8264

## Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 05/23/2012

By Stephanie Dumont  
 (Name \*)

Senior Vice President and Director of Capital Markets  
 Policy

(Title \*)

NOTE: Clicking the button at right will digitally sign and lock  
 this form. A digital signature is as legally binding as a physical  
 signature, and once signed, this form cannot be changed.

Stephanie Dumont,

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information (required)**

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change (required)**

Add

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

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**Exhibit 3 - Form, Report, or Questionnaire**

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

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**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**1. Text of Proposed Rule Change**

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend FINRA Rule 4210 (Margin Requirements) to: (1) revise the definitions and margin treatment of option spread strategies; (2) clarify the maintenance margin requirement for non-margin eligible equity securities; (3) clarify the maintenance margin requirements for non-equity securities; (4) eliminate the current exemption from the free-riding prohibition for designated accounts; (5) conform the definition of “exempt account”; and (6) eliminate the requirement to stress test portfolio margin accounts in the aggregate. In addition, the proposed rule change would amend FINRA Rule 4210 to make non-substantive technical and stylistic changes.

The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Self-Regulatory Organization**

The proposed rule change has been approved by the General Counsel of FINRA (or his officer designee) pursuant to delegated authority. No other action by FINRA is necessary for the filing of the proposed rule change.

FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

The effective date will be no later than 90 days following publication of the Regulatory Notice announcing Commission approval.

**3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

The proposed rule change would amend FINRA Rule 4210 (Margin Requirements) to: (1) revise the definitions and margin treatment of option spread strategies; (2) clarify the maintenance margin requirement for non-margin eligible equity securities; (3) clarify the maintenance margin requirements for non-equity securities; (4) eliminate the current exemption from the free-riding prohibition for designated accounts; (5) conform the definition of “exempt account”; and (6) eliminate the requirement to stress test portfolio margin accounts in the aggregate. In addition, the proposed rule change would amend FINRA Rule 4210 to make non-substantive technical and stylistic changes.

**Option Spread Strategies**

Basic option spreads can be paired in such ways that they offset each other in terms of risk. The total risk of the combined spreads is less than the sum of the risk of both spread positions if viewed as stand-alone strategies. FINRA Rule 4210(f)(2) currently recognizes several specific option spread strategies.<sup>2</sup> These strategies consist of either a “long” and a “short” option contract or two “long” and two “short” option contracts. The “long” and “short” option contracts have the same underlying security or

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<sup>2</sup> See FINRA Rule 4210(f)(2)(A) that currently recognizes the following spread strategies: box spread, butterfly spread, calendar (or time) spread, “long” calendar butterfly spread, “long” calendar condor spread, “long” condor spread, “short”

instrument and the “long” option contracts must expire on or after the expiration of the “short” option contracts.

While the strategies recognized under FINRA Rule 4210 are the most common types of option spread strategies used by investors, there are other combinations of calls and/or puts that are similar in terms of their risk profile. Accordingly, FINRA proposes a broader definition of a spread in FINRA Rule 4210(f)(2)(A)(xxxii) to mean a “long” and “short” position in different call option series, different put option series, or a combination of call and put option series, that collectively have a limited risk/reward profile, and meet the following conditions: (1) all options must have the same underlying security or instrument; (2) all “long” and “short” option contracts must be either all American-style or all European-style;<sup>3</sup> (3) all “long” and “short” option contracts must be either all listed or all OTC;<sup>4</sup> (4) the aggregate underlying contract value of “long” versus “short” contracts within option type(s) must be equal; and (5) the “short” option(s) must expire on or before the expiration date of the “long” option(s).

The proposed revised margin requirements are set forth in FINRA Rule 4210(f)(2)(H) and would require that the “long” option contracts within such spreads

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calendar iron butterfly spread, “short” calendar iron condor spread, “short” iron butterfly spread and “short” iron condor spread.

<sup>3</sup> American-style options can be exercised or assigned at any time during the life of the contract. European-style options can only be exercised or assigned at the time of expiration.

<sup>4</sup> See FINRA Rule 4210(f)(2)(A)(xxvi) (renumbered as 4210(f)(2)(A)(xxiv)) that defines a listed option as an option contract that is traded on a national securities exchange and is issued and guaranteed by a registered clearing agency. See also FINRA Rule 4210(f)(2)(A)(xxxii) (renumbered as 4210(f)(2)(A)(xxvii)) that defines an OTC option as an over-the-counter option contract that is not traded on a national securities exchange and is issued and guaranteed by the carrying broker-dealer.

must be paid for in full. The margin required for the “short” option contracts within such spreads would be the lesser of: (1) the margin required pursuant to FINRA Rule 4210(f)(2)(E); or (2) the maximum potential loss. The maximum potential loss would be determined by computing the intrinsic value of the options at price points for the underlying security or instrument that are set to correspond to every exercise price present in the spread. The intrinsic values are netted at each price point, and the maximum potential loss is the greatest loss, if any. The proceeds of the “short” options may be applied towards the cost of the “long” options and/or any margin requirement. FINRA Rule 4210(f)(2)(H)(iv) would also make clear that OTC option contracts that comprise a spread must be issued and guaranteed by the **same** carrying broker-dealer and the carrying broker-dealer must also be a FINRA member. If the OTC option contracts are not issued and guaranteed by the **same** carrying broker-dealer, or if the carrying broker-dealer is not a FINRA member, then the “short” option contracts must be margined separately pursuant to FINRA Rule 4210(f)(2)(E)(iii) or (E)(iv). In addition, FINRA proposes to amend FINRA Rule 4210(f)(2)(N) to similarly conform the margin requirements for spreads that are permitted in a cash account.

FINRA proposes to eliminate the definitions for the option spread strategies currently recognized within the rule, along with the specific margin requirements associated with each spread, with the exception of a “long” box spread consisting of European-style options.<sup>5</sup> FINRA Rule 4210(f)(2)(H)(v)g.<sup>6</sup> currently allows a margin

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<sup>5</sup> See FINRA Rule 4210(f)(2)(A)(vi). A box spread means an aggregation of positions in a “long” call and “short” put with the same exercise price (“buy side”) coupled with a “long” put and “short” call with the same exercise price (“sell side”) structured as: (1) a “long” box spread in which the sell side exercise

requirement equal to 50% of the aggregate difference in the exercise prices. This is the only spread strategy that allows loan value, and FINRA believes that retaining this provision is appropriate.

### **Non-Margin Eligible Equity Securities**

FINRA proposes to clarify the maintenance margin requirement for non-margin eligible equity securities. FINRA Rule 4210(c)(1) prescribes a maintenance margin requirement of 25% of the current market value of all securities (except for security futures contracts) held “long” in an account. FINRA believes that non-margin eligible equity securities should be subject to more stringent margin requirements in light of the nature of such securities. Accordingly, FINRA proposes to amend FINRA Rule 4210(c)(1) regarding securities held “long” to clarify that the maintenance margin requirement of 25% of the current market value would apply only to margin securities as defined in Regulation T.<sup>7</sup> Consequently, non-margin eligible equity securities would be excluded from such margin treatment and the maintenance margin requirement for non-margin eligible equity securities would be 100% of the current market value.<sup>8</sup> This maintenance margin requirement of 100% for non-margin eligible equity securities is

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price exceeds the buy side exercise price; or (2) a “short” box spread in which the buy side exercise price exceeds the sell side exercise price, all of which have the same contract size, underlying component or index and time of expiration, and are based on the same aggregate current underlying value.

<sup>6</sup> FINRA Rule 4210(f)(2)(H)(v)g. would be renumbered as FINRA Rule 4210(f)(2)(H)(v)e.

<sup>7</sup> See Regulation T section 200.2 for the definition of margin security.

<sup>8</sup> See Regulatory Notice 11-16 (April 2011) and Regulatory Notice 11-30 (June 2011) (Regulatory Notice 11-30 delayed the effective date of Regulatory Notice 11-16 until October 3, 2011).

consistent with the requirement outlined in Regulatory Notice 11-16. However, FINRA notes that two provisions of Regulatory Notice 11-16 would be superseded. Firms may no longer extend maintenance loan value on non-margin eligible equity securities either to satisfy maintenance margin deficiencies or when used to collateralize non-purpose loans, except as otherwise provided by FINRA in writing. To this end, FINRA intends to allow a firm to extend credit on a non-margin eligible security<sup>9</sup> only to the extent: (1) the security is collateralizing a non-purpose loan debit; and (2) such security can be liquidated in a period not exceeding 20 business days, based on a rolling 20 business day median trading volume. The maintenance loan value for the non-margin eligible security would be calculated based on the applicable maintenance margin requirements for a margin eligible security. If the security fails to meet the trading volume requirement, then the security would no longer be entitled to maintenance loan value, and a 100% maintenance margin requirement would be applied together with a deduction to net capital pursuant to SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a). Notwithstanding the foregoing, FINRA intends to allow that in the case of offshore mutual funds, a firm may extend maintenance loan value, based on a 25% maintenance margin requirement, to collateralize a non-purpose loan, provided that the fund has an affiliation with a U.S.-based fund registered with the SEC under the Investment Company Act of 1940, and the fund shares can be liquidated or redeemed daily.

Similar to the treatment above, FINRA also proposes to amend Rule 4210(f)(8)(B)(iii) to clarify that the special maintenance margin requirement for day

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<sup>9</sup> The exception to permit firms to extend maintenance loan value would apply to both equity and non-equity non-margin eligible securities.



traders, based on the cost of all day trades made during the day, would be 25% for margin eligible equity securities, and 100% for non-margin eligible equity securities.<sup>10</sup>

In addition, FINRA proposes to adopt new paragraph (g)(7)(E) of FINRA Rule 4210 regarding the margin requirements for non-margin eligible equity securities held in a portfolio margin account. Consistent with the margin treatment above, the provision would clarify that non-margin eligible equity securities held “long” in a portfolio margin account would have a maintenance margin requirement equal to 100% of the current market value at all times.<sup>11</sup> Paragraph (g)(7)(E) would also provide that non-margin eligible equity securities held “short” in a portfolio margin account would have a maintenance margin requirement equal to 50% of the current market value at all times.<sup>12</sup> FINRA believes that setting this specific requirement is necessary to help ensure that customers do not attempt to circumvent the initial margin requirements of Regulation T and place all short sales in a portfolio margin account to obtain lower margin requirements.<sup>13</sup>

FINRA also proposes to amend paragraph (g)(7)(D) of FINRA Rule 4210 to clarify that although non-margin eligible equity securities are not eligible for portfolio

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<sup>10</sup> The special maintenance margin requirement for non-margin eligible equity securities for day traders is consistent with the margin requirements outlined in Regulatory Notice 11-16.

<sup>11</sup> The maintenance margin requirement for non-margin eligible equity securities held “long” in a portfolio margin account is consistent with the margin requirements outlined in Regulatory Notice 11-16.

<sup>12</sup> The maintenance margin requirement for “short” non-margin eligible equity securities held in a portfolio margin account would supersede the maintenance margin requirement for such securities specified in Regulatory Notice 11-16.

<sup>13</sup> See Rule 4210(g)(7).

margin treatment, they may be carried in a portfolio margin account, provided that the member uses strategy-based margin requirements unless such securities are subject to other provisions of paragraph (g). For example, non-margin eligible equity securities may be carried in a portfolio margin account, but the amendment would clarify that they would be subject to the margin treatment set forth in FINRA Rule 4210(g)(7)(E), rather than FINRA Rule 4210(c).

### **Non-Equity Securities**

FINRA proposes to further amend FINRA Rule 4210 to clarify the appropriate maintenance margin requirement for non-equity securities in a margin account.

Paragraph (c)(4) stipulates a maintenance margin requirement for each bond held “short” in a margin account. Paragraph (e)(2)(C) stipulates the maintenance margin requirements on any positions in specified non-equity securities<sup>14</sup> that are inconsistent with the requirements in paragraph (c)(4). FINRA received several inquiries as to the appropriate maintenance margin requirement for any “short” non-equity security. Accordingly, FINRA proposes to amend FINRA Rule 4210 to clarify that the margin requirements in paragraph (c)(4) would apply to non-margin eligible, non-equity securities held “short”<sup>15</sup> while the margin requirements in paragraph (e)(2)(C) would apply to the specified

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<sup>14</sup> Paragraph (e)(2)(C) provides the maintenance margin requirements for (1) investment grade debt securities and (2) all other listed non-equity securities and all other margin eligible non-equity securities as defined in FINRA Rule 4210(a)(16).

