

Margin Requirements

FINRA Adopts Amendments Relating to Protected Option and Warrant Positions Under FINRA Rule 4210

Summary

FINRA has amended FINRA Rule 4210 (Margin Requirements) to establish a specified exception under the margin rules with respect to certain short option or warrant positions on indexes that are written against products that track the same underlying index. Referred to as “protected” option or warrant positions, the new exception conforms with similar provisions Cboe recently adopted. The amendments are effective as of the date of issuance of this *Notice*.

This *Notice* provides an overview of the amendments. The text of the amendments is included as [Attachment A](#). In this *Notice*, all references to provisions of the amendments are to the rule text as shown in Attachment A.

Questions regarding this *Notice* may be directed to:

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Background & Discussion

The SEC has approved¹ FINRA's proposed rule change to establish an exception from the margin requirements under Rule 4210 with respect to certain short option or warrant positions on indexes that are written against products that track the same underlying index. The amendments conform, with minor revisions, with corresponding provisions Cboe recently adopted.² Specifically, the new exception applies, as further set

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Notice Type

- ▶ Rule Amendment

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Margin Department
- ▶ Operations
- ▶ Regulatory Reporting
- ▶ Risk Management
- ▶ Senior Management

Key Topics

- ▶ Margin
- ▶ Options

Referenced Rules & Notices

- ▶ FINRA Rule 4210

forth under the amendments, to short option positions or warrants on indexes that are offset by positions in an underlying stock basket, non-leveraged index mutual fund or non-leveraged exchange-traded fund (ETF) that is based on the same index option.

New paragraph (f)(2)(H)(v)f. provides that, when an index call (put) option or warrant is carried “short” (referred to as the “protected option or warrant position”) and there is carried in the same account a “long” (short) position in an underlying stock basket, non-leveraged index mutual fund or non-leveraged ETF (each, referred to as the “protection”) that is based on the same index underlying the index option or warrant, the protected option or warrant position is not subject to the requirements set forth in paragraphs (f)(2)(E)(i) and (f)(2)(E)(iii)³ of Rule 4210 if the following conditions are met:

1. when the protected option or warrant position is created, the absolute value of the protection is not less than 100 percent of the aggregate current underlying index value associated with the protected option or warrant position determined at either:
 - (A) the time the order that created the protected option or warrant position was entered or executed; or
 - (B) the close of business on the trading day the protected option or warrant position was created;
2. the absolute value of the protection is at no time less than 95 percent of the aggregate current underlying index value associated with the protected option or warrant position; and
3. margin is maintained in an amount equal to the greater of:
 - (A) the amount, if any, by which the aggregate current underlying index value is above (below) the aggregate exercise price of the protected call (put) option or warrant position; or
 - (B) the amount, if any, by which the absolute value of the protection is below 100 percent of the aggregate current underlying index value associated with the protected option or warrant.

The exception is not intended to and does not apply to leveraged instruments.

The amendments are effective as of the date of issuance of this *Notice*.

Endnotes

- 1 See Securities Exchange Act Release No. 99696 (March 8, 2024), 89 FR 18691 (March 14, 2024) (Order Approving a Proposed Rule Change to Provide Relief Relating to Specified Option Transactions under FINRA Rule 4210 (Margin Requirements); File No. SR-FINRA-2023-010).
- 2 See Securities Exchange Act Release No. 97019 (March 2, 2023), 88 FR 14416 (March 8, 2023) (Order Approving a Proposed Rule Change to Amend Rule 10.3 Regarding Margin Requirements; File No. SR-CBOE-2022-058).
- 3 Paragraphs (f)(2)(E)(i) and (f)(2)(E)(iii) of Rule 4210 address margin requirements for listed and over-the-counter (OTC) products, respectively, as further specified in those provisions.

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