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## 2520. Margin Requirements

### (a) Definitions

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

(1) The term "basket" shall mean a group of stocks that the Association or any national securities exchange designates as eligible for execution in a single trade through its trading facilities and that consists of stocks whose inclusion and relative representation in the group are determined by the inclusion and relative representation of their current market prices in a widely-disseminated stock index reflecting the stock market as a whole.

(2) The term "current market value" means the total cost or net proceeds of a security on the day it was purchased or sold or at any other time the preceding business day's closing price as shown by any regularly published reporting or quotation service except for security futures contracts (see paragraph (f)(11)(C)(ii)). If there is no closing price, a member organization may use a reasonable estimate of the market value of the security as of the close of business on the preceding business day.

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

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

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

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

(C) an insurance company (as defined in Section 2(a)(17) of the Investment Company Act of 1940),

(D) an investment company registered with the Securities and Exchange Commission (SEC) under the Investment Company Act,

(E) a state or political subdivision thereof, or

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

(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.

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

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

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

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

(10) The term "investment grade debt securities" means any debt securities (including those issued by the government of

a foreign country, its provinces, states or cities, or a supranational entity), if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in one of the top four rating categories by at least one nationally recognized statistical rating organization.

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

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

(13) The term "exempt account" means:

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

(B) any person that:

(i) has a net worth of at least forty-five million dollars and financial assets of at least forty-million dollars for purposes of subparagraphs (e)(2)(F) and (e)(2)(G), and

(ii) either:

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

b. has securities registered pursuant to the Securities Act of 1933, has been subject to the reporting requirements of Section 15(d) of the Act for a period of at least 90 days and has filed all the reports required to be filed thereunder during the preceding 12 months (or such shorter period as it was required to file such reports), or

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

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

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

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

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

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

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

(i) At the time of the original issue, a principal amount of not less than \$25,000,000 of the issue was outstanding;

(ii) The issue was registered under Section 5 of the Securities Act of 1933 and the issuer either files periodic reports pursuant to Section 13(a) or 15(d) of the Act or is an insurance company which meets all of the conditions specified in Section 12(g)(2)(G) of the Act; and

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

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

(i) An aggregate principal amount of not less than \$25,000,000 (which may be issued in series) was issued pursuant to a registration statement filed with the SEC under Section 5 of the Securities Act of 1933;

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

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

#### **(b) Initial Margin**

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

(1) the amount specified in Regulation T, or Rules 400 through 406 under the Act or Rules 41.42 through 41.48 under the Commodity Exchange Act ("CEA"); or

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

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

(4) equity of at least \$2,000 except that cash need not be deposited in excess of the cost of any security purchased (this equity and cost of purchase provision shall not apply to "when distributed" securities in a cash account). The minimum equity requirement for a "pattern day trader" is \$25,000 pursuant to paragraph (f)(8)(B)(iv)a. of this Rule.

Withdrawals of cash or securities may be made from any account which has a debit balance, "short" position or commitments, provided it is in compliance with Regulation T and Rules 400 through 406 under the Act and Rules 41.42 through 41.48 under the CEA, and after such withdrawal the equity in the account is at least the greater of \$2,000 (\$25,000 in the case of a "pattern day trader") or an amount sufficient to meet the maintenance margin requirements of this Rule.

#### **(c) Maintenance Margin**

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

(1) 25 percent of the current market value of all securities, except for security futures contracts, "long" in the account; plus

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

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

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

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

#### **(d) Additional Margin**

Procedures shall be established by members to:

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

(2) formulate their own margin requirements; and

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

#### **(e) Exceptions to Rule**

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

##### **(1) Offsetting "Long" and "Short" Positions**

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

carried "long" and "short" the margin to be maintained on such positions shall be 5 percent of the current market value of the "long" securities. In determining such margin requirements "short" positions shall be marked to the market.