<sup>15</sup> Non-margin eligible non-equity securities held “long” would be excluded from such margin treatment, and the maintenance margin requirement for such securities would be 100% of the current market value.

margin-eligible non-equity securities held “short” or “long.”<sup>16</sup> FINRA also proposes to add a reference to “short” or “long” to each of paragraphs (e)(2)(B), (F) and (G) to further clarify that such provisions apply to securities held short or long.

### **“Free-Riding”**

“Free-riding” is the purchase of a security and the selling of the same security in the cash account, using the proceeds of the sale to satisfy the purchase. Such activity is prohibited under section 220.8(a)(1)(ii) of Regulation T. FINRA Rule 4210(f)(9) addresses free-riding in the cash account and currently exempts broker-dealers and “designated accounts.”<sup>17</sup> While the term “designated account” generally includes banks, savings associations, insurance companies, investment companies, states or political subdivisions, and ERISA pension or profit sharing plans, FINRA believes that it is appropriate to treat such accounts as any other customer regarding this activity. Accordingly, FINRA proposes to eliminate this exemption for designated accounts consistent with Regulation T.

### **“Exempt Account”**

Certain non-equity securities such as exempted securities, mortgage related securities, highly rated foreign sovereign debt securities, and investment grade debt securities may be subject to reduced maintenance margin requirements (or require no

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<sup>16</sup> See also FINRA Rule 4210(e)(2)(A), which establishes the maintenance margin requirements for long or short positions on obligations issued or guaranteed by the United States or obligations that are highly rated foreign sovereign debt securities.

<sup>17</sup> See FINRA Rule 4210(a)(4) for the definition of “designated account.”

margin be deposited) for an “exempt account,” as defined in FINRA Rule 4210(a)(13).<sup>18</sup> FINRA notes that FINRA Rule 4210(f)(2)(E)(iv) regarding reduced maintenance margin requirements for OTC put and call options on certain U.S. Government and U.S. Government Agency debt securities retained an earlier definition of “exempt account” that was not updated in 2003 when the NYSE and NASD amended the definition of “exempt account” by raising the dollar threshold in paragraph (a)(13) for all other purposes in their respective margin rules.<sup>19</sup> The definition of “exempt account” currently referenced in paragraph (f)(2)(E)(iv) was retained as a result of comment letters received by the SEC in 2003, expressing concern that customers who no longer qualified as “exempt accounts” in the amended paragraph (a)(13) definition would be subject to higher maintenance margin requirements for the securities addressed in paragraph (f)(2)(E)(iv). Therefore, such definition was maintained only for the provision in paragraph (f)(2)(E)(iv) to allow existing customers to continue to avail themselves of the reduced margin requirements. However, the SEC noted that exempt accounts that met the requirements for exempt account status would be “grandfathered” on the existing credit transactions but that the new requirements (the current paragraph (a)(13) “exempt account” requirements) would apply to any new credit transactions or roll-overs of

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<sup>18</sup> See FINRA Rule 4210(e)(2)(F), (G) and (H).

<sup>19</sup> See Securities Exchange Act Release No. 48407 (August 25, 2003), 68 FR 52259 (September 2, 2003) (Order Approving File No. SR-NASD-2000-08) (the “NASD Order”); Securities Exchange Act Release No. 48365 (August 19, 2003), 68 FR 51314 (August 26, 2003) (Order Approving File No. SR-NYSE-98-14); and Securities Exchange Act Release No. 48133 (July 7, 2003), 68 FR 41672 (July 14, 2003) (Notice of Filing of File No. SR-NYSE-98-14) (the “NYSE Notice of Filing”).

existing transactions.<sup>20</sup> In light of the application of the 2003 exempt account definition to new and roll-over transactions and the significant passage of time, FINRA believes that maintaining these separate definitions is no longer necessary and proposes to delete the definition of “exempt account” contained in paragraph (f)(2)(E)(iv) and require an exempt account to satisfy the definition of “exempt account” in paragraph (a)(13) to qualify for the reduced margin on such options.

### **Portfolio Margin**

FINRA proposes to eliminate the monitoring requirement contained in FINRA Rule 4210(g)(1)(D) that stress testing of accounts must be done in the aggregate for portfolio margin accounts. The rule would continue to require firms to stress test portfolio margin accounts on an individual account basis. FINRA has been reviewing the portfolio margin program and believes that the stress testing on an individual account basis is sufficient from a risk perspective.

### **Technical Changes**

Finally, the proposed rule change amends FINRA Rule 4210 to make non-substantive technical and stylistic changes to encourage consistency throughout the rule and enhance readability.

As noted in Item 2 of this filing, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no later than 90 days following publication of the Regulatory Notice announcing Commission approval.

#### **(b) Statutory Basis**

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<sup>20</sup> See note 19, page 52261 of the NASD Order and page 41676 of NYSE Notice of

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>21</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change regarding the options spread strategies would set margin requirements commensurate with the risk of options spread strategies. FINRA further believes that the proposed rule change would clarify the margin requirements for non-margin eligible equity securities and non-equity securities to ensure consistent regulation regarding the margin treatment for such securities and strategies. FINRA also believes that the proposed rule change regarding conforming the definition of “exempt accounts” would ensure consistent regulation regarding such accounts. In addition, FINRA believes that the proposed rule change regarding eliminating the exemption from the “free-riding” provision for “designated accounts” is consistent with Regulation T. Finally, FINRA believes that the proposed rule change regarding stress testing of individual portfolio margin accounts is reflective of the risk of such accounts.

**4. Self-Regulatory Organization’s Statement on Burden on Competition**

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

**5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

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<sup>21</sup> Filing.  
15 U.S.C. 78o-3(b)(6).

Written comments were neither solicited nor received.

**6. Extension of Time Period for Commission Action**

FINRA does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.<sup>22</sup>

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

**9. Exhibits**

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 5. Text of proposed rule change.

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<sup>22</sup>

15 U.S.C. 78s(b)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-FINRA-2012-024)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Proposed Rule Change Relating to FINRA Rule 4210 Margin Requirements

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to amend FINRA Rule 4210 (Margin Requirements) to: (1) revise the definitions and margin treatment of option spread strategies; (2) clarify the maintenance margin requirement for non-margin eligible equity securities; (3) clarify the maintenance margin requirements for non-equity securities; (4) eliminate the current exemption from the free-riding prohibition for designated accounts; (5) conform the definition of “exempt account”; and (6) eliminate the requirement to stress test portfolio

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.



margin accounts in the aggregate. In addition, the proposed rule change would amend FINRA Rule 4210 to make non-substantive technical and stylistic changes.

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The proposed rule change would amend FINRA Rule 4210 (Margin Requirements) to: (1) revise the definitions and margin treatment of option spread strategies; (2) clarify the maintenance margin requirement for non-margin eligible equity securities; (3) clarify the maintenance margin requirements for non-equity securities; (4) eliminate the current exemption from the free-riding prohibition for designated accounts; (5) conform the definition of "exempt account"; and (6) eliminate the requirement to stress test portfolio margin accounts in the aggregate. In addition, the proposed rule change would amend FINRA Rule 4210 to make non-substantive technical and stylistic changes.

### Option Spread Strategies

Basic option spreads can be paired in such ways that they offset each other in terms of risk. The total risk of the combined spreads is less than the sum of the risk of both spread positions if viewed as stand-alone strategies. FINRA Rule 4210(f)(2) currently recognizes several specific option spread strategies.<sup>3</sup> These strategies consist of either a “long” and a “short” option contract or two “long” and two “short” option contracts. The “long” and “short” option contracts have the same underlying security or instrument and the “long” option contracts must expire on or after the expiration of the “short” option contracts.

While the strategies recognized under FINRA Rule 4210 are the most common types of option spread strategies used by investors, there are other combinations of calls and/or puts that are similar in terms of their risk profile. Accordingly, FINRA proposes a broader definition of a spread in FINRA Rule 4210(f)(2)(A)(xxxii) to mean a “long” and “short” position in different call option series, different put option series, or a combination of call and put option series, that collectively have a limited risk/reward profile, and meet the following conditions: (1) all options must have the same underlying security or instrument; (2) all “long” and “short” option contracts must be either all American-style or all European-style;<sup>4</sup> (3) all “long” and “short” option contracts must be

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<sup>3</sup> See FINRA Rule 4210(f)(2)(A) that currently recognizes the following spread strategies: box spread, butterfly spread, calendar (or time) spread, “long” calendar butterfly spread, “long” calendar condor spread, “long” condor spread, “short” calendar iron butterfly spread, “short” calendar iron condor spread, “short” iron butterfly spread and “short” iron condor spread.

<sup>4</sup> American-style options can be exercised or assigned at any time during the life of the contract. European-style options can only be exercised or assigned at the time of expiration.

either all listed or all OTC;<sup>5</sup> (4) the aggregate underlying contract value of “long” versus “short” contracts within option type(s) must be equal; and (5) the “short” option (s) must expire on or before the expiration date of the “long” option(s).

The proposed revised margin requirements are set forth in FINRA Rule 4210(f)(2)(H) and would require that the “long” option contracts within such spreads must be paid for in full. The margin required for the “short” option contracts within such spreads would be the lesser of: (1) the margin required pursuant to FINRA Rule 4210(f)(2)(E); or (2) the maximum potential loss. The maximum potential loss would be determined by computing the intrinsic value of the options at price points for the underlying security or instrument that are set to correspond to every exercise price present in the spread. The intrinsic values are netted at each price point, and the maximum potential loss is the greatest loss, if any. The proceeds of the “short” options may be applied towards the cost of the “long” options and/or any margin requirement. FINRA Rule 4210(f)(2)(H)(iv) would also make clear that OTC option contracts that comprise a spread must be issued and guaranteed by the same carrying broker-dealer and the carrying broker-dealer must also be a FINRA member. If the OTC option contracts are not issued and guaranteed by the same carrying broker-dealer, or if the carrying broker-dealer is not a FINRA member, then the “short” option contracts must be margined separately pursuant to FINRA Rule 4210(f)(2)(E)(iii) or (E)(iv). In addition,

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<sup>5</sup> See FINRA Rule 4210(f)(2)(A)(xxvi) (renumbered as 4210(f)(2)(A)(xxiv)) that defines a listed option as an option contract that is traded on a national securities exchange and is issued and guaranteed by a registered clearing agency. See also FINRA Rule 4210(f)(2)(A)(xxxii) (renumbered as 4210(f)(2)(A)(xxvii)) that defines an OTC option as an over-the-counter option contract that is not traded on a national securities exchange and is issued and guaranteed by the carrying broker-dealer.

FINRA proposes to amend FINRA Rule 4210(f)(2)(N) to similarly conform the margin requirements for spreads that are permitted in a cash account.

FINRA proposes to eliminate the definitions for the option spread strategies currently recognized within the rule, along with the specific margin requirements associated with each spread, with the exception of a “long” box spread consisting of European-style options.<sup>6</sup> FINRA Rule 4210(f)(2)(H)(v)g.<sup>7</sup> currently allows a margin requirement equal to 50% of the aggregate difference in the exercise prices. This is the only spread strategy that allows loan value, and FINRA believes that retaining this provision is appropriate.

#### Non-Margin Eligible Equity Securities

FINRA proposes to clarify the maintenance margin requirement for non-margin eligible equity securities. FINRA Rule 4210(c)(1) prescribes a maintenance margin requirement of 25% of the current market value of all securities (except for security futures contracts) held “long” in an account. FINRA believes that non-margin eligible equity securities should be subject to more stringent margin requirements in light of the nature of such securities. Accordingly, FINRA proposes to amend FINRA Rule 4210(c)(1) regarding securities held “long” to clarify that the maintenance margin

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<sup>6</sup> See FINRA Rule 4210(f)(2)(A)(vi). A box spread means an aggregation of positions in a “long” call and “short” put with the same exercise price (“buy side”) coupled with a “long” put and “short” call with the same exercise price (“sell side”) structured as: (1) a “long” box spread in which the sell side exercise price exceeds the buy side exercise price; or (2) a “short” box spread in which the buy side exercise price exceeds the sell side exercise price, all of which have the same contract size, underlying component or index and time of expiration, and are based on the same aggregate current underlying value.

