

Guide to Updated Interpretations of FINRA Rule 4210 as Published on August 9, 2024

FINRA is providing this Guide to assist members with regard to the updated Interpretations of FINRA Rule 4210 (Margin Requirements) as published on August 9, 2024 (referred to in this Guide as the “Interpretations”). The Guide is marked vis-à-vis the Interpretations as they were in place on October 27, 2021.

Document Key

Inserted text: Purple Double Underline

Deleted text: ~~Red Strikethrough~~

Interpretation: Blue Background

Tag Key

A tag in bold, capitalized text appears at the beginning of each Interpretation in this Guide. Each tag means as follows:

- **CANCELLED:** The Interpretation no longer applies owing to a superseding rule change. For example, the Covered Agency Transaction requirements that went into effect on May 22, 2024, superseded of the prior Interpretations under Rule 4210(e)(2)(F) as it stood prior to the Covered Agency Transaction amendments.
- **MINOR CHANGE:** The Interpretation involves only a minor conforming change (for example, changing “firm” to read “member”, standardizing the paragraph reference style to conform with the style of the Interpretations of Financial and Operational Rules, and formatting).
- **MOVED:** The Interpretation’s location has been moved, and may include minor conforming changes as discussed above.
- **NEW:** The Interpretation is new staff guidance provided by FINRA staff that has not previously been published.
- **REPLACED:** The Interpretation has been replaced by a new Interpretation. The replaced Interpretation is marked as rescinded.
- **REPLACEMENT:** The Interpretation is new and replaces an older Interpretation for purposes of clarification or owing to a superseding rule change.
- **RN/FAQ:** The Interpretation has been added based on prior published guidance set forth in a Regulatory Notice or similar communication, or the Portfolio Margin FAQ.

- **UNCHANGED:** The Interpretation has not been changed other than for minor formatting changes.
- **UNNECESSARY:** The Interpretation is no longer necessary. A *comment* is provided for further information.

Throughout the Guide, *comments* are included after the cited Regulatory Notice, or similar cited communication, that follows the Interpretation to provide further information.

Summary of Changes

Total Interpretations	198
CANCELLED	12
MINOR CHANGE	49
MOVED	4
NEW	27
REPLACED	13
REPLACEMENT	11
RN/FAQ	16
UNCHANGED	52
UNNECESSARY	14

Interpretations of Rule 4210

4210(a) Definitions

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

NEW: 4210(a)/01 Terms Defined in the Exchange Act or Rules Thereunder

Unless otherwise specified in this Rule or other FINRA Rules, terms defined in the Exchange Act or rules thereunder (including Regulation T) shall have the meanings given them in the Exchange Act or in such rules.

(Regulatory Notice 24-XX)

[Comment: Added to ensure a consistent understanding of general terminology used.]

NEW: 4210(a)/011 Good Faith

Good faith with respect to:

- a. Margin means the amount of margin which a creditor would require in exercising sound credit judgment;
- b. Making a determination or accepting a statement concerning a borrower means that the creditor is alert to the circumstances surrounding the credit, and if in possession of information that would cause a prudent person not to make the determination or accept the notice or certification without inquiry, investigates and is satisfied that it is correct.

(Regulation T 220.2 Definitions)

(Regulatory Notice 24-X)

[Comment: Copied from Reg T and to eliminate confusion when the term "good faith" is used.]

4210(a)(2) The term "current market value" means the total cost or net proceeds of a security on the day it was purchased or sold or at any other time the preceding business day's closing price as shown by any regularly published reporting or quotation service except for security futures contracts (see paragraph (f)(10)(C)(ii)).

If there is no closing price, a member may use a reasonable estimate of the market value of the security as of the close of business on the preceding business day.

MOVED: 4210(a)(2)/01 Accrued Interest

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Moved from 4210(e)(2)(E)(ii)]

NEW: 4210(a)(2)/02 Accrued Interest – Alternate Method

In computing the current market value of a debt security, the maintenance margin requirement on the debt security, and equity in an account containing the debt security, a member may use a reasonable estimate of the amount that would be realized upon sale of the debt security, including amounts reasonably estimated to be received by a seller in respect of accrued interest, provided that (i) interest paid by the issuer on such debt security will be paid to the member rather than to the customer, and (ii) withdrawals of such interest are subjected to the limitations on withdrawals from the account under Rule 4210(b). Such reasonable estimates must be consistently applied—a member may not exclude interest from the current market value of a debt security for purposes computing the maintenance margin requirement on the debt security while including it in the current market value for purposes of computing the equity in the customer’s account.

When an issuer is in default or a debt security is otherwise trading “flat,” purchasers are generally not expected to include accrued interest in the amount paid for the purchase of the security; accordingly, accrued interest generally may not be included in the current market value of such securities.

(Regulatory Notice 24-XX)

[Comment: Allows members to correct inconsistencies related to the use of clean or dirty bond prices when computing market value.]

4210(a)(3) The term "customer" means any person for whom securities are purchased or sold or to whom securities are purchased or sold whether on a regular way, when issued, delayed or future delivery basis. It will also include any person for whom securities are held or carried and to or for whom a member extends, arranges or maintains any credit. The term will not include the following: (A) a broker or dealer from whom a security has been purchased or to whom a security has been sold for the account of the member or its customers, or (B) an "exempted borrower" as defined by Regulation T of the Board of Governors of the Federal Reserve System ("Regulation T"), except for the proprietary account of a broker-dealer carried by a member pursuant to paragraph (e)(6) of this Rule.

UNCHANGED: 4210(a)(3)/01 Customer Includes

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

NEW: 4210(a)(3)/02 Reverse Repurchase Counterparty

The term "customer" includes a counterparty (other than an exempted borrower) to a reverse repurchase transaction with the member. For purposes of Rule 4210, a reverse repurchase transaction is treated as a margin loan in the amount (the "purchase price") the member pays or credits the counterparty for the securities subject to the transaction (the "purchased securities"), against a long position in the purchased securities. When calculating required margin and equity, the member shall use the current market value of the purchased securities.

If the purchased securities include any equity securities, the reverse repurchase transaction must be recorded in a Regulation T margin account. If purchased securities do not include any equity securities, then the transaction may be recorded in a Regulation T good faith account or a Regulation T margin account.

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretation. Straightforward consequence of (a)(3)/01. Implicit in certain existing interps, such as (e)(2)(F)/02.]

4210(a)(4) The term "designated account" means the account of:

REPLACEMENT: 4210(a)(4)/01 Foreign Institutions

Foreign institutions (including without limitation foreign banks, brokers, dealers, insurance companies and government agencies) generally do not qualify as "designated accounts" as they are not regulated under the laws of the United States or of a state or political subdivision thereof. United States branches of foreign banks, however, may qualify as "banks" (and therefore "designated accounts") under clause (C) of the definition of "bank" in Exchange Act Section 3(a)(6). See Interpretation Rule 4210(a)(4)(A)/011.

(Regulatory Notice 24-XX)

[Comment: Replaces and corrects current Interpretation 4210(a)(4)(F) /01 (Foreign Institutions). US branches of foreign banks may be "banks" under SEA 3(a)(6).]

4210(a)(4)(A) a bank (as defined in Section 3(a)(6) of the Exchange Act),

REPLACED: 4210(a)(4)(A)/01 Bank — (Rescinded)

~~The term "bank" means a domestic bank as defined under Section 3(a)(6) of the Exchange Act~~

~~(Regulatory Notice ~~10-45~~24-XX)~~

~~[Comment: Amendments to the Exchange Act's definition of "bank" have rendered interpretations /01 and /02 inaccurate. They are replaced by new interpretation /011, which quotes the current definition of "bank" from SEA 3(a)(6).]~~

REPLACEMENT: 4210(a)(4)(A)/011 Bank

As amended in 2010, Section 3(a)(6) of the Exchange Act says:

The term "bank" means (A) a banking institution organized under the laws of the United States or a Federal savings association, as defined in section 1462(5) of title 12, (B) a member bank of the Federal Reserve System, (C) any other banking institution or savings association, as defined in section 1462(4) of title 12, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under the authority of the Comptroller of the Currency pursuant to section 92a of title 12, and which is supervised and examined by State or Federal authority having

supervision over banks or savings associations, and which is not operated for the purpose of evading the provisions of [the Exchange Act], and (D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B), or (C) of this paragraph.

(Regulatory Notice 24-XX)

[Comment: Clarification of the definition of bank.]

REPLACED: 4210(a)(4)(A)/02 Savings and Loan Associations

~~Savings and loan associations are not “banks” as defined in Section (3)(a)(6) of the Exchange Act and, therefore, are not included in the term “designated account.” Savings and loan associations are deemed to be other lenders subject to Regulation U of the Board of Governors of the Federal Reserve System. — (Rescinded)~~
(Regulatory Notice ~~10-45~~24-XX)

[Comment: Rescinded because it's replaced by Interpretation 4210(a)(4)(A)/011.]

4210(a)(4)(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,

4210(a)(4)(C) an insurance company (as defined in Section 2(a)(17) of the Investment Company Act),

4210(a)(4)(D) an investment company registered with the SEC under the Investment Company Act,

CANCELLED: 4210(a)(4)(D)/01 Investment Trust

~~The term “investment trust” means any investment company registered with the SEC under the Investment Company Act. — (Rescinded)~~
(Regulatory Notice ~~10-45~~24-XX)

[Comment: Rescinded because this term is not used in Rule 4210 or any of the interpretations.]

4210(a)(4)(E) a state or political subdivision thereof, or

4210(a)(4)(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.

REPLACED: 4210(a)(4)(F)/01 Foreign Institutions — (Rescinded)

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

See Interpretation Rule 4210(a)(4)/01.

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Inaccurate because US branches of foreign banks may qualify as designated accounts. Rescinded and replaced with Interpretation 4210(a)(4)/01.]

4210(a)(5) The term "equity" means the customer's ownership interest in the account, computed by adding the current market value of all securities "long" and the amount of any credit balance and subtracting the current market value of all securities "short" and the amount of any debit balance. Any variation settlement received or paid on a security futures contract shall be considered a credit or debit to the account for purposes of equity.

4210(a)(6) The term "exempted security" or "exempted securities" has the meaning as in Section 3(a)(12) of the Exchange Act.

UNCHANGED: 4210(a)(6)/01 STRIPS and Similar Securities

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

REPLACEMENT: 4210(a)(6)/02 Government-Sponsored Enterprise Equity Securities

All securities issued by certain government sponsored enterprises are categorized as “government securities” under Exchange Act section 3(a)(42), and therefore as “exempted securities” under Exchange Act section 3(a)(12); however, equity securities issued by these GSEs (“GSE Equities”) are not treated as exempted

securities for purposes of this rule. The initial margin required on transactions in GSE Equities are the same as that required by Rule 4210(b) for transactions in margin equity securities that are not exempted securities. The maintenance margin requirement on positions in GSE Equities are the same as that required by Rule 4210(c) for positions in margin equity securities. Rule 4210(e)(2)(B) does not apply to GSE Equities.

(Regulatory Notice 24-XX)

[Comment: Consolidates guidance currently provided at Interpretation 4210(b)(4)/06 and (e)(2)(A)/05 for FNMA common stock and convertible debentures and generalizes it to cover all GSE equities]

4210(a)(7) The term "margin" means the amount of equity to be maintained on a security position held or carried in an account.

4210(a)(8) The term "person" has the meaning as in Section 3(a)(9) of the Exchange Act.

4210(a)(9) The term "highly rated foreign sovereign debt securities" means any debt securities (including major foreign sovereign debt securities) issued or guaranteed by the government of a foreign country, its provinces, state or cities, or a supranational entity, if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in one of the top two rating categories by at least one nationally recognized statistical rating organization.

4210(a)(10) The term "investment grade debt securities" means any debt securities (including those issued by the government of a foreign country, its provinces, states or cities, or a supranational entity), if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in one of the top four rating categories by at least one nationally recognized statistical rating organization.

4210(a)(11) The term "major foreign sovereign debt" means any debt securities issued or guaranteed by the government of a foreign country or a supranational entity, if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in

the top rating category by at least one nationally recognized statistical rating organization.

4210(a)(12) The term "mortgage related securities" means securities falling within the definition in Section 3(a)(41) of the Exchange Act.

REPLACEMENT: 4210(a)(12)/01 Mortgage Related Securities

For the purpose of this Rule, positions and transactions (including reverse repurchase transactions) in mortgage related securities may be afforded the same treatment as exempted securities under Rule 4210(e)(2)(A) or (B).

See Rule 4210(e)(2)(F) for positions and transactions in mortgage related securities made for or with an exempt account as defined in Rule 4210(a)(13).

(Regulatory Notice 24-XX)

[Comment: Edited version of old Interpretation 4210(e)(2)(B)/02 (which is rescinded and replaced by this interpretation), with the addition of a reference to (e)(2)(F).]

4210(a)(13) The term "exempt account" means:

4210(a)(13)(A) a member, non-member broker-dealer registered as a broker or dealer under the Exchange Act, a "designated account," or

4210(a)(13)(B) any person that:

4210(a)(13)(B)(i) has a net worth of at least \$45 million and financial assets of at least \$40 million for purposes of paragraphs (e)(2)(F) and (e)(2)(G), and

4210(a)(13)(B)(ii) either:

4210(a)(13)(B)(ii)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

4210(a)(13)(B)(ii)b. has securities registered pursuant to the Securities Act, has been subject to the reporting requirements of Section 15(d) of the Exchange Act for a period of at least 90 days and has filed all the reports required to be filed

thereunder during the preceding 12 months (or such shorter period as it was required to file such reports), or

4210(a)(13)(B)(ii)c. if such person is not subject to Section 13 or 15(d) of the Exchange Act, is a person with respect to which there is publicly available the information specified in paragraphs (a)(5)(i) through (xiv), inclusive, of SEA Rule 15c2-11, or

4210(a)(13)(B)(ii)d. furnishes information to the SEC as required by SEA Rule 12g3-2(b), or

4210(a)(13)(B)(ii)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.

NEW: 4210(a)(13)(B)(ii)e./01 Comparable Financial Reports

In appropriate circumstances, "comparable financial reports" may be unaudited statements of financial condition, income or changes in owners' equity.

(Regulatory Notice 24-XX)

[Comment: Plain language interpretation of the rule.]

4210(a)(14) The term "non-equity securities" means any securities other than equity securities as defined in Section 3(a)(11) of the Exchange Act.

4210(a)(15) The term "listed non-equity securities" means any non-equity securities that: (A) are listed on a national securities exchange; or (B) have unlisted trading privileges on a national securities exchange.

4210(a)(16) The term "other marginable non-equity securities" means:

4210(a)(16)(A) Any debt securities not traded on a national securities exchange meeting all of the following requirements:

4210(a)(16)(A)(i) At the time of the original issue, a principal amount of not less than \$25 million of the issue was outstanding;

4210(a)(16)(A)(ii) The issue was registered under Section 5 of the Securities Act and the issuer either files periodic reports pursuant to Section 13(a) or 15(d) of the Exchange Act or is an insurance company which meets all of the conditions specified in Section 12(g)(2)(G) of the Exchange Act; and

4210(a)(16)(A)(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

4210(a)(16)(B) Any private pass-through securities (not guaranteed by any agency of the U.S. government) meeting all of the following requirements:

4210(a)(16)(B)(i) An aggregate principal amount of not less than \$25 million (which may be issued in series) was issued pursuant to a registration statement filed with the SEC under Section 5 of the Securities Act;

4210(a)(16)(B)(ii) Current reports relating to the issue have been filed with the SEC; and

4210(a)(16)(B)(iii) At the time of the credit extension, the creditor has a reasonable basis for believing that mortgage interest, principal payments and other distributions are being passed through as required and that the servicing agent is meeting its material obligations under the terms of the offering.

4210(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:

4210(b)(1) the amount specified in Regulation T, or Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures, or Rules 41.42 through 41.49 under the Commodity Exchange Act ("CEA"); or

4210(b)(2) the amount specified in paragraph (c) of this Rule; or

4210(b)(3) such greater amount as FINRA may from time to time require for specific securities; or

4210(b)(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 and Rules 41.42 through 41.49 under the CEA, and after such withdrawal the equity in the account is at least the greater of \$2,000 (\$25,000 in the case of a "pattern day trader") or an amount sufficient to meet the maintenance margin requirements of this Rule.

UNCHANGED: 4210(b)(4)/01 Compliance with Regulation T

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(b)(4)/02 Minimum Equity — (Rescinded)

(Regulatory Notice 21-24)

[Comment: Unchanged]

UNCHANGED: 4210(b)(4)/021 Minimum Equity

- a. Each new transaction in a customer margin account, including those instances where more than one margin account is permitted under Regulation T, is subject to the \$2,000 minimum equity requirement except that:
 1. Full cash payment for any security purchased will satisfy this requirement with respect to such purchase, even if the resulting equity is less than \$2,000;
 2. Full cash payment for any option purchased will satisfy this requirement with respect to such purchase, even if the resulting equity is less than \$2,000 (the purchase or sale of securities upon the exercise of an option, however, will constitute a new commitment for purposes of this requirement);
 3. The purchase of exempted securities;

4. Securities transactions resulting in positions covered by Rule 4210(e)(2)(F), (G) or (H) or other provisions of Rule 4210 that allow the member to take a capital charge in lieu of collecting margin are not subject to this requirement;
5. Even if the resulting equity is less than \$2,000, the minimum equity requirement with respect to the sale of an option in the account would be satisfied by the deposit into the account or under an escrow agreement (as defined in Rule 4210(f)(2)(A)(xiv)) of:
 - A. cash sufficient to satisfy the customer's payment obligation upon the assignment of the options if it is a put; or
 - B. fully paid securities sufficient to satisfy the customer's delivery obligation upon the assignment of the option if it is a call;
- b. Except for transactions described in *a.4* and *a.5* above, every short sale is subject to the \$2,000 minimum equity requirement regardless of the amount involved.

(Regulatory Notice 21-24)

[Comment: Unchanged]

UNCHANGED: 4210(b)(4)/022 Effect of Market Value Decline Below \$2,000

If the equity in a margin account falls below \$2,000 because of a decline in the market value of the security positions in the account and no new commitments are made, no deposit or liquidation is necessary. For the purpose of this Rule, a same-day substitution constitutes a new commitment.

(Regulatory Notice 21-24)

[Comment: Unchanged]

UNCHANGED: 4210(b)(4)/023 Withdrawals Below \$2,000 Equity

No withdrawal may be made from a margin account that would leave less than \$2,000 equity in the account after the withdrawal if the account has a debit balance, short position or other commitment. Withdrawals of cash or securities may be made from any account, even if after such withdrawal the equity in the account is less than \$2,000, provided that:

- a. The account does not have a debit balance, short position or commitment after giving effect to the withdrawal;

- b. The withdrawal is in compliance with Regulation T and Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures and Rules 41.42 through 41.49 under the CEA; and
- c. The account is not a pattern day trader (in which case the \$25,000 minimum applies).

(Regulatory Notice 21-24)

[Comment: Unchanged]

MINOR CHANGE: 4210(b)(4)/024 Minimum Equity – Cash Account

The \$2,000 minimum equity requirement of ~~paragraph~~ Rule 4210(b)(4) does not apply to transactions in a cash account, including transactions in when issued or when distributed securities in a cash account, even though Rule 4210(f)(3)(B) generally subjects cash account positions in such securities to the same maintenance margin requirements as in a margin account.

(Regulatory Notice 21-24)

(Regulatory Notice 24-XX)

[Comment: Changed "paragraph" to "Rule 4210".]

UNCHANGED: 4210(b)(4)/025 Minimum Equity – Pattern Day Trader

Pattern day traders are subject to a \$25,000 minimum equity requirement under Rule 4210(f)(8)(B)(iv)a.

(Regulatory Notice 21-24)

[Comment: Unchanged]

REPLACED: 4210(b)(4)/03 Accounts Subject to Minimum Equity — (Rescinded)

(Regulatory Notice 24-XX)

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

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

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

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

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

[Comment: Rescinded This chart was too simplified to be completely accurate. It has been replaced by new interpretation /031 to /034]

REPLACEMENT: 4210(b)(4)/031 Minimum Equity – Good Faith Account

A good faith account is generally subject to the \$2,000 minimum equity requirement; however, that requirement does not apply to:

- a. An account maintained in accordance with Rule 4210(e)(2)(F) and (G) exclusively for an exempt account customer's transactions in exempted securities, highly rated foreign sovereign debt securities or investment grade debt securities;
- b. A non-securities credit account in which nonpurpose credit is extended in compliance with Rule 4210(e)(7); or
- c. An account in which an executing broker effects transactions for a prime brokerage customer of another broker (the "prime broker") as part of a prime broker arrangement in conformity with SEC guidelines; however, if the prime broker disaffirms or DKs a transaction and such transaction is not cancelled by the executing broker, then the executing broker must move the transaction to a margin account maintained for the customer, where it will be subject to the \$2,000 minimum equity requirement.

(Regulatory Notice 24-XX)

[Comment: Corrects current Interpretation 4210(b)(4)/03 by listing certain good faith accounts that are not subject to the \$2000 minimum.]

REPLACEMENT: 4210(b)(4)/032 Minimum Equity – Prime Brokerage Customer Account

Under the SEC no-action letter to the Prime Brokerage Committee (dated January 25, 1994), a prime broker generally may not settle prime broker trades on behalf of a customer, unless the customer keeps a minimum net equity with the prime broker of at least \$500,000 in cash or securities with a ready market. If, as a result of fluctuations in the value of securities kept with the prime broker, the customer's net equity falls below the required minimum amount, the customer shall have until 12:00 noon of the fifth business day after the date when the net equity level fell below the required minimum amount to restore it to the \$500,000 level.

A prime broker may settle prime broker trades on behalf of customer accounts managed by a registered investment adviser if each account has a minimum net equity of at least \$100,000 in cash or securities with a ready market.

A prime broker may settle prime broker transactions on behalf of a customer who keeps a minimum net equity with the prime broker of at least \$100,000 in cash or securities with a ready market, if said account is subject to a binding, written contract providing for a cross-guarantee by another customer of the prime broker. Pursuant to this provision, a customer may cross-guarantee another customer's account only if it keeps net equity with the prime broker of at least \$500,000 in cash or securities with a ready market. Cross-guarantees of other customers would require additional net equity of \$400,000 for each individual account that is cross-guaranteed.

(Regulatory Notice 24-XX)

[Comment: Corrects current Interpretation 4210(b)(4)/03 by more clearly stating equity requirements from the prime brokerage no-action letter. This interpretation consists of quotations or close paraphrases of the relevant segments of the no-action letter.]

REPLACEMENT: 4210(b)(4)/033 Minimum Equity – Certain Broker-Dealer Credit Accounts

Omnibus Credit Account: An omnibus credit account described in Section 220.7(f) of Regulation T is a margin account for purposes of Rule 4210 and subject to the \$2,000 minimum equity requirement, except for an omnibus credit account that is maintained as a portfolio margin account as permitted under Interpretation Rule 4210(g)(4)(A) /01. An omnibus credit account that is a portfolio margin account is subject to the minimum equity requirements set by the member in accordance with the procedures and guidelines contained in the member's comprehensive written risk analysis methodology filed with FINRA under Rule 4210(g)(1). See Interpretation /034 below.

Specialists' and Market Makers' Accounts: Specialists' and market makers' accounts maintained in accordance with Rule 4210(e)(5) are not subject to a minimum equity requirement. See Rule 4210(e)(5) for further requirements for such accounts.

Broker-Dealer Accounts: Proprietary accounts of another broker-dealer carried in accordance with Rule 4210(e)(6)(A) are not required to have positive equity but may not be carried in a negative equity condition. See Rule 4210(e)(6)(A) for further requirements for such accounts.

Joint Back Office (JBO) Arrangement: Rule 4210(e)(6)(B)(ii)c. sets a minimum liquidating equity requirement of \$1 million for a broker-dealer participating in a joint back office (JBO) arrangement. See Rule 4210(e)(6) for further requirements for JBO arrangements.

(Regulatory Notice 24-XX)

[Comment: Corrects current Interpretation 4210(b)(4)/03 by identifying certain broker-dealer credit accounts that are not subject to the \$2000 minimum equity or have other minimum equity requirements set out in the rule.]