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

### **(A) Obligations of the United States and Highly Rated Foreign Sovereign Debt Securities**

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

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

Notwithstanding the above, on zero coupon bonds with five years or more to maturity the margin to be maintained shall not be less than 3 percent of the principal amount of the obligation.

When such obligations other than United States Treasury bills are due to mature in thirty calendar days or less, a member, at its discretion, may permit the customer to substitute another such obligation for the maturing obligation and use the margin held on the maturing obligation to reduce the margin required on the new obligation, provided the customer has given the member irrevocable instructions to redeem the maturing obligation.

### **(B) All Other Exempted Securities**

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

### **(C) Non-Equity Securities**

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

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

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

### **(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 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 SEC Rule 15c3-1.

#### **(E) Special Provisions**

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

- i. A member may, at its discretion, permit the use of accrued interest as an offset to the maintenance margin required to be maintained; and
- ii. The Association upon written application, may permit lower margin requirements on a case-by-case basis.

#### **(F) Transactions with Exempt Accounts Involving Certain "Good Faith" Securities**

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

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

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

#### **(H) Limits on Net Capital Deductions for Exempt Accounts**

- (i) Members shall maintain a written risk analysis methodology for assessing the amount of credit extended to exempt accounts pursuant to paragraphs (e)(2)(F) and (e)(2)(G) which shall be made available to the Association upon request.
- (ii) In the event that the deductions of securities positions from net capital deductions taken by a member as a result of marked to the market losses incurred under paragraphs (e)(2)(F) and (e)(2)(G) (exclusive of the percentage requirements established thereunder) exceed:
  - a. on any one account or group of commonly controlled accounts, 5 percent of the member's tentative net capital, or
  - b. on all accounts combined, 25 percent of the member's tentative net capital, and, such excess exists on the fifth business day after it was incurred, the member shall give prompt written notice to the Association and shall not enter into any new transaction(s) subject to the provisions of paragraphs (e)(2)(F) or (e)(2)(G) that would result in an increase in the amount of such excess under, as applicable, subparagraph a. or b. above.

#### **(3) Joint Accounts in Which the Carrying Organization or a Partner or Stockholder Therein Has an Interest**

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

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

#### **(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 paragraph. The amount of any deficiency between the equity in such an account and the margin required by the other provisions of this paragraph shall be charged against the member's net capital when computing net capital under SEC Rule 15c3-1.

#### **(5) Specialists' and Market Makers' Accounts**

(A) A member may carry the account of an "approved specialist or 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 SEC Rule 15c3-1 shall be charged against the member's net capital when computing net capital under SEC Rule 15c3-1.

For the purpose of this subparagraph, the term "approved specialist or market maker" means either:

- i. a specialist or market maker, who is deemed a specialist for all purposes under the Act and who is registered pursuant to the rules of a national securities exchange; or
- ii. an OTC market maker or third market maker, who meets the requirements of Section 220.7(g)(5) of Regulation T.

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

## **(6) Broker/Dealer Accounts**

(A) A member may carry the proprietary account of another broker/dealer, which is registered with the Commission, upon a margin basis which is satisfactory to both parties, provided the requirements of Regulation T and Rules 400 through 406 under the Act and Rules 41.42 through 41.48 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 SEC Rule 15c3-1 shall be charged against the member's net capital when computing net capital under SEC Rule 15c3-1.

### **(B) Joint Back Office Arrangements**

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

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

- a. maintain a minimum tentative net capital of \$25 million as computed pursuant to SEC Rule 15c3-1, 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 SEC Rule 15c3-1. In addition, the member must include in its ratio of gross options market maker haircuts required by the provisions of SEC Rule 15c3-1 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% 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, or net capital, respectively, has fallen below the above requirements, the firm shall: 1. promptly notify the Association in writing of such deficiency, 2. take appropriate action to resolve such deficiency within three consecutive business days, or not permit any new transactions to be entered into pursuant to the JBO arrangement;
- b. maintain a written risk analysis methodology for assessing the amount of credit extended to participating broker/dealers which shall be made available to the Association on request; and
- c. deduct from net capital haircut requirements pursuant to SEC Rule 15c3-1 amounts in excess of the equity maintained in the accounts of participating broker/dealers.