<sup>7</sup> FINRA Rule 4210(f)(2)(H)(v)g. would be renumbered as FINRA Rule 4210(f)(2)(H)(v)e.

requirement of 25% of the current market value would apply only to margin securities as defined in Regulation T.<sup>8</sup> Consequently, non-margin eligible equity securities would be excluded from such margin treatment and the maintenance margin requirement for non-margin eligible equity securities would be 100% of the current market value.<sup>9</sup> This maintenance margin requirement of 100% for non-margin eligible equity securities is consistent with the requirement outlined in Regulatory Notice 11-16. However, FINRA notes that two provisions of Regulatory Notice 11-16 would be superseded. Firms may no longer extend maintenance loan value on non-margin eligible equity securities either to satisfy maintenance margin deficiencies or when used to collateralize non-purpose loans, except as otherwise provided by FINRA in writing. To this end, FINRA intends to allow a firm to extend credit on a non-margin eligible security<sup>10</sup> only to the extent: (1) the security is collateralizing a non-purpose loan debit; and (2) such security can be liquidated in a period not exceeding 20 business days, based on a rolling 20 business day median trading volume. The maintenance loan value for the non-margin eligible security would be calculated based on the applicable maintenance margin requirements for a margin eligible security. If the security fails to meet the trading volume requirement, then the security would no longer be entitled to maintenance loan value, and a 100% maintenance margin requirement would be applied together with a deduction to net

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<sup>8</sup> See Regulation T section 200.2 for the definition of margin security.

<sup>9</sup> See Regulatory Notice 11-16 (April 2011) and Regulatory Notice 11-30 (June 2011) (Regulatory Notice 11-30 delayed the effective date of Regulatory Notice 11-16 until October 3, 2011).

<sup>10</sup> The exception to permit firms to extend maintenance loan value would apply to both equity and non-equity non-margin eligible securities.

capital pursuant to SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a).

Notwithstanding the foregoing, FINRA intends to allow that in the case of offshore mutual funds, a firm may extend maintenance loan value, based on a 25% maintenance margin requirement, to collateralize a non-purpose loan, provided that the fund has an affiliation with a U.S.-based fund registered with the SEC under the Investment Company Act of 1940, and the fund shares can be liquidated or redeemed daily.

Similar to the treatment above, FINRA also proposes to amend Rule 4210(f)(8)(B)(iii) to clarify that the special maintenance margin requirement for day traders, based on the cost of all day trades made during the day, would be 25% for margin eligible equity securities, and 100% for non-margin eligible equity securities.<sup>11</sup>

In addition, FINRA proposes to adopt new paragraph (g)(7)(E) of FINRA Rule 4210 regarding the margin requirements for non-margin eligible equity securities held in a portfolio margin account. Consistent with the margin treatment above, the provision would clarify that non-margin eligible equity securities held “long” in a portfolio margin account would have a maintenance margin requirement equal to 100% of the current market value at all times.<sup>12</sup> Paragraph (g)(7)(E) would also provide that non-margin eligible equity securities held “short” in a portfolio margin account would have a

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<sup>11</sup> The special maintenance margin requirement for non-margin eligible equity securities for day traders is consistent with the margin requirements outlined in Regulatory Notice 11-16.

<sup>12</sup> The maintenance margin requirement for non-margin eligible equity securities held “long” in a portfolio margin account is consistent with the margin requirements outlined in Regulatory Notice 11-16.

maintenance margin requirement equal to 50% of the current market value at all times.<sup>13</sup>

FINRA believes that setting this specific requirement is necessary to help ensure that customers do not attempt to circumvent the initial margin requirements of Regulation T and place all short sales in a portfolio margin account to obtain lower margin requirements.<sup>14</sup>

FINRA also proposes to amend paragraph (g)(7)(D) of FINRA Rule 4210 to clarify that although non-margin eligible equity securities are not eligible for portfolio margin treatment, they may be carried in a portfolio margin account, provided that the member uses strategy-based margin requirements unless such securities are subject to other provisions of paragraph (g). For example, non-margin eligible equity securities may be carried in a portfolio margin account, but the amendment would clarify that they would be subject to the margin treatment set forth in FINRA Rule 4210(g)(7)(E), rather than FINRA Rule 4210(c).

#### Non-Equity Securities

FINRA proposes to further amend FINRA Rule 4210 to clarify the appropriate maintenance margin requirement for non-equity securities in a margin account.

Paragraph (c)(4) stipulates a maintenance margin requirement for each bond held “short” in a margin account. Paragraph (e)(2)(C) stipulates the maintenance margin requirements on any positions in specified non-equity securities<sup>15</sup> that are inconsistent with the

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<sup>13</sup> The maintenance margin requirement for “short” non-margin eligible equity securities held in a portfolio margin account would supersede the maintenance margin requirement for such securities specified in Regulatory Notice 11-16.

<sup>14</sup> See Rule 4210(g)(7).

<sup>15</sup> Paragraph (e)(2)(C) provides the maintenance margin requirements for (1) investment grade debt securities and (2) all other listed non-equity securities and

requirements in paragraph (c)(4). FINRA received several inquiries as to the appropriate maintenance margin requirement for any “short” non-equity security. Accordingly, FINRA proposes to amend FINRA Rule 4210 to clarify that the margin requirements in paragraph (c)(4) would apply to non-margin eligible, non-equity securities held “short”<sup>16</sup> while the margin requirements in paragraph (e)(2)(C) would apply to the specified margin-eligible non-equity securities held “short” or “long.”<sup>17</sup> FINRA also proposes to add a reference to “short” or “long” to each of paragraphs (e)(2)(B), (F) and (G) to further clarify that such provisions apply to securities held short or long.

“Free-Riding”

“Free-riding” is the purchase of a security and the selling of the same security in the cash account, using the proceeds of the sale to satisfy the purchase. Such activity is prohibited under section 220.8(a)(1)(ii) of Regulation T. FINRA Rule 4210(f)(9) addresses free-riding in the cash account and currently exempts broker-dealers and “designated accounts.”<sup>18</sup> While the term “designated account” generally includes banks, savings associations, insurance companies, investment companies, states or political subdivisions, and ERISA pension or profit sharing plans, FINRA believes that it is appropriate to treat such accounts as any other customer regarding this activity.

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all other margin eligible non-equity securities as defined in FINRA Rule 4210(a)(16).

<sup>16</sup> Non-margin eligible non-equity securities held “long” would be excluded from such margin treatment, and the maintenance margin requirement for such securities would be 100% of the current market value.

<sup>17</sup> See also FINRA Rule 4210(e)(2)(A), which establishes the maintenance margin requirements for long or short positions on obligations issued or guaranteed by the United States or obligations that are highly rated foreign sovereign debt securities.

<sup>18</sup> See FINRA Rule 4210(a)(4) for the definition of “designated account.”



Accordingly, FINRA proposes to eliminate this exemption for designated accounts consistent with Regulation T.

“Exempt Account”

Certain non-equity securities such as exempted securities, mortgage related securities, highly rated foreign sovereign debt securities, and investment grade debt securities may be subject to reduced maintenance margin requirements (or require no margin be deposited) for an “exempt account,” as defined in FINRA Rule 4210(a)(13).<sup>19</sup> FINRA notes that FINRA Rule 4210(f)(2)(E)(iv) regarding reduced maintenance margin requirements for OTC put and call options on certain U.S. Government and U.S. Government Agency debt securities retained an earlier definition of “exempt account” that was not updated in 2003 when the NYSE and NASD amended the definition of “exempt account” by raising the dollar threshold in paragraph (a)(13) for all other purposes in their respective margin rules.<sup>20</sup> The definition of “exempt account” currently referenced in paragraph (f)(2)(E)(iv) was retained as a result of comment letters received by the SEC in 2003, expressing concern that customers who no longer qualified as “exempt accounts” in the amended paragraph (a)(13) definition would be subject to higher maintenance margin requirements for the securities addressed in paragraph (f)(2)(E)(iv). Therefore, such definition was maintained only for the provision in

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<sup>19</sup> See FINRA Rule 4210(e)(2)(F), (G) and (H).

<sup>20</sup> See Securities Exchange Act Release No. 48407 (August 25, 2003), 68 FR 52259 (September 2, 2003) (Order Approving File No. SR-NASD-2000-08) (the “NASD Order”); Securities Exchange Act Release No. 48365 (August 19, 2003), 68 FR 51314 (August 26, 2003) (Order Approving File No. SR-NYSE-98-14); and Securities Exchange Act Release No. 48133 (July 7, 2003), 68 FR 41672 (July 14, 2003) (Notice of Filing of File No. SR-NYSE-98-14) (the “NYSE Notice of Filing”).

paragraph (f)(2)(E)(iv) to allow existing customers to continue to avail themselves of the reduced margin requirements. However, the SEC noted that exempt accounts that met the requirements for exempt account status would be “grandfathered” on the existing credit transactions but that the new requirements (the current paragraph (a)(13) “exempt account” requirements) would apply to any new credit transactions or roll-overs of existing transactions.<sup>21</sup> In light of the application of the 2003 exempt account definition to new and roll-over transactions and the significant passage of time, FINRA believes that maintaining these separate definitions is no longer necessary and proposes to delete the definition of “exempt account” contained in paragraph (f)(2)(E)(iv) and require an exempt account to satisfy the definition of “exempt account” in paragraph (a)(13) to qualify for the reduced margin on such options.

#### Portfolio Margin

FINRA proposes to eliminate the monitoring requirement contained in FINRA Rule 4210(g)(1)(D) that stress testing of accounts must be done in the aggregate for portfolio margin accounts. The rule would continue to require firms to stress test portfolio margin accounts on an individual account basis. FINRA has been reviewing the portfolio margin program and believes that the stress testing on an individual account basis is sufficient from a risk perspective.

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<sup>21</sup> See note 20, page 52261 of the NASD Order and page 41676 of NYSE Notice of Filing.

### Technical Changes

Finally, the proposed rule change amends FINRA Rule 4210 to make non-substantive technical and stylistic changes to encourage consistency throughout the rule and enhance readability.

FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 60 days following Commission approval. The effective date will be no later than 90 days following publication of the Regulatory Notice announcing Commission approval.

#### 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>22</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change regarding the options spread strategies would set margin requirements commensurate with the risk of options spread strategies. FINRA further believes that the proposed rule change would clarify the margin requirements for non-margin eligible equity securities and non-equity securities to ensure consistent regulation regarding the margin treatment for such securities and strategies. FINRA also believes that the proposed rule change regarding conforming the definition of “exempt accounts” would ensure consistent regulation regarding such accounts. In addition, FINRA believes that the proposed rule change regarding eliminating the exemption from the “free-riding” provision for “designated accounts” is

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<sup>22</sup> 15 U.S.C. 78o-3(b)(6).

consistent with Regulation T. Finally, FINRA believes that the proposed rule change regarding stress testing of individual portfolio margin accounts is reflective of the risk of such accounts.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2012-024 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2012-024. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You

should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2012-024 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>23</sup>

Elizabeth M. Murphy

Secretary

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<sup>23</sup> 17 CFR 200.30-3(a)(12).

## **EXHIBIT 5**

Exhibit 5 shows the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

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### **4000. FINANCIAL AND OPERATIONAL RULES**

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#### **4210. Margin Requirements**

##### **(a) Definitions**

For purposes of this Rule, the following terms shall have the meanings specified below:

(1) through (15) No Change.

(16) The term “other margin[able] eligible non-equity securities” means:

(A) through (B) No Change.

(b) No Change.

##### **(c) Maintenance Margin**

The margin which must be maintained in all accounts of customers, except for cash accounts subject to other provisions of this Rule, shall be as follows:

(1) 25 percent of the current market value of all margin securities, as defined in Section 220.2 of Regulation T, except for non-equity securities and security futures contracts, “long” in the account; plus

(2) through (3) No Change.

(4) 5 percent of the principal amount or 30 percent of the current market value, whichever amount is greater, of any non-margin eligible, non-equity security [each bond] “short” in the account.

(5) The minimum maintenance margin levels for security futures contracts, “long” and “short”, shall be 20 percent of the current market value of such contract. (See paragraph (f)(10)) of this Rule for other provisions pertaining to security futures contracts.)

(d) No Change.

**(e) Exceptions to Rule**

The foregoing requirements of this Rule are subject to the following exceptions:

(1) No Change.

**(2) Exempted Securities, Non-equity Securities and Baskets**

(A) No Change.

**(B) All Other Exempted Securities**

On any “long” or “short” positions in exempted securities other than obligations of the United States, the margin to be maintained shall be 7 percent of the current market value.

**(C) Non-Equity Securities**

On any “long” or “short” positions in non-equity securities, the margin to be maintained (except where a lesser requirement is imposed by other provisions of this Rule) shall be:

(i) 10 percent of the current market value in the case of investment grade debt securities; and

(ii) 20 percent of the current market value or 7 percent of the principal amount, whichever amount is greater, in the case of all other listed non-equity securities, and all other margin[able]



eligible non-equity securities as defined in paragraph (a)(16) of this Rule.

(D) through (E) No Change.

