Regulatory Notice 11-16

Margin Requirements

Treatment of Non-Margin Eligible Equity Securities

Effective Date: July 1, 2011

Executive Summary

This *Notice* clarifies customer maintenance margin requirements and the application of maintenance loan value for equity securities that do not meet the definition of a margin equity security under Regulation T.[1] Firms have until July 1, 2011, to comply with these requirements.

Questions concerning this *Notice* should be directed to:

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Background & Discussion

Regulation T stipulates that the initial margin requirement for an equity security is 50 percent of the current market value,[2] provided the security meets the definition of a margin equity security. This initial requirement is applied at the time a trade is executed. Once the trade has been executed, FINRA imposes a daily maintenance margin requirement, which for long equity securities is generally 25 percent of the current market value.[3] In addition, the current maintenance margin requirement for a short equity security is the greater of: (1) $2.50 per share or 100 percent of the current market value of each short equity security priced at less than $5.00 per share, or (2) $5.00 per share or 30 percent of the current market value of each short equity security priced at $5.00 per share or greater.[4] Detailed below are the initial and maintenance margin requirements for non-margin eligible equity securities.

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Notice Type

- Guidance

Suggested Routing

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

Key Topics

- Day Trading
- Good Faith Accounts
- Maintenance Loan Value
- Margin Requirements
- Non-Margin Eligible Equity Securities
- Non-Purpose Loans
- Portfolio Margin Accounts
- Regulation T Margin Accounts

Referenced Rules & Notices

- FINRA Rule 4210
- Regulation T
- Regulatory Notice 09-53

Financial Industry Regulatory Authority

Long Positions

Regulation T permits a long position of a non-margin eligible equity security to be held in a margin account, provided an initial requirement of 100 percent of the current market value is deposited.[5]

Pursuant to FINRA Rule 4210(f)(8)(A)(ii), FINRA is clarifying that the maintenance margin requirement for a non-margin eligible equity security held long in a Regulation T margin account shall be 100 percent of the current market value. This is consistent with the maintenance margin requirement for a non-margin eligible equity security held in a portfolio margin account.[6]

FINRA is further clarifying that firms may apply a maintenance loan value based on current maintenance margin requirements (for example, 25 percent for long equity securities or higher for leveraged ETFs[7]) to a long non-margin eligible equity security held in a Regulation T or portfolio margin account only when there is the presence of a maintenance margin deficiency in such account, provided the amount of maintenance loan value does not exceed the amount of the maintenance margin deficiency. The maintenance loan value permitted above **cannot** be extended for the purpose of financing additional transactions or for withdrawals. The examples below illustrate how the maintenance loan value may be applied.

Example 1

Maintenance Margin Deficiency	$5,000
Non-Margin Eligible Equity Securities Market Value	$4,000
Usable Maintenance Loan Value ($4,000 x .75)	$3,000
Adjusted Maintenance Margin Deficiency ($5,000 - $3,000)	$2,000

In this example, 100 percent of the maintenance loan value may be used.

Example 2

Maintenance Margin Deficiency	$5,000
Non-Margin Eligible Equity Securities Market Value	$10,000
Maintenance Loan Value ($10,000 x .75)	$7,500
Usable Maintenance Loan Value (Loan value cannot exceed the maintenance margin deficiency)	$5,000

In this example, only $5,000 of the maintenance loan value may be extended.

Short Positions

For short positions, the initial margin requirement pursuant to Regulation T is 150 percent of the current market value of a non-margin eligible equity security.[8] In a Regulation T margin account, the current maintenance margin requirements for all short equity securities and leveraged ETFs set forth in FINRA Rule 4210(c)(2) and (3) and in *Regulatory Notice 09-53*, respectively, continue to apply. Pursuant to FINRA Rule 4210(f)(8)(A)(ii), FINRA is clarifying that in a portfolio margin account, the maintenance margin requirement for a short non-margin eligible equity security shall be the greater of: (1) $2.50 per share or 100 percent of the current market value of each short equity security priced at less than $5.00 per share, or (2) $5.00 per share or 50 percent of the current market value of each short equity security priced at $5.00 per share or greater.

Non-Purpose Loans in Good Faith Accounts

Pursuant to Regulation T 220.6(e), non-purpose loans must be executed in the good faith account. FINRA is clarifying that firms may extend maintenance loan value on non-margin eligible equity securities when used to collateralize non-purpose loans. Firms are reminded that non-purpose loans are to be extended in accordance with the requirements promulgated under Regulation T,[9] and that any debit balances are not to be included in the Reserve Formula computation.[10]

Day Trading

Pursuant to FINRA Rule 4210(f)(8)(A)(ii), FINRA is clarifying that for customers who day trade in a Regulation T margin account or portfolio margin account, the special maintenance margin requirement for non-margin eligible equity securities is 100 percent. In addition, firms cannot extend maintenance loan value for the purpose of calculating day-trading buying power. Customers will be permitted to day trade a non-margin eligible equity security in such accounts, provided the special maintenance margin requirement of 100 percent does not exceed one times the regulatory maintenance excess (equity in the account after the maintenance margin requirement is met). In the event a customer does day trade in excess of this limit, the firms are required to issue a day-trade call. If the customer does not meet the day-trade call within the required number of business days pursuant to Rule 4210(f)(8)(B)(iii) or 4210(g)(13), then the firm will be required to cancel the day-trade transactions.

Endnotes

1 *See* Regulation T section 220.2 for the definitions of margin equity security and margin security.

2 *See* Regulation T section 220.12(a).

3 FINRA imposes higher maintenance margin requirements for leveraged Exchange Traded Funds (ETFs) and related options. *See Regulatory Notice 09-53*.

4 *See* FINRA Rule 4210(c) for the maintenance margin requirements for long and short securities.

5 *See* Regulation T section 220.12(e).

6 *See* FINRA Rule Interpretation 4210(g)(6)(B)(i)(a)/01.

7 *See* note 3.

8 *See* Regulation T section 220.12(c).

9 *See* Regulation T section 220.6(e).

10 *See* SEA Rule 15c3-3 (Exhibit A – Item 10)/032.