

4210. Margin Requirements

(a) Definitions

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

(1) The term “basket” shall mean a group of stocks that FINRA or any national securities exchange designates as eligible for execution in a single trade through its trading facilities and that consists of 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 the stock market as a whole.

(2) The term “current market value” means the total cost or net proceeds of a security on the day it was purchased or sold or at any other time the preceding business day’s closing price as shown by any regularly published reporting or quotation service, except for security futures contracts (see paragraph (f)(10)(C)(ii)). If there is no closing price, a member may use a reasonable estimate of the market value of the security as of the close of business on the preceding business day.

(3) The term “customer” means any person for whom securities are purchased or sold or to whom securities are purchased or sold whether on a regular way, when issued, delayed or future delivery basis. It will also include any person for whom securities are held or carried and to or for whom a member extends, arranges or maintains any credit. The term will not include the following: (A) a broker or dealer from whom a security has been purchased or to whom a security has been sold for the account of the member or its customers, or (B) an “exempted borrower” as defined by Regulation T of the Board of Governors of the Federal Reserve System (“Regulation T”), except for the proprietary account of a broker-dealer carried by a member pursuant to paragraph (e)(6) of this Rule.

/01 Customer Includes

The term “customer” includes a broker or dealer, member and their partners, officers or associated persons whenever the carrying member extends, arranges or maintains any credit on their behalf.

(4) The term “designated account” means the account of:

(A) a bank (as defined in Section 3(a)(6) of the Exchange Act),

/01 Bank

The term “bank” means a domestic bank as defined under Section 3(a)(6) of the Exchange Act.

FINRA Rule 4210(a)(4)(A)/01

4210. Margin Requirements (Continued)(a) Definitions (Continued)/02 Savings and Loan Associations

Savings and loan associations are not “banks” as defined in Section (3)(a)(6) of the Exchange Act and, therefore, are not included in the term “designated account.” Savings and loan associations are deemed to be other lenders subject to Regulation U of the Board of Governors of the Federal Reserve System.

(B) a savings association (as defined in Section 3(b) of the Federal Deposit Insurance Act), the deposits of which are insured by the Federal Deposit Insurance Corporation,

(C) an insurance company (as defined in Section 2(a)(17) of the Investment Company Act),

(D) an investment company registered with the SEC under the Investment Company Act,

/01 Investment Trust

The term “investment trust” means any investment company registered with the SEC under the Investment Company Act.

(E) a state or political subdivision thereof, or

(F) a pension or profit sharing plan subject to the Employee Retirement Income Security Act (ERISA) or of an agency of the United States or of a state or a political subdivision thereof.

/01 Foreign Institutions

Foreign institutions do not qualify as “designated accounts” as they are not regulated under the laws of the United States or of a state or political subdivision thereof. The term “foreign institutions” includes, but is not limited to, such foreign organizations as banks, brokers, dealers, insurance companies and government agencies.

(5) The term “equity” means the customer’s ownership interest in the account, computed by adding the current market value of all securities “long” and the amount of any credit balance and subtracting the current market value of all securities “short” and the amount of any debit

FINRA Rule 4210(a)(5)

4210. Margin Requirements (Continued)(a) Definitions (Continued)

balance. Any variation settlement received or paid on a security futures contract shall be considered a credit or debit to the account for purposes of equity.

(6) The term “exempted security” or “exempted securities” has the meaning as in Section 3(a)(12) of the Exchange Act.

/01 STRIPS and Similar Securities

STRIPS (Separate Trading of Registered Interest and Principal Securities) and similar securities may be treated as “exempted securities” subject to the same requirements as any other U.S. government security.

(7) The term “margin” means the amount of equity to be maintained on a security position held or carried in an account.

(8) The term “person” has the meaning as in Section 3(a)(9) of the Exchange Act.

(9) The term “highly rated foreign sovereign debt securities” means any debt securities (including major foreign sovereign debt securities) issued or guaranteed by the government of a foreign country, its provinces, state or cities, or a supranational entity, if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in one of the top two rating categories by at least one nationally recognized statistical rating organization.

(10) The term “investment grade debt securities” means any debt securities (including those issued by the government of a foreign country, its provinces, states or cities, or a supranational entity), if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in one of the top four rating categories by at least one nationally recognized statistical rating organization.

(11) The term “major foreign sovereign debt” means any debt securities issued or guaranteed by the government of a foreign country or a supranational entity, if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in the top rating category by at least one nationally recognized statistical rating organization.

(12) The term “mortgage related securities” means securities falling within the definition in Section 3(a)(41) of the Exchange Act.

FINRA Rule 4210(a)(12)

4210. Margin Requirements (Continued)(a) Definitions (Continued)

(13) The term “exempt account” means:

(A) a member, non-member broker-dealer registered as a broker or dealer under the Exchange Act, a “designated account,” or

(B) any person that:

(i) has a net worth of at least \$45 million and financial assets of at least \$40 million for purposes of paragraphs (e)(2)(F) and (e)(2)(G), and

(ii) either:

a. has securities registered pursuant to Section 12 of the Exchange Act, has been subject to the reporting requirements of Section 13 of the Exchange Act for a period of at least 90 days and has filed all the reports required to be filed thereunder during the preceding 12 months (or such shorter period as it was required to file such reports), or

b. has securities registered pursuant to the Securities Act, has been subject to the reporting requirements of Section 15(d) of the Exchange Act for a period of at least 90 days and has filed all the reports required to be filed thereunder during the preceding 12 months (or such shorter period as it was required to file such reports), or

c. if such person is not subject to Section 13 or 15(d) of the Exchange Act, is a person with respect to which there is publicly available the information specified in paragraphs (a)(5)(i) through (xiv), inclusive, of SEA Rule 15c2-11, or

d. furnishes information to the SEC as required by SEA Rule 12g3-2(b), or

e. makes available to the member such current information regarding such person’s ownership, business, operations and financial condition (including such person’s current audited statement of financial condition, statement of income and statement of changes in stockholder’s equity or comparable financial reports), as reasonably believed by the member to be accurate, sufficient for the purposes of performing a risk analysis in respect of such person.

(14) The term “non-equity securities” means any securities other than equity securities as defined in Section 3(a)(11) of the Exchange Act.

FINRA Rule 4210(a)(14)

4210. Margin Requirements (Continued)(a) Definitions (Continued)

(15) The term “listed non-equity securities” means any non-equity securities that:

(A) are listed on a national securities exchange; or

(B) have unlisted trading privileges on a national securities exchange.

(16) The term “other marginable non-equity securities” means:

(A) Any debt securities not traded on a national securities exchange meeting all of the following requirements:

(i) At the time of the original issue, a principal amount of not less than \$25 million of the issue was outstanding;

(ii) The issue was registered under Section 5 of the Securities Act and the issuer either files periodic reports pursuant to Section 13(a) or 15(d) of the Exchange Act or is an insurance company which meets all of the conditions specified in Section 12(g)(2)(G) of the Exchange Act; and

(iii) At the time of the extensions of credit, the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments; or

(B) Any private pass-through securities (not guaranteed by any agency of the U.S. government) meeting all of the following requirements:

(i) An aggregate principal amount of not less than \$25 million (which may be issued in series) was issued pursuant to a registration statement filed with the SEC under Section 5 of the Securities Act;

(ii) Current reports relating to the issue have been filed with the SEC; and

(iii) At the time of the credit extension, the creditor has a reasonable basis for believing that mortgage interest, principal payments and other distributions are being passed through as required and that the servicing agent is meeting its material obligations under the terms of the offering.

(The next page is 11)

FINRA Rule 4210(a)(16)(B)(iii)

4210. Margin Requirements (Continued)**(b) Initial Margin**

For the purpose of effecting new securities transactions and commitments, the customer shall be required to deposit margin in cash and/or securities in the account which shall be at least the greater of:

- (1) the amount specified in Regulation T, or SEA Rules 400 through 406 of the Customer Margin Requirements for Security Futures, or Rules 41.42 through 41.49 under the Commodity Exchange Act (“CEA”); or
- (2) the amount specified in paragraph (c) of this Rule; or
- (3) such greater amount as FINRA may from time to time require for specific securities; or
- (4) equity of at least \$2,000 except that cash need not be deposited in excess of the cost of any security purchased (this equity and cost of purchase provision shall not apply to “when distributed” securities in a cash account). The minimum equity requirement for a “pattern day trader” is \$25,000 pursuant to paragraph (f)(8)(B)(iv)a. of this Rule.

Withdrawals of cash or securities may be made from any account which has a debit balance, “short” position or commitments, provided it is in compliance with Regulation T and SEA Rules 400 through 406 of the Customer Margin Requirements for Security Futures and Rules 41.42 through 41.49 under the CEA, and after such withdrawal the equity in the account is at least the greater of \$2,000 (\$25,000 in the case of a “pattern day trader”) or an amount sufficient to meet the maintenance margin requirements of this Rule.

/01 Compliance with Regulation T

Members must adhere to the requirements of this Rule or Regulation T, whichever is greater. Where Regulation T requires “good faith” margin or has no requirements (e.g., exempted securities or portfolio margin accounts), then the equity required by this Rule will govern.

/02 Minimum Equity

Every margin transaction must result in equity in the account of at least \$2,000 except that payment in full for any security purchased will satisfy the requirement. Each customer account, including those instances where more than one margin account is permitted under Regulation T, is subject to the \$2,000 requirement except for:

- The purchase of “when distributed” securities in a cash account;

FINRA Rule 4210(b)(4)/02

4210. Margin Requirements (Continued)(b) Initial Margin (Continued)

- The purchase of exempt securities;
- The purchase of an option (\$2,000 needed upon exercise);
- The sale of a put option where the exercise price is less than \$20.00 per share;

Every short sale, regardless of the amount involved, is subject to the \$2,000 requirement. If the equity in an account falls below \$2,000 because of a decline in the market value of the security(ies) and no new commitments are made, no deposit or liquidation is necessary. For the purpose of this Rule, a same-day substitution constitutes a new commitment. No withdrawal may be made from an account which would leave less than \$2,000 equity in the account after the withdrawal.

/03 Accounts Subject to Minimum Equity

In accordance with the designation of types of accounts or transactions permitted under Regulation T, such accounts or transactions will be subject to a minimum equity requirement as follows:

<u>Margin Account</u>	(\$2,000)
<u>Broker-dealer Credit Account</u>	
(1) <u>Omnibus</u>	(\$2,000)
(2) <u>Joint Back Office</u>	(\$1,000,000)
<u>Good Faith Account</u>	
(1) <u>Arbitrage</u>	(\$2,000)
(2) <u>Prime Brokerage</u>	(\$500,000)
	(\$100,000 - if managed by a registered investment advisor)
<u>Portfolio Margin Account</u>	(\$100,000 - Full, real-time intraday monitoring capability*, all trades executed at broker-dealer.)
	(\$150,000 – Partial, real-time intraday monitoring capability**, all trades executed at broker-dealer.)
	(\$500,000 – Some or all trades executed away.)

FINRA Rule 4210(b)(4)/03

4210. Margin Requirements (Continued)(b) Initial Margin (Continued)

All other accounts or transactions not listed here are exempt from a minimum equity requirement except where specified elsewhere in this Rule.

*Full, real-time intraday monitoring capability means the ability to calculate an account at the time an order is entered, using real-time pricing, and having the ability to prevent the order from being executed if an account has insufficient maintenance excess.

** Partial, real-time intraday monitoring capability means that a broker-dealer's intraday monitoring process does not meet the definition of full, real-time intraday monitoring capability as stated above.

/04 Additional Minimum Equity

Pursuant to FINRA Rule 2360(b)(16)(E)(iv), members are required to establish minimum net equity requirements for customer accounts that establish and maintain uncovered short option positions. Due to the inherent risks associated with uncovered option positions, members should consider establishing account minimum net equity requirements that are higher than what is required under this Rule.

/05 Profitable Options

A customer that holds profitable options may either sell them or exercise them and simultaneously liquidate the resulting security position without meeting the margin requirement of this paragraph of the Rule. A profitable option is defined as an option to buy or sell a security at a price which is more favorable to the option holder than the current market price of the security on which the option is written.

This same treatment is permitted on bona fide spread positions when, on the same day, a short call is exercised against the customer and the customer exercises a long call to close out the short security position created.

/06 Federal National Mortgage Association (FNMA)

The initial margin required on purchases of FNMA common stock or FNMA convertible debentures will be the same as that required by Regulation T for a margin security at that time. Short sales, which must be made in the margin account, require initial margin equal to the amount required by Regulation T for short sales.

(The next page 19)

FINRA Rule 4210(b)(4)/06

4210. Margin Requirements (Continued)**(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 securities, except for security futures contracts, "long" in the account; plus

(2) \$2.50 per share or 100 percent of the current market value, whichever amount is greater, of each stock "short" in the account selling at less than \$5.00 per share; plus

(3) \$5.00 per share or 30 percent of the current market value, whichever amount is greater, of each stock "short" in the account selling at \$5.00 per share or above; plus

(4) 5 percent of the principal amount or 30 percent of the current market value, whichever amount is greater, of 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.)

/01 Profitable Options

Transactions in profitable options are exempt from maintenance margin requirements as outlined under Rule 4210(b)/03.

/02 Partners' Accounts

Partners of a member organized as a partnership should be guided by the following principles in determining margin requirements of partners' accounts:

- The net combined deficit, if any, in a partners' capital account, drawing account, other personal accounts and his or her share of the partnership's undistributed profits and losses, must be deducted in determining the equity in his or her individual securities account(s).
- Any securities carried in capital accounts must be fully paid for after considering any deficits in individual accounts as described above.
- Any purchase in partners' individual accounts must meet Regulation T initial margin requirements.

FINRA Rule 4210(c)(5)/02

4210. Margin Requirements (Continued)(c) Maintenance Margin (Continued)/03 Stockholders' Accounts

The requirements described in Rule 4210(c)/02 above could apply to a member organized as a corporation carrying its stockholder accounts. For maintenance margin purposes, when a stockholder has a securities account and is indebted to the member corporation as a result of some other transaction, such indebtedness should be offset against the stockholder's securities account to determine the value of securities that may be carried in the securities account.

/04 Securities Value

Listed and unlisted securities, other than options with less than 9 months to expiration, may be given value in the computation of maintenance margin requirements.

/05 Sales of Stock Covered by Due Bills

When a customer sells stock, in any type of account, which carries a due bill representing additional shares of the same stock or another stock, and the certificate covering the sale is not registered in the name of a member or its nominee, the carrying member shall retain out of the proceeds of the sale a sum at least equal to the market value of the shares represented by the due bill until the shares covered thereby are received. If the market value of the shares represented by the due bill increases, the member must obtain from the customer additional funds or securities to satisfy the mark to market.

Only excess funds or securities held against these due bill requirements are to be given consideration in determining the status of a customer's account as it relates to maintenance margin for other purposes.

/06 Sinking Fund Transactions

Certain sinking fund transactions fail to qualify for non-purpose credit and credit under an employee stock ownership plan under Interpretations of Regulation T (see Section 220.6/02) because:

- Retirement of the security is deferred;
- Delivery is delayed beyond the next sinking fund retirement date; or

4210. Margin Requirements (Continued)(c) Maintenance Margin (Continued)

- The transaction is made with an affiliate of the issuer rather than directly with the issuer.

When a sinking fund transaction that may not be non-purpose credit and credit under an employee stock ownership plan for one or more of the above reasons, it qualifies for the margin account under Regulation T, Section 220.4. The margin treatment afforded such transaction may be as follows:

- If 30 calendar days or less to delivery, the transaction may be exempt from margin requirements, but any marked to the market loss which is not obtained must be deducted in computing net capital (See SEA Rule 15c3-1(c)(2)(xii)); or
- If over 30 calendar days to delivery, the transaction may be exempt from the margin requirements of this Rule, and instead treated as an open proprietary contractual commitment subject to the requirements of SEA Rule 15c3-1 subparagraphs (c)(2)(vi) and (c)(2)(viii). Such treatment, however, should not result in a duplication of deductions under the capital rule (SEA Rule 15c3-1). See also Rule 4210(e)(7)/01 and Interpretations of Regulation T, Section 220.06/02.

/07 Option Premiums

Although premiums received from writing an option may be withdrawn or used as an offset against requirements on other transactions on the same day, such usage may result in the loss of equity to an account. An “in the money” call option could be sold against a long position in the underlying security, resulting in the underlying security being valued at the call’s exercise value, which is below the current market value (also referred to as pegging). In this case, any withdrawal will result in a loss of equity in the account and could result in violation of this Rule. See Interpretations of Regulation T, Section 220.4(e)/06.

/08 Marginable Foreign Securities

The purchase or short-sale of a marginable foreign security in a margin account or a sub-account, as allowed in Regulation T, will be subject to Rule 4210(c) and 4210(f)(1), “Determination of Value for Margin Purposes” for those securities not traded on a recognized foreign securities market.

(The next page is 27)

FINRA Rule 4210(c)(5)/08

4210. Margin Requirements (Continued)**(d) Additional Margin**

Procedures shall be established by members to:

- (1) review limits and types of credit extended to all customers;
- (2) formulate their own margin requirements; and
- (3) review the need for instituting higher margin requirements, mark-to-markets and collateral deposits than are required by this Rule for individual securities or customer accounts.

/01 Credit Extended

This Rule requires that members determine the total dollar amount of credit to be extended to any one customer or on any one security to limit the potential loss or exposure to the member. It is important that specific limits be established to prevent any one customer or group of customers from endangering the member's capital.

/02 Credit Committee

It is suggested that members appoint a credit committee with full authority to formulate credit policies and set limits as to the amount of credit that may be extended. It is recommended that the committee include the finance officer, credit officer and/or margin manager.

(The next page is 33)

4210. Margin Requirements (Continued)**(e) Exceptions to Rule**

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

/01 Exceptions

The exceptions referred to in this paragraph apply only to the Special Initial Margin Requirements (Rule 4210(f)(8)) and the Maintenance Margin Requirements (Rule 4210(c)). They do not apply to the \$2,000 minimum equity requirement of Rule 4210(b)(4).

(1) Offsetting “Long” and “Short” Positions

When a security carried in a “long” position is exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into a security carried in a “short” position for the same customer, the margin to be maintained on such positions shall be 10 percent of the current market value of the “long” securities. When the same security is carried “long” and “short” the margin to be maintained on such positions shall be 5 percent of the current market value of the “long” securities. In determining such margin requirements “short” positions shall be marked to the market.

(2) Exempted Securities, Non-equity Securities and Baskets**(A) Obligations of the United States and Highly Rated Foreign Sovereign Debt Securities**

On net “long” or net “short” positions in obligations (including zero coupon bonds, i.e., bonds with coupons detached or non-interest bearing bonds) issued or guaranteed as to principal or interest by the United States Government or by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury, or in obligations that are highly rated foreign sovereign debt securities, the margin to be maintained shall be the percentage of the current market value of such obligations as specified in the applicable category below:

FINRA Rule 4210(e)(2)(A)

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)(A) Obligations of the United States and Highly Rated Foreign Sovereign Debt Securities (Continued)

(i)	Less than one year to maturity	1 percent
(ii)	One year but less than three years to maturity	2 percent
(iii)	Three years but less than five years to maturity	3 percent
(iv)	Five years but less than ten years to maturity	4 percent
(v)	Ten years but less than twenty years to maturity	5 percent
(vi)	Twenty years or more to maturity	6 percent

/01 Highly Rated Foreign Sovereign Debt Securities

The use of a maturing obligation, other than United States Treasury bills, to reduce the margin requirement of a new obligation also applies to highly rated foreign sovereign debt securities.

/02 Net Positions

The terms net “long” or net “short” positions mean positions in the same issue of the same security.

Notwithstanding the above, on zero coupon bonds with five years or more to maturity the margin to be maintained shall not be less than 3 percent of the principal amount of the obligation. When such obligations other than United States Treasury bills are due to mature in 30 calendar days or less, a member, at its discretion, may permit the customer to substitute another such obligation for the maturing obligation and use the margin held on the maturing obligation to reduce the margin required on the new obligation, provided the customer has given the member irrevocable instructions to redeem the maturing obligation.

/03 Time to Maturity

Requirements under paragraph (e)(2)(A) are based on the remaining life of the bond until maturity, not on the bond’s nominal life from

FINRA Rule 4210(e)(2)(A)/03

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)(A) Obligations of the United States and Highly Rated Foreign Sovereign Debt Securities (Continued)

issuance date to maturity date. Thus, a thirty year bond with only eight (8) years to maturity would require margin of 4%.

/04 International Bank for Reconstruction and Development

Obligations of the International Bank for Reconstruction and Development are treated as obligations of the United States Government. Customer positions in these obligations may be margined in accordance with the requirements of paragraph (e)(2).

/05 Federal National Mortgage Association (FNMA)

All securities issued by FNMA are deemed to be exempted securities. See Rule 4210(b)/04 for special initial margin requirements on FNMA common stock and convertible debentures.

/06 U.S. Government Bond Dealers

Recognized U.S. Government bond dealers may extend credit, under this Rule, to any customer on a mutually agreed upon basis on U.S. Government securities, provided that, if the margin requirements are lower than the proprietary haircut deductions under the uniform net capital rule (SEA Rule 15c3-1, paragraph (c)(2)(vi)(A), Securities Haircuts, Government Securities) a deduction in computing net capital will be made to the extent that the equity in a customer's account is less than such haircuts.

Recognized dealers are those U.S. Government Securities dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York.

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)**(B) All Other Exempted Securities**

On any 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.