REPLACEMENT: 4210(b)(4)/034 Minimum Equity – Portfolio Margin Account

The minimum equity requirements applicable to portfolio margin accounts are set by the member carrying the accounts in accordance with the procedures and guidelines (the member’s “Portfolio Margin Policies”) contained in the member’s comprehensive written risk analysis methodology filed with FINRA under Rule 4210(g)(1). A member’s Portfolio Margin Policies may not set a minimum equity requirement for a portfolio margin account that is less than:

- a. \$100,000, if the member has “full, real-time, intra-day monitoring capability” – i.e., the member:
 1. obtains real-time information about all transactions and positions in the portfolio margin account (e.g., because all transactions are executed at the member or the member receives real-time drop files of all transactions executed for the account);
 2. has the ability to calculate the customer’s maintenance margin excess using real-time pricing and position information at the time an order is entered (or otherwise prior to its execution);
 3. has the ability to reject (or otherwise prevent the execution of) an order that would cause the account to have (or increase) a maintenance margin deficiency above a risk limit set for that account; and
 4. has implemented policies and procedures reasonably designed to prevent the execution of transactions that would cause the account to have (or increase) a maintenance margin deficiency above a risk limit set for that account;
- b. an amount from \$150,000 to \$500,000, depending on how close the member is to having full, real-time, intra-day monitoring capability, if the member has “partial, real-time intra-day monitoring capability” – i.e., the member:

1. \$100,000, if the member has “full, real-time, intra-day monitoring capability” – i.e., the member:
 - A. obtains real-time information about all transactions and positions in the portfolio margin account (e.g., because all transactions are executed at the member or the member receives real-time drop files of all transactions executed for the account);
 - B. has the ability to calculate the customer’s maintenance margin excess using real-time pricing and position information at the time an order is entered (or otherwise prior to its execution);
 - C. has the ability to reject (or otherwise prevent the execution of) an order that would cause the account to have (or increase) a maintenance margin deficiency above a risk limit set for that account; and
 - D. has implemented policies and procedures reasonably designed to prevent the execution of transactions that would cause the account to have (or increase) a maintenance margin deficiency above a risk limit set for that account;
2. an amount from \$150,000 to \$500,000, depending on how close the member is to having full, real-time, intra-day monitoring capability, if the member has “partial, real-time intra-day monitoring capability” – i.e., the member:
 - A. obtains real-time information about transactions and positions in the portfolio margin account (e.g., because all transactions are executed at the member or the member receives real-time drop files of all transactions executed for the account); but
 - B. does not have full, real-time intra-day monitoring capability as described in *a* above with respect to the portfolio margin account;
3. \$500,000, if the member does not have partial or full real-time intra-day monitoring capability with respect to the portfolio margin account;
4. \$5 million, if the portfolio margin account is permitted to establish or maintain positions in unlisted derivatives and is not (1) maintained for a registered broker-dealer or (2) maintained for a member of a national futures exchange in accordance with Rule 4210(g)(4)(C); or
5. \$5 million for a portfolio margin account that engages in day trading without the member applying the day trading restrictions of Rule 4210(f)(8)(B) to the portfolio margin account (other than positions traded as part of a “hedge strategy” as defined in Rule 4210(g)(13)).

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Adds nuance missing from current Interpretation 4210(b)(4)/03.]

UNCHANGED: 4210(b)(4)/04 Additional Minimum Equity

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

MINOR CHANGE: 4210(b)(4)/05 ~~Profitable~~ In-the-Money Options

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

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Corrects ("profitable" is not a standard term) and clarifies the current interpretation. Spreads are separated into their own interpretation.]

MINOR CHANGE: 4210(b)(4)/051 Spreads

If a customer account contains a spread (as defined in Rule 4210(f)(2)(A)(xxxii)) and an exercise of short option component of that spread is assigned to the customer,

then the customer may on the same day exercise a long option component of the spread to close out the security position created by the assignment without meeting the initial margin requirement of Rule 4210(b) on such security position.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Clarifies and corrects the section on spreads of Interpretation 4210(b)(4)/05]

REPLACED: 4210(b)(4)/06 Federal National Mortgage Association (FNMA) — (Rescinded)

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

(Regulatory Notice 24-XX)

[Comment: GSE equities are now addressed in 4210(a)(6)/02. The next interpretation is a cross-reference to 4210(a)(6)/02]

REPLACED: 4210(b)(4)/061 Government-Sponsored Enterprise Equity Securities

See Interpretation Rule 4210(a)(6)/02

(Regulatory Notice ~~10-45~~24-XX)

[Comment: GSE equities are now addressed in 4210(a)(6)/02.]

4210(c) Maintenance Margin

The margin which must be maintained in all accounts of customers, except as set forth in paragraph (e), (f) or (g) and for cash accounts subject to other provisions of this Rule, shall be as follows:

4210(c)(1) 25 percent of the current market value of all margin securities, as defined in Section 220.2 of Regulation T, except for security futures contracts, "long" in the account.

4210(c)(2) \$2.50 per share or 100 percent of the current market value, whichever amount is greater, of each stock "short" in the account selling at less than \$5.00 per share; plus

4210(c)(3) \$5.00 per share or 30 percent of the current market value, whichever amount is greater, of each stock "short" in the account selling at \$5.00 per share or above; plus

4210(c)(4) 5 percent of the principal amount or 30 percent of the current market value, whichever amount is greater, of each bond "short" in the account.

4210(c)(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.)

4210(c)(6) 100 percent of the current market value for each non-margin eligible equity security held "long" in the account.

UNNECESSARY: 4210(c)(6)/01 Profitable Options — (Rescinded)

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

~~(Regulatory Notice 10-45)~~

~~(Regulatory Notice 24-XX)~~

[Comment: This interpretation was inaccurate. The exemption provided by interpretation /03 (now /031) is only for initial margin. No exemption from maintenance margin is required. If the customer exercises an in-the-money option and liquidates the resulting securities position, the result is a cash balance. There is no maintenance requirement on cash balances.]

MINOR CHANGE: 4210(c)(6)/02 Partners' Accounts

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

- a. The net combined deficit, if any, in a partners' capital account, drawing account, other personal accounts and his or her share of the partnership's undistributed profits and losses, must be deducted in determining the equity in his or her individual securities account(s).

- b. Any securities carried in capital accounts must be fully paid for after considering any deficits in individual accounts as described above.
- c. Any purchase in partners' individual accounts must meet Regulation T initial margin requirements.

(Regulatory Notice 10-45)

[Comment: Updated to ordered list]

UNCHANGED: 4210(c)(6)/03 Stockholders' Accounts

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(c)(6)/04 Securities Value

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(c)(6)/05 Sales of Stock Covered by Due Bills

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

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

MINOR CHANGE: 4210(c)(6)/06 Sinking Fund Transactions

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

- a. Retirement of the security is deferred;
- b. Delivery is delayed beyond the next sinking fund retirement date; or
- c. The transaction is made with an affiliate of the issuer rather than directly with the issuer.

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

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

(Regulatory Notice 10-45)

[Comment: Changed to ordered list]

CANCELLED: 4210(c)(6)/07 Option Premiums

~~Although premiums received from writing an option may be withdrawn or used as an offset against requirements on other transactions on the same day, such usage may result in the loss of equity to an account. An “in the money” call option could be sold against a long position in the underlying security, resulting in the underlying security being valued at the call’s exercise value, which is below the current market value (also referred to as pegging). In this case, any withdrawal will result in a loss of equity in the account and could result in violation of this Rule. See Interpretations of Regulation T, Section 220.4(e)/06. — (Rescinded)~~
(Regulatory Notice ~~10-45~~24-XX)

~~*[Comment: Rescinded as misleading. Withdrawals are not allowed if they do not leave the account with enough equity to meet the maintenance requirements. See Rule 4210(b).]*~~

UNNECESSARY: 4210(c)(6)/08 Marginable Foreign Securities — (Rescinded)

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

~~(Regulatory Notice 24-XX)~~

~~*[Comment: Rescinded as not providing any guidance since the Ready Market No Action Letter (see Regulatory Notice 16-13). All positions in all securities (US or non-US) are subject to Rule 4210(c) and (f)(1).]*~~

RN/FAQ: 4210(c)(6)/09 Money Market Mutual Fund Shares — Carrying

~~Shares in a money market mutual fund (as defined in section 220.2 of Regulation T) may be carried long in a customer’s account for purposes of Rule 4210 provided that:~~

- ~~a. the customer waives any right to redeem shares without the member’s consent;~~
- ~~b. the member obtains the right to redeem shares in cash upon request;~~
- ~~c. the fund agrees to satisfy any conditions necessary or appropriate to ensure that the shares may be redeemed in cash, promptly upon request; and~~
- ~~d. the member complies with the requirements of Section 11(d)(1) of the Exchange Act and SEA Rule 1d1-2~~

(Regulatory Notice 10-53)

(Regulatory Notice 24-XX)

[Comment: Incorporates guidance from Regulatory Notice 10-53, as indicated on the source lines at the end. Omitted this phrase that was included in Regulatory Notice: "(or, if the shares are deposited with a clearing organization, the clearing organization)".]

RN/FAQ: 4210(c)(6)/10 Money Market Mutual Fund Shares — Margin Requirements

- a. In General: Except as provided in b. below: (i) the margin to be maintained on shares of a money market mutual fund long in a customer's account, other than a cash account, is 1 percent of their current market value; and (ii) a member may presume the current market value of a money market mutual fund share is \$1.00.
- b. Exception: If the net asset value (NAV) of a money market mutual fund falls below \$1.00 per share (the fund "breaks the buck") or customer redemptions of shares of the fund have been suspended ("frozen"), then a. above shall not apply and: (i) the maintenance margin requirement on shares in that fund is increased to 50% of their current market value; and (ii) a member may presume that the current market value of such shares is the fund's current NAV per share.

(Regulatory Notice 08-60)

(Regulatory Notice 10-53)

(Regulatory Notice 24-XX)

[Comment: Incorporates guidance from Regulatory Notice 08-60 and 10-53, as indicated on the source lines at the end.]

RN/FAQ: 4210(c)(6)/11 Exempted Securities Mutual Funds and Exchange Traded Funds

The margin to be maintained on shares of exempted securities mutual funds (as defined in section 220.2 of Regulation T) carried long in a customer's account, is 7 percent of their current market value. Exchange traded funds (ETFs) that qualify as exempted securities mutual funds under the definition in Section 220.2 of

Regulation T are also subject to this 7 percent margin requirement, subject to the higher requirements applicable to leveraged ETFs under interpretation /13 below.

Section 220.2 of Regulation T defines an “exempted securities mutual fund” as “any security issued by an investment company registered under section 8 of the Investment Company Act of 1940, provided the company has at least 95 percent of its assets continuously invested in exempted securities (as defined in section 3(a)(12) of the [Securities Exchange] Act).”

(Regulatory Notice 10-53)

(Regulatory Notice 24-XX)

[Comment: Incorporates guidance from Regulatory Notice 10-53, as indicated on the source lines at the end.]

RN/FAQ: 4210(c)(6)/12 Exchange Traded Notes Linked to a Reference Instrument, Index or Benchmark

Exchange traded notes (ETNs) that pay principal based on the performance of a reference instrument, index or benchmark are excluded from the exceptions provided by Rule 4210(e)(2)(C) and (G). Accordingly, the margin to be maintained on such ETNs carried long in a customer’s account, is 25% of their current market value, and the margin to be maintained on such ETNs carried short in a customer’s account is 30% of their current market, subject to the higher requirements applicable to leveraged ETNs under Interpretation Rule 4210(c)(6)/13.

(Regulatory Notice 19-21)

(Regulatory Notice 24-XX)

[Comment: Incorporates guidance from Regulatory Notice 19-21, as indicated on the source lines at the end.]

RN/FAQ: 4210(c)(6)/13 Leveraged Exchange Traded Products

The initial and maintenance margin requirement leveraged exchange trade products, including exchange traded funds (ETFs) and exchange traded notes (ETNs) designed to generate multiples (e.g., two times (2x), three times (3x), etc.) of the performance of a reference instrument, index or benchmark (leveraged ETPs) carried long or short in a customer’s account is increased by an amount

commensurate with its leverage, subject to a cap of 100% of the current market value on a long position (but without a cap on the margin on a short position). For example, an ETP designed to provide twice the performance of the S&P 500 index is subject to margin requirement that is twice the margin requirement applicable to an unleveraged ETP on such index, so the margin required on a long position in such an ETP is 50% (2x 25%) of its current market value and the margin required on a short position in such an ETP is 60% (2x 30%) of its current market value.

Example of maintenance requirements for various leverage factors of non-exempted securities ETPs:

<u>ETP Multiplier</u>	<u>Maintenance requirement</u>	
	<u>Long Position</u>	<u>Short Position</u>
<u>1.5x</u>	<u>37.5%</u>	<u>45%</u>
<u>2x</u>	<u>50%</u>	<u>60%</u>
<u>3x</u>	<u>75%</u>	<u>90%</u>
<u>4x</u>	<u>100%</u>	<u>120%</u>
<u>5x</u>	<u>100%</u>	<u>150%</u>

(Regulatory Notice 09-53)

(Regulatory Notice 19-21)

(Regulatory Notice 24-XX)

[Comment: Incorporates guidance from Regulatory Notice 10-53 and 19-21, as indicated on the source lines at the end.]

RN/FAQ: 4210(c)(6)/14 Non-Margin Eligible Equity Security

A “non-margin eligible equity security” is any equity security that is not a “margin security,” as defined in Section 220.2 of Regulation T.

(Regulatory Notice ~~10-45~~12-44)

(Regulatory Notice 24-XX)

[Comment: This term is used but not defined in 4210. Regulatory Notice 12-44 explains that it is meant to refer to equity securities that are not margin securities under Reg T.]

REPLACEMENT: 4210(c)(6)/15 Use of Foreign Currency for Margin Purposes

Members may use credit balances in freely convertible foreign currencies in computing the customer's margin requirements and equity provided their value in U.S. dollars is calculated daily using current foreign exchange rates. Members must recognize the possibility that fluctuations between foreign currencies and the U.S. dollar may have an adverse effect on the total equity in a margin account. Additional margin should generally be required to compensate for potential losses in equity that may occur due to such currency fluctuations.

[Comment: The first sentence is derived from Rule 220.3(i)(1) of Reg. T and the second sentence is incorporated from old Interpretation Rule 4210(f)(5)/01.]

4210(d) Additional Margin

Procedures shall be established by members to:

4210(d)(1) review limits and types of credit extended to all customers;

4210(d)(2) formulate their own margin requirements; and

4210(d)(3) review the need for instituting higher margin requirements, mark-to-markets and collateral deposits than are required by this Rule for individual securities or customer accounts.

UNCHANGED: 4210(d)(3)/01 Credit Extended

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(d)(3)/02 Credit Committee

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(e) Exceptions to Rule

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

UNCHANGED: 4210(e)/01 Exceptions

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(e)(1) Offsetting "Long" and "Short" Positions

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

4210(e)(2) Exempted Securities, Non-equity Securities and Baskets

4210(e)(2)(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 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.

UNCHANGED: 4210(e)(2)(A)/01 Highly Rated Foreign Sovereign Debt Securities

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(e)(2)(A)/02 Net Positions

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

MINOR CHANGE: 4210(e)(2)(A)/03 Time to Maturity

Requirements under ~~paragraph~~ Rule 4210(e)(2)(A) are based on the remaining life of the bond until maturity, not on the bond’s nominal life from issuance date to maturity date. Thus, a thirty year bond with only eight (8) years remaining to maturity would require margin of 4%.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Added "remaining" and changed "paragraph" to "Rule 4210".]

MINOR CHANGE: 4210(e)(2)(A)/04 International Bank for Reconstruction and Development

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Preserves the treatment of these bonds by placing them in the appropriate category.]

REPLACED: 4210(e)(2)(A)/05 Federal National Mortgage Association (FNMA) — (Rescinded)

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

See Interpretation Rule 4210(a)(6)/02

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Moved and expanded to cover all GSEs.]

MINOR CHANGE: 4210(e)(2)(A)/06 U.S. Government Bond Dealers Primary Dealers

Primary Recognized U.S. Government bonddealers designated by the Federal Reserve Bank of New York may extend credit, under this Rule, to any customer on a mutually agreed upon basis on debt securities that are U.S. Government securities (as defined in SEA section 3(a)(42)), provided that, if the margin requirements are lower than the proprietary haircut deductions under the uniform net capital rule (SEA Rule 15c3-1, paragraph (c)(2)(vi)(A), Securities Haircuts, Government Securities) a deduction in computing net capital will be made to the extent that the equity in a customer's account is less than such haircuts.

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Updated to reference "Primary Dealers", clarifies the definition and changed "paragraph" to "Rule 4210".]

4210(e)(2)(B) All Other Exempted Securities

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

MINOR CHANGE: 4210(e)(2)(B)/01 Reverse Repurchase Agreements

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Updated from "special" to "good faith" account.]

REPLACED: 4210(e)(2)(B)/02 Mortgage-Related Securities — (Rescinded)

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

See Interpretation Rule 4210(a)(12)/01

(Regulatory Notice 24-XX)

[Comment: Moved to definition and edited with the addition of a reference to (e)(2)(F).]

NEW: 4210(e)(2)(B)/03 Exempted Securities Mutual Funds and Exempted Securities Exchange Traded Funds

See Interpretation Rule 4210(c)(6)/11

(Regulatory Notice 24-XX)

[Comment: Added to provide of a cross-reference to (c)(6)/11.]

NEW: 4210(e)(2)(B)/04 Government Sponsored Enterprise Equity

See Interpretation Rule 4210(a)(6)/02

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Added to provide of a cross-reference to (c)(6)/02.]

4210(e)(2)(C) Non-Equity Securities

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

4210(e)(2)(C)(i) 10 percent of the current market value in the case of investment grade debt securities; and

4210(e)(2)(C)(ii) 20 percent of the current market value or 7 percent of the principal amount, whichever amount is greater, in the case of all other listed non-equity securities, and all other margin eligible non-equity securities as defined in paragraph (a)(16) of this Rule.

4210(e)(2)(C)(ii)/01 Non-Marginable Bonds

MINOR CHANGE: 4210(e)(2)(C)(ii)/01 Other Debt Securities

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Minor changes to changes to clarify and use "debt securities" instead of "bonds".]

RN/FAQ: 4210(e)(2)(C)(ii)/02 Exchange Traded Notes Linked to a Reference Instrument, Index or Benchmark

Rule 4210(e)(2)(C) does not apply to exchange traded notes (ETNs) linked to a reference instrument, index or benchmark. See Interpretations Rule 4210(c)(6)/12 and /13 for the requirements applicable to these ETNs.

(Regulatory Notice 19-21)

(Regulatory Notice 24-XX)

[Comment: Incorporates guidance from Regulatory Notice 19-21, as indicated on the source lines at the end.]

4210(e)(2)(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 SEA Rule 15c3-1 and, if applicable, Rule 4110(a).

4210(e)(2)(E) Special Provisions

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

4210(e)(2)(E)(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

4210(e)(2)(E)(ii) FINRA, upon written application, may permit lower margin requirements on a case-by-case basis.

MOVED: 4210(e)(2)(E)(ii)/01 Accrued Interest

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

See interpretations Rule 4210(a)(2)/01 and /02

(Regulatory Notice ~~4024-45~~XX)

[Comment: Moved to 4210(a)(2), definition of market value.]

4210(e)(2)(F) Transactions with Exempt Accounts Involving Certain "Good Faith" Securities

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

Members shall maintain a written risk analysis methodology for assessing the amount of credit extended to exempt accounts pursuant to paragraph (e)(2)(F) of this Rule which shall be made available to FINRA upon request. The risk limit determination shall be made by a designated credit risk officer or credit risk committee in accordance with the member's written risk policies and procedures.

CANCELLED: 4210(e)(2)(F)/01 Government National Mortgage Association (GNMA) (Rescinded)

~~All GNMA cash transactions for customers and non-customers are subject to the provisions of this paragraph of the Rule. Cash transactions in GNMA's may include transactions in TBAs (to be announced) and standbys. TBAs are delayed delivery and "when issued" type transactions in GNMA's. Generally, GNMA pool numbers are not announced or assigned to these transactions on trade date.~~

~~Standby commitments represent the equivalent of a short put position in a customer account, which gives the member the right to deliver to the customer against payment a specific amount of GNMA's on a specified date.~~

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

See Rule 4210(e)(2)(H)

(Regulatory Notice ~~10-4524-XX~~)

[Comment: Interps 4210(e)(2)(F)/01 through /08 and Exhibit 1 are rescinded. They have been superseded by the Covered Agency Transactions margin requirements in Rule 4210(e)(2)(H).]

CANCELLED: 4210(e)(2)(F)/02 Exempt Accounts for GNMA's (Rescinded)

~~Exempt accounts in addition to those provided in this paragraph of the Rule and those established under Interpretation /01 above may include (a) all independently audited entities with both more than \$1.5 million of net current assets (which may include in the case of mortgage bankers a 3/4 of 1% maximum allowance on loan servicing portfolios) and with more than \$1.5 million of net worth and (b) GNMA~~

~~brokers that act only as agents where the members independently confirm, at least monthly, that such GNMA brokers are acting for accounts qualified above or which are otherwise exempt accounts. In evaluating loan servicing portfolios, the generalized 3/4 of 1% allowance is not necessarily appropriate. It is suggested that consideration be given to such factors as: the loan balance, servicing fee, remaining life of the loan, probability of loan survival, delinquency rate, geographic relationships, cost of foreclosure and servicing costs.~~

~~[See Rule 4210\(e\)\(2\)\(H\)](#)~~

~~(Regulatory Notice [10-4524-XX](#))~~

~~CANCELLED: 4210(e)(2)(F)/03 Establishing Risk Limits for GNMA (Rescinded)~~

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

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

~~[See Rule 4210\(e\)\(2\)\(H\)](#)~~

~~(Regulatory Notice [10-4524-XX](#))~~

~~CANCELLED: 4210(e)(2)(F)/04 Exempt Account Requirements for GNMA Transactions (Rescinded)~~

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

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

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

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

See Exhibit I below.

*The TBA category 0 to 120 days may include all transactions which provide for a settlement date no later than the last day of the calendar month in which the 120th day after trade date falls. [Rule 4210\(e\)\(2\)\(H\)](#)

(Regulatory Notice [10-4524-XX](#))

CANCELLED: 4210(e)(2)(F)/05 GNMA's --- Non-Exempt Accounts Other Than Mortgage Bankers (Rescinded)

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

See ~~Exhibit I below.~~ Rule 4210(e)(2)(H)

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

(Regulatory Notice ~~10-4524-XX~~)

CANCELLED: 4210(e)(2)(F)/06 GNMA's --- Non Exempt Mortgage Bankers' Accounts (Rescinded)

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

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

	Period to Contract Maturity or Delivery Date from Trade Date	Capital Charge Percentage of Marked to the Market Deficits
(b) Standbys	All transactions	100%

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

See ~~Interpretation /07 below for possible additional capital charges relating to concentration.~~ [Rule 4210\(e\)\(2\)\(H\)](#)

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

(Regulatory Notice ~~10-4524-XX~~)

CANCELLED: 4210(e)(2)(F)/07 GNMA's --- Concentration Risk Provision (Rescinded)

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

~~See [Rule 4210\(e\)\(2\)\(H\)](#)~~

(Regulatory Notice ~~10-4524-XX~~)

CANCELLED: 4210(e)(2)(F)/08 GNMA's --- Conversion or Exercise of Standbys (Rescinded)

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

[See Rule 4210\(e\)\(2\)\(H\)](#)

(Regulatory Notice [10-4524-XX](#))

CANCELLED: 4210(e)(2)(F)/EXHIBIT I G.N.M.A (Rescinded)

Treatment of Customers' Transactions

Under

[See Rule 4210\(e\)\(2\)\(FH\)](#)

<u>Type of Account</u>	<u>Type of Transaction</u>					
	<u>Period to Contract Maturity or Delivery Date from Trade Date</u>					
	TBAs			Standbys		
	0 to 120 Days (1)	121 days to 1 1/2 Years	Over 1 1/2 years	0 to 1 year	Over 1 year to 2 years	Over 2 years
<u>Exempt Account (2)</u>						
5% Margin	No	No	No	No	No	No
Marked to the Market Losses	Yes(3)	Yes(4)	Yes(5)	Yes(6)	Yes(4)	Yes(5)
Capital Charges	Yes(3)	Yes(4)	Yes(5)	Yes(6)	Yes(4)	Yes(5)

**Non-Exempt Accounts
other than Mortgage
Bankers**

5% Margin	No	Yes	Yes	Yes	Yes	Yes
Marked to the Market Losses	Yes(5)	Yes(7)	Yes(7)	Yes(7)	Yes(7)	Yes(7)
Capital Charges	Yes(5)	Yes(7)	Yes(7)	Yes(7)	Yes(7)	Yes(7)

**Non-Exempt Mortgage
Bankers**

5% Margin	No	No	No	No	No	No
Marked to the Market Losses	Yes(4)	Yes(8)	Yes(5)	Yes(5)	Yes(5)	Yes(5)
Capital Charges	Yes(4)	Yes(8)	Yes(5)	Yes(5)	Yes(5)	Yes(5)

CODES TO EXHIBIT I

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

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

2. The term "exempt account" means an account as defined under paragraph (a)(13) of this Rule.

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

~~computing net capital, exceeds tentative net capital, then 50% of such excess shall be deducted in computing net capital.~~

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

~~4. Same as (3) above, except substitute 25% for 10%.~~

~~5. These marked-to-the-market losses need not be collected. However, the member must deduct from net capital an amount equal to 100% of the loss.~~

~~6. Same as (3) above, except substitute 15% for 10%.~~

~~7. Margin and marked-to-the-market losses must be collected. In addition, such margin and marked-to-the-market losses are to be deducted in computing net capital by the member under the SEC's and FINRA's capital requirements, after five (5) business days from the date they arise, until collected.~~

~~8. Same as (3) above, except substitute 50% for 10%.~~

(Regulatory Notice [10-4524-XX](#))

4210(e)(2)(G) Transactions With Exempt Accounts Involving Highly Rated Foreign Sovereign Debt Securities and Investment Grade Debt Securities

On any "long" or "short" position resulting from a transaction made for or with an "exempt account" (other than a position subject to paragraph (e)(2)(F)), the margin to be maintained on highly rated foreign sovereign debt and investment grade debt securities shall be, in lieu of any greater requirements imposed under this Rule, (i) 0.5 percent of current market value in the case of highly rated foreign sovereign debt securities, and (ii) 3 percent of current market value in the case of all other investment grade debt securities. The member need not collect any such margin, provided the amount equal to the margin required shall be deducted in computing the member's net capital as provided in SEA Rule 15c3-1 and, if applicable, Rule 4110(a), subject to the limits provided in paragraph (e)(2)(I) of this Rule.

Members shall maintain a written risk analysis methodology for assessing the amount of credit extended to exempt accounts pursuant to paragraph (e)(2)(G) of this Rule which shall be made available to FINRA upon request. The risk limit

determination shall be made by a designated credit risk officer or credit risk committee in accordance with the member's written risk policies and procedures.

