

## **Attachment A to *Regulatory Notice 10-45***

Below is the text of new FINRA Rules 4210, 4220 and 4230 (marked to show changes from NASD Rules 2520 and 3160). New language is underlined; deletions are in brackets. In addition, below is the text of the amendments to FINRA Rule 4120, new language is underlined; deletions are in brackets.

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

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#### **4120. Regulatory Notification and Business Curtailment**

(a) Notification

(1) Each carrying or clearing member shall promptly, but in any event within 24 hours, notify FINRA in writing if its net capital falls below the following percentages:

(A) through (E) No Change.

(F) the member's deduction of capital withdrawals, which it anticipates making, whether voluntarily or as a result of a commitment, including maturities of subordinated liabilities entered into pursuant to Appendix D of SEA Rule 15c3-1, during the next six months, and/or special deductions from net capital set forth in Rule 4210(e)(8)(C), would result in any one of the conditions described in paragraph (a)(1)(A) through (E) of this Rule.

(b) No Change.

(c) Reduction of Business

(1) Except as otherwise permitted by FINRA in writing, a member that carries customer accounts or clears transactions is obligated to reduce its business to a point enabling its available capital to exceed the standards set forth in paragraph (a)(1)(A) through (F) of this Rule, when any of the following conditions continue to exist for more than 15 consecutive business days, provided that such condition(s) has been known to FINRA or the member for at least five consecutive business days:

(A) through (E) No Change.

(F) the member's deduction of capital withdrawals, including maturities of subordinated liabilities entered into pursuant to Appendix D of SEA Rule 15c3-1, scheduled during the next six months, and/or special deductions from net capital set forth in Rule 4210(e)(8)(C), would result in any one of the conditions described in paragraph (c)(1)(A) through (E) of this Rule.

FINRA may issue a notice pursuant to Rule 9557 directing any such member to reduce its business to a point enabling its available capital to exceed the standards set forth in paragraph (a)(1)(A) through (F) of this Rule; however, FINRA's authority to issue such notice does not negate the member's obligation to reduce its business in accordance with this paragraph (c)(1).

(2) through (3) No Change.

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**[2500] 4200. [SPECIAL ACCOUNTS] MARGIN**

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**[2520] 4210. Margin Requirements**

**(a) Definitions**

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

(1) The term “basket” shall mean a group of stocks that [the Association] 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)([11]10)(C)(ii)). If there is no closing price, a member [organization] 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 [organization] 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

[organization] 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.

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

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

(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 [of 1940]),

(D) an investment company registered with the [Securities and Exchange Commission (]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.

(5) No Change.

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

(7) No Change.

(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 [ranked]recognized statistical rating organization.

(10) through (11) No Change.

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

(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 [forty-five] \$45 million [dollars] and financial assets of at least [forty-] \$40 million [dollars] for purposes of [sub]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 [of 1933], 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) [to] through (xiv), inclusive, of SEA Rule 15c2-11 [under the Act], or

d. furnishes information to the [Securities and Exchange Commission] SEC as required by SEA Rule 12g3-2(b) [of the Act], 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.

(15) No Change.

(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[,000,000] million of the issue was outstanding;

(ii) The issue was registered under Section 5 of the Securities Act [of 1933] 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[,000,000] 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 [of 1933];

(ii) through (iii) No Change.

**(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 Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures [under the Act], or Rules 41.42 through 41.4[8]9 under the Commodity Exchange Act (“CEA”); or

(2) the amount specified in paragraph (c)[(3)] of this Rule; or

(3) such greater amount as [NASD] 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 Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures [under the Act] and Rules 41.42 through 41.4[8]9 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.



**(c) Maintenance Margin**

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

(1) through (4) No Change.

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

**(d) 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 [paragraph] Rule for individual securities or customer accounts.

**(e) Exceptions to Rule**

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

(1) No Change.

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

**(A) 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:

- (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

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 [thirty] 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.

**(B) through (C) No Change.**

**(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 net capital under SE[C]A Rule 15c3-1 and, if applicable, Rule 4110(a).

**(E) Special Provisions**

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

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

**(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 SE[C]A Rule 15c3-1 and, if applicable, Rule 4110(a), subject to the limits provided in paragraph (e)(2)(H) below.

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

On any 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 SE[C]A Rule 15c3-1 and, if

applicable, 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 [the Association] FINRA upon request.

(ii) In the event that the net capital deductions [of securities positions from 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 [the Association] FINRA and shall not enter into any new transaction(s) subject to the provisions of paragraph[s] (e)(2)(F) or (e)(2)(G) that would

result in an increase in the amount of such excess under, as applicable, this subparagraph [a. or b.] (ii) [above].

**(3) Joint Accounts in Which the Carrying [Organization] 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, [the Association] 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 shall 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.

#### **(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 [paragraph]. The amount of any deficiency between the equity in such an account and the margin required by the other provisions of this Rule [paragraph] shall be charged against the member's net capital when computing net capital under SE[C]A Rule 15c3-1 and, if applicable, 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, 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 SE[C]A Rule 15c3-1 and, if applicable, Rule 4110(a), shall be charged against the member's net capital when computing net capital under SE[C]A Rule 15c3-1 and 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 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 [sub]paragraph (e)(5)(A), the term “approved specialist” or “approved market maker” means either:

[i.] (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.] (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 SE[C]A Rule 15c3-1 and, if applicable, Rule 4110(a), shall be charged against the member’s net capital when computing net capital under SE[C]A Rule 15c3-1 and 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 Rule 4110(a), the respective requirements of those paragraphs may be used, rather than the haircut requirements of SEA Rule 15c3-1.