/01 Reverse Repurchase Agreements

Reverse repurchase agreements in exempted securities shall be maintained in a special account subject to the provisions of paragraphs (e)(2)(A) and (e)(2)(B) of this Rule.

/02 Mortgage-Related Securities

For the purpose of this Rule, cash transactions and reverse-repurchase transactions in mortgage-related securities as defined in Section 3(a)(41) of the Exchange Act may be afforded the same treatment as exempted securities under paragraphs (e)(2)(A) or (e)(2)(B) of this Rule.

(C) Non-Equity Securities

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

/01 Non-Marginable Bonds

Non-convertible corporate debt securities that are not listed or traded on a registered national securities exchange or do not qualify as other marginable non-equity securities as defined in Rule 4210(a)(16) are deemed non-marginable securities and not eligible for the lower margin requirements permitted in this paragraph of the Rule. These bonds must be margined in accordance with Rule 4210(c).

FINRA Rule 4210(e)(2)(C)(ii)/01

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)**(D) Baskets**

Notwithstanding the other provisions of this Rule, a member may clear and carry basket transactions of one or more members registered as market makers (who are deemed specialists for purposes of Section 7 of the Exchange Act pursuant to the rules of a national securities exchange) upon a margin basis satisfactory to the concerned parties, provided all real and potential risks in accounts carried under such arrangements are at all times adequately covered by the margin maintained in the account or, in the absence thereof, by the carrying member when computing excess net capital under SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a).

(The next page is 43)

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)**(E) Special Provisions**

Notwithstanding the foregoing in this paragraph (e)(2):

(i) A member may, at its discretion, permit the use of accrued interest as an offset to the maintenance margin required to be maintained; and

(ii) FINRA, upon written application, may permit lower margin requirements on a case-by-case basis.

/01 Accrued Interest

Members may only use accrued interest to reduce or eliminate a maintenance call that has been created pursuant to this Rule. Accrued interest may not be considered as part of the price of a bond nor used in determining or computing equity in an account.

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

On any 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, FINRA Rule 4110(a), subject to the limits provided in paragraph (e)(2)(H) below.

/01 Government National Mortgage Association (GNMA)

All GNMA cash transactions for customers and non-customers are subject to the provisions of this paragraph of the Rule. Cash transactions in GNMA’s may include transactions in TBAs (to be announced) and standbys. TBAs are delayed delivery and “when issued” type transactions in GNMA’s. Generally, GNMA pool numbers are not announced or assigned to these transactions on trade date. Standby commitments represent the equivalent of a short put position

FINRA Rule 4210(e)(2)(F)/01

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)(F) Transactions with Exempt Accounts Involving Certain “Good Faith” Securities (Continued)

in a customer account, which gives the member the right to deliver to the customer against payment a specific amount of GNMA's on a specified date.

Unrealized profits in one GNMA transaction may offset any loss from another GNMA transaction in the same customer account and the amount of net unrealized profits may be used to reduce requirements. Only profits (in-the-money amounts), if any, on long standbys are recognized.

/02 Exempt Accounts for GNMA's

Exempt accounts in addition to those provided in this paragraph of the Rule and those established under Interpretation /01 above may include (a) all independently audited entities with both more than \$1.5 million of net current assets (which may include in the case of mortgage bankers a 3/4 of 1% maximum allowance on loan servicing portfolios) and with more than \$1.5 million of net worth and (b) GNMA brokers that act only as agents where the members independently confirm, at least monthly, that such GNMA brokers are acting for accounts qualified above or which are otherwise exempt accounts. In evaluating loan servicing portfolios, the generalized 3/4 of 1% allowance is not necessarily appropriate. It is suggested that consideration be given to such factors as: the loan balance, servicing fee, remaining life of the loan, probability of loan survival, delinquency rate, geographic relationships, cost of foreclosure and servicing costs.

/03 Establishing Risk Limits for GNMA's

In lieu of deducting from original capital 100% of any marked to the market losses in exempt accounts and having to obtain margin as well as any marked to the market losses from non-exempt mortgage bankers' accounts, members may make a determination in writing of a risk limit for each such exempt account and non-exempt mortgage banker's account.

FINRA Rule 4210(e)(2)(F)/03

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)(F) Transactions with Exempt Accounts Involving Certain "Good Faith" Securities (Continued)

The limit amount for any one account or a group of commonly controlled accounts cannot exceed 5% of the member's tentative net capital. The risk limit determination shall be made by a qualified credit/risk executive or credit/risk committee of executives, taking into consideration the member's excess net capital and each customer's net current or tangible assets. The member shall establish various levels of credit limits which are to be authorized in writing by appropriate management credit/risk executives or credit/risk committees depending upon credit levels. Supervisory personnel shall review the activity and status of accounts of customers, as frequently as circumstances warrant but in any event at least quarterly. Members shall also (1) assure themselves that persons entering orders and issuing instructions with respect to customer accounts are authorized to do so and (2) institute procedures to obtain prompt written confirmation of trades.

/04 Exempt Account Requirements for GNMA Transactions

Exempt accounts shall not be required to put up margin or any marked to the market losses on their exempt GNMA transactions, i.e., those within their established risk limits. However, a member shall charge its capital for any marked to the market losses not collected as follows:

	<u>Period to Contract Maturity or Delivery Date from Trade Date</u>	<u>Capital Charge Percentage of Marked to the Market Deficits</u>
(a) TBAs	0 to 120 days*	10%
	121 days to 1 1/2 years	25%
	Over 1 1/2 years	100%
(b) Standbys	0 to 1 year	15%
	Over 1 year to 2 years	25%
	Over 2 years	100%

FINRA Rule 4210(e)(2)(F)/04

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)(F) Transactions with Exempt Accounts Involving Certain “Good Faith” Securities (Continued)

See Interpretation /07 below for possible additional capital charges relating to concentration.

Any transactions in excess of the established risk limit shall be treated as though they were carried for non-exempt accounts subject to the requirements of Interpretation /05 below except that cash margin deficiencies need not be collected.

See Exhibit I below.

* The TBA category 0 to 120 days may include all transactions which provide for a settlement date no later than the last day of the calendar month in which the 120th day after trade date falls.

/05 GNMAs --- Non-Exempt Accounts Other Than Mortgage Bankers

In non-exempt accounts of other than mortgage bankers, TBA or standby transactions are subject to a 5% margin requirement and any marked to the market loss, which must be obtained. Any cash margin deficiencies based upon such requirements are to be deducted in the computation of net capital after five (5) business days from the date they arise, until collected. However, on those TBA transactions with delivery dates or contract maturity dates 120 days* or less from trade date, no margin or marked to the market losses need be obtained, provided 100% of any marked to the market losses are deducted by the member in computing net capital.

See Exhibit I below.

*The TBA category 0 to 120 days may include all transactions which provide for a settlement date no later than the last day of the calendar month in which the 120th day after trade date falls.

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)(F) Transactions with Exempt Accounts Involving Certain "Good Faith" Securities (Continued)/06 GNMAs --- Non Exempt Mortgage Bankers' Accounts

Non-exempt mortgage bankers' accounts shall not be required to put up margin or marks-to-market on their GNMA transactions, within their established risk limits. However, members shall charge their capital for any marked to the market losses deficits not collected as follows:

	<u>Period to Contract Maturity or Delivery Date from Trade Date</u>	<u>Capital Charge Percentage of Marked to the Market Deficits</u>
(a) TBAs	0 to 120 day*	25%
	121 days to 1 1/2 years	50%
	Over 1 1/2 years	100%
(b) Standbys	All transactions	100%

*The TBA category 0 to 120 days may include all transactions which provide for a settlement date no later than the last day of the calendar month in which the 120th day after trade date falls.

See Interpretation /07 below for possible additional capital charges relating to concentration.

Any transactions in excess of the established risk limit shall be treated as though they were being carried for non exempt accounts subject to the requirements of Interpretation /05 above except that cash margin deficiencies need not be collected. See Exhibit I below

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)(F) Transactions with Exempt Accounts Involving Certain “Good Faith” Securities (Continued)/07 GNMAs --- Concentration Risk Provision

With respect to transactions up to the risk limit, a marked to the market loss in any one account or combined group of commonly controlled exempt accounts or non-exempt mortgage banker's account shall be charged to capital to the extent it exceeds 5% of the member's tentative net capital, although the total deduction shall not exceed 100% of the loss. In addition, if the total marked to the market losses in all accounts, less the amount of such losses deducted in computing net capital exceeds tentative net capital, then 50% of such excess shall be deducted in computing net capital.

/08 GNMAs --- Conversion or Exercise of Standbys

In computing the capital charges under these Interpretations /01 through /08, the trade date and capital charge percentage for TBAs which have been sold to a customer under the terms of a standby agreement shall be the same as the original trade date and capital charge percentage for the standby contract in the account of the writer. As an example, if an exempt account entered into a thirteen (13) month standby contract to purchase GNMAs and the holder of the standby contract exercises his or her option to sell after twelve (12) months has elapsed, thus selling to the exempt account TBAs with less than 120 days to maturity, the member must still charge its capital (for uncollected marked to the market losses) on the basis of the original standby contract (25%) and not on the basis of a “new” TBA transaction (10%).

EXHIBIT I

G.N.M.ATreatment of Customers' Transactions
Under Rule 4210(e)(2)(F)Type of AccountType of Transaction

Period to Contract Maturity or
Delivery Date from Trade Date

	TBAs			Standbys		
	0 to 120 Days (1)	121 days to 1 1/2 Years	Over 1 1/2 years	0 to 1 year	Over 1 year to 2 years	Over 2 Years
<u>Exempt Account (2)</u>						
5% Margin	No	No	No	No	No	No
Marked to the Market Losses	Yes(3)	Yes(4)	Yes(5)	Yes(6)	Yes(4)	Yes(5)
Capital Charges	Yes(3)	Yes(4)	Yes(5)	Yes(6)	Yes(4)	Yes(5)
<u>Non-Exempt Accounts other than Mortgage Bankers</u>						
5% Margin	No	Yes	Yes	Yes	Yes	Yes
Marked to the Market Losses	Yes(5)	Yes(7)	Yes(7)	Yes(7)	Yes(7)	Yes(7)
Capital Charges	Yes(5)	Yes(7)	Yes(7)	Yes(7)	Yes(7)	Yes(7)
<u>Non-Exempt Mortgage Bankers</u>						
5% Margin	No	No	No	No	No	No
Marked to the Market Losses	Yes(4)	Yes(8)	Yes(5)	Yes(5)	Yes(5)	Yes(5)
Capital Charges	Yes(4)	Yes(8)	Yes(5)	Yes(5)	Yes(5)	Yes(5)

FINRA Rule 4210(e)(2)(F) EXHIBIT I

CODES TO EXHIBIT I

- (1) The category 0 to 120 days may include all transactions which provide for a settlement date no later than the last day of the calendar month in which the 120th day after trade date falls.
- (2) The term “exempt account” means an account as defined under paragraph (a)(13) of this Rule.

On GNMA transactions only, exempt accounts may include all independently audited entities with both more than \$1.5 million of net current assets (which may include in the case of mortgage bankers a 3/4 of 1% maximum allowance on loan servicing portfolios) and with more than \$1.5 million of net worth. In addition, GNMA transactions with GNMA brokers that act only as agents may be treated as “exempt account” transactions if the member independently confirms at least monthly that such GNMA brokers are acting for accounts qualified as “exempt accounts.”

- (3) Marked-to-the-market losses need not be collected. However, the member must deduct from net capital the amount by which 10% of the loss, plus the amount of the losses in each account or accounts controlled by such persons, exceeds 5% of tentative net capital.

The member must deduct from net capital any marked-to-the-market loss, plus the margin on those transactions that exceed the established risk limit for an account or a group of commonly controlled accounts. In addition, if the total marked-to-the-market losses in all accounts, less the amount of such losses deducted in computing net capital, exceeds tentative net capital, then 50% of such excess shall be deducted in computing net capital.

- (4) Same as (3) above, except substitute 25% for 10%.
- (5) These marked-to-the-market losses need not be collected. However, the member must deduct from net capital an amount equal to 100% of the loss.
- (6) Same as (3) above, except substitute 15% for 10%.
- (7) Margin and marked-to-the-market losses must be collected. In addition, such margin and marked-to-the-market losses are to be deducted in computing net capital by the member under the SEC’s and FINRA’s capital requirements, after five (5) business days from the date they arise, until collected.
- (8) Same as (3) above, except substitute 50% for 10%.

(The next page is 56)

FINRA Rule 4210(e)(2)(F) EXHIBIT I

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(2) Exempted Securities, Non-equity Securities and Baskets (Continued)**(G) Transactions With Exempt Accounts Involving Highly Rated Foreign Sovereign Debt Securities and Investment Grade Debt Securities**

On any 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, FINRA Rule 4110(a), subject to the limits provided in paragraph (e)(2)(H) below.

(H) Limits on Net Capital Deductions for Exempt Accounts

(i) Members shall maintain a written risk analysis methodology for assessing the amount of credit extended to exempt accounts pursuant to paragraphs (e)(2)(F) and (e)(2)(G) which shall be made available to FINRA upon request.

(ii) In the event that the net capital deductions taken by a member as a result of marked to the market losses incurred under paragraphs (e)(2)(F) and (e)(2)(G) (exclusive of the percentage requirements established thereunder) exceed:

a. on any one account or group of commonly controlled accounts, 5 percent of the member’s tentative net capital (as such term is defined in SEA Rule 15c3-1), or

b. on all accounts combined, 25 percent of the member’s tentative net capital (as such term is defined in SEA Rule 15c3-1), and, such excess exists on the fifth business day after it was incurred, the member shall give prompt written notice to FINRA and shall not enter into any new transaction(s) subject to the provisions of paragraph (e)(2)(F) or (e)(2)(G) that would result in an increase in the amount of such excess under, as applicable, this subparagraph (ii).

FINRA Rule 4210(e)(3)(H)(ii)

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)**(3) Joint Accounts in Which the Carrying Member or a Partner or Stockholder Therein Has an Interest**

In the case of a joint account carried by a member in which such member, or any partner, or stockholder (other than a holder of freely transferable stock only) of such member participates with others, each participant other than the carrying member shall maintain an equity with respect to such interest pursuant to the margin provisions of this paragraph as if such interest were in a separate account.

Pursuant to the Rule 9600 Series, FINRA may grant an exemption from the provisions of this paragraph (e)(3), if the account is confined exclusively to transactions and positions in exempted securities.

In the case of an account conforming to the conditions described in this paragraph (e)(3), the exemption application must also include the following information as of the date of the request:

(A) complete description of the security;

(B) cost price, offering price and principal amount of obligations which have been purchased or may be required to be purchased;

(C) date on which the security is to be purchased or on which there will be a contingent commitment to purchase the security;

(D) approximate aggregate indebtedness;

(E) approximate net capital; and

(F) approximate total market value of all readily marketable securities (i) exempted and (ii) non-exempted, held in member accounts, partners' capital accounts, partners' individual accounts covered by approved agreements providing for their inclusion as partnership property, accounts covered by subordination agreements approved by FINRA and customers' accounts in deficit.

/01 Associated Person Participation(a) Sharing in Profits

If any associated person as part of his or her compensation is participating in only the profits in a member account, such an

FINRA Rule 4210(e)(3)(F)/01

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(3) Joint Accounts in Which the Carrying Member or a Partner or Stockholder Therein Has an Interest (Continued)

account would be deemed a proprietary account. FINRA has no objection to such arrangements, provided the associated person's participation is recorded as a salary or bonus incentive or in another similar manner. FINRA permission is not required for such arrangements.

(b) Sharing in Losses

FINRA does not prohibit an associated person from sharing in the losses of member accounts. However, it should be understood that in such instances the member is extending or maintaining credit on the associated person's behalf. Thus, such an account would represent a "joint venture" between the associated person and the member. Therefore the percentage of the account in which the associated person is a participant is considered a customer account, and shall be margined accordingly under this Rule. This also applies to general partners' personal accounts. The remaining percentage of the account will still be considered a proprietary account.

(c) Compliance with Rule 2150

A member should be aware of its obligations under Rule 2150 when sharing in accounts with associated persons of the member who are also customers of the member.

(4) International Arbitrage Accounts

International arbitrage accounts for non-member foreign brokers or dealers who are members of a foreign securities exchange shall not be subject to this Rule. The amount of any deficiency between the equity in such an account and the margin required by the other provisions of this Rule shall be charged against the member's net capital when computing net capital under SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a).

(5) Specialists' and Market Makers' Accounts

(A) A member may carry the account of an "approved specialist" or "approved market maker," which account is limited to specialist or market making transactions,

FINRA Rule 4210(e)(5)(A)

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(5) Specialists' and Market Makers' Accounts (Continued)

upon a margin basis which is satisfactory to both parties. The amount of any deficiency between the equity in the account and the haircut requirements pursuant to SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a), shall be charged against the member's net capital when computing net capital under SEA Rule 15c3-1 and FINRA Rule 4110(a). However, when computing charges against net capital for transactions in securities covered by paragraphs (e)(2)(F) and (e)(2)(G) of this Rule, absent a greater haircut requirement that may have been imposed on such securities pursuant to FINRA Rule 4110(a), the respective requirements of those paragraphs may be used, rather than the haircut requirements of SEA Rule 15c3-1.

For the purpose of this paragraph (e)(5)(A), the term "approved specialist" or "approved market maker" means either:

(i) a specialist or market maker, who is deemed a specialist for all purposes under the Exchange Act and who is registered pursuant to the rules of a national securities exchange; or

(ii) an OTC market maker or third market maker, who meets the requirements of Section 220.7(g)(5) of Regulation T.

(B) In the case of a joint account carried by a member in accordance with subparagraph (i) above in which the member participates, the equity maintained in the account by the other participants may be in any amount which is mutually satisfactory. The amount of any deficiency between the equity maintained in the account by the other participants and their proportionate share of the haircut requirements pursuant to SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a), shall be charged against the member's net capital when computing net capital under SEA Rule 15c3-1 and FINRA Rule 4110(a). However, when computing charges against net capital for transactions in securities covered by paragraphs (e)(2)(F) and (e)(2)(G) of this Rule, absent a greater haircut requirement that may have been imposed on such securities pursuant to FINRA Rule 4110(a), the respective requirements of those paragraphs may be used, rather than the haircut requirements of SEA Rule 15c3-1.

/01 Underwritings – Over Allotments

Short sale transactions made by an approved specialist or approved market maker in accordance with a guaranteed over-allotment from an underwriting may be treated as a specialist or market making transaction.

FINRA Rule 4210(e)(5)(B)/01

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)**(6) Broker-Dealer Accounts**

(A) A member may carry the proprietary account of another broker-dealer, which is registered with the SEC, upon a margin basis which is satisfactory to both parties, provided the requirements of Regulation T and SEA Rules 400 through 406 of the Customer Margin Requirements for Security Futures and Rules 41.42 through 41.49 under the CEA are adhered to and the account is not carried in a deficit equity condition. The amount of any deficiency between the equity maintained in the account and the haircut requirements pursuant to SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a), shall be charged against the member's net capital when computing net capital under SEA Rule 15c3-1 and FINRA Rule 4110(a). However, when computing charges against net capital for transactions in securities covered by paragraphs (e)(2)(F) and (e)(2)(G) of this Rule, absent a greater haircut requirement that may have been imposed on such securities pursuant to FINRA Rule 4110(a), the respective requirements of those paragraphs may be used, rather than the haircut requirements of SEA Rule 15c3-1.

/01 Margin Basis

A member may carry the proprietary account of another broker-dealer upon a margin basis which is satisfactory to both parties, provided the requirements are not less than that which is required pursuant to SEA Rule 15c3-1.

(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) A carrying and clearing, or carrying member must:

a. maintain a minimum tentative net capital (as such term is defined in SEA Rule 15c3-1) of \$25 million as computed pursuant to SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a), except that a member whose primary business consists of the clearance of options market-maker accounts may carry JBO accounts provided that it maintains a minimum net capital of \$7 million as computed pursuant to SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a). In addition, the member must include in its ratio of gross options market maker deductions to net capital required by the provisions of SEA Rule 15c3-1 and, if applicable, FINRA Rule

FINRA Rule 4210(e)(6)(B)(i)

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(6) Broker-Dealer Accounts (Continued)(B) Joint Back Office Arrangements (Continued)

4110(a), gross deductions for JBO participant accounts. Clearance of option market maker accounts shall be deemed a broker-dealer's primary business if a minimum of 60 percent of the aggregate deductions in the above ratio are options market maker deductions. In the event that a carrying and clearing, or a carrying member's tentative net capital (as such term is defined in SEA Rule 15c3-1), or net capital, respectively, has fallen below the above requirements, the firm shall: 1. promptly notify FINRA in writing of such deficiency, 2. take appropriate action to resolve such deficiency within three consecutive business days, or not permit any new transactions to be entered into pursuant to the JBO arrangement;

b. maintain a written risk analysis methodology for assessing the amount of credit extended to participating broker-dealers which shall be made available to FINRA on request; and

c. deduct from net capital haircut requirements pursuant to SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a) amounts in excess of the equity maintained in the accounts of participating broker-dealers. However, when computing charges against net capital for transactions in securities covered by paragraphs (e)(2)(F) and (e)(2)(G) of this Rule, absent a greater haircut requirement that may have been imposed on such securities pursuant to FINRA Rule 4110(a), the respective requirements of those paragraphs may be used, rather than the haircut requirements of SEA Rule 15c3-1.