(ii) A participating broker/dealer must:

- a. be a registered broker/dealer subject to the SEC's net capital requirements;
- b. maintain an ownership interest in the carrying/clearing member organization pursuant to Regulation T of the Federal Reserve Board, Section 220.7; and
- c. maintain a minimum liquidating equity of \$1 million in the JBO arrangement exclusive of the ownership interest established in (ii)b. above. When the minimum liquidating equity decreases below the \$1 million requirement, the participant must deposit an amount sufficient to eliminate this deficiency within 5 business days or be subject to margin account requirements prescribed for customers in Regulation T, and the margin requirements pursuant to the other provisions of this Rule.

## **(7) Nonpurpose Credit**

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

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

(B) the account is not used in any way for the purpose of evading or circumventing any regulation of NASD or of the Board of Governors of the Federal Reserve System and Rules 400 through 406 under the Act and Rules 41.42 through 41.48 under the CEA; and

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

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

## **(8) Shelf-Registered, Control and Restricted Securities**

(A) Shelf-Registered Securities — The equity to be maintained in margin accounts of customers for securities which are the subject of a current and effective registration for a delayed offering (shelf-registered securities) shall be at least the amount of margin required by paragraph (c)(3) provided the member:

(i) obtains a current prospectus in effect with the Commission, meeting the requirements of Section 10 of the Securities Act of 1933, covering such securities;

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

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

(B) Control and Restricted Securities — The equity in accounts of customers for control securities and other restricted securities of issuers who continue to maintain a consistent history of filing annual and periodic reports in timely fashion pursuant to the formal continuous disclosure system under the Act, which are subject to Rule 144 or 145(d) under the Securities Act of 1933, shall be 40 percent of the current market value of such securities "long" in the account, provided the member:

(i) in computing net capital, deducts any margin deficiencies in customers' accounts based upon a margin requirement as specified in subparagraph (C)(ii) below for such securities and values only that amount of such securities which are then saleable under Rule 144 or 145(d) under the Securities Act of 1933 in conformity with all of the applicable terms and conditions thereof, for purposes of determining such deficiencies; and

(ii) makes volume computations necessary to determine the amount of securities then saleable under Rule 144 or 145(d) under the Securities Act of 1933 on a weekly basis or at such frequency as the member and/or the Association may deem appropriate under the circumstances. See also subparagraph (C) below.

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

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

(ii) Concentration Reduction. A concentration exists whenever the aggregate position in control and restricted

securities of any one issue, excluding excess securities (as defined below), exceeds:

- a. 10 percent of the outstanding shares or
- b. 100 percent of the average weekly volume during the preceding three-month period. Where a concentration exists, for purposes of computing subparagraph (B)(i) above, the margin requirement on such securities shall be, based on the greater of (ii).a or .b, above, as specified below:

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

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

(D) Restricted Securities — Securities either:

(i) then saleable pursuant to the terms and conditions of Rule 144(k) under the Securities Act of 1933, or

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

**(f) Other Provisions**

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

Active securities dealt in on a national securities exchange or OTC Marginable securities shall, for margin purposes, be valued at current market prices provided that only those options contracts on a stock or stock index, or a stock index warrant, having an expiration that exceeds nine months and that are listed or guaranteed by the carrying broker-dealer, may be deemed to have market value for the purposes of Rule 2520. Other securities shall be valued conservatively in view of current market prices and the amount that might be realized upon liquidation. Substantial additional margin must be required in all cases where the securities carried in "long" or "short" positions are subject to unusually rapid or violent changes in value, or do not have an active market on a national securities exchange, or where the amount carried is such that the position(s) cannot be liquidated promptly.

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

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

(B) The issuance, guarantee or sale (other than a "long" sale) for a customer of a put or a call shall be considered a security transaction subject to paragraph (c)(2).