**(6) Broker[/]-Dealer Accounts**

(A) A member may carry the proprietary account of another broker[/]-dealer, which is registered with the [Commission] SEC, upon a margin basis which is satisfactory to both parties, provided the requirements of Regulation T and Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures [under the Act] and Rules 41.42 through 41.4[8]9 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 SE[C]A Rule 15c3-1 and, if applicable, Rule 4110(a), shall be charged against the member's net capital when computing net capital under SE[C]A Rule 15c3-1 and 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 Rule 4110(a), the respective requirements of those paragraphs may be used, rather than the haircut requirements of 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 [the Association] 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 SE[C]A Rule 15c3-1 and, if applicable, 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 SE[C]A Rule 15c3-1 and, if applicable, Rule 4110(a). In addition, the member must include in its ratio of gross options market maker [haircuts] deductions to net capital required by the provisions of SE[C]A Rule 15c3-1 and, if applicable, Rule 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 [the Association] 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 [the Association] FINRA on request; and

c. deduct from net capital haircut requirements pursuant to SE[C]A Rule 15c3-1 and, if applicable, 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 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, Rule 4110(a);

b. maintain an ownership interest in the carrying/clearing member [organization] 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 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) Nonpurpose Credit**

In a nonsecurities credit account, a member may extend and maintain nonpurpose credit to or for any customer without collateral or on any collateral whatever, provided:

(A) No Change.

(B) the account is not used in any way for the purpose of evading or circumventing any regulation of [NASD] FINRA or of the Board of Governors of the Federal Reserve System and Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures [under the Act] and Rules 41.42 through 41.4[8]9 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 [paragraph] shall be charged against the member's net capital as provided in SE[C]A Rule 15c3-1 and, if applicable, Rule 4110(a).

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

**(8) Shelf-Registered[,] and Other Control and Restricted Securities**

(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)[(3)] of this Rule, provided the member:

(i) obtains a current prospectus in effect with the [Commission] SEC, meeting the requirements of Section 10 of the Securities Act [of 1933], 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 [Commission] 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 [paragraph (c)]. Also see subparagraph (C) below.

(B) Other Control and Restricted Securities — [The] Except as provided in subparagraph (D) below, the equity in accounts of customers for other control [securities] and [other] restricted securities of issuers [who continue to maintain a consistent history of filing annual and periodic reports in timely fashion pursuant to the formal continuous disclosure system under the Act, which] that are subject to Securities Act Rule 144 or 145[(d)](c) [under the Securities Act of 1933], 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, Rule 4110(a), deducts any margin deficiencies in customers’ accounts based upon a margin requirement as specified in subparagraph (C)[(ii)](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) [under the Securities Act of 1933] in conformity with all of the applicable terms and conditions thereof, for purposes of determining such deficiencies; and

(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) [under the Securities Act of 1933] on a weekly basis or at such frequency as the member and/or [the

Association] FINRA may deem appropriate under the circumstances. See also subparagraph (C) below.

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

(i) FINRA [The Association] 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.

(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 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, Rule 4110(a), need not be included in this calculation. FINRA, upon written application, may reduce the deduction to net capital under 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.

(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, Rule 4110(a)), shall be deducted from net capital on the following basis for purposes of determining a member's status under 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.

(iv) [(ii)] 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

[(ii)] (iv)a. [.a] or b. [.b], above, as specified below:

<b>Percent of Outstanding Shares</b>	<b>or Percent of Average Weekly Volume</b>	<b>Margin Requirement</b>
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

For purposes of this [sub-]paragraph (e)(8)(C)(iv) [(ii)], “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 [%].

(v) The amount to be deducted from net capital for purposes of determining a member's status under Rule 4120, pursuant to paragraph (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, 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) [(k)] [under the Securities Act of 1933], or

(ii) then saleable pursuant to the terms and conditions of Securities Act Rule 145(d)(2) [or (d)(3)] [under such Act], shall not be subject to the provisions of [sub]paragraph (e)(8) of this Rule. [, provided that the issuer continues to maintain a consistent history of filing annual and periodic reports in timely fashion pursuant to the formal continuous disclosure system under the Act.]

**(f) Other Provisions**

**(1) Determination of Value for Margin Purposes**

Active securities dealt in on a national securities exchange [or OTC Marginable securities] 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)[guaranteed by the carrying broker-dealer],

may be deemed to have market value for the purposes of this Rule [2520]. 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.

**(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 paragraph (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.

(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,

1. the exercise price of the option contract multiplied by the principal amount of the underlying security covered by such option contract, plus

2. 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;

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<sub>s</sub> 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 "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

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

Options Clearing Corporation:

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

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

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



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

(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.

(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 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 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 s 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.

(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 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).

(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.

[(A)](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, [or] 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.

[(B)](C) The issuance, guarantee or sale (other than a “long” sale) for a customer of a put, [or] 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)[(2)].

[(C)](D) For purposes of this [sub]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 [that is issued by a registered clearing agency], 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 [that is not issued by a registered clearing agency], margin must be deposited and maintained equal to at least 75 percent [%] of the option’s or warrant’s “in-the-money” amount plus 100 percent [%] of the amount, if any, by which the current market value of the option or warrant exceeds its “in-the-money” amount provided the option or warrant:

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

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

- (i) In the case of listed puts and calls [issued by a registered clearing agency], 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 [issued, guaranteed or] 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 [issued, guaranteed or] carried “short” in a

customer's account. Margin on such put option contracts shall not be less than the current value of the put option plus the percentage of the put option's aggregate exercise price as specified in column III.

	<b>I [Security or Index] <u>Type of Option</u></b>	<b>II Initial and/or Maintenance Margin Required</b>	<b>III Minimum Margin Required</b>	<b>IV Underlying Component Value</b>
(1)	Stock	20 percent	10 percent	The equivalent number of shares at current market prices.
(2)	Industry index stock group	20 percent	10 percent	The product of the [current] index group value and the applicable index multiplier.
(3)	Broad index stock group	15 percent	10 percent	The product of the [current] index group value and the applicable index multiplier.
(4)	U.S. Treasury bills — 95 days or less to maturity	.35 percent	1/20 percent	The underlying principal amount.
(5)	U.S. Treasury notes	3 percent	1/2 percent	The underlying principal amount.
(6)	U.S. Treasury bonds	3.5 percent	1/2 percent	The underlying principal amount.