(ii) A participating broker-dealer must:

a. be a registered broker-dealer subject to the SEC's net capital requirements and, if applicable, FINRA Rule 4110(a);

b. maintain an ownership interest in the carrying/clearing member pursuant to Regulation T of the Federal Reserve Board, Section 220.7; and

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

FINRA Rule 4210(e)(6)(B)(ii)

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(6) Broker-Dealer Accounts (Continued)(B) Joint Back Office Arrangements (Continued)

an 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) Non-purpose Credit

In a non-securities credit account, a member may extend and maintain non-purpose credit to or for any customer without collateral or on any collateral whatever, provided:

(A) the account is recorded separately and confined to the transactions and relations specifically authorized by Regulation T;

(B) the account is not used in any way for the purpose of evading or circumventing any regulation of FINRA or of the Board of Governors of the Federal Reserve System and SEA Rules 400 through 406 of the Customer Margin Requirements for Security Futures and Rules 41.42 through 41.49 under the CEA; and

(C) the amount of any deficiency between the equity in the account and the margin required by the other provisions of this Rule shall be charged against the member's net capital as provided in SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a).

The term "non-purpose credit" means an extension of credit other than "purpose credit" as defined in Section 220.2 of Regulation T.

/01 Sinking Fund Transactions

When a member purchases a security for its own account and sells it on a delayed delivery basis to the issuer for sinking fund requirement purposes and such transaction qualifies under Regulation T for non-purpose credit and credit under an employee stock ownership plan, the margin treatment afforded such sinking fund transaction may be as follows:

FINRA Rule 4210(e)(7)(C)/01

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(7) Non-purpose Credit (Continued)

- If 30 calendar days or less to delivery, the transaction may be exempt from margin requirements but any marked to the market loss which is not obtained must be deducted in computing net capital. (See SEA Rule 15c3-1(c)(2)(xii)).
- If over 30 calendar days to delivery, the transaction may be exempt from margin requirements of this Rule and instead treated as an open proprietary contractual commitment subject to the requirements of SEA Rule 15c3-1 subparagraphs (c)(2)(vi) and (c)(2)(viii). Such treatment, however, should not result in a duplication of deductions under the capital requirements rule.

For sinking fund transactions that do not qualify for this type of treatment, see Rule 4210(c)/06.

/02 Unsecured Loans

Unsecured loans are to be charged to net capital in their entirety.

/03 Nonpurpose Loans Collateralized by Certificates of Deposit

Nonpurpose loans collateralized by negotiable certificates of deposit need not be charged to net capital in their entirety if certain conditions are satisfied. (See Interpretations to SEA Rule 15c3-1(c)(2)(iv)(B)/10).

(The next page is 69)

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)**(8) Shelf-Registered and Other Control and Restricted Securities**/01 Adherence to Securities Act Rules 144 and 145(d)

Members are cautioned to take appropriate steps to ensure that the provisions and conditions of Securities Act Rules 144 and 145(d) have been and are adhered to before extending credit on shelf-registered, and other control and restricted securities.

It should be noted that Securities Act Rule 145(d) is not entirely independent, and is partially dependent upon many of the provisions of Securities Act Rule 144 (e.g., subparagraphs (c), (d), (e), (f) and (g)). Securities Rule 144 seeks to set forth objective standards intended to confirm that a securities transaction should not be treated as involving a “distribution,” including by:

- Ensuring the availability of adequate current public information about the issuer and distinguishing between regularly reporting and non-reporting companies [See Securities Act Rule 144(c)];
- Placing the unconditional economic risk of the investment upon the purchaser (and preventing conduit sales on behalf of the issuer) by requiring that “restricted securities” be fully paid (from the perspective of the issuer) and held by the purchaser for a minimum holding period [See Securities Act Rule 144(d)];
- Predetermining the market impact of the transaction (in order to avert distributions) by limiting the amount of securities which may be sold by affiliates of the issuer (based upon such predicates as trading volume and number of shares outstanding.) [See Securities Act Rule 144(e)], by generally proscribing solicited buy orders and the payment of special compensation [See Securities Act Rule 144(f)] and by mandating that the sale be effected as an ordinary unsolicited brokerage or riskless principal transaction or directly with a “market maker” [See Securities Act Rule 144(f) and (g)]; an
- Building into the rule certain safeguards such as imposing upon the selling broker steps of “reasonable inquiry” [See Securities Act Rule 144(g)] and by generally requiring the filing of a notice of proposed sale [See Securities Act Rule 144(h)].

FINRA Rule 4210(e)(8)/01

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)

Members are advised to pay particular attention to the varying resale limitations (e.g., trading volume), whether the issuer's filings are current, the tacking and aggregation provisions (including the concepts of "person" and "acting in concert") and to consider requesting a letter containing an irrevocable power to sign Form 144 in the name of and on behalf of the customer or obtaining a Form 144 signed in blank. In either event, it would be necessary to establish a means by which the information required by Form 144 would be continuously updated by the customer. Special inquiry may be advisable where a number of pledgers of the same security ("x") all use the proceeds of their loans to purchase another security ("y").

Failure to take appropriate precautions and institute relevant procedures may result in violations of both the Securities Act, as well as Rule 4210.

/02 Securities Act Rule 144

Generally, Securities Act Rule 144 provides that any affiliate of the issuer or other person who sells restricted securities of an issuer for his or her account, or any person who sells restricted or any other securities for the account of an affiliate of the issuer, is not deemed to be engaged in a distribution of the securities, and therefore is not an underwriter as defined in Section 2(a)(11) of the Securities Act, if the securities are sold in accordance with all the terms and conditions of Securities Act Rule 144.

/03 Securities Act Rule 145

Securities Act Rule 145(a) provides that exchange of securities in connection with reclassifications, mergers, consolidations or transfers of assets subject to shareholder vote or consent constitute sales of those securities.

/04 Securities Act Rule 145 (Continued)

Securities Act Rule 145 provides that where a party to a Securities Act Rule 145(a) transaction, other than the issuer, is a shell company (other than a business combination related shell company, as those terms are defined in Securities Act Rule 405), the party and its affiliates will be deemed to be underwriters, but generally will not be deemed to be engaged in a

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)

distribution to the extent certain resale requirements of Securities Act Rule 144 are satisfied.

/05 Application of Securities Act Rule 144

Whenever credit is extended under Rule 4210 for control or restricted securities, this Rule presupposes that the member has recourse to the customer upon default pursuant to the signed margin agreement; that credit has been granted to the public customer in the bona fide expectation of repayment on the basis of such customer's general credit worthiness; and that such securities are sold only upon default of the margin loan.

(A) Shelf-Registered Securities — The equity to be maintained in margin accounts of customers for securities which are the subject of a current and effective registration for a continuous or delayed offering (shelf-registered securities) shall be at least the amount of margin required by paragraph (c) of this Rule, provided the member:

(i) obtains a current prospectus in effect with the SEC, meeting the requirements of Section 10 of the Securities Act, covering such securities;

(ii) has no reason to believe the Registration Statement is not in effect or that the issuer has been delinquent in filing such periodic reports as may be required of it with the SEC and is satisfied that such registration will be kept in effect and that the prospectus will be maintained on a current basis; and

(iii) retains a copy of such Registration Statement, including the prospectus, in an easily accessible place in its files. Shelf-registered securities which do not meet all the conditions prescribed above shall have no value for purposes of this Rule. Also see subparagraph (C) below.

/01 Shelf-Registered Securities

Shelf-registered securities are securities registered for continuous or delayed offering pursuant to Securities Act Rule 415.

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(A) Shelf-Registered Securities (Continued)/02 Mortgage Related Securities

Mortgage related securities as defined in Section 3(a)(41) of the Exchange Act that are subject to a continuous or delayed offering, may be carried on a margin basis subject to paragraphs (e)(2)(C), (e)(2)(F), or (e)(2)(G) of this Rule. Therefore, this paragraph (e)(8)(A) does not apply.

/03 Net Capital Charges

Shelf-registered securities that meet all of the conditions prescribed in paragraph (e)(8)(A) need not be included in the calculation of excess net capital and net capital deductions required by paragraphs (e)(8)(C) and (D).

/04 Example – Net Capital Charge

A new customer deposits shelf-registered securities with a market value of \$100,000 and in accordance with Regulation T (50% loan value) makes a \$50,000 withdrawal. All of the conditions in Rule 4210(e)(8)(A) are met. If at a future date, the market value of the securities depreciated to \$60,000, additional margin required from the customer would be \$5,000, computed as follows:

\$60,000	Current Market Value
<u>50,000</u>	Debit balance
10,000	Equity
<u>15,000</u>	Maintenance requirement (25% pursuant to Rule 4210(c)(1))
\$5,000	Additional margin which must be collected under Rule 4210(c)(1) and (e)(8)(A).

Assuming no change in value, the \$5,000 cash margin deficiency is a deduction in computing net capital under the SEC's and FINRA's capital requirements, five (5) business

FINRA Rule 4210(e)(8)(A)(iii)/04

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(A) Shelf-Registered Securities (Continued)

days after the date it arises, until collected. (See SEA Rule 15c3-1(c)(2)(xii))

(B) Other Control and Restricted Securities — Except as provided in subparagraph (D) below, the equity in accounts of customers for other control and restricted securities of issuers that are subject to Securities Act Rule 144 or 145(c), shall be 40 percent of the current market value of such securities “long” in the account, provided the member:

(i) in computing net capital under SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a), deducts any margin deficiencies in customers’ accounts based upon a margin requirement as specified in subparagraph (C)(iv) below for such securities and values only that amount of such securities which are then saleable under Securities Act Rule 144(b)(2) or 145(d)(2)(i) in conformity with all of the applicable terms and conditions thereof, for purposes of determining such deficiencies;

/01 “Saleable” — (Rescinded, RN 20-22, July 2020)

/011 “Saleable”

The term “saleable,” as used in this paragraph (e)(8)(B)(i) and in paragraphs (e)(8)(D)(i) and (ii), refers to those specified and quantifiable securities where all the terms and conditions of Securities Act Rule 144 have been completely satisfied, including any applicable holding period, and thus are immediately saleable pursuant to Securities Act Rules 144 and 145(d) by the member without restriction in the event the customer fails to meet a margin call or otherwise defaults.

RN 20-22 (July 2020)

(ii) makes volume computations necessary to determine the amount of securities then saleable under Securities Act Rule 144(b)(2) or 145(d)(2)(i) on a weekly basis or at such frequency as the member and/or FINRA may deem appropriate under the circumstances. See also subparagraph (C) below.

/01 Reduction of Marginable Shares for Margin and Capital Charge Computations

Members may wish to consider, where practicable, a requirement that customers deposit with them all control or restricted securities of the class on which credit is being

FINRA Rule 4210(e)(8)(B)(ii)/01

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(B) Other Control and Restricted Securities (Continued)

extended. Absent this arrangement, members must receive a written statement from customers attesting to the total amount of control or restricted shares that are owned and the amount of shares, if any, that are held away, including the aggregate number of shares held by persons acting in concert. To the extent that members can determine the amount of shares that are held away, the amount of shares considered saleable for the capital charge computation must be reduced by the amount of shares that are held away. If a written statement is not provided, members must consider all the shares held in their possession as not saleable. Members should consider any capital charge implications and imposing higher maintenance requirements pursuant to paragraph (f)(1) of this Rule, before extending credit.

Example:

Customer's total restricted shares: 1,000,000
 Amount of shares saleable: 600,000
 Shares held at broker-dealer A: 700,000
 Shares held at broker-dealer B: 300,000

The customer has provided written statements to broker-dealers A and B.

Reduction Calculation:

Broker-dealer A
 Total shares that can be margined: 700,000
 Total amount of saleable shares for capital charge computation: $700,000 - 300,000 = 400,000$

Broker-dealer B
 Total shares that can be margined: 300,000
 Total amount of saleable shares for capital charge computation: $300,000 - 700,000 = -400,000$ or 0 shares

FINRA Rule 4210(e)(8)(B)(ii)/01

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(B) Other Control and Restricted Securities (Continued)/02 Example of Computations

A customer deposits shares of a restricted security with a broker-dealer with a current market value of \$1,000,000 and, in accordance with Regulation T (50% loan value), makes a \$500,000 withdrawal. If the saleable amount of such securities, under Securities Act Rule 144, has a current market value of \$600,000 and no concentration exists pursuant to paragraph (e)(8)(C)(iv), the “customer margin computation” and “capital charge computation” would be as follows:

“Customer margin computation”

\$1,000,000	Long market value
<u>500,000</u>	Debit balance
500,000	Equity
<u>400,000</u>	40% maintenance requirements (\$1,000,000 x .40)
100,000	Maintenance excess

The account meets the Rule 4210(e)(8)(B) “customer margin computation” requirement.

“Capital charge computation”

\$600,000	Saleable market value
<u>500,000</u>	Debit balance
100,000	Equity based on saleable share market value
<u>150,000</u>	25% requirement for net capital purposes (600,000 x .25)
<u>\$50,000</u>	Amount to be deducted in computing the member’s net capital under SEA Rule 15c3-1 and, if applicable, Rule 4110(a), pursuant to Rule 4210(e)(8)(B)(i) and (C)(iv).

FINRA Rule 4210(e)(8)(B)(ii)/02

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(B) Other Control and Restricted Securities (Continued)

If at a future date, the current market value of the restricted security depreciated to \$800,000, additional margin of \$20,000 would be required from the customer and the “customer margin computation” would be as follows:

“Customer margin computation”

\$800,000	Long market value
<u>500,000</u>	Debit balance
300,000	Equity
<u>320,000</u>	40% maintenance requirement (800,000 x .40)
<u>\$20,000</u>	Margin call which must be met by customer pursuant to Rule 4210(e)(8)(B).

In addition, if on that date the saleable amount of such security under Securities Act Rule 144 had a current market value of only \$400,000, the “capital charge computation” would be as follows:

“Capital charge computation”

\$400,000	Saleable market value
<u>500,000</u>	Debit balance
100,000	Deficit
<u>100,000</u>	25% requirement for net capital purposes (400,000 x .25)
200,000	
Less 20,000	Current outstanding margin call (See SEA Rule 15c3-1(c)(2)(xii)).
<u>\$180,000</u>	Amount to be deducted in computing the member’s net capital under SEA Rule 15c3-1 and, if applicable, Rule 4110(a), pursuant to Rule 4210(e)(8)(B)(i) and (C)(iv).

FINRA Rule 4210(e)(8)(B)(ii)/02

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(B) Other Control and Restricted Securities (Continued)/03 Mortgage Related Securities

Mortgage related securities as defined in Section 3(a)(41) of the Exchange Act that are “restricted securities” may be carried on a margin basis subject to paragraphs (e)(2)(C), (e)(2)(F), or (e)(2)(G) of this Rule. Therefore, this paragraph (e)(8)(B) does not apply.

(C) Additional Requirements on Shelf-Registered Securities and Other Control and Restricted Securities — Except as provided in subparagraph (D) below, a member extending credit on shelf-registered and other control and restricted securities in margin accounts of customers shall be subject to the following additional requirements:

(i) FINRA may at any time require reports from members showing relevant information as to the amount of credit extended on shelf-registered, and other control and restricted securities and the amount, if any, deducted from net capital due to such security positions.

/01 Reporting Requirements

Members are required to report on the monthly FOCUS report when the credit extended on shelf-registered, and other control and restricted securities, exceeds 10% of excess net capital.

(ii) The greater of the aggregate credit agreed to be extended in writing or, the aggregate credit that is actually extended, to all customers on control and restricted securities of any one issue that exceeds 10 percent of the member’s excess net capital shall be deducted from net capital for purposes of determining a member’s status under FINRA Rule 4120. The amount of such aggregate credit extended, which has been deducted in computing net capital under SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a), need not be included in this calculation. FINRA, upon written application, may reduce the deduction to net capital under FINRA Rule 4120 to 25 percent of such aggregate credit extended that exceeds 10 percent but is less than 15 percent of the member’s excess net capital.

FINRA Rule 4210(e)(8)(C)(ii)

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(C) Additional Requirements on Shelf-Registered Securities and Other Control and Restricted Securities (Continued)/01 Limit on Credit Extended

There is no limit to the total amount of credit which may be extended to all customers on control and restricted securities of any one issue. However, if the total credit actually extended or agreed to be extended on any one issue exceeds 10% of excess net capital, then the amount in excess of 10% shall be deducted from net capital in determining the member's status under Rule 4120. For example:

A member's excess net capital is \$10,000,000. A customer deposits \$3,000,000 (current market value) of XYZ securities on which the member agrees to lend \$1,500,000 (Regulation T 50%). The customer withdraws only \$1,000,000. The member must deduct \$500,000 from net capital to determine its status under Rule 4120, computed as follows:

Excess net Capital	\$10,000,000
10% of excess	\$1,000,000
Amount agreed to be extended	<u>1,500,000</u>
Rule 4120 deduction pursuant to Rule 4210(e)(8)(C)(ii)	<u>\$ 500,000</u>

/02 Time of Calculation

Calculations necessary to determine compliance with paragraph (e)(8)(C)(ii) must be made at the time that credit is agreed to be extended in writing or is actually extended and must include all credit which had previously been extended or agreed to be extended. Each extension of credit impacts the Rule 4120 calculations which could require business reduction.

FINRA Rule 4210(e)(8)(C)(ii)/02

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(C) Additional Requirements on Shelf-Registered Securities and Other Control and Restricted Securities (Continued)

(iii) The aggregate credit extended to all customers on all control and restricted securities (reduced by the amount of such aggregate credit which has been deducted in computing net capital under SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a)), shall be deducted from net capital on the following basis for purposes of determining a member's status under FINRA Rule 4120.

a. To the extent such net amount of credit extended does not exceed 50 percent of a member's excess net capital, 25 percent of such net amount of credit extended shall be deducted, and

b. 100 percent of such net amount of credit extended which exceeds 50 percent of a member's excess net capital shall be deducted.

/01 Aggregate Credit Extended

The aggregate credit extended to each customer for purposes of paragraph (e)(8)(C)(iii) only, shall be determined by the adjusted debit balance, if any, in the customer's account. The adjusted debit balance is determined by subtracting all of the long security positions in the customer's account, other than long control or restricted securities, at their current market values (debit balance minus market value of long securities), and any credit balance, and adding all of the short security positions, at their current market values (debit balance plus market value of short securities), except that no long option positions carried for the customer shall be considered to have any value and the short cover value of any short option positions traded in the over-the-counter market shall be considered as an increase (debit) to the adjusted debit balance for their in-the-money amounts, if any. The short cover value of any short listed option positions shall be their market value. In addition, such adjusted debit balance shall include any marked to the market losses on positions in "when issued" and "when distributed" securities.

Example of Computations – Aggregate Credit Extended

FINRA Rule 4210(e)(8)(C)(iii)/01

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(C) Additional Requirements on Shelf-Registered Securities and Other Control and Restricted Securities (Continued)

A customer deposits 5,000 shares of XYZ, a restricted security, with a market value of \$100,000 (\$20 per share). On the same day, in accordance with Regulation T (50% loan value) the customer sells short 1,000 shares of ABC for \$40,000 and writes (sells) ten listed call options on DEF at \$40 (strike price) at \$500 per option (total premium \$5,000). No funds are withdrawn from the account.

At a later date, the market values have appreciated to \$25 per share for XYZ, \$50 per share for ABC and \$700 per option for DEF. Based on these prices, the total amount of credit extended on the restricted security is \$12,000, which must be included solely for purposes of calculating the amount to be deducted from net capital under paragraph (e)(8)(C)(iii) for purposes of determining the member's status under Rule 4120. The above amount is calculated as follows:

Liquidation of short sale of ABC		
1,000 shares at \$50	\$50,000	
Less proceeds of sale	<u>40,000</u>	
Loss		\$10,000
Short cover value of DEF calls		
10 Calls at \$700	\$7,000	
Less Premium held	<u>5,000</u>	
Loss		2,000
Adjusted debit balance		<u>\$12,000</u>

/02 Limit on Credit Extended

There is no limit to the amount of credit that may be extended to all customers on control and restricted securities of all issuers combined. However, the total credit actually extended (not the amounts agreed to but actually extended) will result in a deduction to net capital in determining the member's

FINRA Rule 4210(e)(8)(C)(iii)/02

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(C) Additional Requirements on Shelf-Registered Securities and Other Control and Restricted Securities (Continued)

status under Rule 4120 based on the formula in paragraph (e)(8)(C)(iii).

Example of FINRA Rule 4120 Deduction

For example, if a member's excess net capital is \$2,000,000 and aggregate credit extended to all customers on control and restricted securities totals \$1,000,000. The charge to net capital for determining the member's status under Rule 4120 would be \$250,000, computed as follows:

Excess net capital	\$2,000,000
50% limit on excess net capital	1,000,000
Aggregate credit extended	<u>\$1,000,000</u>
Charge to Rule 4120 of 25% as aggregate credit extended does not exceed limit on excess net capital	<u>\$ 250,000</u>

If in the above example, the member's excess net capital was \$1,600,000, the charge to net capital under Rule 4120 would be \$400,000, computed as follows:

Excess net capital	\$1,600,000
50% limit on excess net capital	800,000
Aggregate credit extended	<u>\$1,000,000</u>
Charge to Rule 4120 25% of amount up to 50% (\$800,000) of excess net capital	\$ 200,000
100% of amount exceeding 50% of excess net capital (\$1,000,000 - \$800,000)	<u>200,000</u>
Total Charge	<u>\$ 400,000</u>

FINRA Rule 4210(e)(8)(C)(iii)/02

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(C) Additional Requirements on Shelf-Registered Securities and Other Control and Restricted Securities (Continued)

(iv) Concentration Reduction. A concentration exists whenever the aggregate position in control and restricted securities of any one issue, excluding excess securities (as defined below), exceeds:

- a. 10 percent of the outstanding shares of such issue or
- b. 100 percent of the average weekly volume for such issue during the preceding three-month period.