**(F) Transactions with Exempt Accounts Involving Certain “Good Faith” Securities**

On any “long” or “short” position resulting from a transaction involving exempted securities, mortgage related securities, or major foreign sovereign debt securities made for or with an “exempt account,” no margin need be required and any marked to the market loss on such position need not be collected. However, the amount of any uncollected marked to the market loss shall be deducted in computing the member’s net capital as provided in SEA Rule 15c3-1 and, if applicable, Rule 4110(a), subject to the limits provided in paragraph (e)(2)(H) below.

**(G) Transactions With Exempt Accounts Involving Highly Rated Foreign Sovereign Debt Securities and Investment Grade Debt Securities**

On any “long” or “short” position resulting from a transaction made for or with an “exempt account” (other than a position subject to paragraph (e)(2)(F)), the margin to be maintained on highly rated foreign sovereign debt and investment grade debt securities shall be, in lieu of any greater requirements imposed under this Rule, (i) 0.5 percent of current market value in the case of highly rated foreign sovereign debt securities, and (ii) 3 percent of current market value in the case of all other

investment grade debt securities. The member need not collect any such margin, provided the amount equal to the margin required shall be deducted in computing the member's net capital as provided in SEA Rule 15c3-1 and, if applicable, Rule 4110(a), subject to the limits provided in paragraph (e)(2)(H) below.

(H) No Change.

(3) through (5) No Change.

**(6) Broker-Dealer Accounts**

(A) No Change.

(B) Joint Back Office Arrangements

An arrangement may be established between two or more registered broker-dealers pursuant to Regulation T Section 220.7, to form a joint back office ("JBO") arrangement for carrying and clearing or carrying accounts of participating broker-dealers. Members must provide written notification to FINRA prior to establishing a JBO arrangement.

(i) No Change.

(ii) A participating broker-dealer must:

a. through b. No Change.

c. maintain a minimum liquidating equity of \$1 million in the JBO arrangement exclusive of the ownership interest established in subparagraph (ii)b. above. When the minimum liquidating equity decreases below the \$1 million requirement, the participant must deposit a[n] sufficient

amount [sufficient] to eliminate this deficiency within 5 business days or be subject to margin account requirements prescribed for customers in Regulation T, and the margin requirements pursuant to the other provisions of this Rule.

(7) through (8) No Change.

**(f) Other Provisions**

(1) No Change.

**(2) Puts, Calls and Other Options, Currency Warrants,  
Currency Index Warrants and Stock Index Warrants**

**(A) Definitions.** Except where the context otherwise requires or as defined below, the definitions contained in section (a) of Rule 2360, “Options,” shall apply to the terms used in this Rule.

(i) through (v) No Change.

(vi) The term “box spread” means an aggregation of positions in a “long” call and “short” put with the same exercise price (“buy side”) coupled with a “long” put and “short” call with the same exercise price (“sell side”) structured as: (A) a “long box spread” in which the sell side exercise price exceeds the buy side exercise price, or, (B) a “short box spread” in which the buy side exercise price exceeds the sell side exercise price, all of which have the same contract size, underlying component or index and time of expiration, and are based on the same aggregate current underlying value.

(vii) No Change.

[(viii) The term “butterfly spread” means an aggregation of positions in three series of either puts or calls, structured as either: (A) a “long butterfly spread” in which two short options in the same series are offset by one long option with a higher exercise price and one long option with a lower exercise price or (B) a “short butterfly spread” in which two long options in the same series offset one short option with a higher exercise price and one short option with a lower exercise price, all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, and the exercise prices are in ascending order.]

[(ix) The term “calendar spread” or “time spread” means the sale of one option and the simultaneous purchase of another option of the same type, both specifying the same underlying component with the same exercise price or different exercise prices, where the “long” option expires after the “short” option.]

(viii[x]) The terms “call” and “put”:

a. as used in connection with a currency, currency index or stock index warrant mean a warrant structured as a “call” or “put” (as appropriate) on the underlying currency,

index currency group or stock index group (as the case may be) or

b. as used in connection with an option contract means an option under which the holder has the right, in accordance with the terms of the option, to purchase from (in the case of a call), or sell to (in the case of a put), The Options Clearing Corporation:

1. the number of shares of the underlying stock (if a single stock underlies the option contract);

2. the principal amount of the underlying security (if a Government security underlies the option contract);

3. the multiple of the index group value of the underlying group (if an index stock group underlies the option contract); or

4. the nominal principal amount or any permissible variant of the underlying GNMA (if a GNMA underlies the option contract) covered by the option contract.

(ix[i]) The term “class (of options)” means all option contracts of the same type and kind covering the same underlying security or underlying stock group.

(x[ii]) The term “covered” has the same meaning as defined in Rule 2360(a).

(xi[ii]) The terms “currency warrant”, currency index and currency index warrant” have the same meanings as defined in Rule 2351(b).

(xii[v]) The term “current cash market price” as used with reference to GNMAAs means the prevailing price in the cash market for GNMAAs bearing a particular stated rate of interest to be delivered on the next applicable monthly settlement date determined in the manner specified in the rules of The Options Clearing Corporation.

(xiii[v]) The terms “current market value” or “current market price” of an option, currency warrant, currency index warrant, or stock index warrant are as defined in Section 220.2 of Regulation T.

(xiv[i]) The term “escrow agreement”, when used in connection with cash settled calls, puts, currency warrants, currency index warrants or stock index warrants, carried “short”, means any agreement issued in a form acceptable to FINRA under which a bank holding cash, cash equivalents, one or more qualified equity securities or a combination thereof in the case of a call or warrants, or cash, cash equivalents or a combination thereof in the case of a put or warrant is obligated (in the case of an option) to

pay the creditor the exercise settlement amount in the event an option is assigned an exercise notice or, (in the case of a warrant) the sufficient funds [sufficient] to purchase a warrant sold “short” in the event of a buy-in.

(xv[ii]) The term "European-style option" means an option contract that can be exercised only at its expiration pursuant to the rules of The Options Clearing Corporation.

(xvi[ii]) The term “exercise price” in respect of an option or warrant contract means the stated price per unit at which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option contract.

(xvii[x]) The term “exercise settlement amount” shall mean the difference between the “aggregate exercise price” and the “aggregate current index value” (as such terms are defined in the pertinent By-Laws of The Options Clearing Corporation).

(xviii[x]) The term “expiration date” in respect of an option contract means the date and time fixed by the rules of The Options Clearing Corporation for the expiration of all option contracts covering the same underlying security or underlying index stock group and having the same expiration month as such option contract.

(xix[i]) The term “expiration month” in respect of an option contract means the month and year in which such option contract expires.

(xx[ii]) The term “index currency group” means a group of currencies whose inclusion and relative representation in the group is determined by the inclusion and relative representation of the current market prices of the currencies in a currency index.

(xxi[ii]) The term “index group value”, when used in respect of a currency index warrant or a stock index warrant, shall mean \$1.00 (1) multiplied by the numerical value reported for the index that is derived from the market prices of the currencies in the index currency group or the stocks in the stock index group and (2) divided by the applicable divisor in the prospectus (if any). When used with reference to the exercise of an stock index group option, the value is the last one reported on the day of exercise or, if the day of exercise is not a trading day, on the last trading day before exercise.

(xxii[v]) The term “index multiplier” as used in reference to an index option contract means the amount specified in the contract by which the index value is to be multiplied to arrive at the value required to be delivered to the holder of a call or by the holder of a put upon valid exercise of the contract.



(xxiii[v]) The term “industry stock index group” means an index stock group of six or more stocks whose inclusion and relative representation in the group are determined by the inclusion and relative representation of their current market prices in a widely disseminated stock index reflecting a particular industry or closely related industries.

(xxiv[i]) The term “listed” as used with reference to a call or put option contract means an option contract that is traded on a national securities exchange and issued and guaranteed by a registered clearing agency.

[(xxvii)] The term “long calendar butterfly spread” means an aggregation of positions in three series of either puts or calls, structured as two short options with the same exercise price, offset by a long option with a lower exercise price and a long option with a higher exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a long calendar butterfly spread cannot be composed of cash-settled, European style index options. This strategy can also be considered a combination of one long

calendar spread and one long butterfly spread, as defined in this Rule.]

[(xxviii) The term “long calendar condor spread” means an aggregation of positions in four series of either puts or calls, structured as a long option with the lowest exercise price, two short options with the next two consecutively higher exercise prices and a long option with the highest exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a long calendar condor spread cannot be composed of cash-settled, European style index options. This strategy can also be considered a combination of one long calendar spread and two long butterfly spreads, as defined in this Rule.]

[(xxix) The term “long condor spread” means an aggregation of positions in four series of either puts or calls, structured as a long option with the lowest exercise price, two short options with the next two consecutively higher exercise prices and a long option with the highest exercise price, all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying

value, where the interval between the exercise price of each series is equal, and the exercise prices are in consecutive order. This strategy can also be considered as a combination of two long butterfly spreads, as defined in this Rule.]

(xxv[x]) The term “nominal principal amount” as used with reference to a GNMA option means the remaining unpaid principal balance of GNMAAs required to be delivered to the holder of a call or by the holder of a put upon exercise of an option without regard to any variance in the remaining unpaid principal balance permitted to be delivered upon such exercise and shall be \$100,000 in the case of a single call or put.

(xxvi[xi]) The term “numerical index value”, when used in respect of a currency index warrant or stock index warrant, shall mean the level of a particular currency index or stock index as reported by the reporting authority for the index.

(xxv[x]ii) The term “OTC” as used with reference to a call or put option contract means an over-the-counter option contract that is not traded on a national securities exchange and is issued and guaranteed by the carrying broker-dealer.

(xxv[x]iii) A “registered clearing agency” shall mean a clearing agency as defined in Section 3(a)(23) of the Exchange Act that is registered with the SEC pursuant to Section 17A(b)(2) of the Exchange Act.

(xxix[iv]) The term “reporting authority”, when used in respect of a currency index warrant or a stock index warrant, shall mean the institution or reporting service specified in the prospectus as the official source for calculating and reporting the level of such currency index or stock index.

(xxx[v]) The term “series (of options)” means all option contracts of the same class of options having the same expiration date, exercise price and unit of trading.

[(xxxvi) The term “short calendar iron butterfly spread” means an aggregation of positions in two series of puts and two series of calls, structured as a short put and a short call with the same exercise price, offset by a long put with a lower exercise price and a long call with a higher exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a short calendar iron butterfly spread cannot be composed of cash-settled, European style index options. This strategy can also be considered a combination of one long calendar spread, one long butterfly spread, and one short box spread, as defined in this Rule.]

[(xxxvii) The term “short calendar iron condor spread” means an aggregation of positions in two series of puts and two series of calls, structured as a long put with the lowest exercise price, a short put and a short call with the next two consecutively higher exercise prices and a long call with the highest exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a short calendar iron condor spread cannot be composed of cash-settled, European style index options. This strategy can also be considered a combination of one long calendar spread, two long butterfly spreads, and one short box spread, as defined in this Rule.]

[(xxxviii) The term “short iron butterfly spread” means an aggregation of positions in two series of puts and two series of calls, structured as a short put and a short call with the same exercise price, offset by a long put with a lower exercise price and a long call with a higher exercise price, all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying value, where the interval between the exercise price of each series

is equal, and the exercise prices are in consecutive order. This strategy can also be considered as a combination of one long butterfly spread and one short box spread, as defined in this Rule.]

[(xxxix) The term “short iron condor spread” means an aggregation of positions in two series of puts and two series of calls, structured as a long put with the lowest exercise price, a short put and a short call with the next two consecutively higher exercise prices, and a long call with the highest exercise price, all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, and the exercise prices are in consecutive order. This strategy can also be considered a combination of two long butterfly spreads and one short box spread, as defined in this Rule.]

(xxxi[l]) The term “spot price” in respect of a currency warrant on a particular business day means the noon buying rate in U.S. dollars on such day in New York City for cable transfers of the particular underlying currency as certified for customs purposes by the Federal Reserve Bank of New York.

(xxxii) The term “spread” means a “long” and “short”position in different call option series, different put option series, or a combination of call and put option series, that

collectively have a limited risk / reward profile, and meet the following conditions:

a. all options must have the same underlying security or instrument;

b. all “long” and “short” option contracts must be either all American-style or all European- style;

c. all “long” and “short” option contracts must be either all listed or all OTC;

d. the aggregate underlying contract value of “long” versus “short” contracts within option type(s) must be equal; and

e. the “short” option(s) must expire on or before the expiration date of the “long” option(s).

(xxxiii[li]) The term “stock index group” has the same meaning as defined in Rule 2351(b).