(7)	Foreign Currency[ies] Options and Warrants*	4 percent	3/4 percent	The product of units per foreign currency contract and the closing spot price.
(8)	Interest Rate contracts	10 percent	5 percent	The product of the current interest rate measure and the applicable multiplier.
(9)	Currency Index Warrants	**	**	The product of the index group value and the applicable index multiplier.
(10)	Stock Index Warrant on Broad Index Stock Group	15%	10%	The product of the index group value and the applicable index multiplier.
(11)	Stock Index Warrant on Industry Index Stock Group	20%	10%	The product of the index group value and the applicable index multiplier.

\* Does not include Canadian dollars, for which the initial requirement is 1 percent.

\*\* Subject to the approval of the SEC, FINRA shall determine applicable initial, maintenance and minimum margin requirements for currency index warrants on a case-by-case basis.

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

<b><u>Option or Warrant Issue</u></b>	<b>Call</b>	<b>Put</b>
Stock Options	Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.	Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.
U.S. Treasury Options	Any excess of the aggregate exercise price of the option over the current market value of the underlying principal amount.	Any excess of the current market value of the underlying principal amount over the aggregate exercise price of the option.
<u>Index Stock Group Options, Currency Index Warrants, and Stock Index Warrants</u>	Any excess of the aggregate exercise price of the option <u>or warrant</u> over the product of the [current] index group value and the applicable multiplier.	Any excess of the product of the [current] index group value and the applicable multiplier over the aggregate exercise price of the option <u>or warrant</u> .
<u>Foreign Currency Options and Warrants</u>	Any excess of the aggregate exercise price of the option <u>or warrant</u> 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 <u>or warrant</u> .
Interest Rate Options	Any excess of the aggregate exercise price of the option over the product of the current interest rate measure value and the applicable multiplier.	Any excess of the product of the current interest rate measure value and the applicable multiplier over the aggregate exercise price of the option.

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

(ii) In the case of listed puts and calls [issued by a registered clearing agency] 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 [not issued by a registered clearing agency], 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)(D)(E)(iii)).

In the case of OTC options [not issued by a registered clearing agency], the margin on any put or call [issued, guaranteed or] carried “short” in a customer’s account may be reduced by any “out-of-the-money amount” (as defined in paragraph (f)(2)(D)(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 [issued or guaranteed or] carried “short” in a customer’s account. Margin on such put option contracts shall not be less than the percentage of the put option’s exercise price as specified in column III below.

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

	the Securities Exchange Act of 1934] *			
5.	<u>Listed non-equity securities and other marginable non-equity securities as defined in paragraphs (a)(15) and (a)(16).</u> [Corporate debt securities registered on a national securities exchange and marginable OTC corporate debt securities as defined in Regulation T Section 220.2(t)(1)] [**]	15%	5%	The underlying principal amount.
6.	All other OTC options not covered above	45%	20%	The underlying principal amount.

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

[\*\* Option transactions on all other OTC margin bonds as defined in Regulation T Section 220.2(t) are not eligible for the margin requirements as contained in this provision. Margin requirements for such securities are to be computed pursuant to category (6).]

For the purpose of this paragraph (f)(2)[(D)](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 [current] 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 [current] 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.

(iv) OTC [P]puts and calls [not issued by a registered clearing agency and] representing options on U.S. Government and U.S. Government Agency debt securities that qualify for exemption pursuant to SEA Rule 3a12-7 [under the Securities Exchange Act of 1934], must be for a principal amount of not less than \$500,000, and shall be subject to the following requirements:

- 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)(D)(E)(iii)) or minus any “out-of-the-money amount” (as defined in paragraph (f)(2)(D)(E)(i)). The amount of any deficiency between the equity in the account and the margin required shall be deducted in computing the [N]net [C]capital of the member [organization] under SEA Rule 15c3-1 and, if applicable, Rule 4110(a), on the following basis:

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

2. On all accounts combined to the extent such deficiency exceeds 25 percent [%] of a member’s [organization’s] tentative [N]net [C]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.

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

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

[(E)](E)(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 [issued, guaranteed or] 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 Change

[(F)](G)(i) Where both a listed put and call specify the same underlying component [are issued by a registered clearing agency] 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 [sub]paragraph (f)(2)[(D)](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;

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[issued by a registered clearing agency] and are [issued, guaranteed or] OTC and carried “short” for a customer by the same carrying broker-dealer (as defined in [sub]paragraph (f)(2)[(G)](H)[(iii)] below), the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to [sub]paragraphs (f)(2)[(D)](E)(iii) and [(D)](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[issued, guaranteed or] carried by the same carrying broker[/]-dealer then the put and call must be margined



separately pursuant to [sub]paragraphs (f)(2)[(D)](E)(iii) and [(D)](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 [issued, guaranteed or] 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 [sub]paragraph (f)(2)[(D)](E)(ii) above, plus the current market value of the other option.

[(G)](H)(i) Where a listed call [that is issued by a registered clearing agency] is carried “long” for a customer’s account and the account is also “short” a listed call [issued by a registered clearing agency], 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 [sub]paragraph (f)(2)[(D)](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.

[(ii)] Where a listed put [that is issued by a registered clearing agency] is carried “long” for a customer’s account and the account is also “short” a listed put [issued by a registered clearing

agency], 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 [sub]paragraph (f)(2)(E)(i) [(iv)a.] 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” a listed call option, or index stock group, which “short” call position(s) expire on or before the date of expiration of the “long” call position and specify the same number of units of the same underlying currency or the same index multiplier for the same index currency group or index stock group, as the case may be, the margin required on the “short” call(s) shall be the lesser of (a) the margin required by paragraph (f)(2)(E)(i) above or (b) the amount, if any, by which the exercise price of the “long” call exceeds the exercise price(s) of the “short” call(s).