4210(e)(2)(H) Covered Agency Transactions

4210(e)(2)(H)(i) Definitions

For purposes of ~~paragraph~~paragraphs (e)(2)(H) and (e)(2)(I) of this Rule:

~~**4210(e)(2)(H)(i)a. (To be Implemented on May 22, 2024).**~~

~~**4210(e)(2)(H)(i)b.** The term "counterparty" means any person that enters into a Covered Agency Transaction with a member and includes a "customer" as defined in paragraph (a)(3) of this Rule.~~

~~**4210(e)(2)(H)(i)c.**~~

4210(e)(2)(H)(i)a. The term "counterparty" means any person, including any "customer" as defined in paragraph (a)(3) of this Rule, that is a party to a Covered Agency Transaction with, or guaranteed by, a member.

4210(e)(2)(H)(i)b. The term "Covered Agency Transaction" means:

4210(e)(2)(H)(i)~~c~~b.1.**** To Be Announced ("TBA") transactions, as defined in Rule 6710(u), inclusive of adjustable rate mortgage ("ARM") transactions, for which the difference between the trade date and contractual settlement date is greater than one business day;

4210(e)(2)(H)(i)~~c~~b.2.**** Specified Pool Transactions, as defined in Rule 6710(x), for which the difference between the trade date and contractual settlement date is greater than one business day; and

4210(e)(2)(H)(i)~~c~~b.3.**** Transactions in Collateralized Mortgage Obligations ("CMOs"), as defined in Rule 6710(dd), issued in conformity with a program of an Agency, as defined in Rule 6710(k), or a Government-Sponsored Enterprise, as defined in Rule 6710(n), for which the difference between the trade date and contractual settlement date is greater than three business days.

~~**4210(e)(2)(H)(i)d. through j. (To be Implemented on May 22, 2024)c.** A counterparty's "excess net mark to market loss" means such counterparty's net mark to market loss to the extent it exceeds \$250,000.~~

4210(e)(2)(H)(i)d. A counterparty's "net mark to market loss" means:

4210(e)(2)(H)(i)d.1. the sum of such counterparty's losses, if any, resulting from marking to market the counterparty's Covered Agency Transactions with the member, or guaranteed to a third party by the member, reduced to the extent of the member's legally enforceable right of offset or security by;

4210(e)(2)(H)(i)d.2. the sum of such counterparty's gains, if any, resulting from:

4210(e)(2)(H)(i)d.2.A. marking to market the counterparty's Covered Agency Transactions with the member, guaranteed to the counterparty by the member, cleared by the member through a registered clearing agency, or in which the member has a first-priority perfected security interest; and

4210(e)(2)(H)(i)d.2.B. any "in the money," as defined in paragraph (f)(2)(E)(iii) of this Rule, amounts of the counterparty's long standby transactions written by the member, guaranteed to the counterparty by the member, cleared by the member through a registered clearing agency, or in which the member has a first-priority perfected security interest.

4210(e)(2)(H)(i)e. A counterparty is a "non-margin counterparty" if:

4210(e)(2)(H)(i)e.1. the counterparty is not a small cash counterparty, registered clearing agency, Federal banking agency, as defined in 12 U.S.C. 1813(z), central bank, multinational central bank, foreign sovereign, multilateral development bank, or the Bank for International Settlements; and

4210(e)(2)(H)(i)e.2. the member:

4210(e)(2)(H)(i)e.2.A. does not have a right under a written agreement or otherwise to collect margin for such counterparty's excess net mark to market loss and to liquidate such counterparty's Covered Agency Transactions if any such excess net mark to market loss is not margined or eliminated within five business days from the date it arises; or

4210(e)(2)(H)(i)e.2.B. does not regularly collect margin for such counterparty's excess net mark to market loss.

4210(e)(2)(H)(i)f. The term "registered clearing agency" has the meaning as defined in paragraph (f)(2)(A)(xxviii) of this Rule.

4210(e)(2)(H)(i)g. The term "round robin" trade means any transaction or transactions resulting in equal and offsetting positions by one customer with two

separate dealers for the purpose of eliminating a turnaround delivery obligation by the customer.

4210(e)(2)(H)(i)h. A counterparty is a “small cash counterparty” if:

4210(e)(2)(H)(i)h.1. the absolute dollar value of all of such counterparty’s open Covered Agency Transactions with, or guaranteed by, the member is \$10 million or less in the aggregate, when computed net of any settled position of the counterparty held at the member that is deliverable under such open Covered Agency Transactions and which the counterparty intends to deliver;

4210(e)(2)(H)(i)h.2. the original contractual settlement date for all such open Covered Agency Transactions is in the month of the trade date for such transactions or in the month succeeding the trade date for such transactions;

4210(e)(2)(H)(i)h.3. the counterparty regularly settles its Covered Agency Transactions on a Delivery Versus Payment (“DVP”) basis or for “cash”; and

4210(e)(2)(H)(i)h.4. the counterparty does not, in connection with its Covered Agency Transactions with, or guaranteed by, the member, engage in dollar rolls, as defined in Rule 6710(z), or round robin trades, or use other financing techniques.

4210(e)(2)(H)(i)i. A member’s “specified net capital deductions” are the net capital deductions required by paragraph (e)(2)(H)(ii)d.1. of this Rule with respect to all unmargined excess net mark to market losses of its counterparties, except to the extent that the member, in good faith, expects such excess net mark to market losses to be margined by the close of business on the fifth business day after they arose.

4210(e)(2)(H)(i)j. The term “standby” means contracts that are put options that trade OTC, as defined in paragraph (f)(2)(A)(xxvii) of this Rule, with initial and final confirmation procedures similar to those on forward transactions.

4210(e)(2)(H)(ii)

Margin Requirements for Covered Agency Transactions

4210(e)(2)(H)(ii)a. a. ~~(To be Implemented on May 22, 2024)~~ Scope and Exceptions: All Covered Agency Transactions with any counterparty, regardless of the type of

account to which booked, shall be subject to the provisions of paragraph (e)(2)(H) of this Rule, except:

4210(e)(2)(H)(ii)a.1. a member is not required to collect margin, or to take capital charges in lieu of collecting such margin, for a counterparty's excess net mark to market loss if such counterparty is a small cash counterparty, registered clearing agency, Federal banking agency, as defined in 12 U.S.C. 1813(z), central bank, multinational central bank, foreign sovereign, multilateral development bank, or the Bank for International Settlements; and

4210(e)(2)(H)(ii)a.2. a member is not required to include a counterparty's Covered Agency Transactions in multifamily housing securities or project loan program securities in the computation of such counterparty's net mark to market loss, provided such securities are issued in conformity with a program of an Agency, as defined in Rule 6710(k), or a Government-Sponsored Enterprise, as defined in Rule 6710(n), and are documented as Freddie Mac K Certificates, Fannie Mae Delegated Underwriting and Servicing bonds, or Ginnie Mae Construction Loan or Project Loan Certificates, as commonly known to the trade, or are such other multifamily housing securities or project loan program securities with substantially similar characteristics, issued in conformity with a program of an Agency or a Government-Sponsored Enterprise, as FINRA may designate by Regulatory Notice or similar communication.

4210(e)(2)(H)(ii)b. Written Risk Limits: A member that engages in Covered Agency Transactions with any counterparty shall make a determination in writing of a risk limit for each such counterparty, including any counterparty specified in paragraph (e)(2)(H)(ii)a.1. of this Rule, that the member shall enforce. The risk limit for a counterparty shall cover all of the counterparty's Covered Agency Transactions with the member or guaranteed to a third party by the member, including Covered Agency Transactions specified in paragraph (e)(2)(H)(ii)a.2. of this Rule. The risk limit determination shall be made by a designated credit risk officer or credit risk committee in accordance with the member's written risk policies and procedures.

4210(e)(2)(H)(ii)c. through g. (To be Implemented on May 22, 2024) Mark to Market Margin: Members shall collect margin for each counterparty's excess net mark to market loss, unless otherwise provided under paragraph (e)(2)(H)(ii)d. of this Rule. Members are not required to collect margin, or take capital charges, for

counterparties' mark to market losses on Covered Agency Transactions other than excess net mark to market losses.

4210(e)(2)(H)(ii)d. Capital Charge in lieu of Margin: A member need not collect margin for a counterparty's excess net mark to market loss under paragraph (e)(2)(H)(ii)c. of this Rule, provided that:

4210(e)(2)(H)(ii)d.1. the member shall deduct the amount of the counterparty's unmargined excess net mark to market loss from the member's net capital computed as provided in SEA Rule 15c3-1, if the counterparty is a non-margin counterparty or if the excess net mark to market loss has not been margined or eliminated by the close of business on the next business day after the business day on which such excess net mark to market loss arises;

4210(e)(2)(H)(ii)d.2. if the member has any non-margin counterparties, the member shall establish and enforce risk management procedures reasonably designed to ensure that the member would not exceed either of the limits specified in paragraph (e)(2)(I)(i) of this Rule and that the member's net capital deductions under paragraph (e)(2)(H)(ii)d.1. of this Rule for all accounts combined will not exceed \$25 million;

4210(e)(2)(H)(ii)d.3. if the member's specified net capital deductions exceed \$25 million for five consecutive business days, the member shall give prompt written notice to FINRA. If the member's specified net capital deductions exceed the lesser of \$30 million or 25% of the member's tentative net capital, as such term is defined in SEA Rule 15c3-1, for five consecutive business days, the member shall not enter into any new Covered Agency Transactions with any non-margin counterparty other than risk-reducing transactions, and shall also, to the extent of its rights, promptly collect margin for each counterparty's excess net mark to market loss and promptly liquidate the Covered Agency Transactions of any counterparty whose excess net mark to market loss is not margined or eliminated within five business days from the date it arises, unless FINRA has specifically granted the member additional time; and

4210(e)(2)(H)(ii)d.4. the member shall submit to FINRA such information regarding its unmargined net mark to market losses, non-margin counterparties and related capital charges, in such form and manner, as FINRA shall prescribe by Regulatory Notice or similar communication.

4210(e)(2)(I) Limits on Net Capital Deductions ~~for Exempt Accounts~~

~~4210(e)(2)(I)(i) Members shall maintain a written risk analysis methodology for assessing the amount of credit extended to exempt accounts pursuant to paragraphs (e)(2)(F) and (e)(2)(G) which shall be made available to FINRA upon request.~~

4210(e)(2)(I)(ii)

In the event that:

4210(e)(2)(I)(i) the net capital deductions taken by a member as a result of marked to the market losses incurred under paragraphs (e)(2)(F) ~~and~~ (e)(2)(G) (exclusive of the percentage requirements established thereunder), or (e)(2)(H)(ii)d.1. of this Rule, plus any unmargined net mark to market losses below \$250,000 or of small cash counterparties exceed:

4210(e)(2)(I)(iii)a. ~~on~~for 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

4210(e)(2)(I)(iii)b. ~~on~~for all accounts combined, 25 percent of the member's tentative net capital (as such term is defined in SEA Rule 15c3-1); ~~and~~

4210(e)(2)(I)(ii) such excess ~~exists~~as calculated in paragraph (e)(2)(I)(i) of this Rule continues to exist on the fifth business day after it was incurred;

4210(e)(2)(I) the member shall give prompt written notice to FINRA and shall not enter into any new transaction(s) subject to the provisions of ~~paragraph~~paragraphs (e)(2)(F), ~~(e)(2)(G)~~ or (e)(2)(~~G~~)H of this Rule that would result in an increase in the amount of such excess ~~under, as applicable, subparagraph (ii).~~

4210(e)(3) Joint Accounts in Which the Carrying Member or a Partner or Stockholder Therein Has an Interest

In the case of a joint account carried by a member in which such member, or any partner, or stockholder (other than a holder of freely transferable stock only) of such member participates with others, each participant other than the carrying member shall maintain an equity with respect to such interest pursuant to the margin provisions of this paragraph as if such interest were in a separate account. Pursuant to the Rule 9600 Series, FINRA may grant an exemption from the provisions of this paragraph (e)(3), if the account is confined exclusively to transactions and positions in exempted securities.

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

4210(e)(3)(A) complete description of the security;

4210(e)(3)(B) cost price, offering price and principal amount of obligations which have been purchased or may be required to be purchased;

4210(e)(3)(C) date on which the security is to be purchased or on which there will be a contingent commitment to purchase the security;

4210(e)(3)(D) approximate aggregate indebtedness;

4210(e)(3)(E) approximate net capital; and

4210(e)(3)(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.

UNCHANGED: 4210(e)(3)(F)/01 Associated Person Participation

a. Sharing in Profits

If any associated person as part of his or her compensation is participating in only the profits in a member account, such an account would be deemed a proprietary account. FINRA has no objection to such arrangements, provided the associated person's participation is recorded as a salary or bonus incentive or in another similar manner. FINRA permission is not required for such arrangements.

b. Sharing in Losses

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

also applies to general partners' personal accounts. The remaining percentage of the account will still be considered a proprietary account.

c. Compliance with Rule 2150

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(e)(4) International Arbitrage Accounts

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

4210(e)(5) Specialists' and Market Makers' Accounts

4210(e)(5)(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 SEA Rule 15c3-1 and, if applicable, Rule 4110(a), shall be charged against the member's net capital when computing net capital under SEA 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 paragraph (e)(5)(A), the term "approved specialist" or "approved market maker" means either:

4210(e)(5)(A)(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

4210(e)(5)(A)(ii) an OTC market maker or third market maker, who meets the requirements of Section 220.7(g)(5) of Regulation T.

4210(e)(5)(B) In the case of a joint account carried by a member in accordance with subparagraph (i) above in which the member participates, the equity maintained in the account by the other participants may be in any amount which is mutually satisfactory. The amount of any deficiency between the equity maintained in the account by the other participants and their proportionate share of the haircut requirements pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a), shall be charged against the member's net capital when computing net capital under SEA 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.

MINOR CHANGE: 4210(e)(5)/01 Underwritings - Overallotments

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

(Regulatory Notice 10-45)

[Comment: Changed "Over Allotments" to "Overallotments"]

NEW: 4210(e)(5)/02 Haircut Requirements

For purposes of Rule 4210, "haircut requirements pursuant to SEA Rule 15c3-1" include any net capital deductions required by SEA Rule 15c3-1(c)(2)(vi) (including deductions required by subparagraphs (K) and (M) thereof) or SEA Rule 15c3-1(c)(2)(vii). Note that in certain cases the haircut requirement under Rule 15c3-1 may be greater than the maintenance margin requirement under this Rule.

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretive guidance.]

4210(e)(6) Broker-Dealer Accounts

4210(e)(6)(A) A member may carry the proprietary account of another broker-dealer, which is registered with the SEC, upon a margin basis which is satisfactory

to both parties, provided the requirements of Regulation T and Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures and Rules 41.42 through 41.49 under the CEA are adhered to and the account is not carried in a deficit equity condition. The amount of any deficiency between the equity maintained in the account and the haircut requirements pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a), shall be charged against the member's net capital when computing net capital under SEA 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.

REPLACED: 4210(e)(6)(A)/01 Margin Basis — (Rescinded)
(Regulatory Notice 24-XX)

~~A member may carry the proprietary account of another broker-dealer upon a margin basis which is satisfactory to both parties, provided the requirements are not less than that which is required~~

[Comment: Replaced by 4210(e)(6)(A)/02]

REPLACEMENT: 4210(e)(6)(A)/02 Haircut Requirements

See interpretation Rule 4210(e)(5)/02 when deducting from net capital any deficiency between the equity in an account and the haircut requirements pursuant to SEA Rule 15c3-1.

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Longstanding interpretive guidance.]

4210(e)(6)(B) Joint Back Office Arrangements

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

4210(e)(6)(B)(i) A carrying and clearing, or carrying member must:

4210(e)(6)(B)(i)a. maintain a minimum tentative net capital (as such term is defined in SEA Rule 15c3-1) of \$25 million as computed pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a), except that a member whose primary business consists of the clearance of options market-maker accounts may carry JBO accounts provided that it maintains a minimum net capital of \$7 million as computed pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a). In addition, the member must include in its ratio of gross options market maker deductions to net capital required by the provisions of SEA Rule 15c3-1 and, if applicable, 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 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;

4210(e)(6)(B)(i)b. maintain a written risk analysis methodology for assessing the amount of credit extended to participating broker-dealers which shall be made available to FINRA on request; and

4210(e)(6)(B)(i)c. deduct from net capital haircut requirements pursuant to SEA 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.

4210(e)(6)(B)(ii) A participating broker-dealer must:

4210(e)(6)(B)(ii)a. be a registered broker-dealer subject to the SEC's net capital requirements and, if applicable, Rule 4110(a);

4210(e)(6)(B)(ii)b. maintain an ownership interest in the carrying/clearing member pursuant to Regulation T of the Federal Reserve Board, Section 220.7; and

4210(e)(6)(B)(ii)c. maintain a minimum liquidating equity of \$1 million in the JBO arrangement exclusive of the ownership interest established in subparagraph (ii)b.

above. When the minimum liquidating equity decreases below the \$1 million requirement, the participant must deposit a sufficient amount 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.

NEW: 4210(e)(6)(B)(ii)c./01 Other Assets Used to Meet JBO Minimum Equity

A carrying and clearing member may consider a broker-dealer's assets held in a futures account held at the carrying and clearing member in order to satisfy the \$1 million minimum equity requirement.

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretive guidance.]

4210(e)(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:

4210(e)(7)(A) the account is recorded separately and confined to the transactions and relations specifically authorized by Regulation T;

4210(e)(7)(B) the account is not used in any way for the purpose of evading or circumventing any regulation of FINRA or of the Board of Governors of the Federal Reserve System and Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures and Rules 41.42 through 41.49 under the CEA; and

4210(e)(7)(C) the amount of any deficiency between the equity in the account and the margin required by the other provisions of this Rule shall be charged against the member's net capital as provided in SEA Rule 15c3-1 and, if applicable, Rule 4110(a).

4210(e)(7)

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

UNCHANGED: 4210(e)(7)(C)/01 Sinking Fund Transactions

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

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

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

(Regulatory Notice 10-45)

[Comment: Minor adjustment to the index.]

MINOR CHANGE: 4210(e)(7)(C)/02 Unsecured Loans

Unsecured loans are to be charged to net capital in their entirety. (See SEA Rule 15c3-1(c)(2)(iv)(B))

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Minor change. Added SEA reference and adjusted the index.]

UNCHANGED: 4210(e)(7)(C)/03 Nonpurpose Loans Collateralized by Certificates of Deposit

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

(Regulatory Notice 10-45)

[Comment: Adjusted the index]

RN/FAQ: 4210(e)(7)/04 Non-Margin Eligible Equity Security as Collateral for Nonpurpose Credit

Any fully-paid non-margin eligible equity security deposited in a good faith account as collateral for nonpurpose credit is treated as having a maintenance margin requirement of 25% of its current market value for purposes of determining the capital charge required by Rule 4210(c)(7)(C). This treatment is only available for a number of shares (or other units) of a non-margin eligible equity security that do not exceed 20 times the security's median trading volume over the preceding 20 trading days; any shares (or other units) over this limit are treated as having a 100% maintenance requirement for this purpose.

(Regulatory Notice 12-44)

(Regulatory Notice 24-XX)

[Comment: Incorporates guidance from Regulatory Notice 12-44]

RN/FAQ: 4210(e)(7)/05 Offshore Mutual Fund Shares as Collateral for Nonpurpose Credit

Any fully-paid eligible offshore mutual fund shares deposited in a good faith account as collateral for nonpurpose credit are treated as having a maintenance margin requirement of 25% of their current market value for purposes of determining the capital charge required by Rule 4210(c)(7)(C). For this purpose, "eligible offshore mutual fund shares" are shares that (i) are issued by a non-U.S. investment company that is affiliated with an investment company registered under the Investment Company Act of 1940, and (ii) can be liquidated or redeemed daily.

(Regulatory Notice 12-44)

(Regulatory Notice 24-XX)

[Comment: Incorporates guidance from Regulatory Notice 12-44]

4210(e)(8) Shelf-Registered and Other Control and Restricted Securities

UNNECESSARY: 4210(e)(8)/01 Adherence to Securities Act Rules 144 and 145(d)

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

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

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

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

~~Failure to take appropriate precautions and institute relevant procedures may result in violations of both the Securities Act, as well as Rule 4210. **(Rescinded)** (Regulatory Notice ~~10-4524-XX~~)~~

~~*[Comment: Rescinded because Credit Regulation at FINRA does not provide guidance on Securities Act rules.]*~~

UNNECESSARY: 4210(e)(8)/02 Securities Act Rule 144

~~Generally, Securities Act Rule 144 provides that any affiliate of the issuer or other person who sells restricted securities of an issuer for his or her account, or any person who sells restricted or any other securities for the account of an affiliate of the issuer, is not deemed to be engaged in a distribution of the securities, and therefore is not an underwriter as defined in Section 2(a)(11) of the Securities Act, if the securities are sold in accordance with all the terms and conditions of Securities Act Rule 144. **(Rescinded)** (Regulatory Notice ~~10-4524-XX~~)~~

~~*[Comment: Rescinded because Credit Regulation at FINRA does not provide guidance on Securities Act rules.]*~~

UNNECESSARY: 4210(e)(8)/03 Securities Act Rule 145

~~Securities Act Rule 145(a) provides that exchange of securities in connection with reclassifications, mergers, consolidations or transfers of assets subject to shareholder vote or consent constitute sales of those securities. **(Rescinded)** (Regulatory Notice ~~10-4524-XX~~)~~

~~*[Comment: Rescinded because Credit Regulation at FINRA does not provide guidance on Securities Act rules.]*~~

UNNECESSARY: 4210(e)(8)/04 Securities Act Rule 145 (Continued)

~~Securities Act Rule 145 provides that where a party to a Securities Act Rule 145(a) transaction, other than the issuer, is a shell company (other than a business combination related shell company, as those terms are defined in Securities Act Rule 405), the party and its affiliates will be deemed to be underwriters, but generally will not be deemed to be engaged in a distribution to the extent certain resale requirements of Securities Act Rule 144 are satisfied. (Rescinded)~~
(Regulatory Notice ~~10-45~~24-XX)

[Comment: Rescinded because Credit Regulation at FINRA does not provide guidance on Securities Act rules.]

UNNECESSARY: 4210(e)(8)/05 Application of Securities Act Rule 144 (Rescinded)

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

(Regulatory Notice 24-XX)

[Comment: Rescinded because it does not add anything not already required by the rule.]

NEW: 4210(e)(8)/06 Rule 144A Debt

Debt securities eligible for resale under Securities Act Rule 144A are deemed "saleable" for purposes of Rule 4210(e)(8).

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretive guidance.]

MOVED: 4210(e)(8)/07 Mortgage Related Securities

Mortgage related securities may be margined as described in Interpretation Rule 4210(a)(12)/01. Therefore, Rule 4210(e)(8) does not apply to mortgage related securities.

(Regulatory Notice ~~10-4524-XX~~)

[Comment: Formerly 4210(e)(8)(A)/02]

4210(e)(8)(A) Shelf-Registered Securities — The equity to be maintained in margin accounts of customers for securities which are the subject of a current and effective registration for a continuous or delayed offering (shelf-registered securities) shall be at least the amount of margin required by paragraph (c) of this Rule, provided the member:

4210(e)(8)(A)(i) obtains a current prospectus in effect with the SEC, meeting the requirements of Section 10 of the Securities Act, covering such securities;

4210(e)(8)(A)(ii) has no reason to believe the Registration Statement is not in effect or that the issuer has been delinquent in filing such periodic reports as may be required of it with the SEC and is satisfied that such registration will be kept in effect and that the prospectus will be maintained on a current basis; and

4210(e)(8)(A)(iii) retains a copy of such Registration Statement, including the prospectus, in an easily accessible place in its files.

4210(e)(8)(A) Shelf-registered securities which do not meet all the conditions prescribed above shall have no value for purposes of this Rule. Also see subparagraph (C) below.

UNCHANGED: 4210(e)(8)(A)/01 Shelf-Registered Securities

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

MOVED: 4210(e)(8)(A)/02 Mortgage Related Securities (Rescinded)

~~Mortgage related securities as defined in Section 3(a)(41) of the Exchange Act that are subject to a continuous or delayed offering, may be carried on a margin basis subject to paragraphs (e)(2)(C), (e)(2)(F), or (e)(2)(G) of this Rule.~~

~~Therefore, this paragraph (e)(8)(A) does not apply.~~

See Interpretation Rule 4210(e)(8)/07

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Moved to 4210(e)(8)/07.]

MINOR CHANGE: 4210(e)(8)(A)/03 Net Capital Charges for Shelf-Registered Securities

Shelf-registered securities that meet all of the conditions prescribed in ~~paragraph~~ Rule 4210(e)(8)(A) need not be included in the calculation of excess net capital and net capital deductions required by paragraphs (e)(8)(C) and (D).

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Added "for Shelf-Registered Securities" to heading and changed "paragraph" to "Rule 4210".]

UNNECESSARY: 4210(e)(8)(A)/04 Example –~~Net Capital Charge~~— Net Capital Charge (Rescinded)

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

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

~~Assuming no change in value, the \$5,000 cash margin deficiency is a deduction in computing net capital under the SEC's and FINRA's capital requirements, five (5) business days after the date it arises, until collected. (See SEA Rule 15c3-1(c)(2)(xii))~~

(Regulatory Notice ~~10-45~~24-XX)

[Comment: The interp did not provide additional guidance on the plain language of the rule.]