(xxxiv[lai]) The term “stock index warrant” shall mean a put or call warrant that overlies a broad stock index group or an industry stock index group.

(xxv[lai]) The term “underlying component” shall mean in the case of stock, the equivalent number of shares; industry and broad index stock groups, the index group value and the applicable index multiplier; U.S. Treasury bills, notes and bonds, the underlying principal amount; foreign currencies, the units per

foreign currency contract; and interest rate contracts, the interest rate measure based on the yield of U.S. Treasury bills, notes or bonds and the applicable multiplier. The term “interest rate measure” represents, in the case of short term U.S. Treasury bills, the annualized discount yield of a specific issue multiplied by ten or, in the case of long term U.S. Treasury notes and bonds, the average of the yield to maturity of the specific multiplied by ten.

(xxxvi[liv]) The term “unit of underlying currency” in respect of a currency warrant means a single unit of the currency covered by the warrant.

(B) through (C) No Change.

(D) For purposes of this paragraph (f)(2), obligations issued by the United States Government shall be referred to as United States Government obligations. Mortgage pass-through obligations guaranteed as to timely payment of principal and interest by the Government National Mortgage Association shall be referred to as GNMA obligations.

In the case of any put, call, currency warrant, currency index warrant, or stock index warrant carried “long” in a customer’s account that expires in nine months or less, initial margin must be deposited and maintained equal to at least 100 percent of the purchase price of the option or warrant.

**“Long” Listed Option or Warrant With An Expiration**

**Exceeding Nine Months.** In the case of a listed put, call, index stock



group option, or stock index warrant carried “long”, margin must be deposited and maintained equal to at least 75 percent of the current market value of the option or warrant; provided that the option or warrant has a remaining period to expiration exceeding nine months.

**“Long” OTC Option or Warrant With An Expiration**

**Exceeding Nine Months.** In the case of an OTC put, call, index stock group option, or stock index warrant carried “long”, margin must be deposited and maintained equal to at least 75 percent of the option’s or warrant’s “in-the-money” amount plus 100 percent of the amount, if any, by which the current market value of the option or warrant exceeds its “in-the-money” amount provided the option or warrant:

- (i) is guaranteed by the carrying broker-dealer,
- (ii) has an American-style exercise provision, and
- (iii) has a remaining period to expiration exceeding nine months.

(E) The margin required on any listed or OTC put, call, currency warrant, currency index warrant, or stock index warrant carried “short” in a customer’s account shall be:

- (i) In the case of listed puts and calls, 100 percent of the current market value of the option plus the percentage of the current market value of the underlying component specified in column II of the chart below. In the case of currency warrants, currency index warrants and stock index warrants, 100 percent of

the current market value of each such warrant plus the percentage of the warrant's current "underlying component value" (as column IV of the chart below describes) specified in column II of the chart below.

The margin on any listed put, call, currency warrant, currency index warrant, or stock index warrant carried "short" in a customer's account may be reduced by any "out-of-the-money amount" (as defined below), but shall not be less than 100 percent of the current market value of the option or warrant plus the percentage of the current market value of the underlying component specified in column III, except in the case of any listed put carried "short" in a customer's account. Margin on such put option contracts shall not be less than the current value of the put option plus the percentage of the put option's aggregate exercise price as specified in column III.

	<b>I Type of Option</b>	<b>II Initial and/or Maintenance Margin Required</b>	<b>III Minimum Margin Required</b>	<b>IV Underlying Component Value</b>
(1)	Stock	20 percent	10 percent	The equivalent number of shares at current market prices.
(2)	Industry index stock group	20 percent	10 percent	The product of the index group value and the applicable index multiplier.

(3)	Broad index stock group	15 percent	10 percent	The product of the index group value and the applicable index multiplier.
(4)	U.S. Treasury bills — 95 days or less to maturity	.35 percent	1/20 percent	The underlying principal amount.
(5)	U.S. Treasury notes	3 percent	1/2 percent	The underlying principal amount.
(6)	U.S. Treasury bonds	3.5 percent	1/2 percent	The underlying principal amount.
(7)	Foreign Currency Options and Warrants*	4 percent	3/4 percent	The product of units per foreign currency contract and the closing spot price.
(8)	Interest Rate contracts	10 percent	5 percent	The product of the current interest rate measure and the applicable multiplier.

(9)	Currency Index Warrants	**	**	The product of the index group value and the applicable index multiplier.
(10)	Stock Index Warrant on Broad Index stock Group	15%	10%	The product of the index group value and the applicable index multiplier.
(11)	Stock Index Warrant on Industry index stock group	20%	10%	The product of the index group value and the applicable index multiplier.

- \* Does not include Canadian dollars, for which the initial requirement is 1 percent.
- \*\* Subject to the approval of the SEC, FINRA shall determine applicable initial, maintenance and minimum margin requirements for currency index warrants on a case-by-case basis.

For purposes hereof, “out-of-the-money amounts” are determined as follows:

<b>Option or Warrant Issue</b>	<b>Call</b>	<b>Put</b>
Stock Options	Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.	Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.
U.S. Treasury Options	Any excess of the aggregate exercise price of the option over the current market value of the underlying principal amount.	Any excess of the current market value of the underlying principal amount over the aggregate exercise price of the option.
Index Stock Group Options, Currency Index Warrants and Stock Index Warrants	Any excess of the aggregate exercise price of the option or warrant over the product of the index group value and the applicable multiplier.	Any excess of the product of the index group value and the applicable multiplier over the aggregate exercise price of the option or warrant.
Foreign Currency Options and	Any excess of the aggregate exercise price of the option or warrant	The product of units per foreign currency contract and the closing spot

Warrants	over the product of units per foreign currency contract and the closing spot prices.	prices over the aggregate price of the option or warrant.
Interest Rate Options	Any excess of the aggregate exercise price of the option over the product of the current interest rate measure value and the applicable multiplier.	Any excess of the product of the current interest rate measure value and the applicable multiplier over the aggregate exercise price of the option.

If the option or warrant contract provides for the delivery of obligations with different maturity dates or coupon rates, the computation of the “out-of-the-money amount,” if any, where required by this Rule, shall be made in such a manner as to result in the highest margin requirement on the “short” option or warrant position.

(ii) No Change.

(iii) In the case of OTC puts and calls, the percentage of the current value of the underlying component and the applicable multiplier, if any, specified in column II below, plus any “in-the-money amount” (as defined in this paragraph (f)(2)(E)(iii)).

In the case of OTC options, the margin on any put or call carried “short” in a customer’s account may be reduced by any “out-of-the-money amount” (as defined in paragraph (f)(2)(E)(i)), but shall not be less than the percentage of the current value of the underlying component and the applicable multiplier, if any, specified in column III below, except in the case of any OTC put

carried “short” in a customer’s account. Margin on such put option contracts shall not be less than the percentage of the put option’s exercise price as specified in column III below.

	<b>I Type of Option</b>	<b>II Initial and/or Maintenance Margin Required</b>	<b>III Minimum Margin Required</b>	<b>IV Underlying Component Value</b>
1.	Stock and convertible corporate debt securities	30%	10%	The equivalent number of shares at current market prices for stocks or the underlying principal amount for convertible corporate debt securities.
2	Industry Index stock group	30%	10%	The product of the index group value and the applicable index multiplier.
3	Broad index stock group	20%	10%	The product of the index group value and the applicable index multiplier.
4.	U.S. Government or U.S. Government Agency debt securities other than those exempted by SEA Rule 3a12-7*	5%	3%	The underlying principal amount.
5.	Listed non-equity securities and other	15%	5%	The underlying principal amount.

	margin[able] <u>eligible</u> non-equity securities as defined in paragraphs (a)(15) and (a)(16).			
6.	All other OTC options not covered above	45%	20%	The underlying principal amount.

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\* Option contracts under category (4) must be for a principal amount of not less than \$500,000.

For the purpose of this paragraph (f)(2)(E)(iii), “in-the-money amounts” are determined as follows:

Option Issue	Call	Put
Stock options	Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.	Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.
Index stock group options	Any excess of the product of the index group value and the applicable multiplier over the aggregate exercise price of the option.	Any excess of the aggregate exercise price of the option over the product of the index group value and the applicable multiplier.
U.S. Government	Any excess of the	Any excess of the

mortgage related or corporate debt securities options	current value of the underlying principal amount over the aggregate exercise price of the option.	aggregate exercise price of the option over the current value of the underlying principal amount.
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(iv) OTC puts and calls representing options on U.S.

Government and U.S. Government Agency debt securities that qualify for exemption pursuant to SEA Rule 3a12-7, must be for a principal amount of not less than \$500,000, and shall be subject to the following requirements:

a. For exempt accounts, as defined in paragraph (a)(13), 3 percent of the current value of the underlying principal amount on thirty (30) year U.S. Treasury bonds and non-mortgage backed U.S. Government agency debt securities; and 2 percent of the current value of the underlying principal amount on all other U.S. Government and U.S. Government agency debt securities, plus any “in-the-money amount” (as defined in paragraph (f)(2)(E)(iii)) or minus any “out-of-the-money amount” (as defined in paragraph (f)(2)(E)(i)). The amount of any deficiency between the equity in the account and the margin required shall be deducted in computing the net capital of the member under SEA Rule 15c3-1 and, if applicable, Rule 4110(a), on the following basis:



1. through 2. No Change.

b. For non-exempt accounts, 5 percent of the current value of the underlying principal amount on thirty (30) year U.S. Treasury bonds and non-mortgage backed U.S. Government agency debt securities; and 3 percent of the current value of the underlying principal amount on all other U.S. Government and U.S. Government agency debt securities, plus any “in-the-money amount” or minus any “out-of-the-money amount”, provided the minimum margin shall not be less than 1 percent of the current value of the underlying principal amount.

[For purposes of this paragraph (f)(2)(E)(iv), an “exempt account” shall be defined as a member, non-member broker-dealer, “designated account”, any person having net tangible assets of at least \$16 million or in the case of mortgage-related debt securities transactions an independently audited mortgage banker with both more than \$1.5 million of net current assets (which may include 3/4 of 1 percent maximum allowance on loan servicing portfolios) and with more than \$1.5 million of net worth.]

(F) through (G) No Change.

(H)(i) [Where a listed call is carried “long” for a customer’s account and the account is also “short” a listed call, expiring on or before the date of expiration of the “long” listed call and specifying the same

underlying component the margin required on the “short” call shall be the lower of:]

[a. the margin required pursuant to paragraph (f)(2)(E)(i) above; or]

[b. the amount, if any, by which the exercise price of the “long” call exceeds the exercise price of the “short” call.]

[Where a listed put is carried “long” for a customer’s account and the account is also “short” a listed put, expiring on or before the date of expiration of the “long” listed put and specifying the same underlying component the margin required on the “short” put shall be the lower of:]

[a. the margin required pursuant to paragraph f(2)(E)(i) above, in the case of stock options, United States Government obligations, foreign currency options or index stock group options; or]

[b. the amount, if any, by which the exercise price of the “short” put exceeds the exercise price of the “long” put.]

For spreads as defined in paragraph (f)(2)(A)(xxxii) of this Rule, the margin required on the “short” options shall be the lesser of:

a. The margin required pursuant to paragraph (f)(2)(E); or

b. The maximum potential loss. The maximum potential loss is determined by computing the intrinsic value of the options at price points for the underlying security or instrument that are set to correspond to every exercise price present in the spread. The intrinsic values are netted at each price point. The maximum potential loss is the greatest loss, if any.

“Long” options must be paid for in full. The proceeds of the “short” options may be applied towards the cost of the “long” options and/or any margin requirement.

(ii) Where a call warrant issued on an underlying currency, index currency group or index stock group is carried “long” for a customer’s account and the account is also “short” a listed call option, or index stock group, which “short” call position(s) expire on or before the date of expiration of the “long” call position and specify the same number of units of the same underlying currency or the same index multiplier for the same index currency group or index stock group, as the case may be, the margin required on the “short” call(s) shall be the requirement pursuant to paragraph (H)(i) above. [lesser of (a) the margin required by paragraph (f)(2)(E)(i) above or (b) the amount, if any, by which the exercise

price of the “long” call exceeds the exercise price(s) of the “short” call(s).]

Where a put warrant issued on an underlying currency, index currency group or index stock group is carried “long” for a customer’s account and the account is also “short” a listed put option, and/or a put warrant, on the same underlying currency, index currency group, or index stock group, which “short” put position(s) expire on or before the date of expiration of the “long” put position and specify the same number of units of the same underlying currency or the same index multiplier for the same index currency group or index stock group, as the case may be, the margin required on the “short” put(s) shall be the requirement pursuant to paragraph (H)(i) above. [lesser of (a) the margin required by paragraph (f)(2)(E)(i) above or (b) the amount, if any, by which the exercise price(s) of the “short” put(s) exceed the exercise price of the “long” put.]