Where a concentration exists, for purposes of computing subparagraph (B)(i) above, the margin requirement on such securities shall be, based on the greater of subparagraph (iv) a. or b., above, as specified below:

Percent of Outstanding Shares	or Percent of Average Weekly Volume	Margin Requirement
Up to 10 percent	Up to 100 percent	25 percent
Over 10 percent and under 15 percent	Over 100 percent and under 200 percent	30 percent
15 percent and under 20 percent	200 percent and under 300 percent	45 percent
20 percent and under 25 percent	300 percent and under 400 percent	60 percent
25 percent and under 30 percent	400 percent and under 500 percent	75 percent
30 percent and above	500 percent and above	100 percent

FINRA Rule 4210(e)(8)(C)(iv)

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(C) Additional Requirements on Shelf-Registered Securities and Other Control and Restricted Securities (Continued)

For purposes of this paragraph (e)(8)(C)(iv), “excess securities” shall mean the amount of securities, if any, by which the aggregate position in control and restricted securities of any one issue exceeds the aggregate amount of securities that would be required to support the aggregate credit extended on such control and restricted securities if the applicable margin requirement were 50 percent.

/01 Securities Subject to Concentration Formula

Only control and restricted securities are to be considered in determining when a concentration exists. Shelf-registered securities are not subject to the concentration formula. Other securities of the same issuer, or securities of other issuers held in the customer’s account, are not subject to the concentration formula.

/02 Example of Concentration Computation

For example, if the customer’s position in the example under paragraph (e)(8)(B)(ii)/02 above represented 11% of the outstanding shares, thereby subjecting the position to a concentration reduction. The “customer’s margin computation” would be unchanged, but the “capital charge computation” would be as follows:

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(C) Additional Requirements on Shelf-Registered Securities and Other Control and Restricted Securities (Continued)

At the time the control securities were deposited with a current market value of \$1,000,000:

“Capital charge computation”

\$ 600,000	Saleable value
<u>500,000</u>	Debit
100,000	Equity
180,000	30% requirement for net capital purposes pursuant to concentration reduction.
<u>\$ 80,000</u>	Amount to be deducted in computing the member’s net capital under SEA Rule 15c3-1 and, if applicable, Rule 4110(a), pursuant to Rule 4210(e)(8)(B)(i) and (C)(iv).

When the restricted securities depreciated in value to \$800,000:

“Capital charge computation”

\$520,000	Saleable value
<u>500,000</u>	Debit
20,000	Equity
<u>156,000</u>	30% requirement for net capital purposes pursuant to concentration reduction.
\$136,000	
Less <u>20,000</u>	Current outstanding margin call (See SEA Rule 15c3-1(c)(2)(xii))
\$116,000	Amount to be deducted in computing the member’s net capital under SEA Rule 15c3-1 and, if applicable, Rule 4110(a), pursuant to Rule 4210(e)(8)(B)(i) and (C)(iv)

(v) The amount to be deducted from net capital for purposes of determining a member’s status under FINRA Rule 4120, pursuant to paragraph

FINRA Rule 4210(e)(8)(C)(v)

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(C) Additional Requirements on Shelf-Registered Securities and Other Control and Restricted Securities (Continued)

(e)(8)(C) shall not exceed 100 percent of the aggregate credit extended reduced by any amount deducted in computing net capital under SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a).

(D) Certain Restricted Securities — Securities either:

- (i) then saleable pursuant to the terms and conditions of Securities Act Rule 144(b)(1), or
- (ii) then saleable pursuant to the terms and conditions of Securities Act Rule 145(d)(2), shall not be subject to the provisions of paragraph (e)(8) of this Rule.

/01 Non-Affiliate Exemption — (Rescinded, RN 20-22, July 2020)/011 Scope of Exemption

Paragraph (e)(8)(D) exempts from Rule 4210(e)(8) all securities that the member could sell immediately without restriction in the event the customer fails to meet a margin call or otherwise defaults, regardless of whether the customer is an affiliate or non-affiliate. For example, SEC Division of Corporate Finance's Compliance and Disclosure Interpretation (CD&I) 532.01 provides:

A pledgor who is an affiliate defaults on a loan that is secured, either with or without recourse, by a bona fide pledge of company stock acquired in the open market (i.e., these securities are not "restricted securities" in the pledgor's hands). In the pledgee's hands, these securities are "restricted securities" because they have been "acquired directly or indirectly from the issuer, or from an affiliate of the issuer, in a transaction or chain of transactions not involving any public offering." If the pledgee is a non-affiliate and has not been an affiliate during the preceding three months, the pledgee may resell such securities pursuant to Rule 144(b)(1) without regard to the holding period requirement in Rule 144(d) but subject to the current public information requirement in Rule 144(c)(1), as applicable. No other requirements in Rule 144 are applicable to the pledgee's resale. [May 16, 2013]

To rely on CD&I 532.01 to treat non-restricted securities deposited in a margin account by an affiliate of their issuer as exempt from Rule

FINRA Rule 4210(e)(8)(D)(ii)/011

4210. Margin Requirements (Continued)(e) Exceptions to Rule (Continued)(8) Shelf-Registered and Other Control and Restricted Securities (Continued)(D) Certain Restricted Securities (Continued)

4210(e)(8)(B), a member must determine that each of the conditions of CD&I 532.01 (including that the securities are the subject of a bona fide pledge) are satisfied and document its basis for that determination.

July 2020 (RN 20-22)

/02 Continuing Requirement for Non-Affiliate Exemption
— (Rescinded, RN 20-22, July 2020)/03 Optional Member Procedures

The provisions of Rule 4210(e)(8)(D) do not restrict members from imposing such higher maintenance requirements as they may deem appropriate. Moreover, members may wish to establish special supervisory procedures to consider the desirability of and to monitor loan transactions entered into pursuant to Rule 4210.

/04 Concentration Evaluation

Any member extending or maintaining credit on any securities exempted from Rule 4210(e)(8) under paragraph (e)(8)(D) is still required by paragraph (f)(1) to require “substantial additional margin” if there is a concentration in those securities (whether in the particular customer’s account, or in all margin accounts carried by the firm) that may not be liquidated promptly due to its size.

July 2020 (RN 20-22)

(The next page is 92)

4210. Margin Requirements (Continued)**(f) Other Provisions****(1) Determination of Value for Margin Purposes**

Active securities dealt in on a national securities exchange shall, for margin purposes, be valued at current market prices provided that, only those options contracts on a stock or stock index, or a stock index warrant, having an expiration that exceeds nine months and that are listed or OTC (as defined in this Rule), may be deemed to have market value for the purposes of this Rule. Other securities shall be valued conservatively in view of current market prices and the amount that might be realized upon liquidation. Substantial additional margin must be required in all cases where the securities carried in “long” or “short” positions are subject to unusually rapid or violent changes in value, or do not have an active market on a national securities exchange, or where the amount carried is such that the position(s) cannot be liquidated promptly.

/01 Concentration or Volatile Securities

Substantial additional margin must be required:

- When there are concentrations in single securities (either in particular accounts or in all margin accounts carried) which, due to their size, may not be liquidated promptly; and
- For accounts with positions in volatile securities subject to unusually rapid or violent changes in value.

Accordingly, steps should be taken to:

- Increase margin requirements when it appears that accumulated positions will be difficult to liquidate promptly; and
- Prevent such positions from being acquired.

/02 Suspended Securities

Securities suspended by the SEC (not those whose trading has been halted or suspended by a self-regulatory organization) that are held in customer's accounts are valued and margined as follows:

- (a) Long positions have no value.

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(1) Determination of Value for Margin Purposes (Continued)

- (b) Short positions are valued at the last known sale price prior to suspension and regular maintenance margin requirements are applied.
- (c) Long and short positions of the same security are paired-off and only the excess position is margined in accordance with (a) or (b) above.
- (d) Long stock versus short warrants representing the same security are treated the same as (c) above.
- (e) Long exchangeable or convertible securities versus equivalent shorts of the underlying security position are treated as follows:
 - (1) there is no maintenance requirement, if there is no conversion cost or other restrictions, or
 - (2) if there is a conversion cost but no other restriction, the requirement is the conversion cost or the regular maintenance requirement on the short position, whichever is less, or
 - (3) if there is a restriction to the conversion other than a conversion cost, the positions are margined in accordance with (a) and (b) above.

(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) The term "aggregate discount amount" as used with reference to a Treasury bill option contract means the principal amount of the underlying Treasury bill (A) multiplied by the annualized discount (i.e., 100 percent minus the exercise price of the option contract) and (B) further multiplied by a fraction having a numerator equal to the number of days to maturity of the underlying Treasury bill on the earliest date on which it could be delivered pursuant to the rules of The Options Clearing Corporation in connection with the exercise of the option (normally 91 or 182 days) and a denominator of 360.

FINRA Rule 4210(f)(2)(A)(i)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

(ii) The term “aggregate exercise price” ” as used with reference to an option contract means:

a. if a single stock underlies the option contract, the exercise price of the option contract multiplied by the number of shares of the underlying stock covered by such option contract;

b. if a Treasury bond or Treasury note underlies the option contract

(I) the exercise price of the option contract multiplied by the principal amount of the underlying security covered by such option contract, plus

(II) accrued interest:

a) on bonds (except bonds issued or guaranteed by the United States Government), that portion of the interest on the bonds for a full year, computed for the number of days elapsed since the previous interest date on the basis of a 360-day-year. Each calendar month shall be considered to be 1/12 of 360 days, or 30 days, and each period from a date in one month to the same date in the following month shall be considered to be 30 days.

b). on bonds issued or guaranteed by the United States Government, that portion of the interest on the bonds for the current full interest period, computed for the actual number of days elapsed since the previous interest date on the basis of actual number of calendar days in the current full interest period. The actual elapsed days in each calendar month shall be used in determining the number of days in a period.

c. if a Treasury bill underlies the option contract, the difference between the principal amount of such Treasury bill and the aggregate discount amount;

FINRA Rule 4210(f)(2)(A)(ii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

d. if an index stock group underlies the option contract, the exercise price of the option contract times the index multiplier; or

e. if a GNMA underlies the option contract, the exercise price of the option contract multiplied by the nominal principal amount of the underlying GNMA covered by such option contract. In the case of an underlying GNMA, if the remaining unpaid principal balance of a GNMA delivered upon exercise of an option contract is a permissible variant of, rather than equal to, the nominal principal amount, the aggregate exercise price shall be adjusted to equal the product of the exercise price and such remaining unpaid principal balance, plus in each case the appropriate differential.

(iii) The term "American-style option" means an option contract that can be exercised at any time prior to its expiration pursuant to the rules of The Options Clearing Corporation.

(iv) The term "annualized discount" as used with reference to a Treasury bill means the percent discount from principal amount at which the Treasury bill may be purchased or sold, expressed as a discount for a term to maturity of 360 days.

(v) The term "appropriate differential" as used with reference to a GNMA option contract means a positive or negative amount equal to the product of (A) the difference between the remaining unpaid principal balance of a GNMA delivered upon exercise of that contract and the nominal principal amount, and (B) the difference between the current cash market price of GNMA's bearing the same stated rate of interest as that borne by the GNMA delivered upon exercise and the exercise price.

(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

FINRA Rule 4210(f)(2)(A)(vi)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

“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) The term “broad index stock group” means an index stock group of 25 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 the stock market as a whole or an inter-industry sector of the stock market.

(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.

(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

FINRA Rule 4210(f)(2)(A)(x)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

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:

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

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

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

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

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

(xii) The term “covered” has the same meaning as defined in Rule 2360(a).

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

(xiv) The term “current cash market price” as used with reference to GNMA means the prevailing price in the cash market for GNMA 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.

(xv) 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.

FINRA Rule 4210(f)(2)(A)(xv)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

(xvi) 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 funds sufficient to purchase a warrant sold short in the event of a buy-in.

(xvii) 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.

(xviii) 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.

(xix) 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).

(xx) 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.

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

(xxii) The term “index currency group” means a group of currencies whose inclusion and relative representation in the group is determined by the

FINRA Rule 4210(f)(2)(A)(xxii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

inclusion and relative representation of the current market prices of the currencies in a currency index.

(xxiii) 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.

(xxiv) 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.

(xxv) 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.

(xxvi) 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

FINRA Rule 4210(f)(2)(A)(xxvii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

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.

(xxx) The term “nominal principal amount” as used with reference to a GNMA option means the remaining unpaid principal balance of GNMA 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.

(xxxi) 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.

FINRA Rule 4210(f)(2)(A)(xxxi)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

(xxxii) 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.

(xxxiii) 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.

(xxxiv) 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.

(xxxv) 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

FINRA Rule 4210(f)(2)(A)(xxxvii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

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.

(xl) 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.

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

FINRA Rule 4210(f)(2)(A)(xli)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

(xlii) 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.

(xliii) 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.

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

/01 Condor Spreads

The long condor, short iron condor, long calendar condor and short calendar iron condor spread strategies described in paragraph (f)(2)(A) of this Rule can be structured whereby the interval between the two middle exercise prices is not equal to the interval between the 1st & 2nd and 3rd & 4th exercise prices. However, the interval between the 1st & 2nd and 3rd & 4th exercise prices must always be equal to each other.

The interval between the two middle exercise prices may be any amount greater than zero, and the call exercise price may not be below the put exercise price in the case of the Short Iron Condor and Short Calendar Iron Condor spreads.

FINRA Rule 4210(f)(2)(A)/01

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(A) Definitions (Continued)

Examples of the above strategies as currently defined, along with examples of the variation strategies that would now be eligible for the same margin requirement are as follows:

Strategy	Current Rule Definition	Variation	Margin Requirement for Both
Long Condor Spread (Calls)	Long Call Feb 50 Short Call Feb 55 Short Call Feb 60 Long Call Feb 65	Long Call Feb 50 Short Call Feb 55 Short Call Feb 65 Long Call Feb 70	Pay for net debit in full.
Long Condor Spread (Puts)	Long Put Feb 50 Short Put Feb 55 Short Put Feb 60 Long Put Feb 65	Long Put Feb 50 Short Put Feb 55 Short Put Feb 65 Long Put Feb 70	Pay for net debit in full.
Long Calendar Condor Spread (Calls)	Long Call Feb 45 Short Call Feb 50 Short Call Feb 55 Long Call Apr 60	Long Call Feb 45 Short Call Feb 50 Short Call Feb 70 Long Call Apr 75	Pay for net debit in full.
Long Calendar Condor Spread (Puts)	Long Put Feb 45 Short Put Feb 50 Short Put Feb 55 Long Put Apr 60	Long Put Feb 45 Short Put Feb 50 Short Put Feb 70 Long Put Apr 75	Pay for net debit in full.
Short Iron Condor Spread	Long Put Feb 50 Short Put Feb 55 Short Call Feb 60 Long Call Feb 65	Long Put Feb 50 Short Put Feb 55 Short Call Feb 70 Long Call Feb 75	Exercise price interval (aggregate) of the put or call spread. Net credit received may be applied.
Short Calendar Iron Condor Spread	Long Put Feb 45 Short Put Feb 50 Short Call Feb 55 Long Call Apr 60	Long Put Feb 45 Short Put Feb 50 Short Call Feb 60 Long Call Apr 65	Exercise price interval (aggregate) of the put or call spread. Net credit received may be applied.

(The next page is 110)

FINRA Rule 4210(f)(2)(A)/01

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

(B) Except as provided below, and in the case of a put, call, index stock group option, or stock index warrant with a remaining period to expiration exceeding nine months, no put, call, currency warrant, currency index warrant or stock index warrant carried for a customer shall be considered of any value for the purpose of computing the margin to be maintained in the account of such customer.

(C) The issuance, guarantee or sale (other than a “long” sale) for a customer of a put, a call, a currency warrant, a currency index warrant or a stock index warrant shall be considered a security transaction subject to paragraphs (b) and (c).

(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, 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

FINRA Rule 4210(f)(2)(D)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

(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.

FINRA Rule 4210(f)(2)(E)(i)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

	I Type of Option	II Initial and/or Maintenance Margin Required	III Minimum Margin Required	IV Underlying Component Value
(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 principle amount.
(5)	U.S. Treasury notes	3 percent	1/2 percent	The underlying principle amount.
(6)	U.S. Treasury bonds	3.5 percent	1/2 percent	The underlying principle 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.

FINRA Rule 4210(f)(2)(E)(i)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

(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.

FINRA Rule 4210(f)(2)(E)(i)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

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

Option or Warrant Issue	Call	Put
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 Warrants	Any excess of the aggregate exercise price of the option or warrant over the product of units per foreign currency contract and the closing spot prices.	The product of units per foreign currency contract and the closing spot 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.

FINRA Rule 4210(f)(2)(E)(i)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

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) In the case of listed puts and calls which represent options on GNMA obligations in the principal amount of \$100,000, 130 percent of the current market value of the option plus \$1,500, except that the margin required need not exceed \$5,000 plus the current market value of the option.

(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.

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

	I Type of Option	II Initial and/or Maintenance Margin Required	III Minimum Margin Required	IV Underlying Component Value
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 marginable non-equity securities as defined in paragraphs (a)(15) and (a)(16).	15%	5%	The underlying principal amount.
6.	All other OTC options not covered above	45%	20%	The underlying principal amount.

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

FINRA Rule 4210(f)(2)(E)(iii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

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 mortgage related or corporate debt securities options	Any excess of the current value of the underlying principal amount over the aggregate exercise price of the option.	Any excess of the aggregate exercise price of the option over the current value of the underlying principal amount.

FINRA Rule 4210(f)(2)(E)(iii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)/01 Mergers and acquisitions

When an options exchange ceases trading in a listed option of a specific company because the “underlying asset” (as defined in Regulation T, Section 220.2) no longer trades due to a merger or acquisition and the registered clearing agency has formerly announced that all outstanding options will settle for cash in an amount equal to the difference between a fixed dollar amount and the strike price of the option, the margin required on such options may, at the member’s discretion, be computed as follows:

Out-of-the-money options – no requirement

In-the-money options – The amount of the difference between the dollar amount set by the registered clearing corporation and the strike price of the option or the amount of margin required by the registered clearing corporation, whichever is greater.

The difference between the amount of margin previously required pursuant to Rule 4210(f)(2)(E)(i)) and the above requirements, if any, may be released to the customer on the effective date as established by the registered clearing agency.

FRB letter to CBOE dated April 12, 1990

(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:

FINRA Rule 4210(f)(2)(E)(iv)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

a. For exempt accounts, 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, FINRA Rule 4110(a), on the following basis:

(I.) On any one account or group of commonly controlled accounts to the extent such deficiency exceeds 5 percent of a member’s tentative net capital (as such term is defined in SEA Rule 15c3-1), 100 percent of such excess amount, and

(II.) On all accounts combined to the extent such deficiency exceeds 25 percent of a member’s tentative net capital (as such term is defined in SEA Rule 15c3-1), 100 percent of such excess amount, reduced by any amount already deducted pursuant to subparagraph (a) above.

(III.) 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

FINRA Rule 4210(f)(2)(E)(iv)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

3/4 of 1 percent maximum allowance on loan servicing portfolios) and with more than \$1.5 million of net worth.

(F)(i) Each put or call shall be margined separately and any difference between the current market value of the underlying component and the exercise price of a put or call shall be considered to be of value only in providing the amount of margin required on that particular put or call. Substantial additional margin must be required on listed or OTC options carried "short" with an unusually long period of time to expiration, or written on securities which are subject to unusually rapid or violent changes in value, or which do not have an active market, or where the securities subject to the option cannot be liquidated promptly.

(ii) No margin need be required on any "covered" put or call.

/01 Control or Restricted Securities Covering Options Sold

The sale (writing) of listed call options against securities subject to Securities Act Rules 144 and 145 is permissible. However, any sale of securities subject to Securities Act Rules 144 or 145, through the sale of options, will require that all conditions of such rules must be satisfied both at the time of sale of the option and at the time that the underlying security is delivered pursuant to an exercise notice.

SEC Release No. 33-5890 Dated December 20, 1977

/02 Cash accounts

Calls may be sold against fully paid securities, provided that Securities Act Rules 144 and 145 are adhered to. There are no FINRA requirements on such positions in cash accounts, as they are deemed covered calls.

FINRA Rule 4210(f)(2)(F)(ii)/02

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)/03 Margin accounts

Margin accounts are treated the same as cash accounts except that any credit extended on securities subjects the account to paragraph (e)(8) of this Rule.

(G)(i) Where both a listed put and call specify the same underlying component and are carried “short” for a customer, the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to paragraph (f)(2)(E)(i) above, plus the current market value on the other option.

When:

a. a currency call warrant position is carried “short” for a customer account and is offset by a “short” currency put warrant and/or currency put option position;

b. a currency put warrant position is carried “short” for a customer account and is offset by a “short” currency call warrant and/or currency put option position;

c. a currency index call warrant position is carried “short” for a customer account and is offset by a “short” currency index put warrant and/or currency put option position;

d. a currency index put warrant position is carried “short” for a customer account and is offset by a “short” currency index call warrant and/or currency index call option position;

e. a stock index call warrant position is carried “short” for a customer account and is offset by a “short” stock index put warrant and/or stock index put option position;

f. a stock index put warrant position is carried “short” for a customer account and is offset by a “short” stock index call warrant and/or stock index call option position;

FINRA Rule 4210(f)(2)(G)(i)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

g. an index call warrant position is carried “short” for a customer account and is offset by a “short” index put warrant and/or index put option position;

h. an index put warrant position is carried “short” for a customer account and is offset by a “short” index call warrant and/or index call option position;

i. a broad index stock group call option position is carried “short” for a customer account and is offset by a “short” broad index stock group put option position; or

j. a broad index stock group put option position is carried “short” for a customer account and is offset by a “short” broad index stock group call option position and the offset position is of equivalent underlying value on the same currency, currency index or index stock group, as appropriate, then the amount of margin required shall be the margin on the put position or the call position, whichever is greater, as required pursuant to subparagraph (E)(i), plus the current market value of the other warrant and/or option position.