4210(e)(8)(B) Other Control and Restricted Securities — Except as provided in subparagraph (D) below, the equity in accounts of customers for other control and restricted securities of issuers that are subject to Securities Act Rule 144 or 145(c), shall be 40 percent of the current market value of such securities "long" in the account, provided the member:

4210(e)(8)(B)(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)(iv) below for such securities and values only that amount of such securities which are then saleable under Securities Act Rule 144(b)(2) or 145(d)(2)(i) in conformity with all of the applicable terms and conditions thereof, for purposes of determining such deficiencies; and

UNCHANGED: 4210(e)(8)(B)(i)/01 "Saleable" — (Rescinded)

(Regulatory Notice 20-22)

[Comment: Unchanged]

MINOR CHANGE: 4210(e)(8)(B)(i)/011 "Saleable"

The term "saleable," as used in ~~this paragraph~~ Rule 4210(e)(8)(B)(i) and in ~~paragraphs~~ Rule 4210(e)(8)(D)(i) and (ii), refers to those specified and quantifiable securities where all the terms and conditions of Securities Act Rule 144 have been completely satisfied, including any applicable holding period, and thus are immediately saleable pursuant to Securities Act Rules 144 and 145(d) by the member without restriction in the event the customer fails to meet a margin call or otherwise defaults.

(Regulatory Notice 20-22)

(Regulatory Notice 24-XX)

[Comment: Changed "paragraph" to "Rule 4210".]

4210(e)(8)(B)(ii) makes volume computations necessary to determine the amount of securities then saleable under Securities Act Rule 144(b)(2) or 145(d)(2)(i) on a weekly basis or at such frequency as the member and/or FINRA may deem appropriate under the circumstances. See also subparagraph (C) below.

REPLACED: 4210(e)(8)(B)(ii)/01 Reduction of Marginable Shares for Margin and Capital Charge Computations — (Rescinded)

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

~~Example:~~

~~Customer's total restricted shares: 1,000,000~~

~~Amount of shares saleable: 600,000~~

~~Shares held at broker-dealer A: 700,000~~

~~Shares held at broker-dealer B: 300,000~~

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

~~Reduction Calculation:~~

~~Broker-dealer A~~

~~Total shares that can be margined: 700,000~~

~~Total amount of saleable shares for capital charge computation: 700,000 - 300,000
= 400,000~~

Broker-dealer B

Total shares that can be margined: 300,000

Total amount of saleable shares for capital charge computation:

~~300,000 - 700,000 = -400,000 or 0 shares~~

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Replaced by 4210(e)(8)(B)(ii)/011.]

REPLACEMENT: 4210(e)(8)(B)(ii)/011 Securities Held Away of the Same Class as Control or Restricted Securities in Customer's Account

If the amount of control or restricted securities in a customer's account that are then saleable is potentially affected by transactions in securities of the same class not held in the customer's account at the member, then the member shall either:

- a. obtain and accept in good faith the customer's written statement that it has deposited with the member all securities of such class that would be relevant to determining the amount then saleable; or
- b. obtain and accept in good faith a written statement from the customer of the total amount of securities of such class that would be relevant to determining the amount then saleable, and compute the amount of securities in the customer's account that are then saleable based on an assumption that all other relevant securities were sold immediately prior to any sales of securities from the customer's account.

If the member does not obtain the agreement or statement described above, or is unable to accept such agreement or statement in good faith, then the member must assume that none of the control or restricted securities are then saleable.

(Regulatory Notice 24-XX)

[Comment: Clarification of 4210(e)(8)(B)(ii)/01.]

MINOR CHANGE: 4210(e)(8)(B)(ii)/02 Example of Computations

A customer deposits shares of a restricted margin security with a broker-dealer with a current market value of \$1,000,000 and, in accordance with Regulation T (50% loan value), makes a \$500,000 withdrawal. If the saleable amount of such securities, under Securities Act Rule 144, has a current market value of \$600,000 and no concentration exists pursuant to ~~paragraph~~ Rule 4210(e)(8)(C)(iv), the

"customer margin computation" and "capital charge computation" would be as follows:

"Customer margin computation"

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

The ~~This~~ account ~~meets the~~ is in compliance with Rule 4210(e)(8)(B) ~~"customer margin computation"~~ requirement.

"

Capital charge computation"

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

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

"

Customer margin computation"

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

In addition, if on that date the saleable amount of such security under Securities Act Rule 144 had a current market value of only \$400,000~~480,000~~, the "capital charge computation" would be as follows:

"Capital charge computation"

\$400,000	Saleable market value	\$480,000
500,000	Debit balance	500,000
	Equity based on saleable market value	(20,000)
100,000	Deficit	
100,000	25% requirement for net capital purposes (400,000 480,000 x .25)	120,000
	Margin deficiency based on saleable market value	140,000
200,000	Current outstanding margin call (See SEA Rule 15c3-1(c)(2)(xii))	
Less 20,000	Current margin call outstanding less than five business days	20,000
\$180,000	Amount to be deducted in computing the member's net capital under SEA Rule 15c3-1 and, if applicable, Rule 4110(a), pursuant to Rule 4210(e)(8)(B)(i) and (C)(iv) .	\$120,000

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Calculations modified to correct errors and changed "paragraph" to "Rule 4210".]

REPLACED: 4210(e)(8)(B)(ii)/03 Mortgage Related Securities — (Rescinded)

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

See Interpretation Rule 4210(e)(8)/07.

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Moved to 4210(e)(8)/07.]

4210(e)(8)(C) Additional Requirements on Shelf-Registered Securities and Other Control and Restricted Securities — Except as provided in subparagraph (D) below, a member extending credit on shelf-registered and other control and restricted securities in margin accounts of customers shall be subject to the following additional requirements:

4210(e)(8)(C)(i) FINRA may at any time require reports from members showing relevant information as to the amount of credit extended on shelf-registered, and other control and restricted securities and the amount, if any, deducted from net capital due to such security positions.

UNCHANGED: 4210(e)(8)(C)(i)/01 Reporting Requirements

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(e)(8)(C)(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.

MINOR CHANGE: 4210(e)(8)(C)(ii)/01 Limit on Credit Extended

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

[\(Regulatory Notice 10-45\)](#)

[\(Regulatory Notice 24-XX\)](#)

[\[Comment: Moved example to separate interpretation.\]](#)

UNNECESSARY: 4210(e)(8)(C)(ii)/02 Time of Calculation — (Rescinded)

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

~~[\(Regulatory Notice 10-45\)](#)~~

~~[\(Regulatory Notice 24-XX\)](#)~~

~~*[\[Comment: The interp did not provide additional guidance on the plain language of the rule.\]](#)*~~

MINOR CHANGE: 4210(e)(8)(C)(ii)/03 Example of Deduction from Net Capital

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

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

(Regulatory Notice ~~10-4524-XX~~)

[Comment: Separated the example in 4210(e)(8)(C)(ii)/01 to this interp.]

4210(e)(8)(C)(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.

4210(e)(8)(C)(iii)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

4210(e)(8)(C)(iii)b. 100 percent of such net amount of credit extended which exceeds 50 percent of a member's excess net capital shall be deducted.

MINOR CHANGE: 4210(e)(8)(C)(iii)b./01 Aggregate Credit Extended

The aggregate credit extended to each customer for purposes of ~~paragraph~~ Rule 4210(e)(8)(C)(iii) only, shall be determined by the adjusted debit balance, if any, in the customer's account. The adjusted debit balance is determined by subtracting all of the long security positions in the customer's account, other than long control or restricted securities, at their current market values (debit balance minus market value of long securities), and any credit balance, and adding all of the short security positions, at their current market values (debit balance plus market value of short securities), except that no long option positions carried for the customer shall be considered to have any value and the short cover value of any short option positions traded in the over-the-counter market shall be considered as an increase (debit) to the adjusted debit balance for their in-the-money amounts, if any. The short cover value of any short listed option positions shall be their market value. In addition, such adjusted debit balance shall include any marked to the market losses on positions in "when issued" and "when distributed" securities.

Example of Computations – Aggregate Credit Extended

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

At a later date, the market values have appreciated to \$25 per share for XYZ, \$50 per share for ABC and \$700 per option for DEF. Based on these prices, the total amount of credit extended on the restricted security is \$12,000, which must be included solely for purposes of calculating the amount to be deducted from net capital under paragraph Rule 4210(e)(8)(C)(iii) for purposes of determining the member's status under Rule 4120. The above amount is calculated as follows:

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Changed "paragraph" to "Rule 4210" and clarified that the restricted security is a margin security.]

MINOR CHANGE: 4210(e)(8)(C)(iii)b./02 ~~Limit on Credit Extended~~ Example of FINRA Rule 4120 Deduction

~~There is no limit to the amount of credit that may be extended to all customers on control and restricted securities of all issuers combined. However, the total credit actually extended (not the amounts agreed to but actually extended) will result in a deduction to net capital in determining the member's status under Rule 4120 based on the formula in paragraph (e)(8)(C)(iii).~~

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

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

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

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

(Regulatory Notice 10-45)

[\(Regulatory Notice 24-XX\)](#)

[Comment: Changed the interp heading, the first paragraph was deleted as duplicative of Interpretation 4210(e)(8)(C)(ii)/01 and clarified the example introduction.]

4210(e)(8)(C)(iv) Concentration Reduction. A concentration exists whenever the aggregate position in control and restricted securities of any one issue, excluding excess securities (as defined below), exceeds:

4210(e)(8)(C)(iv)a. 10 percent of the outstanding shares of such issue, or

4210(e)(8)(C)(iv)b. 100 percent of the average weekly volume for such issue during the preceding three-month period.

4210(e)(8)(C)(iv) Where a concentration exists, for purposes of computing subparagraph (B)(i) above, the margin requirement on such securities shall be, based on the greater of subparagraph (iv)a. or b., above, as specified below:

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

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

UNCHANGED: 4210(e)(8)(C)(iv)/01 Securities Subject to Concentration Formula

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

MINOR CHANGE: 4210(e)(8)(C)(iv)/02 Example of Concentration Computation

For example, if the customer's position in the example ~~under paragraph in~~ Interpretation Rule 4210(e)(8)(B)(ii)/02 above represented 11% of the outstanding shares, thereby subjecting the position to a concentration reduction. The "customer's margin computation" would be unchanged, but the "capital charge computation" would be as follows:

At the time the ~~control~~restricted securities were deposited with a current market value of \$1,000,000 and a saleable market value of \$600,000:

"Capital charge computation"

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

When ~~if~~ the restricted securities ~~depreciated~~decrease in value to \$800,000 and the saleable market value decreased to \$480,000:

"

Capital charge computation"

\$520,000	Saleable <u>market value</u>	<u>\$480,000</u>
500,000	Debit	<u>500,000</u>
20,000	Equity <u>based on saleable market value</u>	<u>(20,000)</u>
156,000	30% requirement <u>on saleable market value</u> for net capital purposes pursuant to concentration reduction.	<u>144,000</u>
<u>Margin deficiency for purposes of concentration reduction</u>		<u>\$164,000</u>

\$136,000	Current outstanding margin call (See SEA Rule 15c3-1(c)(2)(xii)) Current outstanding margin call outstanding less than five business days. (See previous example in Interpretation Rule 4210(e)(8)(ii)/02	
Less 20,000		<u>-20,000</u>
\$116,000	Amount to be deducted in computing the member's net capital under SEA Rule 15c3-1(c)(2)(xii) and, if applicable, Rule 4110(a), pursuant to Rule 4210(e)(8)(B)(i) and (C)(iv)	<u>\$144,000</u>

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Clarified the terms used in the examples and corrected calculation errors.]

4210(e)(8)(C)(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).

4210(e)(8)(D) Certain Restricted Securities — Securities either:

4210(e)(8)(D)(i) then saleable pursuant to the terms and conditions of Securities Act Rule 144(b)(1), or

4210(e)(8)(D)(ii) then saleable pursuant to the terms and conditions of Securities Act Rule 145(d)(2), shall not be subject to the provisions of paragraph (e)(8) of this Rule.

UNCHANGED: 4210(e)(8)(D)(ii)/01 Non-Affiliate Exemption — (Rescinded)

(Regulatory Notice 20-22)

[Comment: Unchanged]

MINOR CHANGE: 4210(e)(8)(D)(ii)/011 Scope of Exemption

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

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

To rely on CD&I 532.01 to treat non-restricted securities deposited in a margin account by an affiliate of their issuer as exempt from Rule 4210(e)(8)(B), a member must determine that each of the conditions of CD&I 532.01 (including that the securities are the subject of a bona fide pledge) are satisfied and document its basis for that determination.

(Regulatory Notice 20-22)

[\(Regulatory Notice 24-XX\)](#)

[\[Comment: Changed "paragraph" to "Rule 4210".\]](#)

UNCHANGED: 4210(e)(8)(D)(ii)/02 Continuing Requirement for Non-Affiliate Exemption — (Rescinded)

(Regulatory Notice 20-22)

[\[Comment: Unchanged\]](#)

MINOR CHANGE: 4210(e)(8)(D)(ii)/03 Optional Member Procedures

The provisions of Rule 4210(e)(8)(D) do not restrict members from imposing such higher maintenance margin requirements as they may deem appropriate. See Rule 4210(d). Moreover, members may wish to establish special supervisory procedures to consider the desirability of and to monitor ~~loan transactions entered into pursuant to Rule 4210~~ extensions of credit on control, restricted or shelf-registered securities.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Clarified the cases when the interpretation applies.]

MINOR CHANGE: 4210(e)(8)(D)(ii)/04 Concentration Evaluation

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

(Regulatory Notice 20-22)

(Regulatory Notice 24-XX)

[Comment: Changed "firm" to "member" and "paragraph" to "Rule 4210".]

4210(e)(9) Security-Based Swaps; SBS Offsets

Except for SBS carried by a member in a portfolio margin account subject to the requirements of Rule 4210(g), margin requirements on SBS and positions in Uncleared SBS Accounts are determined by Rule 4240, rather than Rule 4210. When one or more securities or options positions in a customer’s margin account are included in a combination of SBS, securities or options positions on which an Initial Margin Requirement is computed under paragraph (b)(2)(A)(i) or (b)(2)(A)(ii) of Rule 4240, and the Initial Margin Requirement computed on the combination is less than the aggregate margin requirement on such securities or options positions under other provisions of this Rule, the aggregate margin requirement on such margin account positions shall be reduced to the Initial Margin Requirement computed on the combination. For purposes of this paragraph (e)(9), the terms “SBS,” “Uncleared SBS Account,” and “Initial Margin Requirement” have the meanings given them in Rule 4240.

4210(f) Other Provisions

4210(f)(1) Determination of Value for Margin Purposes

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

UNCHANGED: 4210(f)(1)/01 Concentration or Volatile Securities

Substantial additional margin must be required:

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

Accordingly, steps should be taken to:

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

MINOR CHANGE: 4210(f)(1)/02 Suspended Securities

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

- a. Long positions have no value for margin purposes or a 100 percent maintenance margin requirement.
- b. Short positions are valued for margin purposes at the last known sale price prior to suspension and regular maintenance margin requirements are applied.
- c. Long and short positions of the same security are paired-off and only the excess position is margined in accordance with (a) or (b) above.
- d. Long stock versus short warrants representing the same security are treated the same as (c) above.
- e. Long exchangeable or convertible securities versus equivalent shorts of the underlying security position are treated as follows:
 1. there is no maintenance requirement, if there is no conversion cost or other restrictions, or
 2. if there is a conversion cost but no other restriction, the requirement is the conversion cost or the regular maintenance requirement on the short position, whichever is less, or
 3. if there is a restriction to the conversion other than a conversion cost, the positions are margined in accordance with (a) and (b) above.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Changed item a. from "no value" to "no value for margin purposes or 100 percent maintenance margin requirement" to better align with the rule and industry practice.]

4210(f)(2) Puts, Calls and Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants

4210(f)(2)(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.

4210(f)(2)(A)(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.

4210(f)(2)(A)(ii) The term "aggregate exercise price" as used with reference to an option contract means:

4210(f)(2)(A)(ii)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;

4210(f)(2)(A)(ii)b. if a Treasury bond or Treasury note underlies the option contract,

4210(f)(2)(A)(ii)b.1. the exercise price of the option contract multiplied by the principal amount of the underlying security covered by such option contract, plus

4210(f)(2)(A)(ii)b.2. accrued interest:

4210(f)(2)(A)(ii)b.2.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.

4210(f)(2)(A)(ii)b.2.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.

4210(f)(2)(A)(ii)c. if a Treasury bill underlies the option contract, the difference between the principal amount of such Treasury bill and the aggregate discount amount;

4210(f)(2)(A)(ii)d. if an index stock group underlies the option contract, the exercise price of the option contract times the index multiplier; or

4210(f)(2)(A)(ii)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.

4210(f)(2)(A)(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.

4210(f)(2)(A)(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.

4210(f)(2)(A)(v) The term "appropriate differential" as used with reference to a GNMA option contract means a positive or negative amount equal to the product of (A) the difference between the remaining unpaid principal balance of a GNMA delivered upon exercise of that contract and the nominal principal amount, and (B) the difference between the current cash market price of GNMA's bearing the same stated rate of interest as that borne by the GNMA delivered upon exercise and the exercise price.

4210(f)(2)(A)(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.

4210(f)(2)(A)(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.

4210(f)(2)(A)(viii) The terms "call" and "put":

4210(f)(2)(A)(viii)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

4210(f)(2)(A)(viii)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:

4210(f)(2)(A)(viii)b.1. the number of shares of the underlying stock (if a single stock underlies the option contract);

4210(f)(2)(A)(viii)b.2. the principal amount of the underlying security (if a Government security underlies the option contract);

4210(f)(2)(A)(viii)b.3. the multiple of the index group value of the underlying group (if an index stock group underlies the option contract); or

4210(f)(2)(A)(viii)b.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.

4210(f)(2)(A)(ix) The term "class (of options)" means all option contracts of the same type and kind covering the same underlying security or underlying stock group.

4210(f)(2)(A)(x) The term "covered" has the same meaning as defined in Rule 2360(a).

4210(f)(2)(A)(xi) The terms "currency warrant," "currency index" and "currency index warrant" have the same meanings as defined in Rule 2351(b).

4210(f)(2)(A)(xii) The term "current cash market price" as used with reference to GNMA's means the prevailing price in the cash market for GNMA's 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.

4210(f)(2)(A)(xiii) 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.

4210(f)(2)(A)(xiv) The term "escrow agreement," when used in connection with cash settled calls, puts, currency warrants, currency index warrants or stock index warrants, carried "short", means any agreement issued in a form acceptable to FINRA under which a bank holding cash, cash equivalents, one or more qualified equity securities or a combination thereof in the case of a call or warrants, or cash, cash equivalents or a combination thereof in the case of a put or warrant is obligated (in the case of an option) to pay the creditor the exercise settlement amount in the event an option is assigned an exercise notice or, (in the case of a warrant) the sufficient funds to purchase a warrant sold "short" in the event of a buy-in.

4210(f)(2)(A)(xv) 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.

4210(f)(2)(A)(xvi) 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.

4210(f)(2)(A)(xvii) 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).

4210(f)(2)(A)(xviii) 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.

4210(f)(2)(A)(xix) The term "expiration month" in respect of an option contract means the month and year in which such option contract expires.

4210(f)(2)(A)(xx) 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.

4210(f)(2)(A)(xxi) 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.

4210(f)(2)(A)(xxii) 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.

4210(f)(2)(A)(xxiii) 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.

4210(f)(2)(A)(xxiv) 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 or issued and guaranteed by a registered clearing agency and shall include an OCC Cleared OTC Option (as defined in Rule 2360).

4210(f)(2)(A)(xxv) The term "nominal principal amount" as used with reference to a GNMA option means the remaining unpaid principal balance of GNMAAs required to be delivered to the holder of a call or by the holder of a put upon exercise of an option without regard to any variance in the remaining unpaid principal balance permitted to be delivered upon such exercise and shall be \$100,000 in the case of a single call or put.

4210(f)(2)(A)(xxvi) 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.

4210(f)(2)(A)(xxvii) 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 and shall not include OCC Cleared OTC Option (as defined in Rule 2360).

4210(f)(2)(A)(xxviii) 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.

4210(f)(2)(A)(xxix) 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.

4210(f)(2)(A)(xxx) 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.

4210(f)(2)(A)(xxxi) 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.

4210(f)(2)(A)(xxxii) The term "spread" means a "long" and "short" position in different call option series, different put option series, or a combination of call and put option series, that collectively have a limited risk / reward profile, and meet the following conditions;

NEW: 4210(f)(2)(A)(xxxii)/01 Mini Option, Jumbo Option, and Standard Option Contract Spread Combinations

Members may combine mini option contracts, jumbo option contracts, or standard option contracts to create a spread strategy, as defined in Rule 4210(f)(2)(A)(xxxii), provided all the required criteria has been satisfied.

(Regulatory Notice 24-XX)

[Comment: Straightforward application of the rule.]

4210(f)(2)(A)(xxxii)a. all options must have the same underlying security or instrument;

4210(f)(2)(A)(xxxii)b. all "long" and "short" option contracts must be either all American-style or all European-style;

4210(f)(2)(A)(xxxii)c. all "long" and "short" option contracts must be either all listed or all OTC;

4210(f)(2)(A)(xxxii)d. the aggregate underlying contract value of "long" versus "short" contracts within option type(s) must be equal; and

4210(f)(2)(A)(xxxii)e. the "short" option(s) must expire on or before the expiration date of the "long" option(s).

4210(f)(2)(A)(xxxiii) The term "stock index group" has the same meaning as defined in Rule 2351(b).

4210(f)(2)(A)(xxxiv) 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.

4210(f)(2)(A)(xxxv) 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.

4210(f)(2)(A)(xxxvi) The term "unit of underlying currency" in respect of a currency warrant means a single unit of the currency covered by the warrant.

CANCELLED: 4210(f)(2)(A)(xxxvi)/01 Condor Spreads

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

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

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

Strategy	Current Rule Definition	Variation	Margin Requirement for Both
Long Condor Spread (Calls)	Long Call Feb 50	Long Call Feb 50	Pay for net debit in full.
	Short Call Feb 55	Short Call Feb 55	
	Short Call Feb 60	Short Call Feb 65	
	Long Call Feb 65	Long Call Feb 70	
Long Condor Spread (Puts)	Long Put Feb 50	Long Put Feb 50	Pay for net debit in full.
	Short Put Feb 55	Short Put Feb 55	
	Short Put Feb 60	Short Put Feb 65	
	Long Put Feb 65	Long Put Feb 70	
Long Calendar Condor Spread (Calls)	Long Call Feb 45	Long Call Feb 45	Pay for net debit in full.
	Short Call Feb 50	Short Call Feb 50	
	Short Call Feb 55	Short Call Feb 70	
	Long Call Apr 60	Long Call Apr 75	
Long Calendar Cond or Spread (Puts)	Long Put Feb 45	Long Put Feb 45	Pay for net debit in full.
	Short Put Feb 50	Short Put Feb 50	

	Short Put Feb 55	Short Put Feb 70	
	Long Put Apr 60	Long Put Apr 75	
	Long Put Feb 50	Long Put Feb 50	
Short Iron Condor Spread	Short Put Feb 55	Short Put Feb 55	Exercise price interval (aggregate) of the put or call spread. Net credit received may be applied.
	Short Call Feb 60	Short Call Feb 70	
	Long Call Feb 65	Long Call Feb 75	
	Long Put Feb 45	Long Put Feb 45	
Short Calendar Iron Condor Spread	Short Put Feb 50	Short Put Feb 50	Exercise price interval (aggregate) of the put or call spread. Net credit received may be applied.
	Short Call Feb 55	Short Call Feb 60	
	Long Call Apr 60	Long Call Apr 65	

— (Rescinded)

(Regulatory Notice ~~10-4524-XX~~)

[Comment: Obsolete as the rule no longer exists.]

4210(f)(2)(B) Except as provided below, and in the case of a put, call, index stock group option, or stock index warrant with a remaining period to expiration exceeding nine months, no put, call, currency warrant, currency index warrant or stock index warrant carried for a customer shall be considered of any value for the purpose of computing the margin to be maintained in the account of such customer.

4210(f)(2)(C) The issuance, guarantee or sale (other than a "long" sale) for a customer of a put, a call, a currency warrant, a currency index warrant or a stock index warrant shall be considered a security transaction subject to paragraphs (b) and (c).

4210(f)(2)(D) For purposes of this paragraph (f)(2), obligations issued by the United States Government shall be referred to as United States Government obligations. Mortgage pass-through obligations guaranteed as to timely payment of principal and interest by the Government National Mortgage Association shall be referred to as GNMA obligations.

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

"Long" Listed Option or Warrant With An Expiration Exceeding Nine Months.

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

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

4210(f)(2)(D)(i) is guaranteed by the carrying broker-dealer,

4210(f)(2)(D)(ii) has an American-style exercise provision, and

4210(f)(2)(D)(iii) has a remaining period to expiration exceeding nine months.

4210(f)(2)(E) The margin required on any listed or OTC put, call, currency warrant, currency index warrant, or stock index warrant carried "short" in a customer's account shall be:

MINOR CHANGE: ~~4210(f)(2)(E)(iii)/01~~ 4210(f)(2)(E)/01 Treatment of Options Involving Mergers and Acquisitions

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

Out-of-the-money options	No requirement
In-the-money options	The <u>amount of the</u> difference between the dollar amount set by the registered clearing <u>corporation</u> agency and the <u>strike</u> exercise price of the option or the amount of margin required by the registered clearing <u>corporation</u> agency, whichever is greater.

~~The difference between the amount of margin previously required pursuant to Rule 4210(f)(2)(E)(ii) and the above requirements, if any, may be released to the customer on the effective date as established by the registered clearing agency.~~ FRB letter to CBOE dated April 12, 1990

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Minor terminology changes and corrected index.]