(iii)a. For spreads as defined in paragraph (f)(2)(A)(xxxii) of this Rule, that are [Where a listed call is carried “long” for a customer’s account and the account is also “short” a listed call, expiring on or before the date of expiration of the “long” call and] written on the same GNMA obligation in the principal amount of \$100,000, the

margin required on the “short” options [call] shall be the lower of:

1. the margin required pursuant to paragraph (f)(2)(E)(ii) above; or
2. the maximum potential loss, as described in paragraph (f)(2)(H)(i)b. of this Rule, [amount, if any, by which the exercise price of the “long” call exceeds the exercise price of the “short” call] multiplied by the appropriate multiplier factor set forth below.

“Long” options must be paid for in full. The proceeds of the “short” options may be applied towards the cost of the “long” options and/or any margin requirement.

[b. Where a listed put is carried “long” for a customer’s account and the account is also “short” a listed put, expiring on or before the date of expiration of the “long” put and written on the same GNMA obligation in the principal amount of \$100,000, the margin required on the “short” put shall be the lower of:]

- [1. the margin required pursuant to paragraph (f)(2)(E)(ii) above; or]
- [2. the amount, if any, by which the exercise price of the “short” put exceeds the

exercise price of the “long” put multiplied by the appropriate multiplier factor set forth below.]

[c]b. For purposes of this paragraph (f)(2)(H)(iii) the multiplier factor to be applied shall depend on the then current highest qualifying rate as defined by the rules of the national securities exchange on or through which the option is listed or traded. If the then current highest qualifying rate is less than 8 percent, the multiplier factor shall be 1; if the then current highest qualifying rate is greater than or equal to 8 percent but less than 10 percent, the multiplier factor shall be 1.2; if the then current highest qualifying rate is greater than or equal to 10 percent but less than 12 percent, the multiplier factor shall be 1.4; if the then current highest qualifying rate is greater than or equal to 12 percent but less than 14 percent, the multiplier factor shall be 1.5; if the then current highest qualifying rate is greater than or equal to 14 percent but less than 16 percent, the multiplier factor shall be 1.6; and if the then current highest qualifying rate is greater than or equal to 16 percent but less than or equal to 18 percent, the multiplier factor shall be 1.7. The multiplier factor or factors for higher qualifying rates shall be established by FINRA as required.

(iv)[a. Where an OTC call is carried “long” for a customer’s account and the account is also “short” an OTC call issued and guaranteed by the same carrying broker-dealer, expiring on or before the date of expiration of the “long” call and specifying the same underlying component, the margin required on the short “call” shall be the lower of:]

[1. the margin required pursuant to paragraph (f)(2)(E)(iii) or (E)(iv) above; or]

[2. the amount, if any, by which the exercise price of the “long” call exceeds the exercise price of the “short” call.]

[b. Where an OTC put is carried “long” for a customer’s account and the account is “short” an OTC put issued and guaranteed by the same carrying broker-dealer, expiring on or before the date of expiration of the “long” put and specifying the same underlying component, the margin required on the “short” put shall be the lower of:]

[1. the margin required pursuant to paragraph (f)(2)(E)(iii) or (E)(iv) above; or]

[2. the amount, if any, by which the exercise price of the “short” put exceeds the exercise price of the “long” put.]

[c. For purposes of this Rule, a “long” OTC call and a “short” OTC call or a “long” OTC put and a “short” OTC put are deemed to be issued and guaranteed by the same carrying broker-dealer when either the carrying broker-dealer has issued and guaranteed both options or issued and guaranteed one of the options and the other option is listed.] The “long” and “short” OTC option contracts that comprise a spread as defined in paragraph (f)(2)(A)(xxxii) must be issued and guaranteed by the same carrying broker-dealer and the carrying broker-dealer must also be a FINRA member. If the “long” and “short” OTC option[s] contracts are not issued and guaranteed by the **same** carrying broker-dealer, or if the carrying broker-dealer is not a FINRA member, then the “short” option contracts [put or the “short” call] must be margined separately pursuant to paragraph (f)(2)(E)(iii) or (E)(iv) above.

(v) The following requirements set forth the minimum amount of margin that must be maintained in margin accounts of customers having positions in components underlying options, and stock index warrants, when such components are held in conjunction with certain positions in the overlying option or warrant. The option or warrant must be listed or OTC (as defined



in this Rule). In the case of a call or warrant carried in a “short” position, a related “long” position in the underlying component shall be valued at no more than the call/warrant exercise price for margin equity purposes.

a. “Long” Option or Warrant Offset. When a component underlying an option or warrant is carried “long” (“short”) in an account in which there is also carried a “long” put (call) or warrant specifying equivalent units of the underlying component, the minimum amount of margin that must be maintained on the underlying component is 10 percent of the aggregate option/warrant exercise price plus the “out-of-the-money” amount, not to exceed the minimum maintenance required pursuant to paragraph (c) of this Rule.

b. Conversions. When a call or warrant carried in a “short” position is covered by a “long” position in equivalent units of the underlying component and is also carried with a “long” put or warrant specifying equivalent units of the same underlying component and having the same exercise price and expiration date as the “short” call or warrant, the minimum amount of margin that must be maintained for the underlying component shall be 10 percent of the aggregate exercise price.

c. Reverse Conversions. When a put or warrant carried in a “short” position is covered by a “short” position in equivalent units of the underlying component and is also carried with a “long” call or warrant specifying equivalent units of the same underlying component and having the same exercise price and expiration date as the “short” put or warrant, the minimum amount of margin that must be maintained for the underlying component shall be 10 percent of the aggregate exercise price plus the amount by which the exercise price of the put exceeds the current market value of the underlying, if any.

d. Collars. When a call or warrant carried in a “short” position is covered by a “long” position in equivalent units of the underlying component and is also carried with a “long” put or warrant specifying equivalent units of the same underlying component and having a lower exercise price and the same expiration date as the “short” call/warrant, the minimum amount of margin that must be maintained for the underlying component shall be the lesser of 10 percent of the aggregate exercise price of the put plus the put “out-of-the-money” amount or 25 percent of the call aggregate exercise price.

[e. Butterfly Spread. This subparagraph applies to a butterfly spread as defined in paragraph (f)(2)(A) of this Rule, where all option positions are listed or OTC (as defined in this Rule).]

[1. With respect to a long butterfly spread as defined in paragraph (f)(2)(A) of this Rule, the net debit must be paid in full.]

[2. With respect to a short butterfly spread as defined in paragraph (f)(2)(A) of this Rule, margin must be deposited and maintained equal to at least the amount of the aggregate difference between the two lowest exercise prices with respect to short butterfly spreads comprised of calls or the aggregate difference between the two highest exercise prices with respect to short butterfly spreads comprised of puts. The net proceeds from the sale of short option components may be applied to the requirement.]

[f. Box Spread. This subparagraph applies to box spreads as defined in paragraph (f)(2)(A) of this Rule, where all option positions are listed or OTC (as defined in this Rule).]

[1. With respect to a long box spread as defined in paragraph (f)(2)(A) of this Rule, the net debit must be paid in full.]

[2. With respect to a short box spread as defined in paragraph (f)(2)(A) of this Rule , margin must be deposited and maintained equal to at least the amount of the aggregate difference between the exercise prices. The net proceeds from the sale of the short option components may be applied to the requirement.]

e[g]. “Long” Box Spread in European-Style Options. With respect to a “long” box spread as defined in paragraph (f)(2)(A) of this Rule, in which all component options have a European-style exercise provision and are listed or OTC (as defined in this Rule), margin must be deposited and maintained equal to at least 50 percent of the aggregate difference in the exercise prices. The net proceeds from the sale of “short” option components may be applied to the requirement. For margin purposes, the “long” box spread may be valued at an amount not to exceed 100 percent of the aggregate difference in the exercise prices.

[h. Long Condor Spread. This subparagraph applies to a long condor spread as defined in paragraph (f)(2)(A) of this Rule, where all option positions are listed or OTC (as defined in this Rule). With respect to a long condor spread as defined in paragraph (f)(2)(A) of this Rule, the net debit must be paid in full.]

[i. Short Iron Butterfly Spread. This subparagraph applies to a short iron butterfly spread as defined in paragraph (f)(2)(A) of this Rule, where all option positions are listed or OTC (as defined in this Rule). With respect to a short iron butterfly spread as defined in paragraph (f)(2)(A) of this Rule, margin must be deposited and maintained equal to at least the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.]

[j. Short Iron Condor Spread. This subparagraph applies to a short iron condor spread as defined in paragraph (f)(2)(A) of this Rule, where all option positions are listed or OTC (as defined in this Rule). With respect to a short iron condor spread as defined in paragraph (f)(2)(A) of this Rule, margin must be deposited and maintained equal to at least the amount of the exercise price interval.

The net proceeds from the sale of short option components may be applied to the requirement.]

[k. Long Calendar Butterfly Spread. This subparagraph applies to a long calendar butterfly spread as defined in paragraph (f)(2)(A) of this Rule, where all option positions are listed or OTC (as defined in this Rule). With respect to a long calendar butterfly spread as defined in paragraph (f)(2)(A) of this Rule, the net debit must be paid in full.]

[l. Long Calendar Condor Spread. This subparagraph applies to a long calendar condor spread as defined in paragraph (f)(2)(A) of this Rule, where all option positions are listed or OTC (as defined in this Rule). With respect to a long calendar condor spread as defined in paragraph (f)(2)(A) of this Rule, the net debit must be paid in full.]

[m. Short Calendar Iron Butterfly Spread. This subparagraph applies to a short calendar iron butterfly spread as defined in paragraph (f)(2)(A) of this Rule, where all option positions are listed or OTC (as defined in this Rule). With respect to a short calendar iron butterfly spread as defined in paragraph (f)(2)(A) of this Rule, margin must be deposited and maintained equal to at least

the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.]

[n. Short Calendar Iron Condor Spread. This subparagraph applies to a short calendar iron condor spread as defined in paragraph (f)(2)(A) of this Rule, where all option positions are listed or OTC (as defined in this Rule). With respect to a short calendar iron condor spread as defined in paragraph (f)(2)(A) of this Rule, margin must be deposited and maintained equal to at least the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.]

(I)(i) Where a listed or OTC call is carried “short” against an existing net “long” position in the security underlying the option or in any security immediately exchangeable or convertible, other than warrants, without restriction including the payment of money into the security underlying the option, no margin need be required on the call, provided:

a. such net “long” position is adequately margined in accordance with this Rule; and

b. the right to exchange or convert the net “long” position does not expire on or before the date of expiration of the “short” call. Where a listed or OTC put is carried

“short” against an existing net “short” position in the security underlying the option, no margin need be required on the put, provided such net “short” position is adequately margined in accordance with this Rule.

(ii) Where a listed or OTC call is carried “short” against an existing net “long” position in a warrant convertible into the security underlying the option, margin shall be required on the call equal to any amount by which the conversion price of the “long” warrant exceeds the exercise price of the call, provided:

a. such net “long” position is adequately margined in accordance with this Rule; and

b. the right to convert the net “long” position does not expire on or before the date of expiration of the “short” call. However, when a payment of money is required to convert the “long” warrant such warrant shall have no value for purposes of this Rule.

(iii) through (iv) No Change.

(J) No Change.

(K)(i) Registered specialists, market makers or traders —

Notwithstanding the other provisions of this paragraph (f)(2), a member may clear and carry the listed option transactions of one or more registered specialists, registered market makers or registered traders in options (whereby registered traders are deemed specialists for all purposes under



the Exchange Act, pursuant to the rules of a national securities exchange) (hereinafter referred to as “specialist(s)”), upon a “Good Faith” margin basis satisfactory to the concerned parties, provided the “Good Faith” margin requirement is not less than the net capital haircut deduction of the member carrying the transaction pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a). In lieu of collecting the “Good Faith” margin requirement, a carrying member may elect to deduct in computing its net capital the amount of any deficiency between the equity maintained in the account and the “Good Faith” margin required.