(ii) Where either or both the put and call specifying the same underlying component are not listed and are OTC and carried “short” for a customer by the same carrying broker-dealer (as defined in paragraph (f)(2)(H) below), the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to paragraphs (f)(2)(E)(iii) and (E)(iv) above, plus any unrealized loss on the other option. Where either or both the put or call are not listed or OTC and are carried by the same carrying broker-dealer then the put and call must be margined separately pursuant to paragraphs (f)(2)(E)(iii) and (E)(iv) above, however, the minimum margin shall not apply to the other option.

(iii) If both a put and call for the same GNMA obligation in the principal amount of \$100,000 are listed or OTC and are carried “short” for a customer, the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to paragraph (f)(2)(E)(ii) above, plus the current market value of the other option.

FINRA Rule 4210(f)(2)(G)(iii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

(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.

(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” 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 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” listed put option, and/or a put warrant, on the same underlying currency, index currency group, or index

FINRA Rule 4210(f)(2)(H)(ii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

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 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. 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” call 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 “long” call exceeds the exercise price of the “short” call multiplied by the appropriate multiplier factor set forth below.

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. 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

FINRA Rule 4210(f)(2)(H)(iii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

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.

FINRA Rule 4210(f)(2)(H)(iv)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

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. If the options are not issued and guaranteed by the same carrying broker-dealer then the “short” 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

FINRA Rule 4210(f)(2)(H)(v)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

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).

FINRA Rule 4210(f)(2)(H)(v)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

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

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

FINRA Rule 4210(f)(2)(H)(v)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

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

FINRA Rule 4210(f)(2)(I)(i)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

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.

/01 Convertible Bond Hedge

Convertible bonds carried long in margin or cash accounts may be considered as a hedge for short call options sold in margin or cash accounts for an equivalent amount of common stock into which the bonds are convertible.

(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) In determining net “long” and net “short” positions, for purposes of paragraphs (f)(2)(I)(i) and (ii) above, offsetting “long” and “short” positions in

FINRA Rule 4210(f)(2)(I)(iii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

exchangeable or convertible securities (including warrants) or in the same security, as discussed in paragraph (e)(1), shall be deducted. In computing margin on such an existing net security position carried against a put or call, the current market price to be used shall not be greater than the exercise price in the case of a call or less than the current market price in the case of a put and the required margin shall be increased by any unrealized loss.

/01 Net Positions

In the case of convertible hedge positions (i.e., where a security carried in a long position is exchangeable or convertible within a reasonable time, without restriction, other than the payment of money, into a security carried in a short position) or “short against the box” positions in a customer’s account, neither the long nor the short position is available to offset the margin required on any option position carried for such customer.

(iv) Where a listed or OTC put or call option or stock index warrant is “short” in the account of a customer, against an escrow agreement, that is in a form satisfactory to FINRA, is issued by a third party custodian bank or trust company (the “custodian”), either is held in the account at the time the put or call is written, or is received in the account promptly thereafter, and is in compliance with the requirements of Rule 610 of The Options Clearing Corporation, no margin need be required on the put or call.

In the case of a call option or warrant on a broad index stock group, the escrow agreement must certify that the custodian holds for the account of the customer as security for the agreement either cash, cash equivalents, one or more qualified securities, or any combination thereof, having an aggregate market value, computed as at the close of business on the day the call is written, of not less than 100 percent of the aggregate index value computed as at the same time and that the custodian will promptly pay the member the exercise settlement amount in the event the account is assigned an exercise notice. The escrow agreement may provide for substitution of qualified securities held as collateral provided that the substitution shall not cause the value of the qualified securities held to be diminished. A qualified security means an equity security, other than a warrant, right or option, that is registered on any national securities exchange.

FINRA Rule 4210(f)(2)(I)(iv)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

In the case of a call on any other option contract, the escrow agreement must certify that the custodian holds for the account of the customer as security for the agreement, the underlying security (or a security immediately convertible into the underlying security without the payment of money) or foreign currency and that the custodian will promptly deliver to the member the underlying security or foreign currency in the event the account is assigned an exercise notice.

In the case of a put on an option contract (including a put on a broad index stock group) or stock index warrant, the escrow agreement must certify that the custodian holds for the account of the customer as security for the agreement, cash or cash equivalents which have an aggregate market value, computed as at the close of business on the day the put is written, of not less than 100 percent of the aggregate exercise price of the put and that the custodian will promptly pay the member the exercise settlement amount (in the case of a put on a broad index stock group) or the aggregate exercise price (in the case of any other put on an option contract) in the event the account is assigned an exercise notice. Cash equivalents shall mean those securities referred to in Section 220.2 of Regulation T.

/01 OTC Government Options

Regulation T, Section 220.12(b) states that the margin on exempted securities is that required by the creditor in “good faith” or the percentage set by the regulatory authority where the trade occurs, whichever is greater. Under SEA Rule 3a12-7, OTC options on government securities which represent obligations of \$250,000 or more are designated as exempt securities. Therefore, an escrow agreement for an OTC government option where the underlying value is \$250,000 or more may be collateralized by cash.

An escrow agreement for an OTC government option where the underlying value is less than \$250,000 requires that the underlying security be held as collateral for the agreement.

FRB Letter to CBOE Dated December 12, 1986

FINRA Rule 4210(f)(2)(I)(iv)/01

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)/02 Use of Government Security Under Escrow Agreement

It is not permissible for the underlying security backing an escrow agreement that is collateralizing an OTC government option to be sold under a repurchase agreement. Further, the underlying security may not be used to secure another obligation.

FRB Letter to CBOE Dated December 12, 1986

/03 Indices Escrow Agreement – Under Collateralized

If a member is notified by the issuing bank or trust company (pursuant to the terms of the escrow agreement) that the value of the deposit has fallen below 50% of the current aggregate position value, the escrow agreement will cease to be acceptable in lieu of margin unless the member promptly obtains additional collateral.

/04 Escrow Agreement

The privilege of using escrow agreements may be extended to any customer of a member provided such agreement is issued by a third party custodian bank or trust company.

In this regard:

- FINRA's prescribed forms of escrow agreements for puts and calls on equity securities or U.S. Government securities and for puts on indices are the only forms that may be accepted by members. Any other form of escrow agreement is not acceptable for purposes of Rule 4210 absent prior written approval of FINRA.
- Members must comply with Rule 2360 (Options) as it relates to the customer trading the options and to the bank or trust company issuing the escrow agreement.

FINRA Rule 4210(f)(2)(I)(iv)/04

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

- Escrow agreements may not be accepted unless the securities or cash held by the bank or trust company are free of all liens or encumbrances.
- Members should set a limit on the number of customers from whom escrow agreements will be accepted, or the number of escrow agreements to be accepted on behalf of any one customer.
- Escrow agreements should be recorded on the member's books and records.
- Members should establish a limit on the total dollar amount of all outstanding escrow agreements accepted from any one bank or trust company and a total dollar amount of all escrow agreements accepted in relation to the member's net worth.
- If the security against which an option is written is being carried in a member account, the security position must be maintained at the member.
- Banks acting as fiduciaries for trust clients may issue escrow agreements for their trust accounts.

Exhibits I and II are FINRA's prescribed forms of escrow agreements for puts and calls, respectively, on equity securities or U.S. Government securities. Exhibits III and IV are FINRA's prescribed forms of escrow agreements for puts and calls, respectively, on indices.

EXHIBIT I

EQUITY/TREASURY
ESCROW AGREEMENT

(PUT)

[Bank Letterhead]

(Date)

To: _____
(Broker-Dealer Name)

The undersigned (the "Bank") having an office located at _____ hereby certifies and warrants that:

- (i) it is a bank or trust company, doing business in corporate form, organized under the laws of United States or any State thereof and is supervised and examined by State or Federal authorities having supervision over banks or trust companies;
- (ii) as escrow agent, it has on deposit in the United States for the account of _____ (the "Customer"), cash or cash equivalents meeting the requirements of Sec.220.8(a)(4)(i) of Regulation T of the Board of Governors of the Federal Reserve System (the "Deposit") having an aggregate market value not less than \$_____ (valuing cash equivalents at face value), which amount equals the product obtained by multiplying (a) the "aggregate exercise price," as that term is defined in the pertinent By-Laws of The Options Clearing Corporation (the "OCC"), of each option contract referred to below by (b) the number of such contracts referred to below; and
- (iii) the Bank has received specific authorization from the Customer to issue this escrow agreement and to hold the Deposit pursuant to the provisions hereof, in respect of the Customer's position (the "short position") as a writer of the following option contract(s):

Trade Date:

Underlying Securities:

<u>Number of Contracts</u>	<u>Option Type</u>	<u>Expiration</u>		<u>Options Series</u>
		<u>Month</u>	<u>Year</u>	<u>Aggregate Exercise Price Per Contact</u>
	Put			

The Bank represents and covenants that, in consideration of your carrying the above described option contract(s) "short" in the account of the Customer on your books, it will maintain the Deposit for your benefit in an account segregated on its books, separate and apart from all other accounts held by it, and will not subject nor consent to the Customer subjecting the Deposit or any portion thereof to any lien or encumbrance, or cause or permit the Deposit or any portion thereof to be applied to or used in satisfaction of any claim by the Bank (in any capacity whatsoever) against the Customer or any other person or entity or used by the Bank as an offset in whole or in part in any manner whatsoever. The Bank will use its best efforts to promptly notify you if any notice of lien, levy, court order, or other process that may or purports to affect the Deposit or any portion thereof is served upon it.

The Customer shall have the right from time to time to deposit with the Bank, as escrow agent to be held by the Bank hereunder and subject to all of the provisions hereof, cash or cash equivalents and thereupon to withdraw from the Deposit cash or cash equivalents which have in aggregate market value of the cash or cash equivalents so deposited (valuing cash equivalents at face value), provided, however, that the aggregate market value of the Deposit immediately after such deposit and withdrawal shall not be less than the aggregate market value of the Deposit immediately prior to such events.

The Bank agrees that it will hold the Deposit in accordance with the terms hereof until this escrow agreement is released or the Bank is directed to make payment as hereinafter provided. Upon presentation of this escrow agreement to the Bank at the address shown above, with the Endorsement of Release below that, in the Bank's reasonable belief, has been duly executed on your behalf, the Bank may release the Deposit held pursuant to this escrow agreement to the Customer.

Upon (a) presentation of this escrow agreement to the Bank at the address shown above, with the Payment Order below that, in the Bank's reasonable belief, has been duly executed on your behalf, and (b) delivery to the Bank for the account of the Customer of the securities underlying the above-described option contract(s), which securities shall be in form to constitute good delivery under the rules of the OCC, the Bank will pay you, out of the Deposit or the proceeds thereof; the exercise settlement amount as to each of the option contracts described above, plus all applicable commission and other charges due you.

FINRA Rule 4210(f)(2)EXHIBIT I

In the event of any cash or stock dividend, interest payment, stock distribution, stock split, rights offering, distribution, reorganization, recapitalization or reclassification, or other similar event, affecting the securities underlying the above-described option contract(s), the amount to be paid by the Bank to you and/or the securities or other property to be delivered by you to the Bank shall be adjusted as may be required by the OCC.

The Bank has been authorized by the Customer to confirm the Customer's understanding that if the short position described above is closed out, it is the Customer's responsibility to ensure that this escrow agreement is released by you, and until this escrow agreement is so released, you shall retain the right to demand payment upon the assignment of an exercise notice to any short position in a series of options identified above carried in the Customer's account.

If the Customer is the Bank acting in a fiduciary or similar capacity, or is a trust, custodial, or similar account maintained with the Bank, it is nonetheless understood that in issuing this escrow agreement and functioning as escrowee and bailee of the Deposit, the Bank is acting in its general capacity. Nothing herein shall be deemed to require the Bank to make payment in contravention of any court order or judgment binding on the Bank in its capacity as escrowee and bailee hereunder, which on its face affects the Deposit or the proceeds thereof.

Bank _____

By _____ Date _____
(Authorized Signature)

ENDORSEMENT OF RELEASE (to be completed by the Broker-Dealer)

The undersigned hereby releases all rights of the undersigned with respect to this Escrow Agreement.

(Broker-Dealer)

By _____ Date _____

PAYMENT ORDER (to be completed by the Broker-Dealer)

The undersigned hereby (1) certifies to the above-named Bank that an exercise notice filed with The Options Clearing Corporation has been assigned to the short position of the undersigned which includes the option contract(s) described above, (2) delivers to the Bank the securities underlying the above-described option contract(s), and (3) demands payment that will settle such assignment, plus applicable commissions and other charges, in the amount of \$_____.

(Broker-Dealer)

By _____ Date _____

FINRA Rule 4210(f)(2)EXHIBIT I

EXHIBIT II

EQUITY/TREASURY
ESCROW AGREEMENT

(CALL)

[Bank Letterhead]

(Date)

To: _____
(Broker-Dealer Name)

The undersigned (the "Bank"), having an office located at _____, hereby certifies and warrants that:

- (i) it is a bank or trust company, doing business in corporate form, organized under the laws of the United States or any State thereof and is supervised and examined by State or Federal authorities having supervision over banks or trust companies;
- (ii) as escrow agent, it has on deposit in the United States for the account of _____ (the "Customer"), in form to constitute good delivery under the rules of The Options Clearing Corporation (the "OCC"), the securities that underlie the option contract(s) described below or other securities which are immediately convertible into or exchangeable for such securities without the payment of money (which right to convert or exchange does not expire on or before the expiration date of the option contract(s) described below), such deposited securities being hereinafter referred to as the Deposited Securities; and
- (iii) the Bank has received specific authorization from the Customer to issue this escrow agreement and to hold the Deposited Securities pursuant to the provisions hereof, in respect of the Customer's position (the "short position") as a writer of the following option contract(s):

Trade Date:

Underlying Securities:

<u>Number of Contracts</u>	<u>Option Type</u>	<u>Expiration</u>		<u>Options Series</u>
		<u>Month</u>	<u>Year</u>	<u>Aggregate Exercise Price Per Contact</u>
	Call			

The Bank represents and covenants that, in consideration of your carrying the above described option contract(s) "short" in the account of the Customer on your books, it will maintain the Deposited Securities (or other securities satisfying the definition of Deposited Securities set forth above, which other securities, upon deposit with the Bank, shall be included within the term Deposited Securities as hereinafter referred to) for your benefit in an account segregated on its books, separate and apart from all other accounts held by it, and will not subject nor consent to the Customer subjecting the Deposited Securities or any portion thereof to any lien or encumbrance, or cause or permit the Deposited Securities or any portion thereof to be applied to or used in satisfaction of any claim by the Bank (in any capacity whatsoever) against the Customer or any other person or entity or used by the Bank as an offset in whole or in part in any manner whatsoever. The Bank will use its best efforts to promptly notify you if any notice of lien, levy, court order, or other process that may or purports to affect the Deposited Securities or any portion thereof is served upon it.

The Bank agrees that it will hold the Deposited Securities in accordance with the terms hereof until this escrow agreement is released or the Bank is directed to make delivery as hereinafter provided.

Upon the presentation of this escrow agreement to the Bank at the address shown above, with the Endorsement of Release below that, in the Bank's reasonable belief has been duly executed on your behalf, the Bank may release the Deposited Securities held pursuant to this escrow agreement to the Customer.

Upon presentation of this escrow agreement to the Bank at the address shown above, with the Payment Order below that, in the Bank's reasonable belief has been duly executed on your behalf, and delivery to the Bank of an amount equal to the product of (a) the aggregate exercise price per contract described above, times (b) the number of option contracts described above, minus all applicable commissions and other charges due you, the Bank will deliver the Deposited Securities to you for the account of the Customer.

In the event of any cash or stock dividend, interest payment, stock distribution, stock split, rights offering, distribution, reorganization, recapitalization or reclassification, or other similar event affecting the securities underlying the above-described option contract(s), the amount to be paid

FINRA Rule 4210(f)(2)EXHIBIT II

by you to the Bank and/or the securities or other property to be delivered by the Bank to you shall be adjusted as may be required by the OCC.

The Bank has been authorized by the Customer to confirm the Customer's understanding that if the short position described above is closed out, it is the Customer's responsibility to ensure that this escrow agreement is released by you, and until this escrow agreement is so released, you shall retain the right to demand delivery of the Deposited Securities as herein provided upon the assignment of an exercise notice to any short position in a series of options identified above carried in the Customer's account.

If the Customer is the Bank acting in a fiduciary or similar capacity, or is a trust, custodial, or similar account maintained with the Bank, it is nonetheless understood that in issuing this escrow agreement and functioning as escrowee and bailee of the Deposited Securities, the Bank is acting in its general capacity. Nothing herein shall be deemed to require the Bank to make delivery in contravention of any court order or judgment binding on the Bank in its capacity as escrowee and bailee hereunder, which on its face affects the Deposited Securities or the proceeds thereof.

Bank _____

By _____ Date _____

(Authorized Signature)

ENDORSEMENT OF RELEASE (to be completed by the Broker-Dealer)

The undersigned hereby releases all rights of the undersigned with respect to this Escrow Agreement.

(Broker-Dealer)

By _____ Date _____

PAYMENT ORDER (to be completed by the Broker-Dealer)

The undersigned hereby (1) certifies to the above-named Bank that an exercise notice filed with The Options Clearing Corporation has been assigned to the short position of the undersigned which includes the option contract(s) described above, (2) delivers to the Bank an amount equal to the product of (a) the aggregate exercise price per contract described above, times (b) the number of option contracts described above, minus all applicable commissions and other charges due the undersigned, and (3) demands delivery of the Deposited Securities sufficient to permit the undersigned to settle such assignment.

(Broker-Dealer)

By _____ Date _____

EXHIBIT III

MARKET INDEX

ESCROW AGREEMENT

(PUT)

[Bank Letterhead]

(Date)

To: _____
(Broker-Dealer Name)

The undersigned (the "Bank"), having in office located at _____, hereby certifies and warrants that:

- (i) it is a bank or trust company, doing business in corporate form, organized under the laws of the United States or any State thereof and is supervised and examined by State or Federal authorities having supervision over banks or trust companies;
- (ii) as escrow agent, it has on deposit in the United States for the account of _____ (the "Customer"), cash or cash equivalents meeting the requirements of Section 220.8(a)(4)(i) of Regulation T of the Board of Governors of the Federal Reserve System (the "Deposit") having an aggregate market value not less than \$_____ (valuing cash equivalents at face value), which amount equals the product obtained by multiplying (a) the "aggregate exercise price," as that term is hereinafter defined, of each market index option contract referred to below by (b) the number of such contracts referred to below; and
- (iii) the Bank has received specific authorization from the Customer to issue this escrow agreement and to hold the Deposit pursuant to the provisions hereof, in respect of the Customer's position (the "short position") as a writer of the following market index option contract(s):

FINRA Rule 4210(f)(2)EXHIBIT III

Trade Date:

Underlying Securities:

<u>Number of Contracts</u>	<u>Option Type</u>	<u>Expiration</u>		<u>Options Series</u>
		<u>Month</u>	<u>Year</u>	<u>Aggregate Exercise Price Per Contact</u>
	Put			

The Bank represents and covenants that, in consideration of your carrying the above described market index option contract(s) "short" in the account of the Customer on your books, it will maintain the Deposit for your benefit in an account segregated on its books, separate and apart from all other accounts held by it, and will not subject nor consent to the Customer subjecting the Deposit or any portion thereof to any lien or encumbrance, or cause or permit the Deposit or any portion thereof to be applied to or used in satisfaction of any claim by the Bank (in any capacity whatsoever) against the Customer or any other person or entity or used by the Bank as an offset in whole or in part in any manner whatsoever. The Bank will use its best efforts to promptly notify you if any notice of lien, levy, court order, or other process that may or purports to affect the Deposit or any portion thereof is served upon it.

The Customer shall have the right from time to time to deposit with the Bank, as escrow agent to be held by the Bank hereunder and subject to all of the provisions hereof, cash or cash equivalents and thereupon to withdraw from the Deposit cash or cash equivalents which have an aggregate market value of the cash or cash equivalents so deposited (valuing cash equivalents at face value), provided, however, that the aggregate market value of the Deposit immediately after such deposit and withdrawal shall not be less than the aggregate market value of the Deposit immediately prior to such events.

The Bank agrees that it will hold the Deposit in accordance with the terms hereof until this escrow agreement is released or the Bank is directed to make payment as hereinafter provided.

Upon presentation of this escrow agreement to the Bank at the address shown above, with the Endorsement of Release below that, in the Bank's reasonable belief, has been duly executed on your behalf, the Bank may release the Deposit held pursuant to this escrow agreement to the Customer.

Upon presentation of this escrow agreement to the Bank at the address shown above, with the Payment Order below that, in the Bank's reasonable belief, has been duly executed on your behalf, the Bank will pay you, out of the Deposit or the proceeds thereof, the exercise settlement amount as to each of the market index option contracts described above, which, as to each such contract, shall be the amount by which the "aggregate exercise price" of such contract is greater

FINRA Rule 4210(f)(2)EXHIBIT III

than the "aggregate current index value" of the underlying index (as those quoted terms are defined in the pertinent By-Laws of The Options Clearing Corporation), plus all applicable commissions and other charges due you.