RN/FAQ: 4210(f)(2)(E)/02 Options on Leveraged Exchange Traded Products

The initial and maintenance margin requirement for uncovered short positions in listed or OTC options on leveraged exchange trade products, including exchange traded funds (ETFs) and exchange traded notes (ETNs) shall be increased by a factor commensurate with the leverage of the ETP as set out in the following chart:

<u>Type of ETP Option</u>	<u>Initial and Maintenance Requirement</u>	<u>Minimum Margin Requirement</u>
<u>Listed Non-Leveraged ETP Option on a Broad-Based Index or Benchmark</u>	<u>100% of the option premium plus 15% of the market value, minus any out-of-the-money amount.</u>	<u>Calls: 100% of the option premium plus 10% of the market value.</u> <u>Puts: 100% of the option premium plus 10% of the exercise amount for put options.</u>
<u>Listed Leveraged ETP Option on a Broad-</u>	<u>100% of the option premium plus (15% multiplied by the leverage factor of the ETP) of</u>	<u>Calls: 100 percent of the option premium plus (10% multiplied by the leverage</u>

<u>Based Index or Benchmark</u>	<u>the market value minus any out-of-the-money amount.</u>	<u>factor of the ETP) of the market value.</u> <u>Puts: 100% of the option premium plus (10% multiplied by the leverage factor of the ETP) of the exercise amount.</u>
<u>OTC Non-Leveraged ETP Option on a Broad-Based Index or Benchmark</u>	<u>20% of the market value, plus any in-the-money amount or minus any out-of-the-money amount</u>	<u>Calls: 10% of the market value.</u> <u>Puts: 10% of the exercise amount.</u>
<u>OTC Leveraged ETP Option on a Broad-Based Index or Benchmark</u>	<u>(20% multiplied by the leverage factor of the ETP) of the market value, plus any in-the-money amount or minus any out-of-the-money amount.</u>	<u>Calls: (10% multiplied by the leverage factor of the ETP) of the market value.</u> <u>Puts: (10% multiplied by the leverage factor of the ETP) of the exercise amount.</u>
<u>Listed Non-Leveraged ETP Option on an Industry, Single-Stock, or Narrow-Based Index or Benchmark</u>	<u>100% of the option premium plus 20% of the market value minus any out-of-the-money amount.</u>	<u>Calls: 100% of the option premium plus 10% of the market value.</u> <u>Puts: 100% of the option premium plus 10% of the exercise amount for put options.</u>
<u>Listed Leveraged ETP Option on an Industry, Single-Stock, or Narrow-Based Index or Benchmark</u>	<u>100% of the option premium plus (20% multiplied by the leverage factor of the ETP) of the market value minus any out-of-the-money amount.</u>	<u>Calls: 100% of the option premium plus (10% multiplied by the leverage factor of the ETP) of the market value.</u> <u>Puts: 100% of the option premium plus (10% multiplied by the leverage factor of the ETP) of the</u>

		<u>exercise amount for put options.</u>
<u>OTC Non-Leveraged ETP Option on an Industry, Single-Stock, or Narrow-Based Index or Benchmark</u>	<u>30% of the market value, plus any in-the-money amount or minus any out-of-the-money amount.</u>	<u>Calls: 10% of the market value.</u> <u>Puts: 10% of the exercise amount.</u>
<u>OTC Leveraged ETP Option on an Industry, Single-Stock, or Narrow-Based Index or Benchmark</u>	<u>(30% multiplied by the leverage factor of the ETP) of the market value, plus any in-the-money amount or minus any out-of-the-money amount.</u>	<u>Calls: (10% multiplied by the leverage factor of the ETP) of the market value.</u> <u>Puts: (10% multiplied by the leverage factor of the ETP) of the exercise amount.</u>

(Regulatory Notice 09-53)

(Regulatory Notice 19-21)

(Regulatory Notice 24-XX)

[Comment: Incorporating guidance from several Regulatory Notices.]

4210(f)(2)(E)(i) In the case of listed puts and calls, 100 percent of the current market value of the option plus the percentage of the current market value of the underlying component specified in column II of the chart below. In the case of currency warrants, currency index warrants and stock index warrants, 100 percent of the current market value of each such warrant plus the percentage of the warrant's current "underlying component value" (as column IV of the chart below describes) specified in column II of the chart below.

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

	I Type of Option	II Initial and/or Maintenance Margin Required	III Minimum Margin Required	IV Underlying Component Value
(1)	Stock	20 percent	10 percent	The equivalent number of shares at current market prices.
(2)	Industry index stock group	20 percent	10 percent	The product of the index group value and the applicable index multiplier.
(3)	Broad index stock group	15 percent	10 percent	The product of the index group value and the applicable index multiplier.
(4)	U.S. Treasury bills — 95 days or less to maturity	.35 percent	1/20 percent	The underlying principal amount.
(5)	U.S. Treasury notes	3 percent	1/2 percent	The underlying principal amount.
(6)	U.S. Treasury bonds	3.5 percent	1/2 percent	The underlying principal amount.
(7)	Foreign Currency Options and Warrants*	4 percent	3/4 percent	The product of units per foreign currency contract and the closing spot price.
(8)	Interest Rate contracts	10 percent	5 percent	The product of the current interest rate measure and the applicable multiplier.
(9)	Currency Index Warrants	**	**	The product of the index group value

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

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

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

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

Option or Warrant Issue	Call	Put
Stock Options	Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.	Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.
U.S. Treasury Options	Any excess of the aggregate exercise price of the option over the current market value of the underlying principal amount.	Any excess of the current market value of the underlying principal amount over the aggregate exercise price of the option.
Index Stock Group Options, Currency Index Warrants, and Stock Index Warrants	Any excess of the aggregate exercise price of the option or warrant over the product of the index group value and	Any excess of the product of the index group value and the applicable multiplier over the aggregate

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

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.

NEW: 4210(f)(2)(E)(i)/01 Uncovered Put Option Requirement

The maximum maintenance margin requirement for a short, uncovered put option is the aggregate exercise price, as defined in Rule 4210(f)(2)(A)(ii).

(Regulatory Notice 24-XX)

[Comment: The aggregate exercise price is sufficient to cover the put.]

4210(f)(2)(E)(ii) In the case of listed puts and calls which represent options on GNMA obligations in the principal amount of \$100,000, 130 percent of the current market value of the option plus \$1,500, except that the margin required need not exceed \$5,000 plus the current market value of the option.

4210(f)(2)(E)(iii) In the case of OTC puts and calls, the percentage of the current value of the underlying component and the applicable multiplier, if any, specified in column II below, plus any "in-the-money amount" (as defined in this paragraph (f)(2)(E)(iii)).

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

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

5.	Listed non-equity securities and other margin eligible non-equity securities as defined in paragraphs (a)(15) and (a)(16).	15%	5%	The underlying principal amount.
6.	All other OTC options not covered above	45%	20%	The underlying principal amount.

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

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

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

		underlying principal amount.
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4210(f)(2)(E)(iv) OTC puts and calls representing options on U.S. Government and U.S. Government Agency debt securities that qualify for exemption pursuant to SEA Rule 3a12-7, must be for a principal amount of not less than \$500,000, and shall be subject to the following requirements:

4210(f)(2)(E)(iv)a. For exempt accounts, as defined in paragraph (a)(13), 3 percent of the current value of the underlying principal amount on thirty (30) year U.S. Treasury bonds and non-mortgage backed U.S. Government agency debt securities; and 2 percent of the current value of the underlying principal amount on all other U.S. Government and U.S. Government agency debt securities, plus any "in-the-money amount" (as defined in paragraph (f)(2)(E)(iii)) or minus any "out-of-the-money amount" (as defined in paragraph (f)(2)(E)(i)). The amount of any deficiency between the equity in the account and the margin required shall be deducted in computing the net capital of the member under SEA Rule 15c3-1 and, if applicable, Rule 4110(a), on the following basis:

4210(f)(2)(E)(iv)a.1. On any one account or group of commonly controlled accounts to the extent such deficiency exceeds 5 percent of a member's tentative net capital (as such term is defined in SEA Rule 15c3-1), 100 percent of such excess amount, and

4210(f)(2)(E)(iv)a.2. On all accounts combined to the extent such deficiency exceeds 25 percent of a member's tentative net capital (as such term is defined in SEA Rule 15c3-1), 100 percent of such excess amount, reduced by any amount already deducted pursuant to subparagraph (a) above.

4210(f)(2)(E)(iv)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.

4210(f)(2)(F)(i) Each put or call shall be margined separately and any difference between the current market value of the underlying component and the exercise price of a put or call shall be considered to be of value only in providing the amount of margin required on that particular put or call. Substantial additional margin must

be required on listed or OTC options carried "short" with an unusually long period of time to expiration, or written on securities which are subject to unusually rapid or violent changes in value, or which do not have an active market, or where the securities subject to the option cannot be liquidated promptly.

4210(f)(2)(F)(ii) No margin need be required on any "covered" put or call.

MINOR CHANGE: 4210(f)(2)(F)(ii)/01 Control or Restricted Securities Covering Options Sold

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

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Minor clarification to the applicable conditions.]

MINOR CHANGE: 4210(f)(2)(F)(ii)/02 ~~Cash accounts~~ Accounts in Which Call Options May Be Sold

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

Call options may be sold (written) against control or restricted securities in either the margin account or the cash account, and will be deemed covered calls, provided that all conditions to sale under Securities Act Rules 144 and 145 are satisfied prior to the sale (writing) of the call options.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Minor Change to cover both cash and margin accounts.]

REPLACED: 4210(f)(2)(F)(ii)/03 Margin accounts — (Rescinded)

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

(Regulatory Notice ~~10-4524-XX~~)

[Comment: Addressed by the update to 4210(f)(2)(F)(ii)/02.]

NEW: 4210(f)(2)(F)(ii)/04 Partially Covered Option

The sale (writing) of a short option contract may be partially covered by the proportionate amount of shares of the underlying security, and members may apply the appropriate uncovered option requirement to the remaining uncovered portion. This transaction is not eligible for the cash account.

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretation.]

4210(f)(2)(G)(i) Where both a listed put and call specify the same underlying component and are carried "short" for a customer, the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to paragraph (f)(2)(E)(i) above, plus the current market value on the other option. When:

4210(f)(2)(G)(i)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;

4210(f)(2)(G)(i)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;

4210(f)(2)(G)(i)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;

4210(f)(2)(G)(i)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;

4210(f)(2)(G)(i)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;

4210(f)(2)(G)(i)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;

4210(f)(2)(G)(i)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;

4210(f)(2)(G)(i)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;

4210(f)(2)(G)(i)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

4210(f)(2)(G)(i)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,

4210(f)(2)(G)(i) 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.

4210(f)(2)(G)(ii) Where either or both the put and call specifying the same underlying component are not listed and are OTC and carried "short" for a customer by the same carrying broker-dealer (as defined in paragraph (f)(2)(H) below), the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to paragraphs (f)(2)(E)(iii) and (E)(iv) above, plus any unrealized loss on the other option. Where either or both the put or call are not listed or OTC and are carried by the same carrying broker-dealer then the put and call must be margined separately pursuant to paragraphs (f)(2)(E)(iii) and (E)(iv) above, however, the minimum margin shall not apply to the other option.

4210(f)(2)(G)(iii) If both a put and call for the same GNMA obligation in the principal amount of \$100,000 are listed or OTC and are carried "short" for a customer, the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to paragraph (f)(2)(E)(ii) above, plus the current market value of the other option.

4210(f)(2)(H)(i) For spreads as defined in paragraph (f)(2)(A)(xxxii) of this Rule, the margin required on the "short" options shall be the lesser of:

4210(f)(2)(H)(i)a. The margin required pursuant to paragraph (f)(2)(E); or

4210(f)(2)(H)(i)b. The maximum potential loss. The maximum potential loss is determined by computing the intrinsic value of the options at price points for the underlying security or instrument that are set to correspond to every exercise price present in the spread. The intrinsic values are netted at each price point. The maximum potential loss is the greatest loss, if any.

4210(f)(2)(H)(i) "Long" options must be paid for in full. The proceeds of the "short" options may be applied towards the cost of the "long" options and/or any margin requirement.

4210(f)(2)(H)(ii) Where a call warrant issued on an underlying currency, index currency group or index stock group is carried "long" for a customer's account and the account is also "short" a listed call option, or index stock group, which "short" call position(s) expire on or before the date of expiration of the "long" call position and specify the same number of units of the same underlying currency or the same index multiplier for the same index currency group or index stock group, as the case may be, the margin required on the "short" call(s) shall be the requirement pursuant to paragraph (f)(2)(H)(i) above.

Where a put warrant issued on an underlying currency, index currency group or index stock group is carried "long" for a customer's account and the account is also "short" a listed put option, and/or a put warrant, on the same underlying currency, index currency group, or index stock group, which "short" put position(s) expire on or before the date of expiration of the "long" put position and specify the same number of units of the same underlying currency or the same index multiplier for the same index currency group or index stock group, as the case may be, the margin required on the "short" put(s) shall be the requirement pursuant to paragraph (f)(2)(H)(i) above.

4210(f)(2)(H)(iii)a. For spreads as defined in paragraph (f)(2)(A)(xxxii) of this Rule, that are written on the same GNMA obligation in the principal amount of \$100,000, the margin required on the "short" options shall be the lower of:

4210(f)(2)(H)(iii)a.1. the margin required pursuant to paragraph (f)(2)(E)(ii) above; or

4210(f)(2)(H)(iii)a.2. the maximum potential loss, as described in paragraph (f)(2)(H)(i)b. of this Rule, multiplied by the appropriate multiplier factor set forth below.

4210(f)(2)(H)(iii)a. "Long" options must be paid for in full. The proceeds of the "short" options may be applied towards the cost of the "long" options and/or any margin requirement.

4210(f)(2)(H)(iii)b. For purposes of this paragraph (f)(2)(H)(iii) the multiplier factor to be applied shall depend on the then current highest qualifying rate as defined by the rules of the national securities exchange on or through which the option is listed or traded. If the then current highest qualifying rate is less than 8 percent, the multiplier factor shall be 1; if the then current highest qualifying rate is greater than or equal to 8 percent but less than 10 percent, the multiplier factor shall be 1.2; if the then current highest qualifying rate is greater than or equal to 10 percent but less than 12 percent, the multiplier factor shall be 1.4; if the then current highest qualifying rate is greater than or equal to 12 percent but less than 14 percent, the multiplier factor shall be 1.5; if the then current highest qualifying rate is greater than or equal to 14 percent but less than 16 percent, the multiplier factor shall be 1.6; and if the then current highest qualifying rate is greater than or equal to 16 percent but less than or equal to 18 percent, the multiplier factor shall be 1.7. The multiplier factor or factors for higher qualifying rates shall be established by FINRA as required.

4210(f)(2)(H)(iv) The "long" and "short" OTC option contracts that comprise a spread as defined in paragraph (f)(2)(A)(xxxii) must be issued and guaranteed by the **same** carrying broker-dealer and the carrying broker-dealer must also be a FINRA member. If ~~the~~ the "long" and "short" OTC option contracts are not issued and guaranteed by the **same** carrying broker-dealer, or if the carrying broker-dealer is not a FINRA member, then the "short" option contracts must be margined separately pursuant to paragraph (f)(2)(E)(iii) or (E)(iv) above.

4210(f)(2)(H)(v) The following requirements set forth the minimum amount of margin that must be maintained in margin accounts of customers having positions

in components underlying options, and stock index warrants, when such components are held in conjunction with certain positions in the overlying option or warrant. The option or warrant must be listed or OTC (as defined in this Rule). In the case of a call or warrant carried in a short position, a related long position in the underlying component shall be valued at no more than the call/warrant exercise price for margin equity purposes.

NEW: 4210(f)(2)(H)(v)/01 Expiration Dates

In a conversion, reverse conversion or collar strategy in which the long put or warrant expires on or after the expiration of the short call or warrant, and the long option is paid for in full, the member may apply the margin treatment provided in applicable Rule 4210(f)(2)(H)(v)b. through d., provided the other conditions of the applicable strategy are satisfied.

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretation (and industry practice).]

4210(f)(2)(H)(v)a. "Long" Option or Warrant Offset. When a component underlying an option or warrant is carried "long" ("short") in ~~an~~the same account ~~in which there is also carried~~as 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.

4210(f)(2)(H)(v)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 ~~there is also carried~~ within the same account 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.

4210(f)(2)(H)(v)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 ~~there is also carried~~ within the same account 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.

4210(f)(2)(H)(v)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 there is also carried within the same account 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.

4210(f)(2)(H)(v)e. "Long" Box Spread in European-Style Options. With respect to a "long" box spread as defined in paragraph (f)(2)(A) of this Rule, in which all component options have a European-style exercise provision and are listed or OTC (as defined in this Rule), margin must be deposited and maintained equal to at least 50 percent of the aggregate difference in the exercise prices. The net proceeds from the sale of "short" option components may be applied to the requirement. For margin purposes, the "long" box spread may be valued at an amount not to exceed 100 percent of the aggregate difference in the exercise prices.

4210(f)(2)(H)(v)f. Protected Options. When an index call (put) option or warrant is carried "short" (the "protected option or warrant position") and there is carried in the same account a long (short) position in an underlying stock basket, non-leveraged index mutual fund or non-leveraged exchange-traded fund (each, the "protection") that is based on the same index underlying the index option or warrant, the protected option or warrant position is not subject to the requirements set forth in paragraphs (f)(2)(E)(i) and (f)(2)(E)(iii) of this Rule if the following conditions are met:

4210(f)(2)(H)(v)f.1. when the protected option or warrant position is created, the absolute value of the protection is not less than 100 percent of the aggregate current underlying index value associated with the protected option or warrant position determined at either:

4210(f)(2)(H)(v)f.1.A. the time the order that created the protected option or warrant position was entered or executed; or

4210(f)(2)(H)(v)f.1.B. the close of business on the trading day the protected option or warrant position was created;

4210(f)(2)(H)(v)f.2. the absolute value of the protection is at no time less than 95 percent of the aggregate current underlying index value associated with the protected option or warrant position; and

4210(f)(2)(H)(v)f.3. margin is maintained in an amount equal to the greater of:

4210(f)(2)(H)(v)f.3.A. the amount, if any, by which the aggregate current underlying index value is above (below) the aggregate exercise price of the protected call (put) option or warrant position; or

4210(f)(2)(H)(v)f.3.B. the amount, if any, by which the absolute value of the protection is below 100 percent of the aggregate current underlying index value associated with the protected option or warrant.

4210(f)(2)(I)(i) Where a listed or OTC call is carried "short" against an existing net "long" position in the security underlying the option or in any security immediately exchangeable or convertible, other than warrants, without restriction including the payment of money into the security underlying the option, no margin need be required on the call, provided:

4210(f)(2)(I)(i)a. such net "long" position is adequately margined in accordance with this Rule; and

4210(f)(2)(I)(i)b. the right to exchange or convert the net "long" position does not expire on or before the date of expiration of the "short" call. Where a listed or OTC put is carried "short" against an existing net "short" position in the security underlying the option, no margin need be required on the put, provided such net "short" position is adequately margined in accordance with this Rule.

UNNECESSARY: 4210(f)(2)(I)(i)b./01 Convertible Bond Hedge

~~Convertible bonds carried long in margin or cash accounts may be considered as a hedge for short call options sold in margin or cash accounts for an equivalent amount of common stock into which the bonds are convertible. — (Rescinded)~~
(Regulatory Notice ~~10-4524-XX~~)

[Comment: Rescinded because it does not add anything not already stated in 4210(f)(2)(I).]

4210(f)(2)(I)(ii) Where a listed or OTC call is carried "short" against an existing net "long" position in a warrant convertible into the security underlying the option,

margin shall be required on the call equal to any amount by which the conversion price of the "long" warrant exceeds the exercise price of the call, provided:

4210(f)(2)(I)(ii)a. such net "long" position is adequately margined in accordance with this Rule; and

4210(f)(2)(I)(ii)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.

4210(f)(2)(I)(iii) In determining net "long" and net "short" positions, for purposes of paragraphs (f)(2)(I)(i) and (ii) above, offsetting "long" and "short" positions in exchangeable or convertible securities (including warrants) or in the same security, as discussed in paragraph (e)(1), shall be deducted. In computing margin on such an existing net security position carried against a put or call, the current market price to be used shall not be greater than the exercise price in the case of a call or less than the current market price in the case of a put and the required margin shall be increased by any unrealized loss.

UNCHANGED: 4210(f)(2)(I)(iii)/01 Net Positions

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(f)(2)(I)(iv) Where a listed or OTC put or call option or stock index warrant is carried "short" in the account of a customer, against an escrow agreement, that is in a form satisfactory to FINRA, is issued by a third party custodian bank or trust company (the "custodian"), either is held in the account at the time the put or call is written, or is received in the account promptly thereafter, and is in compliance with the requirements of Rule 610 of The Options Clearing Corporation, no margin need be required on the put or call.

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

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

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

UNCHANGED: 4210(f)(2)(I)(iv)/01 OTC Government Options

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

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

FRB Letter to CBOE Dated December 12, 1986

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(f)(2)(I)(iv)/02 Use of Government Security Under Escrow Agreement

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

FRB Letter to CBOE Dated December 12, 1986

(Regulatory Notice 10-45)

[Comment: Unchanged]

MINOR CHANGE: 4210(f)(2)(I)(iv)/03 ~~Indices~~-Escrow Agreement Covering Index Options - Under Collateralized

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Changed the interp heading and clarified the type of deposit.]

UNCHANGED: 4210(f)(2)(I)(iv)/04 Escrow Agreement

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

In this regard:

- FINRA's prescribed forms of escrow agreements for puts and calls on equity securities or U.S. Government securities and for puts on indices are the only forms that may be accepted by members. Any other form of escrow agreement is not acceptable for purposes of Rule 4210 absent prior written approval of FINRA.
- Members must comply with Rule 2360 (Options) as it relates to the customer trading the options and to the bank or trust company issuing the escrow agreement.
- Escrow agreements may not be accepted unless the securities or cash held by the bank or trust company are free of all liens or encumbrances.
- Members should set a limit on the number of customers from whom escrow agreements will be accepted, or the number of escrow agreements to be accepted on behalf of any one customer.
- Escrow agreements should be recorded on the member's books and records.
- Members should establish a limit on the total dollar amount of all outstanding escrow agreements accepted from any one bank or trust company and a total dollar amount of all escrow agreements accepted in relation to the member's net worth.
- If the security against which an option is written is being carried in a member account, the security position must be maintained at the member.
- Banks acting as fiduciaries for trust clients may issue escrow agreements for their trust accounts.

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(f)(2)(I)(iv)/EXHIBIT I EQUITY/TREASURY ESCROW AGREEMENT (PUT)

[Bank Letterhead]

(Date)

To: _____ (Broker-Dealer Name)

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

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

Trade Date: Underlying Securities:

				Options Series
--	--	--	--	----------------

		Expiration		Aggregate Exercise Price
Number of Contracts	Option Type	Month	Year	Per Contact
	Put			

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

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

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

Upon (a) presentation of this escrow agreement to the Bank at the address shown above, with the Payment Order below that, in the Bank's reasonable belief, has been duly executed on your behalf, and (b) delivery to the Bank for the account of the Customer of the securities underlying the above-described option contract(s),

which securities shall be in form to constitute good delivery under the rules of the OCC, the Bank will pay you, out of the Deposit or the proceeds thereof; the exercise settlement amount as to each of the option contracts described above, plus all applicable commission and other charges due you.

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

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

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

Bank _____

By _____	Date _____
(Authorized Signature)	

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

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

_____ _____ (Broker-Dealer)	
By _____	Date _____

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

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

(Broker-Dealer)	
By _____	Date _____

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(f)(2)(I)(iv)/EXHIBIT II EQUITY/TREASURY ESCROW AGREEMENT (CALL)

[Bank Letterhead]

(Date)

To: _____

(Broker-Dealer Name)

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

1. it is a bank or trust company, doing business in corporate form, organized under the laws of the United States or any State thereof and is supervised and examined by State or Federal authorities having supervision over banks or trust companies;
2. as escrow agent, it has on deposit in the United States for the account of _____ (the "Customer"), in form to constitute good delivery under the rules of The Options Clearing Corporation (the "OCC"), the

securities that underlie the option contract(s) described below or other securities which are immediately convertible into or exchangeable for such securities without the payment of money (which right to convert or exchange does not expire on or before the expiration date of the option contract(s) described below), such deposited securities being hereinafter referred to as the Deposited Securities; and

- the Bank has received specific authorization from the Customer to issue this escrow agreement and to hold the Deposited Securities pursuant to the provisions hereof, in respect of the Customer's position (the "short position") as a writer of the following option contract(s):

Trade Date: Underlying Securities:

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

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

The Bank agrees that it will hold the Deposited Securities in accordance with the

terms hereof until this escrow agreement is released or the Bank is directed to make delivery as hereinafter provided.

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

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

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

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

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

bailee hereunder, which on its face affects the Deposited Securities or the proceeds thereof.

Bank _____

By _____	Date _____
(Authorized Signature)	

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

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

_____ _____ (Broker-Dealer)	
By _____	Date _____

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

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

_____ _____ (Broker-Dealer)	
By _____	Date _____

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(f)(2)(I)(iv)/EXHIBIT III MARKET INDEX ESCROW AGREEMENT (PUT)

[Bank Letterhead]

(Date)

To: _____

(Broker-Dealer Name)

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

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

Trade Date: _____ Underlying Securities: _____

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

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

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

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

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

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

defined in the pertinent By-Laws of The Options Clearing Corporation), plus all applicable commissions and other charges due you.