For purposes of this paragraph (f)(2)(K), a permitted offset position means, in the case of an option in which a specialist or market maker makes a market, a position in the underlying asset or other related assets, and in the case of other securities in which a specialist or market maker makes a market, a position in options overlying the securities in which a specialist or market maker makes a market. Accordingly, a specialist or market maker in options may establish, on a share-for-share basis, a “long” or “short” position in the securities underlying the options in which the specialist or market maker makes a market, and a specialist or market maker in securities other than options may purchase or write options overlying the securities in which the specialist or market maker makes a market, if the account holds the following permitted offset positions:

a. A “short” option position which is not offset by a “long” or “short” option position for an equal or greater number of shares of the same underlying security which is “in the money”;

b. A “long” option position which is not offset by a “long” or “short” option position for an equal or greater number of shares of the same underlying security which is “in the money”;

c. A “short” option position against which an exercise notice was tendered;

d. A “long” option position which was exercised;

e. A net “long” position in a security (other than an option) in which a specialist or market maker makes a market;

f. A net “short” position in a security (other than an option) in which the specialist or market maker makes a market; or

g. A specified portfolio type as referred to in SEA Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

Permitted offset transactions must be effected for specialist or market making purposes such as hedging, risk reduction, rebalancing of positions, liquidation, or accommodation of

customer orders, or other similar specialist or market maker purpose. The specialist or market maker must be able to demonstrate compliance with this provision.

For purposes of this paragraph (f)(2)(K), the term “in the money” means the current market price of the underlying asset or index is not below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; and, the term “overlying option” means a put option purchased or a call option written against a “long” position in an underlying asset; or a call option purchased or a put option written against a “short” position in an underlying asset.

(ii) No Change.

(L) No Change.

(M) Exclusive designation — A customer may designate at the time an option order is entered which security position held in the account is to serve in lieu of the required margin, if such service is offered by the member; or the customer may have a standing agreement with the member as to the method to be used for determining on any given day which security position will be used in lieu of the margin to support an option transaction. Any security held in the account which serves in lieu of the required margin for a “short” put or “short” call shall be unavailable to support any other option transaction in the account.

(N) Cash account transactions — A member may make option transactions in a customer's cash account, provided that:

(i) The transaction is permissible under Regulation T, Section 220.8; or

(ii) A s[S]pread[s], as defined in paragraph (f)(2)(A)(xxxii) of this Rule, comprised of [ . A] European-style cash-settled index stock group options, or a “short” stock index warrant and a “long” [carried in a short position is deemed a covered position, and eligible for the cash account, provided a long position in a European-style cash-settled stock group index option, or] stock index warrant, having the same underlying component or index that is based on the same aggregate current underlying value, that is held in or purchased for the account on the same day, is deemed a covered position and eligible for the cash account provided that:

a. the “long” positions and the “short” positions expire concurrently;

b. the “long” positions are [is] paid [is]in full; and

c. there is held in the account at the time the positions are established, or received into the account promptly thereafter:

1. cash or cash equivalents of not less than the maximum loss, as described in paragraph

(f)(2)(H)(i)b. of this Rule [any amount by which the

aggregate exercise price of the long call or call warrant (short put or put warrant) exceeds the aggregate exercise price of the short call or call warrant (long put or put warrant)], to which net proceeds from the sale of the “short” positions may be applied, or

2. an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement i. cash, ii. cash equivalents, or iii. a combination thereof having an aggregate market value at the time the positions are established of not less than the maximum loss, as described in paragraph (f)(2)(H)(i)b. of this Rule [any amount by which the aggregate exercise price of the long call or call warrant (short put or put warrant) exceeds the aggregate exercise price of a short call or call warrant (long put or put warrant)] and that the bank will promptly pay the member such amount in the event the account is assigned an exercise notice, or that the bank will promptly pay the member sufficient funds [sufficient] to purchase a warrant sold “short” in the event of a buy-in.

d. A “long” warrant may offset a “short” option contract and a “long” option contract may offset a “short” warrant provided that they have the same underlying component or index and equivalent aggregate current underlying value. In the event that the “long” position is not listed, it must be guaranteed by the carrying broker-dealer; otherwise the “short” position is not eligible for the cash account and must be margined separately pursuant to paragraph (f)(2)(E).

[(iii) Long Butterfly Spreads, Short Butterfly Spreads, Long Condor Spreads, Short Iron Butterfly Spreads, or Short Iron Condor Spreads. Put or call options carried in a short position are deemed covered positions and eligible for the cash account provided that the account contains long positions of the same type which in conjunction with the short options, constitute a long butterfly spread, short butterfly spread, long condor spread, short iron butterfly spread, or short iron condor spread as defined in paragraph (f)(2)(A) of this Rule, and provided that:]

[a. all component options are listed or OTC (as defined in this Rule);]

[b. all component options are European-style;]

[c. all component options are cash settled;]

[d. the long options are held in, or purchased for the account on the same day;]

[e. all components options expire concurrently;]

[f. with respect to a long butterfly spread or long condor spread as defined in paragraph (f)(2)(A) of this Rule, the net debit is paid in full; and]

[g. with respect to a short butterfly spread, short iron butterfly spread or short iron condor spread as defined in paragraph (f)(2)(A) of this Rule, there is held in the account at the time the positions are established or received into the account promptly thereafter:]

[1. cash or cash equivalents of not less than the amount of the aggregate difference between the two lowest exercise prices with respect to short butterfly spreads comprised of call options or the aggregate difference between the two highest exercise prices with respect to short butterfly spreads comprised of put options, to which the net proceeds from the sale of short option components may be applied; or]

[2. an escrow agreement.]

[The escrow agreement must certify that the bank holds for the account of the customer as

security for the agreement i. cash, ii. cash equivalents or iii. a combination thereof having an aggregate market value at the time the positions are established of not less than the amount of the aggregate difference between the two lowest exercise prices with respect to short butterfly spreads comprised of calls or the aggregate difference between the two highest exercise prices with respect to short butterfly spreads comprised of puts and that the bank will promptly pay the member such amount in the event the account is assigned an exercise notice on the call (put) with the lowest (highest) exercise price.]

[(iv) Box Spreads. Puts and calls carried in a short position are deemed covered positions and eligible for the cash account provided that the account contains long positions which in conjunction with the short options constitute a box spread as defined in paragraph (f)(2)(A) of this Rule, provided that:]

[a. all component options are listed or OTC (as defined in this Rule);]

[b. all component options are European-style;]

[c. all component options are cash settled;]



[d. the long options are held in, or purchased for the account on the same day;]

[e. all component options expire concurrently;]

[f. with respect to a long box spread as defined in paragraph (f)(2)(A) of this, the net debit is paid in full; and]

[g. with respect to a short box spread as defined in paragraph (f)(2)(A) of this Rule, there is held in the account at the time the positions are established, or received into the account promptly thereafter:]

[1. cash or cash equivalents of not less than the amount of the aggregate difference between the exercise prices, to which the net proceeds from the sale of short option components may be applied; or]

[2. an escrow agreement.]

[The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement i. cash, ii. cash equivalents or iii. a combination thereof having an aggregate market value at the time the positions are established of not less than the amount of the aggregate difference between the exercise prices and that the bank will promptly pay the member such amount in the event the account is assigned an exercise notice on either short option.]

(3) through (7) No Change.

## **(8) Special Initial and Maintenance Margin Requirements**

(A) No Change.

(B) Day Trading

(i) The term “day trading” means the purchasing and selling or the selling and purchasing of the same security on the same day in a margin account except for:

a. a “long” security position held overnight and sold the next day prior to any new purchase of the same security, or

b. a “short” security position held overnight and purchased the next day prior to any new sale of the same security.

(ii) No Change.

(iii) The term “day-trading buying power” means the equity in a customer’s account at the close of business of the previous day, less any maintenance margin requirement as prescribed in paragraph (c) of this Rule, multiplied by four for equity securities.

The day-trading buying power for non-equity securities may be computed using the applicable special maintenance margin requirements pursuant to other provisions of this Rule.

Whenever day trading occurs in a customer’s margin account, the special maintenance margin required, based on [for the day trades in equity securities shall be 25 percent of] the cost of all the day trades made during the day, shall be 25 percent for

margin eligible equity securities, and 100 percent for non-margin eligible equity securities. For non-equity securities, the special maintenance margin shall be as required pursuant to the other provisions of this Rule. Alternatively, when two or more day trades occur on the same day in the same customer's account, the margin required may be computed utilizing the highest (dollar amount) open position during that day. To utilize the highest open position computation method, a record showing the "time and tick" of each trade must be maintained to document the sequence in which each day trade was completed.

When the equity in a customer's account, after giving consideration to the other provisions of this Rule, is not sufficient to meet the day trading requirements of this paragraph, additional cash or securities must be received into the account to meet any deficiency within five business days of the trade date.

(iv) through (v) No Change.

**(9) Free-Riding in Cash Accounts Prohibited**

No member shall permit a customer (other than a broker-dealer [or a "designated account"]]) to make a practice, directly or indirectly, of effecting transactions in a cash account where the cost of securities purchased is met by the sale of the same securities. No member shall permit a customer to make a practice of selling securities with them in a cash account which are to be received against payment from another broker-dealer where such securities were purchased

and are not yet paid for. A member transferring an account which is subject to a Regulation T 90-day freeze to another member [firm] shall inform the receiving member of such 90-day freeze.

The provisions of Section 220.8(c) of Regulation T dictate the prohibitions and exceptions against customers' free-riding. Members may apply to FINRA in writing for waiver of a 90-day freeze not exempted by Regulation T.

**(10) Customer Margin Rules Relating to Security Futures**

(A) No Change.

**(B) Amount of customer margin**

(i) General Rule. As set forth in paragraphs (b) and (c) of this Rule, the minimum initial and maintenance margin levels for each security futures contract, "long" and "short", shall be 20 percent of the current market value of such contract.

(ii) No Change.

(iii) Permissible Offsets.

Notwithstanding the minimum margin levels specified in paragraph (f)(10)(B)(i) of this Rule, customers with offset positions involving security futures and related positions may have initial or maintenance margin levels (pursuant to the offset table below) that are lower than the levels specified in paragraph (f)(10)(B)(i) of this Rule.

	Description of Offset	Security Underlying the Security Future	Initial Margin Requirement	Maintenance Margin Requirement

(1)	“Long” security future (or basket of security futures representing each component of a narrow-based securities index) and “long” put option on the same underlying security (or index).	Individual stock or narrow-based security index	20 percent of the current market value of the “long” security future, plus pay for the “long” put in full.	The lower of: (1) 10 percent of the aggregate exercise price of the put plus the aggregate put out-of-the-money amount, if any; or (2) 20 percent of the current market value of the “long” security future.
(2)	“Short” security future (or basket of security futures representing each component of a narrow-based securities index) and “short” put option on the same underlying security (or index).	Individual stock or narrow-based security index.	20 percent of the current market value of the “short” security future, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20 percent of the current market value of the “short” security future, plus the aggregate put in-the-money amount, if any.
(3)	“Long” security future and “short”	Individual stock or narrow-based	The initial margin required under Regulation T for the “short” stock	5 percent of the current market value as defined in

	position in the same security (or securities basket) underlying the security future.	security index.	or stocks.	Regulation T of the stock or stocks underlying the security future.
(4)	“Long” security future (or basket of security futures representing each component of a narrow-based securities index) and “short” call option on the same underlying security (or index).	Individual stock or narrow-based security index.	20 percent of the current market value of the “long” security future, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20 percent of the current market value of the “long” security future, plus the aggregate call in-the-money amount, if any.
(5)	“Long” a basket of narrow-based security futures that together tracks a broad based index and “short” a broad-based security index call option contract on the same	Narrow-based security index.	20 percent of the current market value of the “long” basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20 percent of the current market value of the “long” basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any.

	index.			
(6)	“Short” a basket of narrow-based security futures that together tracks a broad-based security index and “short” a broad-based security index put option contract on the same index.	Narrow-based security index.	20 percent of the current market value of the “short” basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20 percent of the current market value of the “short” basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any.
(7)	“Long” a basket of narrow-based security futures that together tracks a broad-based security index and “long” a broad-based security index put option contract on the same index.	Narrow-based security index.	20 percent of the current market value of the “long” basket of narrow-based security futures, plus pay for the “long” put in full.	The lower of: (1) 10 percent of the aggregate exercise price of the put, plus the aggregate put out-of-the-money amount, if any; or (2) 20 percent of the current market value of the “long” basket of security futures.
(8)	“Short” a basket of narrow-based security	Narrow-based security index.	20 percent of the current market	The lower of: (1) 10 percent of the aggregate

	futures that together tracks a broad-based security index and “long” a broad-based security index call option contract on the same index.		value of the “short” basket of narrow-based security futures, plus pay for the “long” call in full.	exercise price of the call, plus the aggregate call out-of-the-money amount, if any; or (2) 20 percent of the current market value of the “short” basket of security futures
(9)	“Long” security future and “short” security future on the same underlying security (or index).	Individual stock or narrow-based security index.	The greater of: (1) 5 percent of the current market value of the “long” security future; or (2) 5 percent of the current market value of the “short” security future.	The greater of: (1) 5 percent of the current market value of the “long” security future; or (2) 5 percent of the current market value of the “short” security future.
(10)	“Long” security future, “long” put option and “short” call option. The “long” security	Individual stock or narrow-based security index.	20 percent of the current market value of the “long” security future, plus the	10 percent of the aggregate exercise price, plus the aggregate call in-the-money amount, if any.