The Bank has been authorized by the Customer to confirm the Customer's understanding that if the short position described above is closed out, it is the Customer's responsibility to ensure that this escrow agreement is released by you, and until this escrow agreement is so released, you shall retain the right to demand payment upon the assignment of an exercise notice to any short position in a series of options identified above carried in the Customer's account.

If the Customer is the Bank acting in a fiduciary or similar capacity, or is a trust, custodial, or similar account maintained with the Bank, it is nonetheless understood that in issuing this escrow agreement and functioning as escrowee and bailee of the Deposit, the Bank is acting in its general capacity. Nothing herein shall be deemed to require the Bank to make payment in contravention of any court order or judgment binding on the Bank in its capacity as escrowee and bailee hereunder, which on its face affects the Deposit or the proceeds thereof.

Bank _____

By _____ Date _____
(Authorized Signature)

ENDORSEMENT OF RELEASE (to be completed by the Broker-Dealer)

The undersigned hereby releases all rights of the undersigned with respect to this Market Index Escrow Agreement.

(Broker-Dealer)

By _____ Date _____

PAYMENT ORDER (to be completed by the Broker-Dealer)

The undersigned hereby (1) certifies to the above-named Bank that an exercise notice filed with The Options Clearing Corporation has been assigned to the short portion of the undersigned which includes the option market index contract(s) described above and (2) demands payment that will settle such assignment, plus applicable commissions and other charges due, in the amount of \$ _____.

(Broker-Dealer)

By _____ Date _____

EXHIBIT IV

MARKET INDEX
ESCROW AGREEMENT

(CALL)

_____(Date)

To: _____
(Broker-Dealer Name)

The undersigned (the "Bank"), having an office located at _____
_____, hereby certifies and warrants to you ("Broker-Dealer")
that:

- (i) It is a bank or trust company, doing business in corporate form, organized under the laws of the United States or any state thereof and is supervised and examined by State or Federal authorities having supervision over Banks or trust companies;
- (ii) as escrow agent, it has on deposit in the United States for the account of _____ (the "Customer"), (a) cash, (b) cash equivalents meeting the requirements of Regulation T of the Board of Governors of the Federal Reserve System, (c) one or more qualified securities as defined in FINRA Rule 4210(f)(2)(I)(iv), or (d) any combination thereof (the "Deposit");
- (iii) the aggregate market value of the Deposit, computed as of the close of business on the trade date referred to below (valuing cash equivalents at face value and qualified securities at their last sale price, as reported on such trade date pursuant to an effective transaction reporting plan as defined in Rule 600 of SEC Regulation NMS or their last bid price, if not subject to last sale reporting) was not less than the aggregate current index value set forth in the table below;
- (iv) to the extent the Deposit includes securities such securities are in good deliverable form or the Bank has the unrestricted power to put such securities into good deliverable form, in accordance with the requirements of the primary market for such securities and the Customer has duly authorized the Bank to liquidate such securities to the extent necessary to perform the Bank's obligations thereunder; and

FINRA Rule 4210(f)(2)EXHIBIT IV

- (v) the Bank has received written affirmation from the Customer that all index call options covered by this escrow agreement are written against a diversified stock portfolio and has also received specific authorization from the Customer to issue this escrow agreement and to hold the Deposit pursuant to the provisions hereof, in respect of the Customer's position (the "short position") as a writer of the over-the-counter call option contract on the underlying index referred to below:

<u>Trade Date:</u>	<u>Expiration Date:</u>	<u>Underlying Index:</u>		
	Aggregate			
<u>Number of Contracts</u>	<u>Option Type</u>	<u>Current Index Value</u>	<u>Index Multiplier</u>	<u>Exercise Price</u>
	Call	\$		

The Bank represents and covenants that, in consideration of Broker-Dealer carrying the above described index option contract(s) 'short' in the account of the Customer on Broker-Dealer's books, it will maintain the Deposit for Broker-Dealer's benefit in an account segregated on its books, separate and apart from all other accounts held by it, and will not subject nor consent to the Customer subjecting the Deposit or any portion thereof to any lien or encumbrance, or cause or permit the Deposit in any portion thereof to be applied to or used in satisfaction of any claim by the Bank (in any capacity whatsoever) against the Customer or any other person or entity or used by the Bank as an offset in whole or part in any manner whatsoever. The Bank will use its best efforts to promptly notify Broker-Dealer if any notice of lien, levy, court order, or other process that may or purports to affect the Deposit or any portion thereof is served upon it.

The Customer shall have the right from time to time to deposit with the Bank, as escrow agent to be held by the Bank hereunder the subject to all the provisions hereof, cash, cash equivalents, or qualified securities as described in clause (ii) above and thereupon to withdraw from the Deposit cash, cash equivalents, or qualified securities which have an aggregate market value not exceeding the market value of the cash, cash equivalents, or qualified securities so deposited, with the result that the aggregate market value of the Deposit immediately after such deposit and withdrawal shall not be less than the aggregate market value of the Deposit immediately prior to such events. For purposes of this paragraph, aggregate market value shall be determined in the manner indicated in clause (iii) above, except that qualified securities shall be valued as of the close of business on the preceding business day of the date of such deposit and withdrawal.

Upon the request of the Broker-Dealer, the Bank will promptly provide the Broker-Dealer with a written listing of the cash, cash equivalents, and/or qualified securities included in the Deposit. If at any time the current aggregate market value of the Deposit shall be less than the greater of either (a) 55% of the product of (A) the number of contracts indicated above and (B) the aggregate current index value of the underlying index determined on the immediately preceding business day (such product being the "Current Index Amount") or (b) 130% of the aggregate

FINRA Rule 4210(f)(2)EXHIBIT IV

Exercise Settlement Amount (as defined in FINRA Rule 4210(f)(2)(A)) of option contracts referred to herein, the Bank shall promptly notify the Broker-Dealer and the Customer in writing of such fact and request that the Customer supplement the Deposit. As used herein, the term “aggregate current index value” means the “current index value” as such term is defined by the By-Laws of The Options Clearing Corp., multiplied by the “Index Multiplier” in the above table.

If at any time the current aggregate market value of the Deposit shall at any time be less than the greater of either (x) 50% of the Current Index Amount or (y) 120% of the Exercise Settlement Amount of option contracts referred to herein, whether or not a request to the Customer for supplementation is then pending, the Bank will immediately advise the Broker-Dealer in writing thereof. For purposes of determining the market value of the Deposit, qualified securities shall be valued as the close of business on the preceding business day.

If any cash equivalent or qualified security shall cease to meet the requirements of clause (ii) above, such cash equivalents or qualified security shall be assigned no value for purposes of determining current aggregate market value pursuant to this paragraph.

The Bank agrees that it will hold the Deposit in accordance with the terms hereof until this escrow agreement is released or the Bank is directed to make delivery as hereinafter provided. Upon presentation of this escrow agreement to the Bank at the address shown above, with the Endorsement of Release below that, in the Bank’s reasonable belief, has been duly executed on Broker-Dealer’s behalf, the Bank may release the Deposit held pursuant to this escrow agreement to the Customer.

Upon presentation of this escrow agreement to the Bank at the address shown above, with the Payment Order below that, in the Bank’s reasonable belief, has been duly executed on Broker-Dealer’s behalf, the Bank will pay Broker-Dealer, out of the Deposit or the proceeds thereof, the Exercise Settlement Amount as to each of the market index option contracts described above, plus all applicable commissions and other charges due Broker-Dealer.

The Bank has been authorized by the Customer to confirm the Customer’s understanding that if the short position described above is closed out, it is the Customer’s responsibility to ensure that this escrow agreement is released by the Broker-Dealer, and until this escrow agreement is so released, the Broker-Dealer shall retain the right to demand payment upon the assignment of any Exercise Notice to any short position in a series of options identified above carried in the Customer’s account.

If the Customer is the Bank acting in a fiduciary or similar capacity, or is a trust, custodial, or similar account maintained with the Bank, it is nonetheless understood that in issuing this escrow agreement and functioning as escrowee and bailee of the Deposit, the Bank is acting in its general capacity. Nothing herein shall be deemed to require the Bank to make delivery in contravention of any court order or judgment binding on the Bank in its capacity as escrowee and bailee hereunder, which on its face affects the Deposit or the proceeds thereof.

FINRA Rule 4210(f)(2)EXHIBIT IV

Bank _____

By _____ Date _____

(Authorized Signature)

ENDORSEMENT OF RELEASE (to be completed by the Broker-Dealer)

The undersigned hereby releases all rights of the undersigned with respect to this Market Index Escrow Agreement.

(Broker-Dealer)

By _____ Date _____

PAYMENT ORDER (to be completed by the Broker-Dealer)

The undersigned hereby (1) certifies to the above-named Bank that it has, as holder, exercised the call option contracts referred to above and (2) demands payment that will settle such exercise, plus applicable commissions and other charges due, in the amount of \$_____.

(Broker-Dealer)

By _____ Date _____

(The next page is XX)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

(J) When a member guarantees an option or stock index warrant to receive or deliver securities or foreign currencies for a customer, such option or stock index warrant shall be margined as if it were a put or call.

(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, FINRA 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;

FINRA Rule 4210(f)(2)(K)(i)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

- 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) Securities, including options, in such accounts shall be valued conservatively in the light of current market prices and the amount which might be realized upon liquidation. Substantial additional margin must be required or excess net capital maintained in all cases where the securities carried:

- a. are subject to unusually rapid or violent changes in value including volatility in the expiration months of options;
- b. do not have an active market; or
- c. in one or more or all accounts, including proprietary accounts combined, are such that they cannot be liquidated promptly or represent

FINRA Rule 4210(f)(2)(K)(ii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)

undue concentration of risk in view of the carrying member's net capital and its overall exposure to material loss.

/01 Specialists' or Market Makers' Option Hedging

Transactions in options effected by a specialist or a market maker are deemed "market maker transactions", and shall be subject to the margin requirements of this paragraph (f)(2)(K). Therefore, the amount of margin which the specialist or market maker must maintain with the clearing firm may be determined by mutual agreement between the clearing firm and the specialist or market maker. However, such an account may not be carried in a "deficit equity" position. The margin treatment under paragraph (f)(2)(K) may be applied when the clearing firm does not carry the equity position(s) of the specialist or market maker.

(L) FINRA may at any time impose higher margin requirements with respect to any option or warrant position(s) when it deems such higher margin requirements are appropriate.

(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) Spreads. A European-style cash-settled index stock group option or stock index warrant carried in a short position is deemed a covered position, and

FINRA Rule 4210(f)(2)(N)(ii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(N) Cash Account Transactions (Continued)

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, is held in or purchased for the account on the same day, provided that:

- a. the long position and the short position expire concurrently;
- b. the long position is paid 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 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 position 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 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 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

FINRA Rule 4210(f)(2)(N)(ii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(N) Cash Account Transactions (Continued)

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

FINRA Rule 4210(f)(2)(N)(iii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(N) Cash Account Transactions (Continued)

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;

FINRA Rule 4210(f)(2)(N)(iv)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants (Continued)(N) Cash Account Transactions (Continued)

- 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.

(The next page is 162)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)**(3) “When Issued” and “When Distributed” Securities****(A) Margin Accounts**

The margin to be maintained on any transaction or net position in each “when issued” security shall be the same as if such security were issued.

Each position in a “when issued” security shall be margined separately and any unrealized profit shall be of value only in providing the amount of margin required on that particular position.

When an account has a “short” position in a “when issued” security and there are held in the account securities upon which the “when issued” security may be issued, such “short” position shall be marked to the market and the balance in the account shall for the purpose of this Rule be adjusted for any unrealized loss in such “short” position.

/01 Offsetting Position

When an account has a short position in a “when issued” security and the underlying security is held in a margin account, no margin need be required on the short position.

/02 Marked- to-the-Market Gains and Losses

When calculating Regulation T or maintenance excess, any marked-to-the-market loss on a “when issued” position shall be added to the “when issued” requirement and any marked-to-the-market gain shall be subtracted. Any marked-to-the-market gain on a “when issued” position cannot be applied towards the margin requirement of any other unrelated security position. However, any marked-to-the-market gain can be applied to the margin requirement of any other open “when issued” position of the same issue.

/03 Market Value

“When issued” positions have no market value for Regulation T and maintenance purposes.

FINRA Rule 4210(f)(3)(A)/03

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(3) “When Issued” and “When Distributed” Securities (Continued)**(B) Cash Accounts**

On any transaction or net position resulting from contracts for a “when issued” security in an account other than that of a member, non-member broker-dealer, or a “designated account,” equity must be maintained equal to the margin required were such transaction or position in a margin account.

On any net position resulting from contracts for a “when issued” security made for or with a non-member broker-dealer, no margin need be required, but such net position must be marked to the market.

On any net position resulting from contracts for a “when issued” security made for a member or a “designated account,” no margin need be required and such net position need not be marked to the market. However, where such net position is not marked to the market, an amount equal to the loss at the market in such position shall be charged against the member’s net capital as provided in SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a).

The provisions of this paragraph (f)(3) shall not apply to any position resulting from contracts on a “when issued” basis in a security:

(i) which is the subject of a primary distribution in connection with a bona fide offering by the issuer to the general public for “cash,” or

(ii) which is exempt by FINRA as involving a primary distribution. The term “when issued” as used herein also means “when distributed.”

/01 Offsetting Position

No margin need be obtained for contracts to sell “when issued” securities when the underlying security is held in a cash account or the member has been informed that the customer owns the underlying securities. Any sale based on ownership by the customer of the underlying security must be made in reliance upon an agreement accepted by the member in good faith that the customer will not dispose of the underlying security while the contract of sale remains outstanding and that upon consummation of the plan, the

FINRA Rule 4210(f)(3)(B)(ii)/01

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(3) “When Issued” and “When Distributed” Securities (Continued)(B) Cash Accounts (Continued)

underlying security will be promptly deposited in the account and exchanged for the new security. Since the “when issued” sale may remain outstanding for a relatively long period of time, the member’s files should contain a written memorandum regarding the customer’s agreement.

(4) Guaranteed Accounts

Any account guaranteed by another account may be consolidated with such other account and the margin to be maintained may be determined on the net position of both accounts, provided the guarantee is in writing and permits the member carrying the account, without restriction, to use the money and securities in the guaranteeing account to carry the guaranteed account or to pay any deficit therein; and provided further that such guaranteeing account is not owned directly or indirectly by:

(i) a member, or any stockholder (other than a holder of freely transferable stock only) in the member carrying such account, or

(ii) a member, or any stockholder (other than a holder of freely transferable stock only) therein having a definite arrangement for participating in the commissions earned on the guaranteed account. However, the guarantee of a limited partner or of a holder of non-voting stock, if based upon his resources other than his capital contribution to or other than his interest in a member, is not affected by the foregoing prohibition, and such a guarantee may be taken into consideration in computing margin to be maintained in the guaranteed account

When one or more accounts are guaranteed by another account and the total margin deficiencies guaranteed by any guarantor exceeds 10 percent of the member’s excess net capital, the amount of the margin deficiency being guaranteed in excess of 10 percent of excess net capital shall be charged against the member’s net capital when computing net capital under SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a).

FINRA Rule 4210(f)(4)(ii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)**(5) Consolidation of Accounts**

When two or more accounts are carried for a customer, the margin to be maintained may be determined on the net position of said accounts, provided the customer has consented that the money and securities in each of such accounts may be used to carry or pay any deficit in all such accounts.

/01 Foreign Currency Sub-Accounts

FINRA will permit the consolidation of margin accounts and sub-accounts for maintenance purposes without requiring conversion of the foreign currency or foreign denominated security into U.S. dollars. Members must recognize the possibility that fluctuations between foreign currencies and the U.S. dollar may have an adverse effect on the total equity in a margin account. Additional margin should generally be required to compensate for potential losses in equity that may occur due to such currency fluctuations.

/02 Separate Margin Accounts

Separate margin accounts may be carried for the same customer only as provided in Section 220.4(a)(2) of Regulation T. If the customer has consented that the money and securities in each of such accounts may be used to carry or pay any deficit in all such accounts, the margin to be maintained under this Rule may be determined on the net position of said accounts even though they are separate margin accounts for purposes of Regulation T.

This limitation does not apply to sub-accounts of a single margin account. See Interpretation /03 below.

July 2020 (RN 20-22)

/021 Portfolio Margin Accounts

Section 220.1(b)(3)(i) of Regulation T excludes portfolio margin accounts maintained in accordance with paragraph (g) of this Rule from the scope of Regulation T. Accordingly, a portfolio margin account may be maintained as a separate margin account without regard to the limitation on separate margin accounts under Section 220.4(a)(2) of Regulation T. The consolidation of portfolio margin accounts is addressed by Rule 4210(g)(6).

July 2020 (RN 20-22)

FINRA Rule 4210(f)(6)/021

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(5) Consolidation of Accounts (Continued)/03 Margin Sub-Accounts

Although Regulation T limits the circumstances in which members may carry multiple margin accounts for the same customer (see Interpretation /02 above), a member may maintain separate sub-accounts of a single customer margin account, provided that:

- the customer has consented that the money and securities in each of such sub-accounts may be used to carry or pay any deficit in all such sub-accounts; and
- the member complies with the margin regulations (Regulation T and Rule 4210) as applied to the single margin account (i.e., to the combination of the separate sub-accounts).

A member that maintains multiple sub-accounts of a single customer margin account must implement procedures to combine positions and transactions in all of the sub-accounts where necessary to ensure compliance with Regulation T and Rule 4210, including, without limitation, in connection with:

- the determination of whether substantial additional margin must be required under Rule 4210(f)(1) and FINRA Interpretation /01 thereunder when the account contains a concentrated position in a security that, due to its size, may not be liquidated promptly; and
- the determination of whether a customer is a “pattern day trader” under Rule 4210(f)(8)(B)(ii) and the application of the other provisions of Rule 4210(f)(8)(B) in the event the customer is so classified.

July 2020 (RN 20-22)

(6) Time Within Which Margin or “Mark to Market” Must Be Obtained

The amount of margin or “mark to market” required by any provision of this Rule shall be obtained as promptly as possible and in any event within 15 business days from the date such deficiency occurred, unless FINRA has specifically granted the member additional time.

/01 Fifteen Day Period

The fifteen day period begins on the first business day that follows the date on which the margin deficiency occurred, not the day the member may have so notified the customer nor the fifth business day when net capital charges were required.

FINRA Rule 4210(f)(6)/01

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(6) Time Within Which Margin or “Mark to Market” Must Be Obtained (Continued)/02 FINRA-Approved Additional Time

FINRA will only grant additional time upon written request, which must fully explain the reason for the request, description of the security and total positions involved.

In general, FINRA will only consider those situations involving concentrations of a security which is difficult to liquidate, large volatile positions that would affect the market or price of the security and other similar conditions as the basis for approving a request for additional time.

/03 FINRA Oversight

As part of FINRA’s regular examination process, every carrying member will be monitored to determine compliance with the fifteen (15) business day limit.

(7) Practice of Meeting Regulation T Margin Calls by Liquidation Prohibited

When a “margin call,” as defined in Section 220.2 of Regulation T, is required in a customer’s account, no member shall permit a customer to make a practice of either deferring the deposit of cash or securities beyond the time when such transactions would ordinarily be settled or cleared, or meeting the margin required by the liquidation of the same or other commitments in the account.

This prohibition on liquidations shall not apply:

(i) to those accounts that, at the time of liquidation, are in compliance with the equity to be maintained pursuant to the provisions of this Rule or

(ii) to any account carried on an omnibus basis as prescribed by Regulation T.

/01 Liquidation

Members should have a complete understanding of how the customer intends to finance a margin transaction prior to execution of the transaction. If funds are not available in the account, margin is to be furnished by the deposit of cash or securities. If the customer intends to liquidate other securities to finance the transaction, that sale should take place at or before the time of the new commitment.

(The next page is 172)

FINRA Rule 4210(f)(7)(ii)/01

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)**(8) Special Initial and Maintenance Margin Requirements**

(A) Notwithstanding the other provisions of this Rule, FINRA may, whenever it shall determine that market conditions so warrant, prescribe:

(i) higher initial margin requirements for the purpose of effecting new securities transactions and commitments in accounts of customers with respect to specific securities;

(ii) higher maintenance margin requirements for accounts of customers with respect to any securities; and

(iii) such other terms and conditions as FINRA shall deem appropriate relating to initial and/or maintenance margin requirements for accounts of customers with respect to any securities.

/01 Special Initial Requirements

Any special initial margin requirements imposed by FINRA shall, without regard to the other provisions of this Rule, be imposed only on the day of a new transaction. Thereafter, the maintenance requirement will be applicable.

Equity in the margin account which is in excess of FINRA maintenance requirements may be used to satisfy special initial margin requirements. However, the credit balance in a customer's Special Memorandum Account may not be used toward the margin required.

The required margin for any margin purchase or any short sale of special requirement securities must be in the account before any new order is accepted. It is not necessary to deposit more than the initial margin required on any new transaction or group of transactions on a given day.

/02 Exemptions

The special initial margin requirements will not apply to:

- purchases of stocks to cover existing short positions;

FINRA Rule 4210(f)(8)(A)(iii)/02

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(8) Special Initial and Maintenance Margin Requirements (Continued)

- accounts long that sell short against the box;
- puts, calls and other options held in accounts prior to the establishment of special margin requirements on the underlying security in accordance with this Rule (Note: Such options issued after the establishment of special margin requirements must be margined as though the potential security positions were established at that time.);
- transactions in cash accounts; and
- transactions in U.S. Government and Municipal obligations.