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

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

Bank_____

By_____	Date_____
(Authorized Signature)	

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

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

(Broker-Dealer)	
By_____	Date_____

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

The undersigned hereby (1) certifies to the above-named Bank that an exercise notice filed with The Options Clearing Corporation has been assigned to the short portion of the undersigned which includes the option market index contract(s)

described above and (2) demands payment that will settle such assignment, plus applicable commissions and other charges due, in the amount of \$ _____.

(Broker-Dealer)	
By _____	Date _____

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(f)(2)(I)(iv)/EXHIBIT IV MARKET INDEX ESCROW AGREEMENT (CALL)

[Bank Letterhead]

(Date)

To: _____

(Broker-Dealer Name)

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

1. it is a bank or trust company, doing business in corporate form, organized under the laws of the United States or any State thereof and is supervised and examined by State or Federal authorities having supervision over banks or trust companies;
2. as escrow agent, it has on deposit in the United States for the account of _____ (the "Customer"), (a) cash, (b) cash equivalents meeting the requirements of Regulation T of the Board of Governors of the Federal Reserve System, (c) one or more qualified securities as defined in FINRA Rule 4210(f)(2)(I)(iv), or (d) any combination thereof (the "Deposit");
3. the aggregate market value of the Deposit, computed as of the close of business on the trade date referred to below (valuing cash equivalents at face value and qualified securities at their last sale price, as reported on such

trade date pursuant to an effective transaction reporting plan as defined in Rule 600 of SEC Regulation NMS or their last bid price, if not subject to last sale reporting) was not less than the aggregate current index value set forth in the table below;

4. to the extent the Deposit includes securities such securities are in good deliverable form or the Bank has the unrestricted power to put such securities into good deliverable form, in accordance with the requirements of the primary market for such securities and the Customer has duly authorized the Bank to liquidate such securities to the extent necessary to perform the Bank's obligations thereunder; and
5. the Bank has received written affirmation from the Customer that all index call options covered by this escrow agreement are written against a diversified stock portfolio and has also received specific authorization from the Customer to issue this escrow agreement and to hold the Deposit pursuant to the provisions hereof, in respect of the Customer's position (the "short position") as a writer of the over-the-counter call option contract on the underlying index referred to below

Trade Date:	Expiration Date:	Underlying Index:
-------------	------------------	-------------------

		Aggregate		
Number of		Current Index	Index	
<u>Contracts</u>	<u>Option Type</u>	<u>Value</u>	<u>Multiplier</u>	<u>Exercise Price</u>
	Call	\$		

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

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

Upon the request of the Broker-Dealer, the Bank will promptly provide the Broker-Dealer with a written listing of the cash, cash equivalents, and/or qualified securities included in the Deposit. If at any time the current aggregate market value of the Deposit shall be less than the greater of either (a) 55% of the product of (A) the number of contracts indicated above and (B) the aggregate current index value of the underlying index determined on the immediately preceding business day (such product being the "Current Index Amount") or (b) 130% of the aggregate Exercise Settlement Amount (as defined in FINRA Rule 4210(f)(2)(A)) of option contracts referred to herein, the Bank shall promptly notify the Broker-Dealer and the Customer in writing of such fact and request that the Customer supplement the Deposit. As used herein, the term "aggregate current index value" means the "current index value" as such term is defined by the By-Laws of The Options Clearing Corp., multiplied by the "Index Multiplier" in the above table.

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

If any cash equivalent or qualified security shall cease to meet the requirements of clause (ii) above, such cash equivalents or qualified security shall be assigned no

value for purposes of determining current aggregate market value pursuant to this paragraph.

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

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

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

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

Bank _____

By _____	Date _____
(Authorized Signature)	

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

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

(Broker-Dealer)	
By _____	Date _____

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

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

(Broker-Dealer)	
By _____	Date _____

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(f)(2)(J) When a member guarantees an option or stock index warrant to receive or deliver securities or foreign currencies for a customer, such option or stock index warrant shall be margined as if it were a put or call.

4210(f)(2)(K)(i) Registered specialists, market makers or traders — Notwithstanding the other provisions of this paragraph (f)(2), a member may clear and carry the listed option transactions of one or more registered specialists, registered market makers or registered traders in options (whereby registered traders are deemed specialists for all purposes under the Exchange Act, pursuant to the rules of a national securities exchange) (hereinafter referred to as "specialist(s)"), upon a "Good Faith" margin basis satisfactory to the concerned parties, provided the "Good Faith" margin requirement is not less than the net capital haircut deduction of the member carrying the transaction pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a). In lieu of collecting the "Good Faith" margin requirement, a carrying member may elect to deduct in computing its net capital the amount of any deficiency between the equity maintained in the account and the "Good Faith" margin required.

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

4210(f)(2)(K)(i)a. A "short" option position which is not offset by a "long" or "short" option position for an equal or greater number of shares of the same underlying security which is "in the money";

4210(f)(2)(K)(i)b. A "long" option position which is not offset by a "long" or "short" option position for an equal or greater number of shares of the same underlying security which is "in the money";

4210(f)(2)(K)(i)c. A "short" option position against which an exercise notice was tendered;

4210(f)(2)(K)(i)d. A "long" option position which was exercised;

4210(f)(2)(K)(i)e. A net "long" position in a security (other than an option) in which a specialist or market maker makes a market;

4210(f)(2)(K)(i)f. A net "short" position in a security (other than an option) in which the specialist or market maker makes a market; or

4210(f)(2)(K)(i)g. A specified portfolio type as referred to in SEA Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

4210(f)(2)(K)(i) Permitted offset transactions must be effected for specialist or market making purposes such as hedging, risk reduction, rebalancing of positions, liquidation, or accommodation of customer orders, or other similar specialist or market maker purpose. The specialist or market maker must be able to demonstrate compliance with this provision.

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

4210(f)(2)(K)(ii) Securities, including options, in such accounts shall be valued conservatively in the light of current market prices and the amount which might be realized upon liquidation. Substantial additional margin must be required or excess net capital maintained in all cases where the securities carried:

4210(f)(2)(K)(ii)a. are subject to unusually rapid or violent changes in value including volatility in the expiration months of options;

4210(f)(2)(K)(ii)b. do not have an active market; or

4210(f)(2)(K)(ii)c. in one or more or all accounts, including proprietary accounts combined, are such that they cannot be liquidated promptly or represent undue concentration of risk in view of the carrying member's net capital and its overall exposure to material loss.

MINOR CHANGE: 4210(f)(2)(K)(ii)c./01 Specialists' or Market Makers' Option Hedging

Transactions in options effected by a specialist or a market maker are deemed "market maker transactions", and shall be subject to the margin requirements of this ~~paragraph~~ Rule 4210(f)(2)(K). Therefore, the amount of margin which the specialist or market maker must maintain with the clearing firm~~member~~ may be determined by mutual agreement between the clearing firm~~member~~ and the specialist or market maker. However, such an account may not be carried in a "deficit equity" position. The margin treatment under ~~paragraph~~ Rule 4210(f)(2)(K) may be applied when the clearing firm~~member~~ does not carry the equity position(s) of the specialist or market maker.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Changed "firm" to "member" and "paragraph" to "Rule 4210".]

4210(f)(2)(L) FINRA may at any time impose higher margin requirements with respect to any option or warrant position(s) when it deems such higher margin requirements are appropriate.

4210(f)(2)(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.

4210(f)(2)(N) Cash account transactions — A member may make option transactions in a customer's cash account, provided that:

4210(f)(2)(N)(i) The transaction is permissible under Regulation T, Section 220.8; or

4210(f)(2)(N)(ii) A spread, as defined in paragraph (f)(2)(A)(xxxii) of this Rule, comprised of European-style cash-settled index stock group options, or a "short" stock index warrant and a "long" stock index warrant, having the same underlying component or index that is based on the same aggregate current underlying value, that is held in or purchased for the account on the same day, is deemed a covered position and eligible for the cash account provided that:

4210(f)(2)(N)(ii)a. the "long" positions and the "short" positions expire concurrently;

4210(f)(2)(N)(ii)b. the "long" positions are paid in full; and

4210(f)(2)(N)(ii)c. there is held in the account at the time the positions are established, or received into the account promptly thereafter:

4210(f)(2)(N)(ii)c.1. cash or cash equivalents of not less than the maximum loss, as described in paragraph (f)(2)(H)(i)b. of this Rule, to which net proceeds from the sale of the "short" positions may be applied, or

4210(f)(2)(N)(ii)c.2. an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement i. cash, ii. Cash equivalents, or iii. A combination thereof having an aggregate market value at the time the positions are established of not less than the maximum loss, as described in paragraph

(f)(2)(H)(i)b. of this Rule and that the bank will promptly pay the member such amount in the event the account is assigned an exercise notice or that the bank will promptly pay the member sufficient funds to purchase a warrant sold "short" in the event of a buy-in.

4210(f)(2)(N)(ii)d. A "long" warrant may offset a "short" option contract and a "long" option contract may offset a "short" warrant provided that they have the same underlying component or index and equivalent aggregate current underlying value. In the event that the "long" position is not listed, it must be guaranteed by the carrying broker-dealer; otherwise the "short" position is not eligible for the cash account and must be margined separately pursuant to paragraph (f)(2)(E).

4210(f)(3) "When Issued" and "When Distributed" Securities

4210(f)(3)(A) Margin Accounts

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

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

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

UNCHANGED: 4210(f)(3)(A)/01 Offsetting Position

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNCHANGED: 4210(f)(3)(A)/02 Marked-to-the-Market Gains and Losses

When calculating Regulation T or maintenance excess, any marked- to-the-market loss on a "when issued" position shall be added to the "when issued" requirement and any marked-to-the-market gain shall be subtracted. Any marked-to-the-market

gain on a "when issued" position cannot be applied towards the margin requirement of any other unrelated security position. However, any marked-to-the-market gain can be applied to the margin requirement of any other open "when issued" position of the same issue.

(Regulatory Notice 10-45)

[Comment: Unchanged]

UNNECESSARY: 4210(f)(3)(A)/03 Market Value — (Rescinded)

~~"When issued" positions have no market value for Regulation T and maintenance purposes.~~

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Rescinded as misleading. (No market value would mean a margin requirement of either 0% or 100%, when the position is really subject to the normal margin requirement, with limitations on the credit for MTM gains.)]

4210(f)(3)(B) Cash Accounts

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

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

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

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

4210(f)(3)(B)(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

4210(f)(3)(B)(ii) which is exempt by FINRA as involving a primary distribution. The term "when issued" as used herein also means "when distributed."

UNCHANGED: 4210(f)(3)(B)(ii)/01 Offsetting Position

No margin need be obtained for contracts to sell “when issued” securities when the underlying security is held in a cash account or the member has been informed that the customer owns the underlying securities. Any sale based on ownership by the customer of the underlying security must be made in reliance upon an agreement accepted by the member in good faith that the customer will not dispose of the underlying security while the contract of sale remains outstanding and that upon consummation of the plan, the underlying security will be promptly deposited in the account and exchanged for the new security. Since the “when issued” sale may remain outstanding for a relatively long period of time, the member’s files should contain a written memorandum regarding the customer’s agreement.

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(f)(4) Guaranteed Accounts

Any account guaranteed by another account may be consolidated with such other account and the margin to be maintained may be determined on the net position of both accounts, provided the guarantee is in writing and permits the member carrying the account, without restriction, to use the money and securities in the guaranteeing account to carry the guaranteed account or to pay any deficit therein; and provided further that such guaranteeing account is not owned directly or indirectly by (i) a member, or any stockholder (other than a holder of freely transferable stock only) in the member carrying such account, or (ii) a member, or any stockholder (other than a holder of freely transferable stock only) therein having a definite arrangement for participating in the commissions earned on the guaranteed account. However, the guarantee of a limited partner or of a holder of non-voting stock, if based upon his resources other than his capital contribution to or other than his interest in a member, is not affected by the foregoing prohibition, and such a guarantee may be taken into consideration in computing margin to be maintained in the guaranteed account.

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

4210(f)(5) Consolidation of Accounts

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

REPLACED: 4210(f)(5)/01 Foreign Currency Sub-Accounts — (Rescinded)

~~FINRA will permit the consolidation of margin accounts and sub-accounts for maintenance purposes without requiring conversion of the foreign currency or foreign denominated security into U.S. dollars. Members must recognize the possibility that fluctuations between foreign currencies and the U.S. dollar may have an adverse effect on the total equity in a margin account. Additional margin should generally be required to compensate for potential losses in equity that may occur due to such currency fluctuations.
(Regulatory Notice 10-45)~~

See Interpretation Rule 4210(f)(5)/03 and (c)(6)/15

(Regulatory Notice 24-XX)

[Comment: Interp Rule 4210(f)(5)/03 confirms the general permissibility of margin subaccounts. Interp Rule 4210(c)(6)/15 addresses the use of foreign currency for maintenance purposes.]

UNCHANGED: 4210(f)(5)/02 Separate Margin Accounts

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

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

(Regulatory Notice 20-22)

[Comment: Unchanged]

MINOR CHANGE: 4210(f)(5)/021 Portfolio Margin Accounts

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

(Regulatory Notice 20-22)

(Regulatory Notice 24-XX)

[Comment: Changed "paragraph" to "Rule 4210".]

UNCHANGED: 4210(f)(5)/03 Margin Sub-Accounts

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

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

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

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

(Regulatory Notice 20-22)

[Comment: Unchanged]

4210(f)(6) Time Within Which Margin or "Mark to Market" Must Be Obtained

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

MINOR CHANGE: 4210(f)(6)/01 Fifteen Business Day Period

The fifteen business day period begins on the first business day that follows the date on which the margin deficiency occurred, not the day the member may have so notified the customer nor the fifth business day after the deficiency, when net capital charges were are required by SEA Rule 15c3-1(c)(2)(xii), provided that a bona fide margin call for the deficiency has been made.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Clarifying the days referenced are business days and the SEA Rule requiring a capital charge.]

MINOR CHANGE: 4210(f)(6)/02 ~~Approved~~ Requests for Additional Time

FINRA will only grant additional time upon written request, ~~which must fully explain the reason for the request, description of the security and total positions involved~~ filed in the Regulatory Extension (REX) system under reason code 068, which must fully explain the reason for the request. Where appropriate, the request should also explain how and when the deficiency is expected to be resolved and how the member will be adequately protected against credit and market risk until the deficiency is resolved. In general, FINRA will only consider those situations involving concentrations of a security which is difficult to liquidate, large volatile positions that would affect the market or price of the security and other similar conditions as the basis for approving a request for additional time.

See Extension Reason Codes for guidance.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Adding a requirement for a member to file an extension of time with FINRA via REX.]

UNNECESSARY: 4210(f)(6)/03 FINRA Oversight — (Rescinded)

~~As part of FINRA's regular examination process, every carrying member will be monitored to determine compliance with the fifteen (15) business day limit. (Regulatory Notice ~~10-45~~24-XX)~~

[Comment: Removed to conform with current FINRA risk-based exam practice.]

4210(f)(7) Practice of Meeting Regulation T Margin Calls by Liquidation Prohibited

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

This prohibition on liquidations shall not apply (i) to those accounts that, at the time of liquidation, are in compliance with the equity to be maintained pursuant to the provisions of this Rule or (ii) to any account carried on an omnibus basis as prescribed by Regulation T.

MINOR CHANGE: 4210(f)(7)/01 Liquidation

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Changed "commitment" to "transaction".]

NEW: 4210(f)(7)/02 Assignment of the Short Component of a Spread

If a customer receives a Regulation T margin call due to the assignment of a short option position that is part of a spread (as defined in Rule 4210(f)(2)(A)(xxxii)), the elimination or reduction of that margin call through the prompt exercise of a long option position that is part of that spread will not be considered to be meeting that margin call by liquidation for purposes of Rule 4210(f)(7).

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretive guidance.]

NEW: 4210(f)(7)/03 Making a Practice of Meeting Regulation T Margin Calls by Liquidation

As a general matter, a customer who satisfies not more than three Regulation T margin calls in a rolling 12-month period by the liquidation of positions in the account would not be considered to be “making a practice” of meeting Regulation T margin calls by liquidation.

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretation (consistent with the purpose of Interpretation Rule 4210(b)(4)/051).]

NEW: 4210(f)(7)/04 Liquidations in Error Accounts

An error account of an introducing broker-dealer or registered investment advisor shall not be subject to rule 4210(f)(7), provided such account is used exclusively for bona fide errors, and in which any position resulting from a bona fide error is promptly liquidated.

(Regulatory Notice 24-XX)

[Comment: Longstanding staff position providing safe harbor for members.]

NEW: 4210(f)(7)/05 Regulation T Margin Calls on Good Faith Securities

“Regulation T margin calls” include margin calls for the initial margin on new positions in good faith securities (equal to the FINRA maintenance requirement or any higher amount required by the broker in good faith).

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretive guidance.]

4210(f)(8) Special Initial and Maintenance Margin Requirements

4210(f)(8)(A) Notwithstanding the other provisions of this Rule, FINRA may, whenever it shall determine that market conditions so warrant, prescribe:

4210(f)(8)(A)(i) higher initial margin requirements for the purpose of effecting new securities transactions and commitments in accounts of customers with respect to specific securities;

UNCHANGED: 4210(f)(8)~~(A)(i)~~/01 Special Initial Requirements

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

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

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

(Regulatory Notice 10-45)

[Comment: Unchanged but corrected index]

MINOR CHANGE: 4210(f)(8)~~(A)(i)~~/02 Exemptions

The special initial margin requirements will not apply to:

- a. purchases of stocks to cover existing short positions;
- b. accounts long that sell short against the box;
- c. puts, calls and other options held in accounts prior to the establishment of special margin requirements on the underlying security in accordance with this Rule (Note: Such options issued after the establishment of special margin

requirements must be margined as though the potential security positions were established at that time.);

d. transactions in cash accounts; and

e. transactions in U.S. Government and Municipal obligations.

(Regulatory Notice 10-45)

[Comment: Changed to ordered list and corrected index]

MINOR CHANGE: 4210(f)(8) ~~(A)(iii)/03 Profitable Options~~ In-the-Money Options

Transactions in profitable in-the-money options as outlined under Interpretation Rule 4210(b)(4)/05 are exempt from special initial margin requirements.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Changed the heading, corrected the index and interp cross reference.]

4210(f)(8)(A)(ii) higher maintenance margin requirements for accounts of customers with respect to any securities; and

4210(f)(8)(A)(iii) such other terms and conditions as FINRA shall deem appropriate relating to initial and/or maintenance margin requirements for accounts of customers with respect to any securities.

4210(f)(8)(B) Day Trading

4210(f)(8)(B)(i) The term "day trading" means the purchasing and selling or the selling and purchasing of the same security on the same day in a margin account except for:

NEW: 4210(f)(8)(B)(i)/01 Approved Specialist or Approved Market-Maker

Transactions executed by an approved specialist or approved market-maker in accordance with Rule 4210(e)(5)(A) of this Rule, shall be exempt from the day trading requirements promulgated under Rule 4210. All other transactions executed by the specialist or market maker shall be subject to such day trading requirements.

(Regulatory Notice 24-XX)

[Comment: Direct consequence of the definition of the definition of "day trading" and changed "paragraph" to "Rule 4210".]

NEW: 4210(f)(8)(B)(i)/02 Omnibus Accounts

The omnibus credit account of a registered broker-dealer, which is carried and cleared by a member pursuant to section 220.7(f) of Regulation T, will not be subject to Rule 4210(f)(8)(B).

(Regulatory Notice 24-XX)

[Comment: Direct consequence of the definition of the definition of "day trading". The omnibus broker-dealer will be required to apply Rule 4210(f)(8)(B) to any of its customers that engage in day trading.]

NEW: 4210(f)(8)(B)(i)/03 Day Trading in Error Accounts

An error account of an introducing broker-dealer or registered investment advisor shall not be subject to Rule 4210(f)(8)(B), provided such account is used exclusively for bona fide errors, and in which any position resulting from a bona fide error is promptly liquidated.

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretation. (Any other treatment would be inconsistent with the purpose of an error account.)]

NEW: 4210(f)(8)(B)(i)/04 Spreads

If a short option component of a spread (as defined in Rule 4210(f)(2)(A)(xxxii)) is exercised against the customer, the customer may exercise a long option component of the spread on the same day to close out the resulting security position without being considered to have effected a day trade.

(Regulatory Notice 24-XX)

[Comment: Longstanding interpretation (consistent with the purpose of Interpretation Rule 4210(b)(4)/051) changed "paragraph" to "Rule 4210".]

4210(f)(8)(B)(i)a. a "long" security position held overnight and sold the next day prior to any new purchase of the same security, or

4210(f)(8)(B)(i)b. a "short" security position held overnight and purchased the next day prior to any new sale of the same security.

4210(f)(8)(B)(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 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.

UNCHANGED: 4210(f)(8)(B)(ii)/01 Multiple Purchases and Sales

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

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

MINOR CHANGE: 4210(f)(8)(B)(ii)/02 Multiple Purchases and Sales – Alternative Method

Rather than counting day trades based on the number of transactions a customer executes to establish or increase a position that is liquidated on the same day (as set out in Interpretation /01 ~~above~~) a firm member may instead count day trades based on the number of times during the day that the day trading customer

changes its trading direction (i.e., changes from buying a particular security to selling it, or changes from selling a particular security to buying it).

Example A:

09:30 Buy 250 ABC

09:31 Buy 250 ABC

13:00 Sell 500 ABC

The customer has executed one day trade.

Example B:

09:30 Buy 100 ABC

09:31 Sell 100 ABC

09:32 Buy 100 ABC

13:00 Sell 100 ABC

The customer has executed two day trades.

Example C:

09:30 Buy 500 ABC

13:00 Sell 100 ABC

13:01 Sell 100 ABC

13:03 Sell 300 ABC

The customer has executed one day trade.

Example D:

09:30 Buy 250 ABC

09:31 Buy 300 ABC

13:01 Buy 100 ABC

13:02 Sell 150 ABC

13:03 Sell 175 ABC

The customer has executed one day trade.

Example E:

09:30 Buy 199 ABC

09:31 Buy 142 ABC

13:00 Sell 1 ABC

13:01 Buy 45 ABC

13:02 Sell 100 ABC

13:03 Sell 200 ABC

The customer has executed two day trades.

Example F:

09:30 Buy 200 ABC

09:30 Buy 100 XYZ

13:00 Sell 100 ABC

13:00 Sell 100 XYZ

The customer has executed two day trades

(Regulatory Notice 21-13)

(Regulatory Notice 24-XX)

[Comment: Changed "firm" to "member"]

MINOR CHANGE: 4210(f)(8)(B)(ii)/03 Terminating Pattern Day Trader Status

A customer that has been classified as a pattern day trader under ~~paragraph~~ Rule 4210(f)(8)(B)(ii) of this Rule is presumed to remain a pattern day trader. However, if a customer seeks to terminate its pattern day trader classification, a member may so accommodate such request after the member determines in good faith, as defined in Section 220.2 of Regulation T, that the customer will no longer engage in pattern day trading.

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

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

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

(Regulatory Notice 21-13)

(Regulatory Notice 24-XX)

[Comment: Changed "paragraph" to "Rule 4210".]

4210(f)(8)(B)(iii) The term "day-trading buying power" means the equity in a customer's account at the close of business of the previous day, less any maintenance margin requirement as prescribed in paragraph (c) of this Rule, multiplied by four for equity securities.

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

Whenever day trading occurs in a customer's margin account the special maintenance margin required, based on the cost of all the day trades made during the day, shall be 25 percent for margin eligible equity securities, and 100 percent for non-margin eligible equity securities. For non-equity securities, the special maintenance margin shall be as required pursuant to the other provisions of this Rule. Alternatively, when two or more day trades occur on the same day in the same customer's account, the margin required may be computed utilizing the highest (dollar amount) open position during that day. To utilize the highest open position computation method, a record showing the "time and tick" of each trade must be maintained to document the sequence in which each day trade was completed.

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

MINOR CHANGE: 4210(f)(8)(B)(iii)/01 Day-Trading Buying Power

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

(Regulatory Notice 10-45)

[\(Regulatory Notice 24-XX\)](#)

[[Comment: Added "transactions in".](#)]

MINOR CHANGE: 4210(f)(8)(B)(iii)/02 Option Day Trade

Option day trades are subject to ~~this paragraph~~ [Rule 4210\(f\)\(8\)\(B\)](#). For day trades executed in accounts of customers not deemed pattern day traders, the margin

requirement is 100% of the premium ~~received~~ on the “long” or “short” transaction, whichever occurred first.

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

~~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.~~

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Deleted repeat rule text and changed "paragraph" to "Rule 4210".]

NEW: 4210(f)(8)(B)(iii)/03 “Time and Tick” and Aggregation

A member that has “time and tick” information for some, but not all, day trades in an account during a day may separately

- a. compute the special maintenance margin requirement on the day trades for which “time and tick” information is available, utilizing the highest (dollar amount) open position during that day, and
- b. compute the special maintenance margin requirement on the day trades for which “time and tick” information is not available,

and then add the results of these two computations to determine that day’s special maintenance margin requirement for that account.

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Longstanding staff interpretation and industry practice.]

MINOR CHANGE: 4210(f)(8)(B)(iii)/04 Multiple Day-Trade Calls

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

~~Members should not allow customers to make a practice of meeting multiple day-trade calls in this manner~~has multiple day-trade calls outstanding, the customer can meet the calls by depositing the highest day-trade call amount.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Simplified]

MINOR CHANGE: 4210(f)(8)(B)(iii)/05 Liquidation to Meet a Day-Trade Call

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Slight clarification and removed "FINRA discourages..."]