	future, “long” put and “short” call must be on the same underlying security and the put and call must have the same exercise price. (Conversion)		aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from the call sale may be applied.	
(11)	“Long” security future, “long” put option and “short” call option. The “long” security future, “long” put and “short” call must be on the same underlying security and the put exercise price must be below the call exercise price. (Collar)	Individual stock or narrow-based security index.	20 percent of the current market value of the “long” security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from call sale may be applied.	The lower of: (1) 10 percent of the aggregate exercise price of the put plus the aggregate put out-of-the-money amount, if any; or (2) 20 percent of the aggregate exercise price of the call, plus the aggregate call in-the-money amount, if any.
(12)	“Short” security future and “long” position in the same	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the	5 percent of the current market value, as defined in Regulation

	security (or securities basket) underlying the security future.		“long” security or securities.	T, of the “long” stock or stocks.
(13)	“Short” security future and “long” position in a security immediately convertible into the same security underlying the security future, without restriction, including the payment of money.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the “long” security or securities.	10 percent of the current market value, as defined in Regulation T, of the “long” stock or stocks.
(14)	“Short” security future (or basket of security futures representing each component of a narrow-based securities index) and “long” call option or warrant on the same underlying security (or	Individual stock or narrow-based security index.	20 percent of the current market value of the “short” security future, plus pay for the call in full.	The lower of: (1) 10 percent of the aggregate exercise price of the put plus the aggregate put out-of-the-money amount, if any; or (2) 20 percent of the current market value of the “short” security future.

	index).			
(15)	<p>“Short” security future, “short” put option and “long” call option. The “short” security future, “short” put and “long” call must be on the same underlying security and the put and call must have the same exercise price. (Reverse Conversion)</p>	Individual stock or narrow-based security index.	<p>20 percent of the current market value of the “short” security future, plus the aggregate put in-the-money amount, if any, plus pay for the call in full. Proceeds from put sale may be applied.</p>	<p>10 percent of the aggregate exercise price, plus the aggregate put in-the-money amount, if any.</p>
(16)	<p>“Long” (“short”) a security future and “short” (“long”) an identical<sup>1</sup> security future traded on a different market.</p>	Individual stock and narrow-based security index.	<p>The greater of: (1) 3 percent of the current market value of the “long” security future(s); or (2) 3 percent of the current market value of the “short” security future(s).</p>	<p>The greater of: (1) 3 percent of the current market value of the “long” security future(s); or (2) 3 percent of the current market value of the “short” security future(s).</p>

(17)	“Long” (“short”) a basket of security futures that together tracks a narrow-based index and “short” (“long”) a narrow-based index future.	Individual stock and narrow-based security index.	The greater of: (1) 5 percent of the current market value of the “long” security future(s); or (2) 5 percent of the current market value of the “short” security future(s).	The greater of: (1) 5 percent of the current market value of the “long” security future(s); or (2) 5 percent of the current market value of the “short” security future(s).

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<sup>1</sup> Two security futures contracts will be considered “identical” for this purpose if they are issued by the same clearing agency or cleared and guaranteed by the same derivatives clearing organization, have identical specifications, and would offset each other at the clearing level.

(C) No Change.

**(D) Security Futures Dealers’ Accounts**

(i) Notwithstanding the other provisions of this paragraph (f)(10), a member may carry and clear the market maker permitted offset positions (as defined below) of one or more security futures

dealers in an account that is limited to market maker transactions, upon a “Good Faith” margin basis that is satisfactory to the concerned parties, provided the “Good Faith” margin requirement is not less than the net capital haircut deduction of the member carrying the transaction pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a). In lieu of collecting the “Good Faith” margin requirement, a carrying member may elect to deduct in computing its net capital the amount of any deficiency between the equity maintained in the account and the “Good Faith” margin required.

For the purpose of this paragraph (f)(10)(D), the term “security futures dealer” means (1) a member of a national securities exchange or a national securities association registered pursuant to Section 15A(a) of the Exchange Act; (2) is registered with such exchange or association as a security futures dealer pursuant to rules that are effective in accordance with Section 19(b)(2) of the Exchange Act and, as applicable Section 5c(c) of the CEA, that: (a) requires such member to be registered as a floor trader or a floor broker with the CFTC under Section 4f(a)(1) of the CEA, or as a dealer with the SEC under Section 15(b) of the Exchange Act; (b) requires such member to maintain sufficient records [sufficient] to prove compliance with the rules of the exchange or association of which it is a member; (c) requires such

member to hold itself out as being willing to buy and sell security futures for its own account on a regular and continuous basis; and (d) provides for disciplinary action, including revocation of such member's registration as a security futures dealer, for such member's failure to comply with Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures and Rules 41.42 through 41.49 of the CEA or the rules of the exchange or association of which the security futures dealer is a member.

(ii) For purposes of this paragraph (f)(10)(D), a permitted offset position means in the case of a security futures contract in which a security futures dealer makes a market, a position in the underlying asset or other related assets, or positions in options overlying the asset or related assets. Accordingly, a security futures dealer may establish a "long" or "short" position in the assets underlying the security futures contracts in which the security futures dealer makes a market, and may purchase or write options overlying those assets if the account holds the following permitted offset positions:

- a. A "long" position in the security futures contract or underlying asset offset by a "short" option position that is "in or at the money;"

b. A “short” position in the security futures contract or underlying asset offset by a “long” option position that is “in or at the money;”

c. A position in the underlying asset resulting from the assignment of a market-maker “short” option position or making delivery in respect of a “short” security futures contract;

d. A position in the underlying asset resulting from the assignment of a market-maker “long” option position or taking delivery in respect of a “long” security futures contract;

e. A net “long” position in a security futures contract in which a security futures dealer makes a market or the underlying asset;

f. A net “short” position in a security futures contract in which a security futures dealer makes a market or the underlying asset; or

g. An offset position as defined in SEA Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

**(E) Approved Options Specialists’ or Approved Market**

**Makers’ Accounts**

(i) No Change.

(ii) For purposes of this paragraph (f)(10)(E), a permitted offset position means a position in the underlying asset or other related assets. Accordingly, a specialist or market maker may establish a “long” or “short” position in the assets underlying the options in which the specialist or market maker makes a market, or a security futures contract thereon, if the account holds the following permitted offset positions:

a. A “long” position in the underlying instrument or security futures contract offset by a “short” option position that is “in or at the money;”

b. A “short” position in the underlying instrument or security futures contract offset by a “long” option position that is “in or at the money;”

c. A stock position resulting from the assignment of a market-maker “short” option position or delivery in respect of a “short” security futures contract;

d. A stock position resulting from the exercise of a market maker “long” option position or taking delivery in respect of a “long” security futures contract;

e. A net “long” position in a security (other than an option) in which the market maker makes a market;

f. A net “short” position in a security (other than an option) in which the market maker makes a market; or



g. An offset position as defined in SEA Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

(iii) For purposes of paragraphs (f)(10)(D) and (E), the term “in or at the money” means that the current market price of the underlying security is not more than two standard exercise intervals below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; the term “in the money” means that the current market price of the underlying asset or index is not below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; the term “overlying option” means a put option purchased or a call option written against a “long” position in an underlying asset; or a call option purchased, or a put option written against a “short” position in an underlying asset.

(iv) No Change.

(F) through (G) No Change.

**(g) Portfolio Margin**

As an alternative to the “strategy-based” margin requirements set forth in paragraphs (a) through (f) of this Rule, members may elect to apply the portfolio margin requirements set forth in this paragraph (g) to all margin equity securities,<sup>1</sup> listed options, security futures products (as defined in Section 3(a)(56) of the Exchange Act), unlisted derivatives, warrants, stock index warrants,<sup>2</sup> and related instruments (as defined in

paragraph (g)(2)(D)), provided that the requirements of paragraph (g)(6)(B)(i) of this Rule are met.

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<sup>1</sup> For purposes of this paragraph (g) of the Rule, the term “margin equity security” utilizes the definition at Section 220.2 of Regulation T.

In addition, a member, provided that it is a Futures Commission Merchant (“FCM”) and is either a clearing member of a futures clearing organization or has an affiliate that is a clearing member of a futures clearing organization, is permitted under this paragraph (g) to combine an eligible participant’s related instruments with listed index options, unlisted derivatives, options on exchange traded funds (“ETF”), stock index warrants and underlying instruments and compute a margin requirement for such combined products on a portfolio margin basis.

The portfolio margin provisions of this Rule shall not apply to Individual Retirement Accounts (“IRAs”).

**(1) Monitoring [—]**

Members must monitor the risk of portfolio margin accounts and maintain a comprehensive written risk analysis methodology for assessing the potential risk to the member’s capital over a specified range of possible market movements of positions maintained in such accounts. The risk analysis methodology shall specify the computations to be made, the frequency of computations, the records to be reviewed and maintained, and the person(s) within the organization responsible for the risk function. This risk analysis methodology must be filed

with FINRA, or the member's designated examining authority ("DEA") if other than FINRA, and submitted to the SEC prior to the implementation of portfolio margining. In performing the risk analysis of portfolio margin accounts required by this Rule, each member shall include in the written risk analysis methodology procedures and guidelines for:

(A) through (C) No Change.

(D) the use of stress testing of portfolio margin accounts in order to monitor market risk exposure from individual accounts [and in the aggregate];

(E) through (I) No Change.

Moreover, management must periodically review, in accordance with written procedures, the member's credit extension activities for consistency with these guidelines. Management must periodically determine if the data necessary to apply this paragraph (g) is accessible on a timely basis and information systems are available to adequately capture, monitor, analyze and report relevant data.

(2) through (4) No Change.

**(5) Opening of Accounts**

(A) No Change.

(B) Only eligible participants that have been approved to engage in uncovered "short" option contracts pursuant to Rule 2360, or the rules of the member's DEA if other than FINRA, are permitted to utilize a portfolio margin account. If eligible participants engage in security futures

products transactions, approval from the member will also be required, pursuant to Rule 2370.

(C) No Change.

(6) No Change.

**(7) Margin Required [—]**

The amount of margin required under this paragraph (g) for each portfolio shall be the greater of:

(A) through (C) No Change.

(D) Positions other than those listed in paragraph (g)(6)(B)(i) above are not eligible for portfolio margin treatment. However, positions not eligible for portfolio margin treatment (except for ineligible related instruments) may be carried in a portfolio margin account, provided the member has the ability to apply the applicable strategy-based margin requirements promulgated under this Rule, with the exception of securities subject to other provisions of paragraph (g). Shares of a money market mutual fund may be carried in a portfolio margin account, also subject to the applicable strategy-based margin requirement under this Rule provided that:

(i) the customer waives any right to redeem shares without the member's consent;

(ii) the member (or, if the shares are deposited with a clearing organization, the clearing organization) obtains the right to redeem shares in cash upon request;

(iii) the fund agrees to satisfy any conditions necessary or appropriate to ensure that the shares may be redeemed in cash, promptly upon request; and

(iv) the member complies with the requirements of Section 11(d)(1) of the Exchange Act and SEA Rule 11d1-2.

(E) Non-margin eligible equity securities held “long” in a portfolio margin account shall be maintained at 100 percent of the current market value at all times. Non-margin eligible equity securities held “short” in a portfolio margin account shall be maintained at 50 percent of the current market value at all times.

**(8) Method of Calculation**

(A) “Long” and “short” positions in eligible products, including underlying instruments and related instruments, are to be grouped by security class; each security class group being a “portfolio.” Each portfolio is categorized as one of the portfolio types specified in paragraph (g)(2)(F) above, as applicable.

(B) through (E) No Change.

(9) through (10) No Change.

**(11) Determination of Value for Margin Purposes [— ]**

For the purposes of this paragraph (g), all eligible products shall be valued at current market prices. Account equity for the purposes of paragraphs (g)(9)(A) and (g)(10)(A) shall be calculated separately for each portfolio margin account by adding the current market value of all “long” positions, subtracting current market

value of all “short” positions, and adding the credit (or subtracting the debit) balance in the account.

(12) through (15) No Change.

(h) No Change.

• • • **Supplementary Material:** -----

**.01** No Change.