/03 Profitable Options

Transactions in profitable options as outlined under Rule 4210(b)/03 are exempt from special initial margin requirements.

(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) The term “pattern day trader” means any customer who executes four or more day trades within five business days. However, if the number of day trades is 6 percent or less of total trades for the five business day period, the customer will not be considered a pattern day trader and the special requirements under paragraph (f)(8)(B)(iv) of this Rule will not apply. In the event that the

FINRA Rule 4210(f)(8)(B)(ii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(8) Special Initial and Maintenance Margin Requirements (Continued)

member at which a customer seeks to open an account or to resume day trading knows or has a reasonable basis to believe that the customer will engage in pattern day trading, then the special requirements under paragraph (f)(8)(B)(iv) of this Rule will apply.

/01 Multiple Purchases and Sales

If a customer enters an order to purchase a security and sells the same security within the same day, but for reasons beyond the customer's control e.g., price, the purchase was executed in smaller blocks, it will be considered as one day trade. However, the member must be able to demonstrate that it was the customer's intent to execute one day trade. This will also apply to when a customer enters a sale order and buys the same security within the same day. In addition, the trades would have to have been executed in sequential order.

One purchase and several subsequent sale transactions of the same security, where the sales were executed in sequential order within the same day, shall constitute one day trade. One sale and several subsequent purchases of the same security, where the purchases were executed in sequential order within the same day, shall also constitute one day trade.

/02 Multiple Purchases and Sales – Alternative Method

Rather than counting day trades based on the number of transactions a customer executes to establish or increase a position that is liquidated on the same day (as set out in Interpretation /01 above) a firm may instead count day trades based on the number of times during the day that the day trading customer changes its trading direction (*i.e.*, changes from buying a particular security to selling it, or changes from selling a particular security to buying it).

Example A:

09:30 Buy 250 ABC

09:31 Buy 250 ABC

13:00 Sell 500 ABC

The customer has executed one day trade.

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(8) Special Initial and Maintenance Margin Requirements (Continued)

Example B:

09:30 Buy 100 ABC

09:31 Sell 100 ABC

09:32 Buy 100 ABC

13:00 Sell 100 ABC

The customer has executed two day trades.

Example C:

09:30 Buy 500 ABC

13:00 Sell 100 ABC

13:01 Sell 100 ABC

13:03 Sell 300 ABC

The customer has executed one day trade.

Example D:

09:30 Buy 250 ABC

09:31 Buy 300 ABC

13:01 Buy 100 ABC

13:02 Sell 150 ABC

13:03 Sell 175 ABC

The customer has executed one day trade.

Example E:

09:30 Buy 199 ABC

09:31 Buy 142 ABC

13:00 Sell 1 ABC

13:01 Buy 45 ABC

13:02 Sell 100 ABC

13:03 Sell 200 ABC

The customer has executed two day trades.

Example F:

09:30 Buy 200 ABC

09:30 Buy 100 XYZ

13:00 Sell 100 ABC

13:00 Sell 100 XYZ

The customer has executed two day trades

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(8) Special Initial and Maintenance Margin Requirements (Continued)/03 Terminating Pattern Day Trader Status

A customer that has been classified as a pattern day trader under paragraph (f)(8)(B)(ii) of this Rule is presumed to remain a pattern day trader. However, if a customer seeks to terminate its pattern day trader classification, a member may so accommodate such request after the member determines in good faith, as defined in Section 220.2 of Regulation T, that the customer will no longer engage in pattern day trading.

A member may, for example, base its good faith determination on providing the definition of pattern day trader to the customer and receiving a written certification from the customer that (1) the customer understands the definition of pattern day trading and (2) the customer will not engage in future pattern day trading.

As an alternative, a good faith determination that a customer will not engage in future pattern day trading may be based on the member's application of technological restrictions on such customer's trading activity that effectively prevent the customer from engaging in pattern day trading.

If, after a termination of pattern day trader status, a customer again engages in pattern day trading, such customer's pattern day trader status may not be terminated absent extraordinary circumstances.

(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.

/01 Day-Trading Buying Power

For a proprietary account of a registered broker-dealer subject to SEA Rule 15c3-1, "day-trading buying power" means the equity in the account at the close of business of the previous day, less any haircut requirement as prescribed in SEA Rule 15c3-1, multiplied by six, for equity securities.

FINRA Rule 4210(f)(8)(B)(iii)/01

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(8) Special Initial and Maintenance Margin Requirements (Continued)

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 for the day trades in equity securities shall be 25 percent of the cost of all the day trades made during the day. 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.

/02 Option Day Trade

Option day trades are subject to this paragraph (f)(8)(B). For day trades executed in accounts of customers not deemed pattern day traders, the margin requirement is 100% of the premium received on the "long" or "short" transaction, whichever occurred first.

If a customer is a pattern day trader, the day-trading transactions are treated as having created a naked short option position and, therefore, subject to the margin requirements as prescribed in paragraph (f)(2)(E) of this Rule. However, if the member can substantiate that the purchase side of the day trade took place prior to the sell side of the day trade, the margin required will be 100% of the premium on the "long" option. A written record of the time of each executed option transaction must be maintained to demonstrate that the purchase was prior to the sale. In addition, in a margin account that is not a portfolio margin account, if the option that was day traded was part of an intra-day hedge strategy currently recognized under Rule 4210(f), then the margin required will be 100% of the premium of the option transaction that was executed first. A written record of the time of each executed transaction must be maintained to demonstrate that an intra-day hedge strategy was created first.

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(8) Special Initial and Maintenance Margin Requirements (Continued)

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.

/04 Multiple Day-Trade Calls

When a customer of a member has multiple day-trade calls outstanding and the due date of the first day-trade call is still within the five business days, then the customer can meet the highest day-trade call amount. This will satisfy the remaining day-trade calls that are outstanding. However, once a call is aged past the 5th business day, the customer will be required to satisfy that call separately.

Members should not allow customers to make a practice of meeting multiple day-trade calls in this manner.

/05 Liquidation to Meet a Day-Trade Call

A customer may liquidate securities to satisfy a day-trade call, but only the maintenance margin requirement of the liquidated securities will be released. However, FINRA discourages such practice because the member should consider the customer's ability to meet its commitments.

(iv) Special Requirements for Pattern Day Traders

a. Minimum Equity Requirement for Pattern Day Traders — The minimum equity required for the accounts of customers deemed to be pattern day traders shall be \$25,000. This minimum equity must be deposited in the account before such customer may continue day trading and must be maintained in the customer's account at all times.

/01 Minimum Equity Requirement

Members may use any settled and available funds, or any available market value from fully paid for securities, including option market value, money market mutual funds, held long in the customer's cash account to satisfy the \$25,000 minimum equity requirement, without moving the funds or securities to the margin account. The member must have adequate 4210. Margin Requirements (Continued)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(8) Special Initial and Maintenance Margin Requirements (Continued)

procedures in place in order to prevent the funds in the cash account from being used for other withdrawal purposes such as debit card and check withdrawals. Any funds, securities or money market mutual funds held in the cash account cannot be used for the calculation of day-trading buying power unless they have been moved to the margin account one business day prior to calculating the day-trading buying power. In the event money market mutual funds are to be moved to the margin account, members must adhere to Exchange Act Section 11(d)(1). In addition, for both minimum equity and day-trading buying power, members may use money market mutual funds provided the member has custody of the fund shares and the exclusive ability to liquidate the fund shares. Members shall not allow a pattern day trader to day trade until the minimum equity of \$25,000 has been satisfied. When a pattern day trader's account falls below the \$25,000 minimum equity requirement, based on the previous business day's close, the member must have procedures in place in order to prevent the pattern day trader from day trading. In addition, the \$25,000 must be in the margin account or cash account one business day prior to resuming any day trading.

b. In the event that the member at which a customer seeks to open an account or resume day trading in an existing account, knows or has a reasonable basis to believe that the customer will engage in pattern day trading, then the minimum equity required under subparagraph (iv)a. above (\$25,000) must be deposited in the account prior to commencement of day trading.

c. Pattern day traders cannot trade in excess of their day-trading buying power as defined in paragraph (f)(8)(B)(iii) above. In the event a pattern day trader exceeds its day-trading buying power, which creates a special maintenance margin deficiency, the following actions will be taken by the member:

1. The account will be margined based on the cost of all the day trades made during the day,

2. The customer's day-trading buying power will be limited to the equity in the customer's account at the close of business of the previous day, less the maintenance margin required in paragraph (c) of this Rule, multiplied by two for equity securities, and

FINRA Rule 4210(f)(8)(B)(iv)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(8) Special Initial and Maintenance Margin Requirements (Continued)

3. “time and tick” (i.e., calculating margin using each trade in the sequence that it is executed, using the highest open position during the day) may not be used.

d. Pattern day traders who fail to meet their special maintenance margin calls as required within five business days from the date the margin deficiency occurs will be permitted to execute transactions only on a cash available basis for 90 days or until the special maintenance margin call is met.

/01 Cash Available

Cash available means 100% of the maintenance excess (equity after maintenance margin is met). No “time and tick” calculations will be allowed for accounts on a 90- day day trading restriction.

e. Pattern day traders are restricted from using the guaranteed account provision pursuant to paragraph (f)(4) of this Rule for meeting the requirements of paragraph (f)(8)(B).

f. Funds deposited into a pattern day trader’s account to meet the minimum equity or maintenance margin requirements of paragraph (f)(8)(B) of this Rule cannot be withdrawn for a minimum of two business days following the close of business on the day of deposit.

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(8) Special Initial and Maintenance Margin Requirements (Continued)/01 Deposit of Funds

Members may look to funds in a customer's cash account to satisfy a day-trade call without moving the funds to the margin account. This exception will only be permitted if the member has adequate procedures in place to prevent the circumvention of the two (2) day hold requirement on funds deposited into or held in that account i.e., the customer must be prohibited from using the funds for other withdrawal purposes such as debit card and check withdrawals relative to this balance while it is being used to satisfy the day-trade margin call. Funds deposited into the cash account within two business days prior to the creation of a daytrade call, which the member can utilize to satisfy the day-trade call, are subject to the two day holding period following the close of business on the day of deposit.

(v) In the event a customer does not meet a special margin maintenance call by the fifth business day, then on the sixth business day only, members are required to deduct from net capital the amount of the unmet special margin maintenance call pursuant to SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a).

(The next page is 185)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)**(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.

/01 90-Day Freeze

Customers that purchase securities in a cash account and sells them before payment is received, are to be placed on a restricted status for a period of 90 calendar days following the trade date or the payment period (as defined in Regulation T, Section 220.2) of the purchase. Unless funds sufficient to pay for a new purchase in full are in the account during this 90-day freeze, no security may be purchased for or sold to that customer in its cash account. When a member believes a restriction should be lifted, it may apply in writing for relief to the Credit Regulation Department at FINRA. Each application for a waiver of the 90-day freeze should be signed by an authorized person of the member and should contain the following information:

- the full name and address of the customer;
- the name and description of the security or securities involved, purchase and sale prices, and the respective dates of purchase and sale;
- a statement describing the circumstances upon which the request is made; and
- the date on which full payment for the purchase was received.

FINRA Rule 4210(f)(9)/01

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)**(10) Customer Margin Rules Relating to Security Futures****(A) Applicability**

No member may effect a transaction involving, or carry an account containing, a security futures contract with or for a customer in a margin account, without obtaining proper and adequate margin as set forth in this subparagraph.

(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) Excluded from the Rule's requirements are arrangements between a member and a customer with respect to the customer's financing of proprietary positions in security futures, based on the member's good faith determination that the customer is an "Exempted Person," as defined in SEA Rule 401(a)(9) of the Customer Margin Requirements for Security Futures, and Rule 41.43(a)(9) under the CEA, except for the proprietary account of a broker-dealer carried by a member pursuant to paragraph (e)(6)(A) of this Rule. Once a registered broker or dealer, or member of a national securities exchange ceases to qualify as an "Exempted Person," it shall notify the member of this fact before establishing any new security futures positions. Any new security futures positions will be subject to the provisions of this subparagraph.

(iii) Permissible Offsets.

Notwithstanding the minimum margin levels specified in paragraph (f)(11)(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)(11)(B)(i) of this Rule.

FINRA Rule 4210(f)(10)(B)(iii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(10) Customer Margin Rules Relating to Security Futures (Continued)(B) Amount of customer margin (Continued)

	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 position in the same security (or securities basket) underlying the security future.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the short stock or stocks.	5 percent of the current market value as defined in 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.

FINRA Rule 4210(f)(10)(B)(iii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(10) Customer Margin Rules Relating to Security Futures (Continued)(B) Amount of customer margin (Continued)

(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 index.	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.
(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 futures that together tracks a broad-based security index and long a broad-based security index call 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 pay for the long call in full.	The lower of: (1) 10 percent of the aggregate 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

FINRA Rule 4210(f)(10)(B)(iii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(10) Customer Margin Rules Relating to Security Futures (Continued)(B) Amount of customer margin (Continued)

(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 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)	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 the call sale may be applied.	10 percent of the aggregate exercise price, plus the aggregate call in-the-money amount, if any.
(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 security (or securities basket) underlying the security future.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the long security or securities.	5 percent of the current market value, as defined in Regulation 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.

FINRA Rule 4210(f)(10)(B)(iii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(10) Customer Margin Rules Relating to Security Futures (Continued)(B) Amount of customer margin (Continued)

(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 index).	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.
(15)	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)	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, plus pay for the call in full. Proceeds from put sale may be applied.	10 percent of the aggregate exercise price, plus the aggregate put in-the-money amount, if any.
(16)	Long (short) a security future and short (long) an identical ¹ security future traded on a different market.	Individual stock and narrow-based security index.	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).	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).
(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).

¹ 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.

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(10) Customer Margin Rules Relating to Security Futures (Continued)**(C) Definitions**

For the purposes of paragraph (f)(10) of this Rule and the offset table noted above, with respect to the term “security futures contracts,” the following terms shall have the meanings specified below:

(i) The term “security futures contract” means a “security future” as defined in Section 3(a)(55) of the Exchange Act.

(ii) The term “current market value” has the same meaning as defined in SEA Rule 401(a)(4) of the Customer Margin Requirements for Security Futures and Rule 41.43(a)(4) under the CEA.

(iii) The term “underlying security” means, in the case of physically settled security futures contracts, the security that is delivered upon expiration of the contract, and, in the case of cash settled security futures contracts, the security or securities index the price or level of which determines the final settlement price for the security futures contract upon its expiration.

(iv) The term “underlying basket” means, in the case of a securities index, a group of security futures contracts where the underlying securities as defined in subparagraph (iii) above include each of the component securities of the applicable index and that meets the following conditions: (1) the quantity of each underlying security is proportional to its representation in the index, (2) the total market value of the underlying securities is equal to the aggregate value of the applicable index, (3) the basket cannot be used to offset more than the number of contracts or warrants represented by its total market value, and (4) the security futures contracts shall be unavailable to support any other contract or warrant transaction in the account.

(v) The term “underlying stock basket” means a group of securities that includes each of the component securities of the applicable index and that meets the following conditions: (1) the quantity of each stock in the basket is proportional to its representation in the index, (2) the total market value of the basket is equal to the underlying index value of the index options or warrants to be covered, (3) the securities in the basket cannot be used to cover more than the number of index options or warrants represented by that value, and (4) the securities in the basket shall be unavailable to support any other option or warrant transaction in the account.

FINRA Rule 4210(f)(10)(C)(v)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(10) Customer Margin Rules Relating to Security Futures (Continued)(C) Definitions (Continued)

(vi) The term “variation settlement” has the same meaning as defined in SEA Rule 401(a) of the Customer Margin Requirements for Security Futures and Rule 41.43(a)(32) under the CEA.

(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, FINRA 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 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 SEA Rules 400 through 406 of the 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.

FINRA Rule 4210(f)(10)(D)(i)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(10) Customer Margin Rules Relating to Security Futures (Continued)(D) Security Futures Dealers' Accounts (Continued)

(ii) For purposes of this paragraph (f)(11)(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) Notwithstanding the other provisions of paragraphs (f)(10) and (f)(2)(K), a member may carry and clear the market maker permitted offset

FINRA Rule 4210(f)(10)(E)(i)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(10) Customer Margin Rules Relating to Security Futures (Continued)(E) Approved Options Specialists' or Approved Market Makers' Accounts (Continued)

positions (as defined below) of one or more approved options specialists or approved market makers in an account that is limited to bona fide approved options specialist or approved 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, FINRA 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)(E), the term "approved options specialist" or "approved market maker" means a specialist, market maker, or registered trader in options as referenced in paragraph (f)(2)(K) of this Rule, who is deemed a specialist for all purposes under the Exchange Act and who is registered pursuant to the rules of a national securities exchange.

(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;

FINRA Rule 4210(f)(10)(E)(ii)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(10) Customer Margin Rules Relating to Security Futures (Continued)(E) Approved Options Specialists' or Approved Market Makers' Accounts (Continued)

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) Securities, including options and security futures contracts, in such accounts shall be valued conservatively in light of current market prices and the amount that might be realized upon liquidation. Substantial additional margin must be required or excess net capital maintained in all cases where the securities carried: (a) are subject to unusually rapid or violent changes in value including volatility in the expiration months of options or security futures contracts, (b) do not have an active market, or (c) in one or more or all accounts, including proprietary accounts combined, are such that they cannot be liquidated promptly or represent undue concentration of risk in view of the carrying member's net capital and its overall exposure to material loss.

FINRA Rule 4210(f)(10)(E)(iv)

4210. Margin Requirements (Continued)(f) Other Provisions (Continued)(10) Customer Margin Rules Relating to Security Futures (Continued)**(F) Approved Specialists' and Market Makers' Accounts – Others**

(i) Notwithstanding the other provisions of paragraphs (f)(10) and (f)(2)(K), a member may carry the account of an “approved specialist,” or “market maker” which account is limited to bona fide specialist or market making transactions including hedge transactions with security futures contracts upon a margin basis that is satisfactory to both parties. The amount of any deficiency between the equity in the account and haircut requirement pursuant to SEA Rule 15c3-1 and, if applicable, FINRA Rule 4110(a), shall be charged against the member’s net capital when computing net capital under SEA Rule 15c3-1 and FINRA Rule 4110(a).

(ii) For purposes of this paragraph (f)(10)(F), the term “approved specialist” or “approved market maker” means a specialist or market maker who is deemed a specialist for all purposes under the Exchange Act and who is registered pursuant to the rules of a national securities exchange.

(G) Additional Requirements

(i) Money market mutual funds, as defined in Rule 2a-7 under the Investment Company Act of 1940, can be used for satisfying margin requirements under this paragraph (f)(10), provided that the requirements of SEA Rule 404(b) of the Customer Margin Requirements for Security Futures and Rule 41.46(b)(2) under the CEA are satisfied.

(ii) Day trading of security futures is subject to the minimum requirements of this Rule. If deemed a pattern day-trader, the customer must maintain equity of \$25,000. The 20 percent requirement, for security futures contracts, should be calculated based on the greater of the initial or closing transaction and any amount exceeding FINRA excess must be collected. The creation of a customer call subjects the account to all the restrictions contained in paragraph (f)(8)(B) of this Rule.

(iii) The use of the “time and tick” method is based on the member’s ability to substantiate the validity of the system used. Lacking this ability dictates the use of the aggregate method.

(iv) Security futures contracts transacted or held in a futures account shall not be subject to any provision of this Rule.

(The next page is 202) FINRA Rule 4210(f)(10)(G)(iv)

4210. Margin Requirements (Continued)**(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,¹ listed options, security futures products (as defined in Section 3(a)(56) of the Exchange Act), unlisted derivatives, warrants, stock index warrants, 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.

¹ 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) obtaining and reviewing the appropriate account documentation and financial information necessary for assessing the amount of credit to be extended to eligible participants;

(B) the determination, review and approval of credit limits to each eligible participant, and across all eligible participants, utilizing a portfolio margin account;

(C) monitoring credit risk exposure to the member from portfolio margin accounts, on both an intra-day and end of day basis, including the type, scope and frequency of reporting to senior management;

FINRA Rule 4210(g)(1)(C)

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(1) Monitoring (Continued)/01 Intra-Day Monitoring

Although an introducing broker-dealer may have the capability to monitor accounts intra-day, the clearing broker-dealer is ultimately responsible for monitoring the accounts of the introducing broker-dealer and cannot rely on the introducing broker-dealer's intra-day monitoring.

(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) the regular review and testing of these risk analysis procedures by an independent unit such as internal audit or other comparable group;

/01 Schedule of Audit

Members that are approved for portfolio margin must conduct an audit review of all of their portfolio margin policies and procedures within the first year of approval. A member's regular audit schedule can be resumed thereafter.

(F) managing the impact of credit extended related to portfolio margin accounts on the member's overall risk exposure;

(G) the appropriate response by management when limits on credit extensions related to portfolio margin accounts have been exceeded;

(H) determining the need to collect additional margin from a particular eligible participant, including whether that determination was based upon the creditworthiness of the participant and/or the risk of the eligible product; and

(I) monitoring the credit exposure resulting from concentrated positions within both individual portfolio margin accounts and across all portfolio margin accounts.

/01 Concentrated Positions

Members must have procedures that describe the identification and monitoring of concentrated positions within individual portfolio margin

FINRA Rule 4210(g)(1)(I)/01

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(1) Monitoring (Continued)

accounts and across all portfolio margin accounts, including what department is responsible for the daily monitoring of such positions, what the escalation procedures are, and a detailed description of what additional margin requirements, if any, are applied to concentrated positions.