Where a put warrant issued on an underlying currency, index currency group or index stock group is carried “long” for a

customer's account and the account is also "short" a listed put option, and/or a put warrant, on the same underlying currency, index currency group, or index stock group, which "short" put position(s) expire on or before the date of expiration of the "long" put position and specify the same number of units of the same underlying currency or the same index multiplier for the same index currency group or index stock group, as the case may be, the margin required on the "short" put(s) shall be the 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 [that is issued by a registered clearing agency] is carried "long" for a customer's account and the account is also "short" a listed call [issued by a registered clearing agency], expiring on or before the date of expiration of the "long" [listed] 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 [sub]paragraph (f)(2)(D)(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 [that is issued by a registered clearing agency] is carried “long” for a customer’s account and the account is also “short” a listed put [issued by a registered clearing agency], expiring on or before the date of expiration of the “long” [listed] 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 [sub]paragraph (f)(2)(E)(ii) [(iv)b.] 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 [sub]paragraph (f)(2)[(G)](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 [or national securities association] on or through which the option is listed or traded. If the then current highest qualifying rate is less than 8 percent, the multiplier factor shall be 1; if the then current highest qualifying rate is

greater than or equal to 8 percent but less than 10 percent, the multiplier factor shall be 1.2; if the then current highest qualifying rate is greater than or equal to 10 percent but less than 12 percent, the multiplier factor shall be 1.4; if the then current highest qualifying rate is greater than or equal to 12 percent but less than 14 percent, the multiplier factor shall be 1.5; if the then current highest qualifying rate is greater than or equal to 14 percent but less than 16 percent, the multiplier factor shall be 1.6; and if the then current highest qualifying rate is greater than or equal to 16 percent but less than or equal to 18 percent, the multiplier factor shall be 1.7. The multiplier factor or factors for higher qualifying rates shall be established by [the Association] FINRA as required.

(iv) a. Where an OTC call [that is issued by a broker/dealer] 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

[sub]paragraph (f)(2)(D)(E)(iii) or (D)(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 [that is issued by a broker/dealer] 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 [sub]paragraph[s] (f)(2)(D)(E)(iii) or (D)(E)(iv) above; or

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

c. For purposes of this Rule, [A]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 [or]and guaranteed both options or issued [or]and guaranteed one of the options and the other option is listed[w]as issued by a registered clearing agency on behalf of that broker/dealer]. 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 [sub]paragraph[s]  
(f)(2)[(D)](E)(iii) or [(D)](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) [issued by a registered clearing agency or guaranteed  
by the carrying broker/dealer]. In the case of a call or warrant  
carried in a short position, a related long position in the underlying  
component shall be valued at no more than the call/warrant  
exercise price for margin equity purposes.

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

minimum maintenance required pursuant to paragraph (c) of this Rule.

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

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

d. Collars. When a call or warrant carried in a short position is covered by a long position in equivalent



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

e. Butterfly Spread. This subparagraph applies to a butterfly spread as defined in paragraph (f)(2)(A) of this Rule, [2522] where all option positions are listed or OTC (as defined in this Rule) [issued by a registered clearing agency or guaranteed by the carrying broker/dealer].

1. With respect to a long butterfly spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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 [2522], 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 [2522], where all option positions are listed or OTC (as defined in this Rule) [issued by a registered clearing agency or guaranteed by the carrying broker/dealer].

1. With respect to a long box spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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 [2522], 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 [2522], in which all component options have a European-style exercise provision and are listed or OTC (as defined in this Rule) [issued by a

registered clearing agency or guaranteed by the carrying broker/dealer], 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 [2522], where all option positions are listed or OTC (as defined in this Rule) [issued by a registered clearing agency or guaranteed by the carrying broker/dealer]. With respect to a long condor spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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 [2522], where all option positions are listed or OTC (as defined in this Rule) [issued by a registered clearing agency or guaranteed by the carrying broker/dealer]. With respect to a short iron butterfly spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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 [2522], where all option positions are listed or OTC (as defined in this Rule) [issued by a registered clearing agency or guaranteed by the carrying broker/dealer]. With respect to a short iron condor spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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 [2522], where all option positions are listed or OTC (as defined in this Rule) [issued by a registered clearing agency or guaranteed by the carrying broker/dealer]. With respect to a long calendar butterfly spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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 [2522], where all option positions are listed or OTC (as defined in this Rule) [issued by a registered clearing agency or guaranteed by the carrying broker/dealer]. With respect to a long calendar condor spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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 [2522], where all option positions are listed or OTC (as defined in this Rule) [issued by a registered clearing agency or guaranteed by the carrying broker/dealer]. With respect to a short calendar iron butterfly spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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 [2522], where all option positions are listed or OTC (as defined in this Rule) [issued by a registered clearing agency or guaranteed by the carrying broker/dealer]. With respect to a short

calendar iron condor spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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.

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

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

b. the right to exchange or convert the net “long” position does not expire on or before the date of expiration of the “short” call. Where a listed or OTC put is [issued, guaranteed or] carried “short” against an existing net “short” position in the security underlying the option, no margin need be required on the put, provided such net “short” position is adequately margined in accordance with this Rule.

(ii) Where a listed or OTC call [representing stock options is issued, guaranteed or] is carried “short” against an existing net

“long” position in a warrant convertible into the [underlying] 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 [sub]paragraphs (f)(2)[(H)](I)(i) and (ii) above, offsetting “long” and “short” positions in exchangeable or convertible securities (including warrants) or in the same security, as discussed in paragraph [(c)(5)(A)] (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.