NEW: 4210(f)(8)(B)(iii)/06 Option Spreads and Combinations as Day Trades

Option transactions executed to create an option spread, as defined under Rule 4210(f)(2)(A)(xxxii), or combination as described under Rule 4210(f)(2)(G)(i) and (ii), may be treated as one option transaction for the purpose of applying day trade requirements. Thus, only one day trade will be deemed to have occurred when all

the components of a spread (“legs”) are, on the same day, opened through a single order and subsequently closed through a single order. In addition, a written record of the time of each executed option transaction must be maintained to substantiate that all the components of the option spread were established, and subsequently closed, contemporaneously. Absent such written record, each component must be treated as a separate day trade.

For a customer that is not a pattern day trader (as defined in Rule 4210(e)(8)(B)(ii)), the day trade requirement of the opening option spread transactions shall be 100% of the net dollar amount (debit or credit) of the opening option spread transaction executed first.

Non-Pattern Day Trader

Example A (Two-Legged Option Spread)

	<u>Buy 1 XYZ Call Jan 40 @ \$3.50</u>
<u>10:00</u>	<u>Sell 1 XYZ Call Jan 50 @ \$1.00</u>
	<u>Net Debit: \$2.50</u>
	<u>Sell 1 XYZ Call Jan 40 @ \$4.25</u>
<u>14:00</u>	<u>Buy 1 XYZ Call Jan 50 @ \$1.25</u>
	<u>Net Credit: \$3.00</u>

The day trade requirement for this option spread would be net debit of \$250.

Pattern Day Trader

For a customer deemed a pattern day trader, the day trade requirement for option spreads shall be the higher margin requirement generated by either the opening or closing option spread transactions that constitute a day trade. However, if the member can substantiate that the opening option spread transaction had the lower requirement, then the day trade requirement shall be the margin requirement for that opening option spread transaction. A written record of the time of each executed option transaction must be maintained to substantiate that the spread with the lower requirement was executed first.

Example B (Two-Legged Option Spread) – Execution Time Unknown

	<u>Buy 1 XYZ Call Jan 40 @ \$3.50</u>
Time: N/A	<u>Sell 1 XYZ Call Jan 50 @ \$1.00</u>
	<u>Net Debit: \$2.50</u>
	<u>Sell 1 XYZ Call Jan 40 @ \$4.25</u>
Time: N/A	<u>Buy 1 XYZ Call Jan 50 @ \$1.25</u>
	<u>Net Credit: \$3.00</u>

The day trade requirement for this option spread would be based on the leg with the higher requirement as execution time is unknown and is assumed to be the opening transaction. Therefore, the day trade requirement is calculated as follows: $((50 - 40) \times 100) - 300 = \700 .

Example C (Two-Legged Option Spread) – Execution Time Known

	<u>Buy 1 XYZ Call Jan 40 @ \$3.50</u>
10:00	<u>Sell 1 XYZ Call Jan 50 @ \$1.00</u>
	<u>Net Debit: \$2.50</u>
	<u>Sell 1 XYZ Call Jan 40 @ \$4.25</u>
14:00	<u>Buy 1 XYZ Call Jan 50 @ \$1.25</u>
	<u>Net Credit: \$3.00</u>

As the member was able to substantiate that the option spread with the lower requirement was executed first, then the day trade requirement for this option spread transaction day trade would be the net debit of \$250.

Example D (Butterfly Spread) - Execution Time Unknown

	<u>Buy 1 XYZ Call Jan 40 @ \$3.50</u>
Time: N/A	<u>Sell 1 XYZ Call Jan 50 @ \$1.00</u>

	<u>Sell 1 XYZ Call Jan 50 @ \$1.00</u>
	<u>Buy 1 XYZ Call Jan 60 @ \$0.50</u>
	<u>Net Debit: \$2.00</u>
	<u>Sell 1 XYZ Call Jan 40 @ \$4.25</u>
	<u>Buy 1 XYZ Call Jan 50 @ \$1.25</u>
Time: N/A	<u>Buy 1 XYZ Call Jan 50 @ \$1.25</u>
	<u>Sell 1 XYZ Call Jan 60 @ \$0.75</u>
	<u>Net Credit: \$2.50</u>

The day trade requirement for this option spread would be based on the leg with the higher requirement as execution time is unknown and is assumed to be the opening transaction. Therefore, the day trade requirement is calculated as follows: $((50 - 40) \times 100) - 250 = \750 .

Example E (Butterfly Spread) - Execution Time Known

	<u>Buy 1 XYZ Call Jan 40 @ \$3.50</u>
	<u>Sell 1 XYZ Call Jan 50 @ \$1.00</u>
10:00	<u>Sell 1 XYZ Call Jan 50 @ \$1.00</u>
	<u>Buy 1 XYZ Call Jan 60 @ \$0.50</u>
	<u>Net Debit: \$2.00</u>
	<u>Sell 1 XYZ Call Jan 40 @ \$4.25</u>
	<u>Buy 1 XYZ Call Jan 50 @ \$1.25</u>
14:00	<u>Buy 1 XYZ Call Jan 50 @ \$1.25</u>
	<u>Sell 1 XYZ Call Jan 60 @ \$0.75</u>

	<u>Net Credit: \$2.50</u>
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As the member was able to substantiate that the option spread with the lower requirement was executed first, then the day trade requirement for this option spread transaction day trade would be \$200.

(Regulatory Notice 24-XX)

[Comment: Longstanding staff interpretation and industry practice.]

4210(f)(8)(B)(iv) Special Requirements for Pattern Day Traders

4210(f)(8)(B)(iv)a. Minimum Equity Requirement for Pattern Day Traders — The minimum equity required for the accounts of customers deemed to be pattern day traders shall be \$25,000. This minimum equity must be deposited in the account before such customer may continue day trading and must be maintained in the customer's account at all times.

UNCHANGED: 4210(f)(8)(B)(iv)a./01 Minimum Equity Requirement

Members may use any settled and available funds, or any available market value from fully paid for securities, including option market value, money market mutual funds, held long in the customer's cash account to satisfy the \$25,000 minimum equity requirement, without moving the funds or securities to the margin account. The member must have adequate procedures in place in order to prevent the funds in the cash account from being used for other withdrawal purposes such as debit card and check withdrawals. Any funds, securities or money market mutual funds held in the cash account cannot be used for the calculation of day-trading buying power unless they have been moved to the margin account one business day prior to calculating the day-trading buying power. In the event money market mutual funds are to be moved to the margin account, members must adhere to Exchange Act Section 11(d)(1). In addition, for both minimum equity and day-trading buying power, members may use money market mutual funds provided the member has custody of the fund shares and the exclusive ability to liquidate the fund shares. Members shall not allow a pattern day trader to day trade until the minimum equity of \$25,000 has been satisfied. When a pattern day trader's account falls below the \$25,000 minimum equity requirement, based on the previous business day's close, the member must have procedures in place in order to prevent the pattern day trader from day trading. In addition, the \$25,000 must be in

the margin account or cash account one business day prior to resuming any day trading.

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(f)(8)(B)(iv)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.

4210(f)(8)(B)(iv)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:

4210(f)(8)(B)(iv)c.1. The account will be margined based on the cost of all the day trades made during the day,

4210(f)(8)(B)(iv)c.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

4210(f)(8)(B)(iv)c.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.

4210(f)(8)(B)(iv)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.

UNCHANGED: 4210(f)(8)(B)(iv)d./01 Cash Available

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(f)(8)(B)(iv)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).

4210(f)(8)(B)(iv)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.

UNCHANGED: 4210(f)(8)(B)(iv)f./01 Deposit of Funds

Members may look to funds in a customer's cash account to satisfy a day-trade call without moving the funds to the margin account.

This exception will only be permitted if the member has adequate procedures in place to prevent the circumvention of the two (2) day hold requirement on funds deposited into or held in that account i.e., the customer must be prohibited from using the funds for other withdrawal purposes such as debit card and check withdrawals relative to this balance while it is being used to satisfy the day-trade margin call. Funds deposited into the cash account within two business days prior to the creation of a day trade call, which the member can utilize to satisfy the day-trade call, are subject to the two-day holding period following the close of business on the day of deposit.

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(f)(8)(B)(v) In the event a customer does not meet a special margin maintenance call by the fifth business day, then on the sixth business day only, members are required to deduct from net capital the amount of the unmet special margin maintenance call pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a).

4210(f)(9) Free-Riding in Cash Accounts Prohibited

No member shall permit a customer (other than a broker-dealer) 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 shall inform the receiving member of such 90-day freeze.

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

UNCHANGED: 4210(f)(9)/01 90-Day Freeze

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

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(f)(10) Customer Margin Rules Relating to Security Futures

4210(f)(10)(A) Applicability

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

4210(f)(10)(B) Amount of customer margin

4210(f)(10)(B)(i) General Rule. As set forth in paragraphs (b) and (c) of this Rule, the minimum initial and maintenance margin levels for each security futures contract, long and short, shall be 20 percent of the current market value of such contract.

4210(f)(10)(B)(ii) Excluded from the Rule's requirements are arrangements between a member and a customer with respect to the customer's financing of proprietary positions in security futures, based on the member's good faith determination that the customer is an "Exempted Person," as defined in Rule 401(a)(9) of SEC Customer Margin Requirements for Security Futures, and Rule 41.43(a)(9) under the CEA, except for the proprietary account of a broker-dealer carried by a member pursuant to paragraph (e)(6)(A) of this Rule. Once a registered broker or dealer, or member of a national securities exchange ceases to qualify as an "Exempted Person," it shall notify the member of this fact before establishing any new security futures positions. Any new security futures positions will be subject to the provisions of this subparagraph.

4210(f)(10)(B)(iii) Permissible Offsets.

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

	Description of Offset	Security Underlying the Security Future	Initial Margin Requirement	Maintenance Margin Requirement
(1)	"Long" security future (or basket of security futures representing each component of a narrow-based securities index) and	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" put option on the same underlying security (or index).			"long" security future.
(2)	"Short" security future (or basket of security futures representing each component of a narrow-based securities index) and "short" put option on the same underlying security (or index).	Individual stock or narrow-based security index.	20 percent of the current market value of the "short" security future, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20 percent of the current market value of the "short" security future, plus the aggregate put in-the-money amount, if any.
(3)	"Long" security future and "short" position in the same security (or securities basket) underlying the security future.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the "short" stock or stocks.	5 percent of the current market value as defined in Regulation T of the stock or stocks underlying the security future.
(4)	"Long" security future (or basket of security futures	Individual stock or narrow-based	20 percent of the current market value of the "long" security future,	20 percent of the current market value of the "long" security future,

	representing each component of a narrow-based securities index) and "short" call option on the same underlying security (or index).	security index.	plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	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 security index	Narrow-based security index.	20 percent of the current market value of the "short" basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any.	20 percent of the current market value of the "short" basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any.

	put option contract on the same index.		Proceeds from the put sale may be applied.	
(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	Individual stock or narrow-based security index.	The greater of: (1) 5 percent of the current market value of the "long" security future;	The greater of: (1) 5 percent of the current market value of the "long" security future;

	security (or index).		or (2) 5 percent of the current market value of the "short" security future.	or (2) 5 percent of the current market value of the "short" security future.
(10)	"Long" security future, "long" put option and "short" call option. The "long" security future, "long" put and "short" call must be on the same underlying security and the put and call must have the same exercise price. (Conversion)	Individual stock or narrow-based security index.	20 percent of the current market value of the "long" security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from the call sale may be applied.	10 percent of the aggregate exercise price, plus the aggregate call in-the-money amount, if any.
(11)	"Long" security future, "long" put option and "short" call option. The "long" security future, "long" put and "short" call must be on the same underlying security and the put exercise price must be below the call	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.

	exercise price. (Collar)			
(12)	"Short" security future and "long" position in the same security (or securities basket) underlying the security future.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the "long" security or securities.	5 percent of the current market value, as defined in Regulation T, of the long stock or stocks.
(13)	"Short" security future and "long" position in a security immediately convertible into the same security underlying the security future, without restriction, including the payment of money.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the "long" security or securities.	10 percent of the current market value, as defined in Regulation T, of the long stock or stocks.
(14)	"Short" security future (or basket of security futures representing each component of a narrow-based securities	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

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

(17)	"Long" ("short") a basket of security futures that together tracks a narrow-based index and "short" ("long") a narrow-based index future.	Individual stock and narrow-based security index.	The greater of: (1) 5 percent of the current market value of the "long" security future(s); or (2) 5 percent of the current market value of the "short" security future(s).	The greater of: (1) 5 percent of the current market value of the "long" security future(s); or (2) 5 percent of the current market value of the "short" security future(s).
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¹ Two security futures contracts will be considered "identical" for this purpose if they are issued by the same clearing agency or cleared and guaranteed by the same derivatives clearing organization, have identical specifications, and would offset each other at the clearing level.

4210(f)(10)(C) Definitions

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

4210(f)(10)(C)(i) The term "security futures contract" means a "security future" as defined in Section 3(a)(55) of the Exchange Act.

4210(f)(10)(C)(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 and Rule 41.43(a)(4) under the CEA.

4210(f)(10)(C)(iii) The term "underlying security" means, in the case of physically settled security futures contracts, the security that is delivered upon expiration of the contract, and, in the case of cash settled security futures contracts, the security or securities index the price or level of which determines the final settlement price for the security futures contract upon its expiration.

4210(f)(10)(C)(iv) The term "underlying basket" means, in the case of a securities index, a group of security futures contracts where the underlying securities as defined in subparagraph (iii) above include each of the component securities of the applicable index and that meets the following conditions: (1) the quantity of each underlying security is proportional to its representation in the index, (2) the total

market value of the underlying securities is equal to the aggregate value of the applicable index, (3) the basket cannot be used to offset more than the number of contracts or warrants represented by its total market value, and (4) the security futures contracts shall be unavailable to support any other contract or warrant transaction in the account.

4210(f)(10)(C)(v) The term "underlying stock basket" means a group of securities that includes each of the component securities of the applicable index and that meets the following conditions: (1) the quantity of each stock in the basket is proportional to its representation in the index, (2) the total market value of the basket is equal to the underlying index value of the index options or warrants to be covered, (3) the securities in the basket cannot be used to cover more than the number of index options or warrants represented by that value, and (4) the securities in the basket shall be unavailable to support any other option or warrant transaction in the account.

4210(f)(10)(C)(vi) The term "variation settlement" has the same meaning as defined in Rule 401(a) of SEC Customer Margin Requirements for Security Futures and Rule 41.43(a)(32) under the CEA.

4210(f)(10)(D) Security Futures Dealers' Accounts

4210(f)(10)(D)(i) Notwithstanding the other provisions of this paragraph (f)(10), a member may carry and clear the market maker permitted offset positions (as defined below) of one or more security futures dealers in an account that is limited to market maker transactions, upon a "Good Faith" margin basis that is satisfactory to the concerned parties, provided the "Good Faith" margin requirement is not less than the net capital haircut deduction of the member carrying the transaction pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a). In lieu of collecting the "Good Faith" margin requirement, a carrying member may elect to deduct in computing its net capital the amount of any deficiency between the equity maintained in the account and the "Good Faith" margin required.

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

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

4210(f)(10)(D)(ii) For purposes of this paragraph (f)(10)(D), a permitted offset position means in the case of a security futures contract in which a security futures dealer makes a market, a position in the underlying asset or other related assets, or positions in options overlying the asset or related assets. Accordingly, a security futures dealer may establish a long or short position in the assets underlying the security futures contracts in which the security futures dealer makes a market, and may purchase or write options overlying those assets if the account holds the following permitted offset positions:

4210(f)(10)(D)(ii)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";

4210(f)(10)(D)(ii)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";

4210(f)(10)(D)(ii)c. A position in the underlying asset resulting from the assignment of a market-maker "short" option position or making delivery in respect of a short security futures contract;

4210(f)(10)(D)(ii)d. A position in the underlying asset resulting from the assignment of a market-maker "long" option position or taking delivery in respect of a long security futures contract;

4210(f)(10)(D)(ii)e. A net "long" position in a security futures contract in which a security futures dealer makes a market or the underlying asset;

4210(f)(10)(D)(ii)f. A net "short" position in a security futures contract in which a security futures dealer makes a market or the underlying asset; or

4210(f)(10)(D)(ii)g. An offset position as defined in SEA Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

4210(f)(10)(E) Approved Options Specialists' or Approved Market Makers' Accounts

4210(f)(10)(E)(i) Notwithstanding the other provisions of paragraphs (f)(10) and (f)(2)(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 net capital haircut deduction of the member carrying the transaction pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a). In lieu of collecting the "Good Faith" margin requirement, a carrying member may elect to deduct in computing its net capital the amount of any deficiency between the equity maintained in the account and the "Good Faith" margin required. For the purpose of this paragraph (f)(10)(E), the term "approved options specialist" or "approved market maker" means a specialist, market maker, or registered trader in options as referenced in paragraph (f)(2)(K) of this Rule, who is deemed a specialist for all purposes under the Exchange Act and who is registered pursuant to the rules of a national securities exchange.

4210(f)(10)(E)(ii) For purposes of this paragraph (f)(10)(E), a permitted offset position means a position in the underlying asset or other related assets. Accordingly, a specialist or market maker may establish a long or short position in the assets underlying the options in which the specialist or market maker makes a market, or a security futures contract thereon, if the account holds the following permitted offset positions:

4210(f)(10)(E)(ii)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";

4210(f)(10)(E)(ii)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";

4210(f)(10)(E)(ii)c. A stock position resulting from the assignment of a market-maker short option position or delivery in respect of a "short" security futures contract;

4210(f)(10)(E)(ii)d. A stock position resulting from the exercise of a market maker "long" option position or taking delivery in respect of a long security futures contract;

4210(f)(10)(E)(ii)e. A net "long" position in a security (other than an option) in which the market maker makes a market;

4210(f)(10)(E)(ii)f. A net "short" position in a security (other than an option) in which the market maker makes a market; or

4210(f)(10)(E)(ii)g. An offset position as defined in SEA Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

4210(f)(10)(E)(iii) For purposes of paragraphs (f)(10)(D) and (E), the term "in or at the money" means that the current market price of the underlying security is not more than two standard exercise intervals below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; the term "in the money" means that the current market price of the underlying asset or index is not below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; the term "overlying option" means a put option purchased or a call option written against a "long" position in an underlying asset; or a call option purchased, or a put option written against a "short" position in an underlying asset.

4210(f)(10)(E)(iv) Securities, including options and security futures contracts, in such accounts shall be valued conservatively in light of current market prices and the amount that might be realized upon liquidation. Substantial additional margin must be required or excess net capital maintained in all cases where the securities carried: (a) are subject to unusually rapid or violent changes in value including volatility in the expiration months of options or security futures contracts, (b) do not have an active market, or (c) in one or more or all accounts, including proprietary accounts combined, are such that they cannot be liquidated promptly or represent undue concentration of risk in view of the carrying member's net capital and its overall exposure to material loss.

4210(f)(10)(F) Approved Specialists' and Approved Market Makers' Accounts — Others

4210(f)(10)(F)(i) Notwithstanding the other provisions of paragraphs (f)(10) and (f)(2)(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 SEA Rule 15c3-1 and Rule 4110(a).

4210(f)(10)(F)(ii) For purposes of this paragraph (f)(10)(F), the term "approved specialist" or "approved market maker" means a specialist or market maker who is deemed a specialist or market maker for all purposes under the Exchange Act and who is registered pursuant to the rules of a national securities exchange.

4210(f)(10)(G) Additional Requirements

4210(f)(10)(G)(i) Money market mutual funds, as defined in Rule 2a-7 under the Investment Company Act, can be used for satisfying margin requirements under this paragraph (f)(10), provided that the requirements of Rule 404(b) of SEC Customer Margin Requirements for Security Futures and Rule 41.46(b)(2) under the CEA are satisfied.

4210(f)(10)(G)(ii) Day trading of security futures is subject to the minimum requirements of this Rule. If deemed a pattern day trader, the customer must maintain equity of \$25,000. The 20 percent requirement, for security futures contracts, should be calculated based on the greater of the initial or closing transaction and any amount exceeding FINRA excess must be collected. The creation of a customer call subjects the account to all the restrictions contained in paragraph (f)(8)(B) of this Rule.

4210(f)(10)(G)(iii) The use of the "time and tick" method is based on the member's ability to substantiate the validity of the system used. Lacking this ability dictates the use of the aggregate method.

4210(f)(10)(G)(iv) Security futures contracts transacted or held in a futures account shall not be subject to any provision of this Rule.

4210(g) Portfolio Margin

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

In addition, a member, provided that it is a Futures Commission Merchant ("FCM") and is either a clearing member of a futures clearing organization or has an affiliate

that is a clearing member of a futures clearing organization, is permitted under this paragraph (g) to combine an eligible participant's related instruments with listed index options, unlisted derivatives, options on exchange traded funds ("ETF"), stock index warrants and underlying instruments and compute a margin requirement for such combined products on a portfolio margin basis.

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

4210(g)(1)(A) obtaining and reviewing the appropriate account documentation and financial information necessary for assessing the amount of credit to be extended to eligible participants;

4210(g)(1)(B) the determination, review and approval of credit limits to each eligible participant, and across all eligible participants, utilizing a portfolio margin account;

4210(g)(1)(C) monitoring credit risk exposure to the member from portfolio margin accounts, on both an intra-day and end of day basis, including the type, scope and frequency of reporting to senior management;

MINOR CHANGE: 4210(g)(1)(C)/01 Intra-Day Monitoring

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Minor update. Added "solely".]

RN/FAQ: 4210(g)(1)(C)/02 Trades Executed Away

In accounts where trades are executed away (e.g., prime brokerage accounts), FINRA members should attempt to obtain real-time drop copies of the trades and analyze such accounts at least once per day, after the markets close. Members should also include in their intraday monitoring process any other real-time account activity, such as cash deposits and withdrawals, deliveries and receipts of securities, check writing activity, debit card activity, etc.

(Regulatory Notice 24-XX)

[Comment: Incorporated from portfolio margin FAQ at <https://www.finra.org/rules-guidance/key-topics/portfolio-margin/faq#:~:text=FINRA%20rules%20require,house%20maintenance%20requirements>.]

4210(g)(1)(D) the use of stress testing of portfolio margin accounts in order to monitor market risk exposure from individual accounts;

4210(g)(1)(E) the regular review and testing of these risk analysis procedures by an independent unit such as internal audit or other comparable group;

MINOR CHANGE: 4210(g)(1)(E)/01 Schedule of Audit

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Added clarification when the audit should occur]

4210(g)(1)(F) managing the impact of credit extended related to portfolio margin accounts on the member's overall risk exposure;

4210(g)(1)(G) the appropriate response by management when limits on credit extensions related to portfolio margin accounts have been exceeded;

4210(g)(1)(H) determining the need to collect additional margin from a particular eligible participant, including whether that determination was based upon the creditworthiness of the participant and/or the risk of the eligible product; and

4210(g)(1)(I) monitoring the credit exposure resulting from concentrated positions within both individual portfolio margin accounts and across all portfolio margin accounts.

UNCHANGED: 4210(g)(1)(I)/01 Concentrated Positions

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

RN/FAQ: 4210(g)(1)(I)/02 Higher House Margin on Concentrated Positions

Members' procedures for positions that:

- a. represent of a relatively large amount of the overall exposure market within individual portfolio margin accounts;
- b. either individually or when aggregated by accounts under common control, represent a relatively large exposure to an issuer's market capitalization or daily trading volume;

should include higher house margin requirements on those positions.

(Regulatory Notice 24-XX)

[Comment: Based on PM FAQs at <https://www.finra.org/rules-guidance/key-topics/portfolio-margin/faq#:~:text=Does%20FINRA%20have,on%20these%20positions>]

4210(g)(1) Monitoring

Members must monitor the risk of portfolio margin accounts and maintain a comprehensive written risk analysis methodology for assessing the potential risk to the member's capital over a specified range of possible market movements of positions maintained in such accounts. The risk analysis methodology shall specify the computations to be made, the frequency of computations, the records to be reviewed and maintained, and the person(s) within the organization responsible for the risk function. This risk analysis methodology must be filed with FINRA, or the member's designated examining authority ("DEA") if other than FINRA, and submitted to the SEC prior to the implementation of portfolio margining. In performing the risk analysis of portfolio margin accounts required by this Rule, each member shall include in the written risk analysis methodology procedures and guidelines for:

4210(g)(1)(I) Moreover, management must periodically review, in accordance with written procedures, the member's credit extension activities for consistency with these guidelines. Management must periodically determine if the data necessary to apply this paragraph (g) is accessible on a timely basis and information systems are available to adequately capture, monitor, analyze and report relevant data.

4210(g)(2) Definitions — For purposes of this paragraph (g), the following terms shall have the meanings specified below:

4210(g)(2)(A) The term "listed option" means any equity-based or equity index-based option traded on a registered national securities exchange or issued and guaranteed by a registered clearing agency and shall include an OCC Cleared OTC Option (as defined in Rule 2360).

4210(g)(2)(B) The term "portfolio" means any eligible product, as defined in paragraph (g)(6)(B)(i), grouped with its underlying instruments and related instruments.

4210(g)(2)(C) The term "product group" means two or more portfolios of the same type (see table in paragraph (g)(2)(F) below) for which it has been determined by SEA Rule 15c3-1a that a percentage of offsetting profits may be applied to losses at the same valuation point.

4210(g)(2)(D) The term "related instrument" within a security class or product group means broad-based index futures and options on broad-based index futures covering the same underlying instrument. The term "related instrument" does not include security futures products.

4210(g)(2)(E) The term "security class" refers to all listed options, security futures products, unlisted derivatives, and related instruments covering the same underlying instrument and the underlying instrument itself.