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) Definitions — For purposes of this paragraph (g), the following terms shall have the meanings specified below:

(A) The term “listed option” means any equity-based or equity index-based option traded on a registered national securities exchange.

(B) The term “portfolio” means any eligible product, as defined in paragraph (g)(6)(B)(i), grouped with its underlying instruments and related instruments.

(C) The term “product group” means two or more portfolios of the same type (see table in paragraph (g)(2)(F) below) for which it has been determined by SEA Rule 15c3-1a that a percentage of offsetting profits may be applied to losses at the same valuation point.

(D) The term “related instrument” within a security class or product group means broad-based index futures and options on broad-based index futures covering the same underlying instrument. The term “related instrument” does not include security futures products.

(E) The term “security class” refers to all listed options, security futures products, unlisted derivatives, and related instruments covering the same underlying instrument and the underlying instrument itself.

(F) The term “theoretical gains and losses” means the gain and loss in the value of individual eligible products and related instruments at ten equidistant intervals (valuation points) ranging from an assumed movement (both up and down) in the current market value of the underlying instrument. The magnitude of the valuation point range shall be as follows:

FINRA Rule 4210(g)(2)(F)

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(2) Definitions (Continued)

Portfolio Type	Up / Down Market Move (High & Low Valuation Points)
High Capitalization, Broad-based Market Index ²	+6% / -8%
Non-High Capitalization, Broad-based Market Index ³	+/- 10%
Any other eligible product that is, or is based on, an equity security or a narrow-based index	+/- 15%

² In accordance with paragraph (b)(1)(i)(B) of SEA Rule 15c3-1a (Appendix A to SEA Rule 15c3-1), 17 CFR 240.15c3-1a(b)(1)(i)(B).

³ See footnote 2.

(G) The term “underlying instrument” means a security or security index upon which any listed option, unlisted derivative, security future, or broad-based index future is based.

(H) The term “unlisted derivative” means any equity-based or equity index-based unlisted option, forward contract, or security-based swap that can be valued by a theoretical pricing model approved by the SEC.

(3) Approved Theoretical Pricing Models — Theoretical pricing models must be approved by the SEC.

(The next page is 211)

FINRA Rule 4210(g)(3)

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)**(4) Eligible Participants**

The application of the portfolio margin provisions of this paragraph (g) is limited to the following:

(A) any broker or dealer registered pursuant to Section 15 of the Exchange Act;

/01 Omnibus Accounts

Portfolio margin can be applied to omnibus accounts, provided the omnibus credit is extended in accordance with Section 220.7(f) of Regulation T. In this case, if the introducing broker-dealer introduces business on behalf of its customers, then both the clearing broker-dealer and the carrying broker-dealer that maintains the omnibus account must be approved for portfolio margin. Both broker-dealers would have to submit an application to FINRA, subject to FINRA's review and approval process. Customers of the omnibus broker-dealer would be subject to the provisions of Rule 4210(g).

If a broker-dealer introduces business on an omnibus basis only for its proprietary business, then it is not required to apply to FINRA for approval, provided the introducing broker-dealer agrees in writing that it will not offer portfolio margin to its end customers, and will limit its portfolio margin business to its proprietary account only. The clearing broker-dealer should ensure that it receives such an attestation prior to executing any transactions in the account, and such documentation should be readily available. The clearing broker-dealer should also have procedures in place to monitor such an arrangement.

(B) any member of a national futures exchange to the extent that listed index options, unlisted derivatives, options on ETFs, stock index warrants or underlying instruments hedge the member's index futures; and

(C) any person or entity not included in paragraphs (g)(4)(A) and (g)(4)(B) above approved for uncovered options and, if transactions in security futures are to be included in the account, approval for such transactions is also required. However, an eligible participant under this paragraph (g)(4)(C) may not establish or maintain positions in unlisted derivatives unless minimum equity of at least \$5 million is established and maintained with the member. For purposes of this minimum equity requirement, all securities and futures accounts carried by the member for the same eligible participant

FINRA Rule 4210(g)(4)(C)

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(4) Eligible Participants (Continued)

may be combined provided ownership across the accounts is identical. A guarantee pursuant to paragraph (f)(4) of this Rule is not permitted for purposes of the minimum equity requirement.

/01 Uncovered Option Approval

To qualify for portfolio margin, the account of a registered broker-dealer or futures commission merchant does not need to be approved for uncovered short options. In addition, customers that cannot trade options because they are not legally permitted to do so need not be approved for uncovered options. However, FINRA expects members to continue to exercise due diligence when reviewing these customers to ensure that they possess a sufficient level of trading experience and sophistication. Members must submit to FINRA, in writing, a request to exempt customers from the options approval requirement, except members that have already documented these customers in their portfolio margin applications.

/02 Minimum Equity

Customers may not use collateral held at a foreign affiliate for minimum equity purposes. A customer can only use collateral held at an affiliate that is governed by the SEC or the CFTC. For example, an account held at a bank affiliate cannot be considered for the purposes of meeting the minimum equity requirement.

(5) Opening of Accounts

(A) Members must notify and receive approval from FINRA, or the member's DEA if other than FINRA, prior to establishing a portfolio margin methodology for eligible participants.

(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.

FINRA Rule 4210(g)(5)(B)

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(5) Opening of Accounts (Continued)

(C) On or before the date of the initial transaction in a portfolio margin account, a member shall:

(i) furnish the eligible participant with a special written disclosure statement describing the nature and risks of portfolio margining which includes an acknowledgement for all portfolio margin account owners to sign, attesting that they have read and understood the disclosure statement, and agree to the terms under which a portfolio margin account is provided (see Rule 2360(c)); and

(ii) obtain the signed acknowledgement noted above from the eligible participant and record the date of receipt.

(6) Establishing Account and Eligible Positions

(A) For purposes of applying the portfolio margin requirements prescribed in this paragraph (g), members are to establish and utilize a specific securities margin account, or sub-account of a margin account, clearly identified as a portfolio margin account that is separate from any other securities account carried for an eligible participant.

A margin deficit in the portfolio margin account of an eligible participant may not be considered as satisfied by excess equity in another account. Funds and/or securities must be transferred to the deficient account and a written record created and maintained. However, if a portfolio margin account is carried as a sub-account of a margin account, excess equity in the margin account (determined in accordance with the rules applicable to a margin account other than a portfolio margin account) may be used to satisfy a margin deficit in the portfolio margin sub-account without having to transfer any funds and/or securities.

(B) Eligible Products

(i) For eligible participants as described in paragraphs (g)(4)(A) through (g)(4)(C), a transaction in, or transfer of, an eligible product may be effected in the portfolio margin account. Eligible products under this paragraph (g) consist of:

a. a margin equity security (including a foreign equity security and option on a foreign equity security, provided the foreign equity security is deemed to have a “ready market” under SEA Rule 15c3-1 or a “no-action” position issued thereunder, and a control or restricted security, provided the security has met the requirements in a manner consistent with

FINRA Rule 4210(g)(6)(B)(i)

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(6) Establishing Account and Eligible Products (Continued)(B) Eligible Products (Continued)

Securities Act Rule 144 or an SEC “no-action” position issued thereunder, sufficient enough to permit the sale of the security, upon exercise or assignment of any listed option or unlisted derivative written or held against it, without restriction);

/01 Non-Marginable Equity Security

A customer is not permitted to obtain a risk-based margin value for a non-margin equity security in a portfolio margin account. However, a non-margin equity security, whether held in a portfolio margin account, cash account, or strategy-based margin account, must have a 100 percent regulatory maintenance requirement applied on a daily basis if the broker-dealer is combining the maintenance excess figures. However, if the broker-dealer keeps the portfolio margin excess figures separate and independent from any other excess figures, then this requirement does not apply

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/02 Equity Security

Generally, a security that is eligible for portfolio margin under FINRA rules can still be considered eligible even if the OCC’s TIMS model does not recognize it. However, the broker-dealer should first contact the OCC to determine why the security is not recognized by TIMS. Depending on the outcome, the broker-dealer can also contact FINRA’s Credit Regulation Department to discuss the details of the security in question.

b. a listed option on an equity security or index of equity securities;

c. a security futures product;

d. an unlisted derivative on an equity security or index of equity securities;

FINRA Rule 4210(g)(6)(B)(i)/02

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(6) Establishing Account and Eligible Products (Continued)(B) Eligible Products (Continued)/01 Unlisted Derivative

An unlisted derivative that has a non-margin equity security as its underlier is not eligible for portfolio margin

- e. a warrant on an equity security or index of equity securities; and
- f. a related instrument as defined in paragraph (g)(2)(D).

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

(A) the amount for any of the ten equidistant valuation points representing the largest theoretical loss as calculated pursuant to paragraph (g)(8) below; or

(B) for eligible participants as described in paragraphs (g)(4)(A) through (g)(4)(C), \$.375 for each listed option, unlisted derivative, security future product, and related instrument, multiplied by the contract's or instrument's multiplier, not to exceed the market value in the case of long contracts in eligible products.

(C) Account guarantees pursuant to paragraph (f)(4) of this Rule are not permitted for purposes of meeting margin requirements.

(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. 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;

FINRA Rule 4210(g)(7)(D)(ii)

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(7) Margin Required (Continued)

(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.

(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) For each portfolio, theoretical gains and losses are calculated for each position as specified in paragraph (g)(2)(F) above. For purposes of determining the theoretical gains and losses at each valuation point, members shall obtain and utilize the theoretical values of eligible products as described in this paragraph (g) rendered by an approved theoretical pricing model.

(C) Offsets. Within each portfolio, theoretical gains and losses may be netted fully at each valuation point. Offsets between portfolios within the eligible product groups, as described in paragraph (g)(2)(F), may then be applied as permitted by SEA Rule 15c3-1a.

(D) After applying the offsets above, the sum of the greatest loss from each portfolio is computed to arrive at the total margin required for the account (subject to the per contract minimum).

(E) In addition, if a security that is convertible, exchangeable, or exercisable into a security that is an underlying instrument requires the payment of money or would result in a loss if converted, exchanged, or exercised at the time when the security is deemed an underlying instrument, the full amount of the conversion loss is required.

(9) Portfolio Margin Minimum Equity Deficiency

(A) If, as of the close of business, the equity in the portfolio margin account of an eligible participant as described in paragraph (g)(4)(C), declines below the \$5 million minimum equity required, if applicable, and is not restored to at least \$5 million within

FINRA Rule 4210(g)(9)(A)

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(9) Portfolio Margin Minimum Equity Deficiency (Continued)

three business days by a deposit of funds and/or securities or through favorable market action, members are prohibited from accepting new opening orders beginning on the fourth business day, except that new opening orders entered for the purpose of reducing market risk may be accepted if the result would be to lower margin requirements. This prohibition shall remain in effect until,

(i) equity of \$5 million is established, or

(ii) all unlisted derivatives are liquidated or transferred from the portfolio margin account to the appropriate securities account.

(B) Members will not be permitted to deduct any portfolio margin minimum equity deficiency amount from net capital in lieu of collecting the minimum equity required.

(10) Portfolio Margin Deficiency

(A) If, as of the close of business, the equity in the portfolio margin account of an eligible participant, as described in paragraphs (g)(4)(A) through (g)(4)(C), is less than the margin required, the eligible participant may deposit additional funds and/or securities or establish a hedge to meet the margin requirement within three business days. After the three business day period, members are prohibited from accepting new opening orders, except that new opening orders entered for the purpose of reducing market risk may be accepted if the result would be to lower margin requirements. In the event an eligible participant fails to hedge existing positions or deposit additional funds and/or securities in an amount sufficient to eliminate any margin deficiency after three business days, the member must liquidate positions in an amount sufficient to, at a minimum, lower the total margin required to an amount less than or equal to the account equity.

/01 Satisfaction of Portfolio Margin Deficiency

If a customer has a strategy-based margin account and a portfolio margin account with the same legal name and tax ID, collateral does not have to be transferred from the strategy-based margin account to satisfy a margin deficiency in the portfolio margin account. As long as the strategy-based margin account has sufficient maintenance excess, the margin deficiency

FINRA Rule 4210(g)(10)(A)/01

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(10) Portfolio Margin Deficiency (Continued)

in the portfolio margin account can be considered satisfied. However, the Special Memorandum Account (SMA) in the strategy-based margin account must be reduced by the amount of the portfolio margin deficiency in order to prevent a customer from utilizing the available excess for additional transactions in the strategy-based margin account. In the event a customer has an account directly with a clearing and carrying firm, and another account with an introducing broker-dealer that clears through the same carrying and clearing firm, then funds and/or securities must be transferred between the two accounts.

(B) If the portfolio margin deficiency is not met by the close of business on the next business day after the business day on which such deficiency arises, members will be required to deduct the amount of the deficiency from net capital until such time the deficiency is satisfied or positions are liquidated pursuant to paragraph (g)(10)(A) above.

(C) Members will not be permitted to deduct any portfolio margin deficiency amount from net capital in lieu of collecting the margin required.

(D) FINRA, or the member's DEA if other than FINRA, may grant additional time for an eligible participant to meet a portfolio margin deficiency upon written request, which is expected to be granted in extraordinary circumstances only.

(E) Notwithstanding the provisions of subparagraph (A) above, members should not permit an eligible participant to make a practice of meeting a portfolio margin deficiency by liquidation. Members must have procedures in place to identify accounts that periodically liquidate positions to eliminate margin deficiencies, and the member is expected to take appropriate action when warranted. Liquidation to eliminate margin deficiencies that are caused solely by adverse price movements may be disregarded.

/01 Adverse Market Movements

Members that cannot distinguish between adverse market movements and new transactions should take a conservative view and consider all margin deficiencies as resulting from the account holder's trading activities.

FINRA Rule 4210(g)(10)(E)/01

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(10) Portfolio Margin Deficiency (Continued)/02 Practice of Liquidating

If a customer has three liquidations within a rolling twelve-month period, FINRA expects the member to restrict the account to funds on hand for 90 calendar days. However, if upon internal review the member does not restrict an account after the third liquidation, then a waiver of the restriction must be granted, in writing, by two officers of the firm and maintained for audit purposes. Members should also be aware that granting waivers as a practice may be regarded as a circumvention of FINRA rules.

/03 Intra-Day Liquidation

If a member captures a margin deficiency intra-day, and the customer executes a risk-reducing transaction and eliminates the deficiency intra-day, the risk-reducing transaction is not considered a liquidation.

(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.

(The next page is 225)

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)**(12) Net Capital Treatment of Portfolio Margin Accounts**

(A) No member that requires margin in any portfolio account pursuant to paragraph (g) of this Rule shall permit the aggregate portfolio margin requirements to exceed ten times its net capital for any period exceeding three business days. The member shall, beginning on the fourth business day, cease opening new portfolio margin accounts until compliance is achieved.

(B) If, at any time, a member's aggregate portfolio margin requirements exceed ten times its net capital, the member shall immediately transmit telegraphic or facsimile notice of such deficiency to the principal office of the SEC in Washington, D.C., the district or regional office of the SEC for the district or region in which the member maintains its principal place of business; and to FINRA, or the member's DEA if other than FINRA. The notice to FINRA shall be in such form as FINRA may prescribe.

(13) Day Trading Requirements — The day trading restrictions promulgated under paragraph (f)(8)(B) of this Rule shall not apply to portfolio margin accounts that establish and maintain at least \$5 million in equity, provided that a member has the ability to monitor the intra-day risk associated with day trading. Portfolio margin accounts that do not establish and maintain at least \$5 million in equity will be subject to the day trading restrictions under paragraph (f)(8)(B) of this Rule, provided the member has the ability to apply the applicable day trading requirement under this Rule. However, if the position or positions day traded were part of a hedge strategy, the day trading restrictions will not apply. A "hedge strategy" for purposes of this Rule means a transaction or a series of transactions that reduces or offsets a material portion of the risk in a portfolio. Members are expected to monitor these portfolio margin accounts to detect and prevent circumvention of the day trading requirements. In the event day trades executed in a portfolio margin account exceed the day-trading buying power, the day trade margin deficiency that is created must be met by the deposit of cash and/or securities within three business days.

/01 Equity Less than \$5 Million

If a portfolio margin account has less than \$5 million in equity, day trading can still occur, provided the member has the ability to apply the appropriate day trading requirements promulgated under Rule 4210(f)(8). If the securities subject to day trading are a part of a hedge strategy, then FINRA does not consider the collective transactions as day trades and therefore it would not subject the customer to the day trading requirements. A hedge strategy for the purpose of FINRA rules means a transaction or series of transactions that reduce or offset a material portion of the risk in a portfolio.

FINRA Rule 4210(g)(13)/01

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(13) Day Trading Requirements (Continued)

For portfolio margin accounts that do not establish and maintain equity of \$5 million, members that have the capability to charge the required margin at the time an order is entered and prohibit the trade from being executed if an account does not have enough maintenance excess, are not required to calculate any day trading requirements promulgated under this Rule. FINRA recognizes that in this instance, a customer will not exceed his/her day-trading buying power and therefore will not incur a day trade margin call.

/02 Day Trading

For equity securities, the day trading requirement is 15 percent of the market value, calculated using the same methodology as in strategy-based margin accounts. The option day trade requirement for non-pattern day traders is 100 percent of the premium on the long or short transaction, whichever occurred first. For pattern day traders, if the member can substantiate that the purchase transaction took place prior to the sell transaction, then the day trade requirement is also 100 percent of the premium of the purchase transaction. Otherwise, members should apply the highest TIMS valuation point that is applicable to the short option involved in the day trade as the requirement. The highest valuation point shall be 8 percent of the underlying market value for high capitalization, broad-based market index options, 10 percent of the underlying market value for non-high capitalization, broad-based market index options, and 15 percent for equity options and narrow-based index options. However, the requirement shall not be less than the \$37.50 per standard contract minimum.

In addition, when a portfolio margin customer, who is a pattern day trader, incurs a day trading call, its account is subject to the limitations imposed by Rule 4210(f)(8)(B)(iv)(2)(b). This action results in equal treatment for both strategy-based and portfolio margin pattern day trading customers who exceed their day-trading buying power. That is, a pattern day trading portfolio margin customer who has incurred a day trading call will have its buying power reduced to two times regulatory maintenance excess for equity securities and the customer will lose the ability to rely on time and tick. In addition, both pattern and non-pattern day trading customers should not make a practice of incurring day trading margin calls. FINRA staff has interpreted FINRA rules such that customers with more than three day trading calls within a rolling 12-month period should be restricted from exceeding their day-trading buying power for 90 days.

4210. Margin Requirements (Continued)(g) Portfolio Margin (Continued)(13) Day Trading Requirements (Continued)/03 Intra-Day Maintenance Excess

A member can use intraday maintenance excess to calculate day trading requirements provided the member has the intraday capability to re-price and recalculate the account to determine if there is sufficient excess equity in the account at the time an order is received, and to automatically block the order if there is insufficient excess equity.

(14) Requirements to Liquidate

(A) A member is required immediately either to liquidate, or transfer to another broker-dealer eligible to carry portfolio margin accounts, all portfolio margin accounts with positions in related instruments if the member is:

- (i) insolvent as defined in Section 101 of Title 11 of the United States Code, or is unable to meet its obligations as they mature;
- (ii) the subject of a proceeding pending in any court or before any agency of the United States or any State in which a receiver, trustee, or liquidator for such debtor has been appointed;
- (iii) not in compliance with applicable requirements under the Exchange Act or rules of the SEC or any self-regulatory organization with respect to financial responsibility or hypothecation of eligible participant's securities; or
- (iv) unable to make such computations as may be necessary to establish compliance with such financial responsibility or hypothecation rules.

(B) Nothing in this paragraph (g)(14) shall be construed as limiting or restricting in any way the exercise of any right of a registered clearing agency to liquidate or cause the liquidation of positions in accordance with its by-laws and rules.

(15) Members must ensure that portfolio accounts are in compliance with Rule 2360.

(h) Margin Requirement Exception for Certain Members.

Any member designated to another self-regulatory organization for oversight of the member's compliance with applicable securities laws, rules and regulations, and self-regulatory organization rules under SEA Rule 17d-1 is exempt from the provisions of Rule 4210.

(The next page is 233)

FINRA Rule 4210(h)

••• **Supplementary Material:** -----

.01 The following tables are given to illustrate the method of computing the number of elapsed days in conformity with paragraph (f)(2)(A)(ii):

On bonds (except bonds issued or guaranteed by the United States Government):

From 1st to 30th of the same month to be figured as 29 days

From 1st to 31st of the same month to be figured as 30 days

From 1st to 1st of the following month to be figured as 30 days.

Where interest is payable on 30th or 31st of the month:

From 30th or 31st to 1st of the following month to be figured as 1 day

From 30th or 31st to 30th of the following month to be figured as 30 days

From 30th or 31st to 31st of the following month to be figured as 30 days

From 30th or 31st to 1st of second following month, figured as 1 month, 1 day

On bonds issued or guaranteed by the United States Government:

From 15th of a 28-day month to the 15th of the following month is 28 days

From 15th of a 30-day month to the 15th of the following month is 30 days

From 15th of a 31-day month to the 15th of the following month is 31 days.

The six month's interest period ending:

January 15 is 184 days

February 15 is 184 days

March 15 is 181* days

April 15 is 182* days

May 15 is 181* days

June 15 is 182* days

July 15 is 181* days

August 15 is 181* days

September 15 is 184 days

October 15 is 183 days

November 15 is 184 days

December 15 is 183 days

* Leap Year Adds 1 day to this period