(iv) Where a listed or OTC put or call option or stock index warrant is carried “short” in the account of a customer, against [a letter of guarantee] an escrow agreement, that is in a

form satisfactory to [the Association] FINRA, is [and] issued by a third party custodian bank or trust company (the “custodian” [guarantor]), either [which letter of guarantee] 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 [letter of guarantee] escrow agreement must certify that the custodian [guarantor] holds for the account of the customer as security for the [letter] 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 [current] index value computed as at the same time and that the custodian [guarantor] will promptly pay the member the exercise settlement amount in the event the account is assigned an exercise notice. The [letter of guarantee] 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 [traded] on any national securities exchange; or any equity security, other than a warrant, listed in



the current list of Over-the-Counter Margin Stocks as published by the Board of Governors of the Federal Reserve System].

In the case of a call on any other option contract, the [letter of guarantee] escrow agreement must certify that the custodian [guarantor] holds for the account of the customer as security for the [letter] 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 [guarantor] 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 [letter of guarantee] escrow agreement must certify that the custodian [guarantor] holds for the account of the customer as security for the [letter] 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 [guarantor] 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 [instruments] referred to in Section 220.2 of Regulation T.

[(I)](J) When a member [issues or] 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.

[(J)](K)(i) Registered specialists, market makers or traders — Notwithstanding the other provisions of this [sub]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 [N]net [C]capital haircut deduction of the member carrying the transaction pursuant to SE[C]A Rule 15c3-1 [under the Act] and, if applicable, Rule 4110(a). In lieu of collecting the “Good Faith” margin requirement, a carrying member may elect to deduct in computing its [N]net [C]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)(J)(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. through f. No Change.

g. A specified portfolio type as referred to in SE[C]A 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)[(J)](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 [N]net [C]capital maintained in all cases where the securities carried:

a. through b. No Change.

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 [N]net [C]capital and its overall exposure to material loss.

[(K)](L) FINRA [The Association] 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.

[(L)](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.

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

(i) No Change.

(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 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. through b. No Change.

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 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 [sub]paragraph (f)(2)(D)(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 [2522], and provided that:

a. all component options are listed or OTC (as defined in this Rule)[, or guaranteed by the carrying broker/dealer];

b. through e. No Change.

f. with respect to a long butterfly spread or long condor spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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 [2522], there is held in the account at the time the positions are established or received into the account promptly thereafter:

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

2. an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement i. cash, ii. cash equivalents or iii. a combination thereof having an aggregate market value at the time the positions are established of not less than the amount of the aggregate difference between the two lowest exercise prices with respect to short butterfly spreads comprised of calls or the aggregate difference between the two highest exercise prices with respect to short butterfly spreads comprised of



puts and that the bank will promptly pay the member such amount in the event the account is assigned an exercise notice on the call (put) with the lowest (highest) exercise price.

(iv) Box Spreads. Puts and calls carried in a short position are deemed covered positions and eligible for the cash account provided that the account contains long positions which in conjunction with the short options constitute a box spread as defined in paragraph (f)(2)(A) of this Rule [2522], provided that:

a. all component options are listed or OTC (as defined in this Rule)[, or guaranteed by the carrying broker/dealer];

b. through e. No Change.

f. with respect to a long box spread as defined in paragraph (f)(2)(A) of this Rule [2522], 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 [2522], there is held in the account at the time the positions are established, or received into the account promptly thereafter:

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

2. an escrow agreement.

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

**(3) “When Issued” and “When Distributed” Securities**

(A) No Change.

**(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 [for or with] 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 SE[C]A Rule 15c3-1 and, if applicable, Rule 4110(a).

The provisions of this [sub]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 [the Association] FINRA as involving a primary distribution. The term "when issued" as used herein also means "when distributed."

#### **(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 [organization] 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 SE[C]A Rule 15c3-1 and, if applicable, Rule 4110(a).

(5) No Change.

**(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 [fifteen] 15 business days from the date such deficiency occurred, unless [the Association] FINRA has specifically granted the member additional time.

**(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 [only]not apply (i) to those accounts that, at the time of liquidation, are [not] 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.

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

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

(i) through (ii) No Change.

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

**(B) Day Trading**

(i) No Change.

(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 [organization] 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.

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

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

Whenever day trading occurs in a customer’s margin account, the special maintenance margin required 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.

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

(iv) Special Requirements for Pattern Day Traders

a. No Change.

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.

[b.] 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

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.

[c.] 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.

[d.] 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).

[e.] 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.



[(C) When the equity in a customer's account, after giving consideration to the other provisions of this Rule, is not sufficient to meet the requirements of paragraph (f)(8)(A) or (B), additional cash or securities must be received into the account to meet any deficiency within five business days of the trade date.]

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

**(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 [the Association] FINRA in writing for waiver of a 90-day freeze not exempted by Regulation T.

**[(10) Margin For Index/Currency Warrants]**

[(A) This subparagraph (10) sets forth the minimum amount of margin that must be deposited and maintained in margin accounts of customers having positions in index warrants, currency index warrants or currency warrants dealt in on a national securities exchange. The Association may at any time impose higher margin requirements in respect of such positions when it deems such higher margin requirements to be advisable. The initial deposit of margin required under this Rule must be made within five full business days after the date on which a transaction giving rise to a margin requirement is effected. The margin requirements set forth in this subparagraph (J) are applicable only to index warrants, currency index warrants and currency warrants listed for trading on a national securities exchange on or after September 28, 1995.]

**[(B) Definitions]**

The following definitions shall apply to transactions in index warrants, currency index warrants, and currency warrants.]

[(i) The term “currency call warrant” means a warrant structured as a call on the underlying currency. The term “currency put warrant” means a warrant structured as a put on the underlying currency.]

[(ii) The term “currency index call warrant” means a warrant structured as a call on the underlying currency index. The term “currency index put warrant” means a warrant structured as a put on the underlying currency index.]