4210(g)(2)(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:

Portfolio Type	Up / Down Market Move (High & Low Valuation Points)
-----------------------	--

High Capitalization, Broad-based Market Index ²	+6% / -8%
Non-High Capitalization, Broad-based Market Index ³	+/- 10%
Any other eligible product that is, or is based on, an equity security or a narrow-based index	+/- 15%

4210(g)(2)(G) The term "underlying instrument" means a security or security index upon which any listed option, unlisted derivative, security future, or broad-based index future is based.

4210(g)(2)(H) The term "unlisted derivative" means any equity-based or equity index-based option, forward contract, or security-based swap that can be valued by a theoretical pricing model approved by the SEC for valuing that type of option, forward contract, or security-based swap, and that is neither traded on a national securities exchange, nor issued and guaranteed by a registered clearing agency and shall not include an OCC Cleared OTC Option (as defined in Rule 2360).

4210(g)(3) Approved Theoretical Pricing Models — Theoretical pricing models must be approved by the SEC.

4210(g)(4) Eligible Participants — The application of the portfolio margin provisions of this paragraph (g) is limited to the following:

4210(g)(4)(A) any broker or dealer registered pursuant to Section 15 of the Exchange Act;

MINOR CHANGE: 4210(g)(4)(A)/01 Omnibus Credit Accounts

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

~~Customers~~Portfolio margin customers of the omnibus broker-dealer would be subject to the provisions of Rule 4210(g).

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

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Clarification of existing interpretation. Second paragraph deleted because proprietary business is not introduced.]

4210(g)(4)(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

4210(g)(4)(C) any person or entity not included in paragraphs (g)(4)(A) and (g)(4)(B) above approved for uncovered options and, if transactions in security futures are to be included in the account, approval for such transactions is also required. However, an eligible participant under this paragraph (g)(4)(C) may not establish or maintain positions in unlisted derivatives unless minimum equity of at least \$5 million is established and maintained with the member. For purposes of this minimum equity requirement, all securities and futures accounts carried by the member for the same eligible participant 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.

MINOR CHANGE: 4210(g)(4)(C)/01 Uncovered Option Approval

To qualify for portfolio margin, the account of a registered broker-dealer or futures commission merchant does not need to be approved for uncovered short options. In addition, customers that cannot trade options because they are not legally permitted to do so need not be approved for uncovered options. However, FINRA expects members to continue to exercise due diligence when reviewing these

customers to ensure that they possess a ~~sufficient~~ level of trading experience and sophistication. ~~Members must submit to FINRA, in writing, a request to exempt customers from the~~ equivalent to that required for uncovered short options approval requirement, except members. Members that have ~~already not~~ documented their procedures for approving these customers in their portfolio margin applications must amend their application to document those procedures before opening portfolio margin accounts for customers who have not been approved for uncovered options.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Clarification of existing interpretation. Customer approval is part of the PM procedures required to be submitted to, and approved by, FINRA.]

UNCHANGED: 4210(g)(4)(C)/02 Minimum Equity

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

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(g)(5) Opening of Accounts

4210(g)(5)(A) Members must notify and receive approval from FINRA, or the member's DEA if other than FINRA, prior to establishing a portfolio margin methodology for eligible participants.

4210(g)(5)(B) Only eligible participants that have been approved to engage in uncovered short option contracts pursuant to Rule 2360, or the rules of the member's DEA if other than FINRA, are permitted to utilize a portfolio margin account. If eligible participants engage in security futures products transactions, approval from the member will also be required pursuant to Rule 2370.

4210(g)(5)(C) On or before the date of the initial transaction in a portfolio margin account, a member shall:

4210(g)(5)(C)(i) furnish the eligible participant with a special written disclosure statement describing the nature and risks of portfolio margining which includes an acknowledgement for all portfolio margin account owners to sign, attesting that they have read and understood the disclosure statement, and agree to the terms under which a portfolio margin account is provided (see Rule 2360(c)); and

4210(g)(5)(C)(ii) obtain the signed acknowledgement noted above from the eligible participant and record the date of receipt.

4210(g)(6) Establishing Account and Eligible Positions

4210(g)(6)(A) For purposes of applying the portfolio margin requirements prescribed in this paragraph (g), members are to establish and utilize a specific securities margin account, or sub-account of a margin account, clearly identified as a portfolio margin account that is separate from any other securities account carried for an eligible participant.

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

4210(g)(6)(B) Eligible Products

4210(g)(6)(B)(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:

4210(g)(6)(B)(i)a. a margin equity security (including a foreign equity security and option on a foreign equity security, provided the foreign equity security is deemed to have a "ready market" under SEA Rule 15c3-1 or a "no-action" position issued thereunder, and a control or restricted security, provided the security has met the requirements in a manner consistent with Securities Act Rule 144 or an SEC "no-action" position issued thereunder, sufficient enough to permit the sale of the security, upon exercise or assignment of any listed option or unlisted derivative written or held against it, without restriction);

UNNECESSARY: 4210(g)(6)(B)(i)a./01 Non-Marginable Equity Security
(Rescinded)

~~A customer is not permitted to obtain a risk-based margin value for a non-margin equity security in a portfolio margin account. However, a non-margin equity security, whether held in a portfolio margin account, cash account, or strategy-based margin account, must have a 100 percent regulatory maintenance requirement applied on a daily basis if the broker-dealer is combining the maintenance excess figures. However, if the broker-dealer keeps the portfolio margin excess figures separate and independent from any other excess figures, then this requirement does not apply~~
(Regulatory Notice ~~10-45~~24-XX)

[Comment: Rule changed in 2012 to require 100% margin on equity securities that are not margin securities.]

UNNECESSARY: 4210(g)(6)(B)(i)a./02 Equity Security — (Rescinded)

(Regulatory Notice ~~10-45~~24-XX)

[Comment: Rule changed in 2012 to require 100% margin on equity securities that are not margin securities eliminating the need to clarify the application of the rule text.]

4210(g)(6)(B)(i)a./02 Equity Security

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

(Regulatory Notice 10-45)

4210(g)(6)(B)(i)b. a listed option on an equity security or index of equity securities;

4210(g)(6)(B)(i)c. a security futures product;

4210(g)(6)(B)(i)d. an unlisted derivative on an equity security or index of equity securities;

UNCHANGED: 4210(g)(6)(B)(i)d./01 Unlisted Derivative

An unlisted derivative that has a non-margin equity security as its underlier is not eligible for portfolio margin.

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(g)(6)(B)(i)e. a warrant on an equity security or index of equity securities; and

RN/FAQ: 4210(g)(6)(B)(i)e./01 Margin Eligible Warrants

Exchange-traded warrants (and other warrants that qualify as margin equity securities) are eligible for portfolio margin if they are included in an approved theoretical pricing model. Warrants that qualify as margin equity securities, but are not included in an approved theoretical pricing model, may be carried in a portfolio margin account provided that the member applies the applicable strategy-based margin requirements of Rule 4210 to those positions.

(Regulatory Notice 24-XX)

[Comment: Comment: Based on PM FAQ at <https://www.finra.org/rules-guidance/key-topics/portfolio-margin/faq#:~:text=is%20correct.%20However%2C-listed%20warrants,-would%20fall%20under>]

4210(g)(6)(B)(i)f. a related instrument as defined in paragraph (g)(2)(D).

4210(g)(7) Margin Required

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

4210(g)(7)(A) the amount for any of the ten equidistant valuation points representing the largest theoretical loss as calculated pursuant to paragraph (g)(8) below; or

4210(g)(7)(B) for eligible participants as described in paragraph (g)(4)(A) through (g)(4)(C), \$.375 for each listed option, unlisted derivative, security future product, and related instrument, multiplied by the contract's or instrument's multiplier, not to exceed the market value in the case of long contracts in eligible products.

4210(g)(7)(C) Account guarantees pursuant to paragraph (f)(4) of this Rule are not permitted for purposes of meeting margin requirements.

4210(g)(7)(D) Positions other than those listed in paragraph (g)(6)(B)(i) above are not eligible for portfolio margin treatment. However, positions not eligible for portfolio margin treatment (except for ineligible related instruments) may be carried in a portfolio margin account, provided the member has the ability to apply the applicable strategy-based margin requirements promulgated under this Rule, with the exception of securities subject to other provisions of paragraph (g). Shares of a money market mutual fund may be carried in a portfolio margin account, also subject to the applicable strategy-based margin requirement under this Rule provided that:

4210(g)(7)(D)(i) the customer waives any right to redeem shares without the member's consent;

4210(g)(7)(D)(ii) the member (or, if the shares are deposited with a clearing organization, the clearing organization) obtains the right to redeem shares in cash upon request;

4210(g)(7)(D)(iii) the fund agrees to satisfy any conditions necessary or appropriate to ensure that the shares may be redeemed in cash, promptly upon request; and

4210(g)(7)(D)(iv) the member complies with the requirements of Section 11(d)(1) of the Exchange Act and SEA Rule 11d1-2.

4210(g)(7)(E) Non-margin eligible equity securities held "long" in a portfolio margin account shall be maintained at 100 percent of the current market value at all times. Non-margin eligible equity securities held "short" in a portfolio margin account shall be maintained at 50 percent of the current market value at all times.

4210(g)(8) Method of Calculation

4210(g)(8)(A) Long and short positions in eligible products, including underlying instruments and related instruments, are to be grouped by security class; each security class group being a "portfolio." Each portfolio is categorized as one of the portfolio types specified in paragraph (g)(2)(F) above, as applicable.

4210(g)(8)(B) For each portfolio, theoretical gains and losses are calculated for each position as specified in paragraph (g)(2)(F) above. For purposes of determining the theoretical gains and losses at each valuation point, members shall obtain and

utilize the theoretical values of eligible products as described in this paragraph (g) rendered by an approved theoretical pricing model.

4210(g)(8)(C) Offsets. Within each portfolio, theoretical gains and losses may be netted fully at each valuation point. Offsets between portfolios within the eligible product groups, as described in paragraph (g)(2)(F), may then be applied as permitted by SEA Rule 15c3-1a.

4210(g)(8)(D) After applying the offsets above, the sum of the greatest loss from each portfolio is computed to arrive at the total margin required for the account (subject to the per contract minimum).

4210(g)(8)(E) In addition, if a security that is convertible, exchangeable, or exercisable into a security that is an underlying instrument requires the payment of money or would result in a loss if converted, exchanged, or exercised at the time when the security is deemed an underlying instrument, the full amount of the conversion loss is required.

RN/FAQ: 4210(g)(8)(E)/01 Convertible Bonds

Debt securities convertible into margin equity securities are margin equity securities and therefore portfolio margin eligible products. To compute the margin requirement on a portfolio that includes such debt securities:

- a. Calculate the theoretical gains and losses and offsets as described above on the assumption that the debt securities have been converted into the margin equity securities; and
- b. Increase the margin requirement by 15% of the excess (if any) of
 1. the value of the convertible debt securities (plus any payment that would be required to effect the conversion), over
 2. the value of the margin equity securities into which the securities are convertible.

(Regulatory Notice 24-XX)

[Comment: Incorporated from the portfolio margin FAQ at <https://www.finra.org/rules-guidance/key-topics/portfolio-margin/faq#:~:text=The%20OCC%27s%20TIMS%20risk%20model%20cannot%20accommodate%20convertible%20bonds%2C%20yet%20they%20are%20eligible%20products%20for%20the%20portfolio%20margin%20account.%20How%20>

RN/FAQ: 4210(g)(8)(E)/02 Baskets

The margin requirement for baskets will be equal to the haircuts required in SEA Rule 15c3-1, Appendix A, provided the basket meets the definition of a qualified stock basket, pursuant to SEA Rule 15c3-1a(b)(1)(D) and the capitalization requirements are met.

(Regulatory Notice 24-XX)

[Comment: Based on PM FAQ at <https://www.finra.org/rules-guidance/key-topics/portfolio-margin/faq#:~:text=Are%20baskets%20permitted%20in%20portfolio%20margin%3F>]

4210(g)(9) Portfolio Margin Minimum Equity Deficiency

4210(g)(9)(A) If, as of the close of business, the equity in the portfolio margin account of an eligible participant as described in paragraph (g)(4)(C), declines below the \$5 million minimum equity required, if applicable, and is not restored to at least \$5 million within 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,

4210(g)(9)(A)(i) equity of \$5 million is established, or

4210(g)(9)(A)(ii) all unlisted derivatives are liquidated or transferred from the portfolio margin account to the appropriate securities account.

4210(g)(9)(B) Members will not be permitted to deduct any portfolio margin minimum equity deficiency amount from net capital in lieu of collecting the minimum equity required.

4210(g)(10) Portfolio Margin Deficiency

4210(g)(10)(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)(A) through (g)(4)(C), is less than the margin required, the eligible participant may deposit additional funds and/or securities or establish a hedge to meet the margin requirement within three business days. After the three business day period, members are prohibited from accepting new opening orders, except that new

opening orders entered for the purpose of reducing market risk may be accepted if the result would be to lower margin requirements. In the event an eligible participant fails to hedge existing positions or deposit additional funds and/or securities in an amount sufficient to eliminate any margin deficiency after three business days, the member must liquidate positions in an amount sufficient to, at a minimum, lower the total margin required to an amount less than or equal to the account equity.

MINOR CHANGE: 4210(g)(10)(A)/01 Satisfaction of Portfolio Margin Deficiency

If a customer has a strategy-based margin account and a portfolio margin account with the same legal name and tax ID, collateral does not have to be transferred from the strategy-based margin account to satisfy a margin deficiency in the portfolio margin account. As long as the strategy-based margin account has sufficient maintenance excess, the margin deficiency in the portfolio margin account can be considered satisfied. However, the Special Memorandum Account (SMA) in the strategy-based margin account must be reduced by the amount of the portfolio margin deficiency in order to prevent a customer from utilizing the available excess for additional transactions in the strategy-based margin account. In the event a customer has an account directly with a clearing and carrying [firmmember](#), and another account with an introducing broker-dealer that clears through the same clearing and carrying [firmmember](#), then funds and/or securities must be transferred between the two accounts.

(Regulatory Notice 10-45)

[\(Regulatory Notice 24-XX\)](#)

[\[Comment: Changed "firm" to "member".\]](#)

NEW: 4210(g)(10)(A)/02 House Margin Deficiency

[The "margin required" for purposes of Rule 4210\(g\)\(10\) is the margin required by Rule 4210\(g\)\(7\) \(including the margin required by Rule 4210\(g\)\(7\)\(D\) or \(E\) for positions in portfolio margin accounts that are not portfolio margin eligible products\). A portfolio margin account that contains the equity required by Rule 4210\(g\)\(7\) does not have a portfolio margin deficiency, even if the account has less equity than the "house margin" required by the member's portfolio margin procedures. Members, however, must maintain and follow procedures for the effective enforcement of their house margin requirements.](#)

(Regulatory Notice 24-XX)

[Comment: Straightforward application of the rule]

4210(g)(10)(B) If the portfolio margin deficiency is not met by the close of business on the next business day after the business day on which such deficiency arises, members will be required to deduct the amount of the deficiency from net capital until such time the deficiency is satisfied or positions are liquidated pursuant to paragraph (g)(10)(A) above.

RN/FAQ: 4210(g)(10)(B)/01 Capital Charge Timing

A capital charge required by Rule 4210(g)(10)(B) shall be taken as of the close of business on the next business day after the portfolio margin deficiency arises. For example, if a portfolio margin deficiency arises on a Monday and is not eliminated by the close of business on the next business day (Tuesday), then a capital charge for such deficiency would be taken as of the close of business on Tuesday.

(Regulatory Notice 24-XX)

[Comment: Based on PM FAQ at <https://www.finra.org/rules-guidance/key-topics/portfolio-margin/faq#:~:text=When%20should%20a%20firm%20take%20a%20capital%20charge%20for%20a%20portfolio%20margin%20deficiency%20given%20that%20the%20information%20that%20is%20needed%20in%20order%20to%20ma.>]

4210(g)(10)(C) Members will not be permitted to deduct any portfolio margin deficiency amount from net capital in lieu of collecting the margin required.

4210(g)(10)(D) FINRA, or the member's DEA if other than FINRA, may grant additional time for an eligible participant to meet a portfolio margin deficiency upon written request, which is expected to be granted in extraordinary circumstances only.

NEW: 4210(g)(10)(D)/01 Requests for Additional Time

FINRA will only grant additional time upon written request filed in the Regulatory Extension (REX) system under reason code 069, which must fully explain the reason for the request, . Where appropriate, the request should also explain how and when the deficiency is expected to be resolved and how the member will be adequately protected against credit and market risk until the deficiency is resolved.

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

See Extension Reason Codes for guidance.

(Regulatory Notice 24-XX)

[Comment: Longstanding staff guidance.]

4210(g)(10)(E) Notwithstanding the provisions of subparagraph (A) above, members should not permit an eligible participant to make a practice of meeting a portfolio margin deficiency by liquidation. Members must have procedures in place to identify accounts that periodically liquidate positions to eliminate margin deficiencies, and the member is expected to take appropriate action when warranted. Liquidation to eliminate margin deficiencies that are caused solely by adverse price movements may be disregarded.

UNCHANGED: 4210(g)(10)(E)/01 Adverse Market Movements

Members that cannot distinguish between adverse market movements and new transactions should take a conservative view and consider all margin deficiencies as resulting from the account holder's trading activities.

(Regulatory Notice 10-45)

[Comment: Unchanged]

MINOR CHANGE: 4210(g)(10)(E)/02 Practice of Liquidating

If a customer has three liquidations within a rolling ~~twelve~~12-month period, FINRA expects the member to restrict the account to funds on hand for 90 calendar days. However, if upon internal review the member does not restrict an account after the third liquidation, then a waiver of the restriction must be granted, in writing, by two officers of the ~~firm~~member and maintained for audit purposes. Members should also be aware that granting waivers as a practice may be regarded as a circumvention of FINRA rules.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Changed "firm" to "member".]

UNCHANGED: 4210(g)(10)(E)/03 Intra-Day Liquidation

If a member captures a margin deficiency intra-day, and the customer executes a risk-reducing transaction and eliminates the deficiency intra-day, the risk-reducing transaction is not considered a liquidation.

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(g)(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.

4210(g)(12) Net Capital Treatment of Portfolio Margin Accounts

4210(g)(12)(A) No member that requires margin in any portfolio account pursuant to paragraph (g) of this Rule shall permit the aggregate portfolio margin requirements to exceed ten times its net capital for any period exceeding three business days. The member shall, beginning on the fourth business day, cease opening new portfolio margin accounts until compliance is achieved.

NEW: 4210(g)(12)(A)/01 Portfolio Margin Requirements

The "portfolio margin requirements" aggregated for purposes of Rule 4210(g)(12) are the amounts of margin required by Rule 4210(g)(7)(A) or (B) on portfolio margin eligible products (including portfolio margin eligible products, such as foreign margin stock, that are not included in the OCC's TIMS files) in the member's portfolio margin accounts. They do not include the margin requirements under Rule 4210(g)(7)(D) or (E) for positions in portfolio margin accounts that are not

portfolio margin eligible products, nor do they include any “house” margin requirements in excess of the margin requirements under Rule 4210(g)(7).

(Regulatory Notice 24-XX)

[Comment: Straightforward application of the rule]

4210(g)(12)(B) If, at any time, a member's aggregate portfolio margin requirements exceed ten times its net capital, the member shall immediately transmit telegraphic or facsimile notice of such deficiency to the principal office of the SEC in Washington, D.C., the district or regional office of the SEC for the district or region in which the member maintains its principal place of business; and to FINRA, or the member's DEA if other than FINRA. The notice to FINRA shall be in such form as FINRA may prescribe.

4210(g)(13) Day Trading Requirements — The day trading restrictions promulgated under paragraph (f)(8)(B) of this Rule shall not apply to portfolio margin accounts that establish and maintain at least \$5 million in equity, provided that a member has the ability to monitor the intra-day risk associated with day trading. Portfolio margin accounts that do not establish and maintain at least \$5 million in equity will be subject to the day trading restrictions under paragraph (f)(8)(B) of this Rule, provided the member has the ability to apply the applicable day trading requirement under this Rule. However, if the position or positions day traded were part of a hedge strategy, the day trading restrictions will not apply. A "hedge strategy" for purposes of this Rule means a transaction or a series of transactions that reduces or offsets a material portion of the risk in a portfolio. Members are expected to monitor these portfolio margin accounts to detect and prevent circumvention of the day trading requirements. In the event day trades executed in a portfolio margin account exceed the day-trading buying power, the day trade margin deficiency that is created must be met by the deposit of cash and/or securities within three business days.

MINOR CHANGE: 4210(g)(13)/01 Equity Less than \$5 Million

If a portfolio margin account has less than \$5 million in equity, day trading can still occur, provided the member has the ability to apply the appropriate day trading requirements promulgated under Rule 4210(f)(8). If the securities subject to day trading are a part of a hedge strategy, then FINRA does not consider the collective transactions as day trades and therefore it would not subject the customer to the day trading requirements. A "hedge strategy" for ~~the~~this purpose ~~of FINRA rules~~

means a transaction or series of transactions that reduce or offset a material portion of the risk in a portfolio.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Clarification that this is only an interpretation of (g)(13).]

MINOR CHANGE: 4210(g)(13)/02 Day Trading

For equity securities, the day trading requirement is 15 percent of the market value, calculated using the same methodology as in strategy-based margin accounts. The option day trade requirement for non-pattern day traders is 100 percent of the premium on the long or short transaction, whichever occurred first. For pattern day traders, if the member can substantiate that the purchase transaction took place prior to the sell transaction, then the day trade requirement is also 100 percent of the premium of the purchase transaction. Otherwise, members should apply the highest TIMS valuation point that is applicable to the short option involved in the day trade as the requirement. The highest valuation point shall be 8 percent of the underlying market value for high capitalization, broad-based market index options, 10 percent of the underlying market value for non-high capitalization, broad-based market index options, and 15 percent for equity options and narrow-based index options. However, the requirement shall not be less than the \$37.50 per standard contract minimum.

In addition, when a portfolio margin customer, who is a pattern day trader, incurs a day trading call, its account is subject to the limitations imposed by Rule 4210(f)(8)(B)(iv)~~(2)(b)~~c. This action results in equal treatment for both strategy-based and portfolio margin pattern day trading customers who exceed their day-trading buying power. That is, a pattern day trading portfolio margin customer who has incurred a day trading call will have its buying power reduced to two times regulatory maintenance excess for equity securities and the customer will lose the ability to rely on time and tick. In addition, both pattern and non-pattern day trading customers should not make a practice of incurring day trading margin calls. FINRA staff has interpreted FINRA rules such that customers with more than three day trading calls within a rolling 12-month period should be restricted from exceeding their day-trading buying power for 90 days.

(Regulatory Notice 10-45)

(Regulatory Notice 24-XX)

[Comment: Corrected reference to Rule 4210(f)(8)(B)(iv)(2)(b) to Rule 4210(f)(8)(B)(iv)c.]

UNCHANGED: 4210(g)(13)/03 Intra-Day Maintenance Excess

A member can use intraday maintenance excess to calculate day trading requirements provided the member has the intraday capability to re-price and recalculate the account to determine if there is sufficient excess equity in the account at the time an order is received, and to automatically block the order if there is insufficient excess equity.

(Regulatory Notice 10-45)

[Comment: Unchanged]

4210(g)(14) Requirements to Liquidate

4210(g)(14)(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:

4210(g)(14)(A)(i) insolvent as defined in Section 101 of Title 11 of the United States Code, or is unable to meet its obligations as they mature;

4210(g)(14)(A)(ii) the subject of a proceeding pending in any court or before any agency of the United States or any State in which a receiver, trustee, or liquidator for such debtor has been appointed;

4210(g)(14)(A)(iii) not in compliance with applicable requirements under the Exchange Act or rules of the SEC or any self-regulatory organization with respect to financial responsibility or hypothecation of eligible participant's securities; or

4210(g)(14)(A)(iv) unable to make such computations as may be necessary to establish compliance with such financial responsibility or hypothecation rules.

4210(g)(14)(B) Nothing in this paragraph (g)(14) shall be construed as limiting or restricting in any way the exercise of any right of a registered clearing agency to

liquidate or cause the liquidation of positions in accordance with its by-laws and rules.

4210(g)(15) Members must ensure that portfolio accounts are in compliance with Rule 2360.

4210(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.

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

* Leap Year Adds 1 day to this period.

.02 Monitoring Procedures. (To be implemented on May 22, 2024).

.03 Mark to Market Loss/Deficiency. (To be implemented on May 22, 2024).

.04 Determination of Exempt Account. (To be implemented on May 22, 2024).

.05 Risk Limit Determination.

(a) For purposes of any risk limit determination pursuant to paragraphs (e)(2)(F), (e)(2)(G) or (e)(2)(H) of this Rule:

(1) If a member engages in transactions with advisory clients of a registered investment adviser, the member may elect to make the risk limit determination at the investment adviser level;

- (2) Members of limited size and resources that do not have a credit risk officer or credit risk committee may designate an appropriately registered principal to make the risk limit determinations;
- (3) The member may base the risk limit determination on consideration of all products involved in the member's business with the counterparty, provided the member makes a daily record of the counterparty's risk limit usage; and
- (4) A member shall consider whether the margin required pursuant to this Rule is adequate with respect to a particular counterparty account or all its counterparty accounts and, where appropriate, increase such requirements.

.06 Good Faith Account. A Regulation T good faith account, other than a non-securities account, is a margin account for purposes of Rule 4210.

¹ For purposes of this paragraph (g) of this Rule, the term "margin equity security" utilizes the definition at Section 220.2 of Regulation T.

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

³ See footnote 2.

~~**.06 Good Faith Account.** A Regulation T good faith account, other than a non-securities account, is a margin account for purposes of Rule 4210.~~