[(iii) The term “current market value” of an index warrant, currency index warrant or currency warrant shall mean the total cost or net proceeds of the transaction on the day the warrant was purchased or sold and at any other time shall mean the most recent closing price of that issue of warrants on the exchange on which it is listed on any day with respect to which a determination of current market value is made.]

[(iv) The term “index call warrant” means a warrant structured as a call on the underlying stock index group. The term “index put warrant” means a warrant structured as a put on the underlying stock index group.]

[(v) The term “index group value” in respect to a currency index warrant means the numerical index value of particular currency index multiplied by \$1.00 U.S. or the applicable index multiplier.]

[(vi) The term “index group value” in respect of an index warrant means the numerical index value of a particular stock index multiplied by \$1.00 U.S. or other applicable index multiplier.]

[(vii) The term “numerical index value” in respect of a currency index warrant means the level of a particular currency index as reported by the reporting authority for the index.]

[(viii) The term “numerical index value” in respect of an index warrant means the level of a particular stock index as reported by the reporting authority for the index.]

[(ix) The term “reporting authority” in respect of a currency index warrant means the institution or reporting service specified in the prospectus for the warrant as the official source for calculating and reporting the levels of such currency index.]

[(x) The term “reporting authority” in respect of an index warrant means the institution or reporting service specified in the prospectus for the warrant as the official source for calculating and reporting the levels of such stock index.]

[(xi) 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.]

[(xii) The terms “stock index group,” “index warrants,” “currency warrants,” “currency index,” and “currency index warrants” when used in reference to an index warrant, currency index warrant, or currency warrant shall have the same meanings as set forth in Rule 2842.]

[(xiii) The term “strike price” in respect of an index warrant, currency index warrant or currency warrant means the

price at which the warrant may be exercised in accordance with its terms.]

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

[(C) Except as provided in this subparagraph (J), no index warrant, currency index warrant or currency warrant carried for a customer shall be considered of any value for the purpose of computing the margin required in the account of such customer. Subject to the exceptions set forth in subparagraph (J)(v) of this Rule, the minimum margin on any currency warrant, currency index warrant or index warrant issued, guaranteed or carried “short” in a customer’s account shall be:]

[(i) In the case of an index put or call warrant, 100 % of the current market value of each such warrant plus 15 % of the current index group value. Such amount shall be decreased by the excess of the strike price of the warrant over the current index group value in the case of an index call warrant, or the excess of the current index group value over the strike price of the warrant in the case of an index put warrant; or]

[(ii) In the case of a currency put or call warrant, 100% of the current market value of each such warrant plus 4 % (or such other percentage, as specified by the national securities exchange listing the warrant and approved by the Commission on a case-by-case basis) of the product of the units of underlying currency per

warrant and the spot price for such currency. The add-on percentage with respect to warrants on the German Mark, French Franc, Swiss Franc, Japanese Yen, British Pound, Australian Dollar, U.S. and European Currency Unit (“ECU”) shall be four percent (4%), and for the Canadian Dollar the “add-on” percentage shall be one percent (1%). Such amount shall be decreased by the excess of the strike price of the warrant over the product of the units of underlying currency per warrant and the spot price of the currency in the case of a currency call warrant, or any excess of the product of the units of underlying currency per warrant and the spot price over the strike price of the warrant in the case of a currency put warrant; or]

[ (iii) In the case of the currency index put or call warrants, 100% of the current market value of each such warrant plus a percentage, as specified by the national securities exchange listing the warrant and approved by the Commission on a case-by-case basis, of the current index group value. Such amount shall be decreased by the excess of the strike price of the warrant over the current index group value in the case of a currency index call warrant, or any excess of the current index group value over the strike price of the warrant in the case of a currency index put warrant.]

[Notwithstanding the foregoing:

(D) The minimum margin on each currency put or call warrant, currency index put or call warrant or index put or call warrant issued, guaranteed or carried “short” in a customer’s account shall be not less than 100% of the current market value of such warrant plus:]

[(i) 10% of the current index group value in the case of a index warrant;]

[(ii) .75% (.0075) (or such other percentage as specified by the national securities exchange listing the warrant and approved by the Commission) of the product of the units of underlying currency per warrant and the spot price of such currency, in the case of a currency warrant; or]

[(iii) in the case of currency index warrants, a percentage of the current index group value as specified by the national securities exchange listing the warrant and approved by the Commission.]

[(E)(i) When a “short” position in an index call warrant, currency index call warrant or currency call warrant is offset by a “short” position of equivalent underlying value in a put warrant or a put option issued by The Options Clearing Corporation on the same index or currency, or a “short” position in an index put warrant, currency index put warrant or currency put warrant is offset by a “short” position of equivalent underlying value in a call warrant or a call option issued by The Options Clearing

Corporation on the same index or currency, the margin required shall be the margin on the put position or the call position, whichever is greater, plus the current market value of the other position.]

[(ii) When a “long” position in an index call warrant, currency index call warrant or currency call warrant is offset by a “short” position of equivalent underlying value in a call warrant or a call option issued by The Options Clearing Corporation on the same index or currency, then, provided that the “long” position expires no earlier than the “short” position, the margin required shall be the amount, if any, by which the strike price of the “long” position exceeds the strike price of the “short” position.]

[(iii) When a “long” position in an index put warrant, currency index put warrant or currency put warrant is offset with a “short” position of equivalent underlying value in a put warrant or a put option issued by The Option Clearing Corporation on the same index or currency, then, provided that the “long” position expires no earlier than the “short” position, the margin required shall be the amount, if any, by which the strike price of the “short” position exceeds the strike price of the “long” position.]

[(iv) The margin treatment for spread positions pursuant to subparagraphs (iii)a., b., and c. above is subject to a one-year pilot program scheduled to begin September 28, 1995.]



[(v) No margin is required in respect of a “short” position in an index call warrant where the customer has delivered, promptly after the warrant has been sold short, to the member with which such position is maintained, a Market Index Warrant Escrow Receipt in a form satisfactory to the Association, issued by a bank or trust company pursuant to specific authorization from the customer which certifies that the issuer of the agreement holds for the account of the customer:]

[a. cash;]

[b. cash equivalents;]

[c. one or more qualified equity securities; or]

[d. a combination thereof;]

[that such deposit has an aggregate market value, at the time the warrant is sold short, of not less than 100% of the aggregate current index value; and that the issuer will promptly pay the member sufficient funds to purchase the warrant sold short in the event of a buy-in.]

**[(11)] (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 [section] subparagraph.

**(B) Amount of customer margin**

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

(ii) Excluded from the [r]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 Rule 401(a)(9) of SEC Customer Margin Requirements for Security Futures [under the Act], 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)](10)(B)(i) of this Rule, customers with offset positions involving security futures and related positions may have initial or maintenance margin levels (pursuant to the offset table

below) that are lower than the levels specified in paragraph (f)[(11)](10)(B)(i) of this Rule.

	<b>Description of Offset</b>	<b>Security Underlying the Security Future</b>	<b>Initial Margin Requirement</b>	<b>Maintenance Margin Requirement</b>
(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	Individual stock or narrow-	The initial margin required under	5 percent of the current market value as defined

	same security (or securities basket) underlying the security future.	based security index.	Regulation T for the short stock or stocks.	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.
(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	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	20 percent of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money

	security index put option contract on the same index.		amount, if any. Proceeds from the put sale may be applied.	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.
(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	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

			security future.	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	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.

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

	security and the put and call must have the same exercise price. (Reverse Conversion)		call in full. Proceeds from put sale may be applied.	
(16)	Long (short) a security future and short (long) an identical <sup>1</sup> 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).

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



**(C) Definitions**

For the purposes of paragraph (f)(10) [(11)] 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 Rule 401(a)(4) of SEC Customer Margin Requirements for Security Futures [under the Act] and Rule 41.43(a)(4) under the CEA.

(iii) through (v) No Change.

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

**(D) Security Futures Dealers’ Accounts[.]**

(i) Notwithstanding the other provisions of this paragraph (f)(10) [(11)], 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 [N]net [C]capital haircut deduction of the member carrying the transaction pursuant to SEA

Rule 15c3-1 [under the Act] and, if applicable, Rule 4110(a). In lieu of collecting the “Good Faith” margin requirement, a carrying member may elect to deduct in computing its [N]net [C]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) [(11)](D), the term “security futures dealer” means (1) a member [or member organization] 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 [or member organization] 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 [Commission] SEC under Section 15(b) of the Exchange Act; (b) requires such member [or member organization] 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 [or member organization] 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 [or member organization’s] registration as a security futures dealer, for

such member's [or member organization's] failure to comply with Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures [of the Act] 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 [or member organization].

(ii) For purposes of this paragraph (f)~~(11)~~(10)(D), a permitted offset position means in the case of a security futures contract in which a security futures dealer makes a market, a position in the underlying asset or other related assets, or positions in options overlying the asset or related assets. Accordingly, a security futures dealer may establish a long or short position in the assets underlying the security futures contracts in which the security futures dealer makes a market, and may purchase or write options overlying those assets if the account holds the following permitted offset positions:

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

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

c. through (f) No Change.

g. An offset position as defined in SEA Rule 15c3-1 [under the Act], 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)[(11)] and (f)(2)[(J)](K), a member may carry and clear the market maker permitted offset 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 [N]net [C]capital haircut deduction of the member carrying the transaction pursuant to SEA Rule 15c3-1 [under the Act] and, if applicable, Rule 4110(a). In lieu of collecting the “Good Faith” margin requirement, a carrying member may elect to deduct in computing its [N]net [C]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) [(11)](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)[(J)](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) [(11)](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. through f. No Change.

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

(iii) For purposes of paragraphs (f)(10)[(11)](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 [N]net [C]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 [N]net [C]capital and its overall exposure to material loss.

**(F) Approved Specialists’ and Approved Market Makers’**

**Accounts – [o]Others**

(i) Notwithstanding the other provisions of paragraphs (f)(10)[(11)] and (f)(2)[(J)](K), a member may carry the account of

an “approved specialist[,]” or “approved 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, Rule 4110(a), shall be charged against the member’s net capital when computing net capital under SE[C]A Rule 15c3-1 and Rule 4110(a).

(ii) For purposes of this paragraph (f)(10) [(11)](F), the term “approved specialist” or “approved market maker” means a specialist or market maker who is deemed a specialist or market maker 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)[(11)], provided that the requirements of Rule 404(b) of SEC Customer Margin Requirements for Security Futures [under the Act] 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 [NASD] FINRA excess must be collected. The creation of a customer call subjects the account to all the restrictions contained in paragraph[Rule 2520] (f)(8)(B) of this Rule.

(iii) through (iv) No Change.

**(g) Portfolio Margin**

As an alternative to the “strategy-based” margin requirements set forth in paragraphs (a) through (f) of this Rule, members may elect to apply the portfolio margin requirements set forth in this paragraph (g) to all margin equity securities,<sup>1</sup> listed options, security futures products (as defined in Section 3(a)(56) of the Exchange Act), unlisted derivatives, warrants, stock index warrants and related instruments (as defined in paragraph (g)(2)(D)), provided that the requirements of paragraph (g)(6)(B)(i) of this Rule are met.

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

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 [as defined in



paragraph (g)(2)(D)] 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 [NASD] FINRA, or the member’s designated examining authority (“DEA”) if other than [NASD] FINRA, and submitted to the [Commission] SEC prior to the implementation of portfolio margining. In performing the risk analysis of portfolio margin accounts required by this Rule, each member shall include in the written risk analysis methodology procedures and guidelines for:

(A) through ((I) No Change.

**(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[ or automated facility of a registered national securities association].

(B) No Change.

(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 SE[C]A Rule 15c3-1a that a percentage of offsetting profits may be applied to losses at the same valuation point.

(D) through (E) No Change.

(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:

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

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<sup>2</sup> In accordance with paragraph (b)(1)(i)(B) of SE[C]A Rule 15c3-1a (Appendix A to SE[C]A Rule 15c3-1), 17 CFR 240.15c3-1a(b)(1)(i)(B).

<sup>3</sup> See footnote 2.

(G) No Change.

(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 [Commission] SEC.

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

**(4) Eligible Participants[.]** — The application of the portfolio margin provisions of this paragraph (g) is limited to the following:

(A) No Change.

(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 [five] \$5 million [dollars] 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 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.

**(5) Opening of Accounts**

(A) Members must notify and receive approval from [NASD] FINRA, or the member's DEA if other than [NASD] 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 [NASD] Rule 2360 [2860], or the rules of the member's DEA if other than [NASD] FINRA, are permitted to utilize a portfolio margin account. If eligible participants engage in security futures products transactions, approval from the member will also be required pursuant to Rule 2370.

(C) 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 [NASD] Rule 2360 [2860](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) No Change.

**(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. 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 SE[C]A 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 [SEC] Securities Act Rule 144 or an [Commission] 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);

[(b)]b. a listed option on an equity security or index of equity securities;

[(c)]c. a security futures product;

[(d)]d. an unlisted derivative on an equity security or index of equity securities;

[(e)]e. a warrant on an equity security or index of equity securities; and

[(f)]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) through (C) No Change.

(D) Positions other than those listed in [P]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) through (iii) No Change.

(iv) the member complies with the requirements of Section 11(d)(1) of the Exchange Act and SE[C]A Rule 11d1-2 [thereunder].

**(8) Method of Calculation**

(A) through (B) No Change.

(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 SE[C]A Rule 15c3-1a.

(D) through (E) No Change.

**(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 [five] \$5 million [dollar] minimum equity required, if applicable, and is not restored to at least [five] \$5 million [dollars] within 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 [five] \$5 million [dollars] is established, or

(ii) No Change.

(B) Members will not be permitted to deduct any portfolio margin minimum equity deficiency amount from [N]net [C]capital in lieu of collecting the minimum equity required.

**(10) Portfolio Margin Deficiency**

(A) No Change.

(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 [N]net [C]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 [N]net [C]capital in lieu of collecting the margin required.

(D) [NASD] FINRA, or the member's DEA if other than [NASD] 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 [(B)] (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.

**(11) Determination of Value for Margin Purposes[.]** — For the purposes of this paragraph (g), all eligible products shall be valued at current market prices. Account equity for the purposes of paragraphs (g)(9)(A) and (g)(10)(A) shall be calculated separately for each portfolio margin account by adding the current market value of all long positions, subtracting current market



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

**(12) 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 [N]net [C]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 [N]net [C]capital, the member shall immediately transmit telegraphic or facsimile notice of such deficiency to the principal office of the [Commission] SEC in Washington, D.C., the district or regional office of the [Commission] SEC for the district or region in which the member maintains its principal place of business; and to [NASD] FINRA, or the member's DEA if other than [NASD] FINRA. The [N]notice to [NASD] FINRA shall be in such form as [NASD] 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 [five] \$5 million [dollars] 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 [five] \$5 million [dollars] 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.

#### **(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 [s]Section 101 of [t]Title 11 of the United States Code, or is unable to meet its obligations as they mature;

(ii) No Change.

(iii) not in compliance with applicable requirements under the Exchange Act or rules of the [Commission] SEC or any self-regulatory organization with respect to financial responsibility or hypothecation of eligible participant’s securities; or

(iv) No Change.

(B) No Change.

(15) Members must ensure that portfolio accounts are in compliance with Rule 2360 [2860].

**(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.

**••• 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

July 15 is 181\* days

February 15 is 184 days

August 15 is 181\* days

March 15 is 181\* days

September 15 is 184 days

April 15 is 182\* days

October 15 is 183 days

May 15 is 181\* days

November 15 is 184 days

June 15 is 182\* days

December 15 is 183 days

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\* Leap Year Adds 1 day to this period.

#### **4220. Daily Record of Required Margin**

Each member carrying securities margin accounts for customers (as such term is defined in Rule 4210(a)(3)) shall make a record each day of every case in which, pursuant to FINRA rules or Regulation T of the Board of Governors of the Federal Reserve System, initial or additional margin must be obtained in a customer's account in such format as FINRA may require. The record shall show, for each account, the amount of margin so required and the date when and manner in which cash or securities are deposited or the margin requirements were otherwise complied with. Individual entries will be deemed a "record," and such entries need not be combined and kept as a separate record.

**[3160] 4230. Required Submissions for Requests for Extensions of Time Under Regulation T and SE[C]A Rule 15c3-3**

(a) When FINRA [NASD] is the designated examining authority pursuant to SE[C]A Rule 17d-1 for a member that is a clearing firm, such member must submit requests for extensions of time as contemplated by Sections 220.4(c) and 220.8(d) of Regulation T of the Board of Governors of the Federal Reserve [Board] System (“Regulation T”) and SE[C]A Rule 15c3-3(n) to FINRA [NASD] for approval, in such format as FINRA [NASD] may require.

(b) Each member that is a clearing firm for which FINRA [NASD] is the designated examining authority is required to file a monthly report with FINRA [NASD] in such format as FINRA [NASD] may require, indicating all broker-dealers for which it clears that have overall ratios of requests for extensions of time as contemplated by Sections 220.4(c) and 220.8(d) of Regulation T [of the Federal Reserve Board] and SE[C]A Rule 15c3-3[(m)][(n)] to total transactions for the month that exceed a percentage specified by FINRA [NASD]. The report is due to FINRA [NASD] within five [(5)] business days following the end of each reporting month. For months when no broker-dealer for which it clears exceeds the criteria, the clearing firm must submit a report indicating such.