(C) For purposes of this subparagraph (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% 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 put, call, index stock group option, or stock index warrant that is issued by a registered clearing agency, margin must be deposited and maintained equal to at least 75% 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 a put, call, index stock group option, or stock index warrant carried long that is not issued by a registered clearing agency, margin must be deposited and maintained equal to at least 75% of the option's or warrant's "in-the-money" amount plus 100% of the amount, if any, by which the current market value of the option or warrant exceeds its "in-the-money" amount provided the option or warrant:

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

(D) The margin required on any put, call, currency warrant, currency index warrant, or stock index warrant issued, guaranteed or carried "short" in a customer's account shall be:

(i) In the case of puts and calls issued by a registered clearing agency, 100 percent of the current market value of the option plus the percentage of the current market value of the underlying component specified in column II of the chart below. In the case of currency warrants, currency index warrants and stock index warrants, 100 percent of the current market value of each such warrant plus the percentage of the warrant's current "underlying component value" (as column IV of the chart below describes) specified in column II of the chart below.

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

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

(5)	U.S. Treasury notes	3 percent	1/2 percent	The underlying principal amount.
(6)	U.S. Treasury bonds	3.5 percent	1/2 percent	The underlying principal amount.
(7)	Foreign Currencies	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.

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

Option 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	Any excess of the aggregate exercise price of the option over the product of the current index group value and the applicable multiplier.	Any excess of the product of the current index group value and the applicable multiplier over the aggregate exercise price of the option.
Foreign Currency Options	Any excess of the aggregate exercise price of the option 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.
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 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 position.

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

(iii) In the case of puts and calls not issued by a registered clearing agency, the percentage of the current value of the underlying component and the applicable multiplier, if any, specified in column II below, plus any "in-the-money amount" (as defined in this paragraph (f)(2)(D)(iii)).

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

	<b>I Type of Option</b>	<b>II Initial and/or Maintenance Margin Required</b>	<b>III Minimum Margin Required</b>	<b>IV Underlying Component Value</b>
1.	Stock and convertible corporate debt securities	30%	10%	The equivalent number of shares at current market prices for stocks or the underlying principal amount for convertible corporate debt securities.
2	Industry Index stock group	30%	10%	The product of the current index group value and the applicable index multiplier.
3	Broad index stock group	20%	10%	The product of the current index group value and the applicable index multiplier.
4.	U.S. Government or U.S. Government Agency debt securities other than those exempted by Rule 3a12-7 under the Securities Exchange Act of 1934 *	5%	3%	The underlying principal amount.
5.	Corporate debt securities registered on a national securities exchange and marginable OTC corporate debt securities as defined in Regulation T Section 220.2(t)(1) **	15%	5%	The underlying principal amount.
6.	All other OTC options not covered above	45%	20%	The underlying principal amount.

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

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

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

<b>Option Issue</b>	<b>Call</b>	<b>Put</b>
Stock options	Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.	Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.
Index stock group options	Any excess of the product of the current index group value and the applicable multiplier over the aggregate exercise price of	Any excess of the aggregate exercise price of the option over the product of the current index group value and the applicable

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

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

a. For exempt accounts, 3% 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% 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 (f)(2)(D)(iii)) or minus any "out-of-the-money amount" (as defined in (f)(2)(D)(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 organization under the Exchange's Capital Requirements on the following basis:

1. On any one account or group of commonly controlled accounts to the extent such deficiency exceeds 5% of a member organization's tentative Net Capital (net capital before deductions on securities), 100% of such excess amount, and

2. On all accounts combined to the extent such deficiency exceeds 25% of a member organization's tentative Net Capital, 100% of such excess amount, reduced by any amount already deducted pursuant to (a) above.

b. For non-exempt accounts, 5% 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% 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% of the current value of the underlying principal amount.

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

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

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

(F)(i) Where both a put and call specify the same underlying component are issued by a registered clearing agency and are carried "short" for a customer, the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to subparagraph (f)(2)(D)(i) above, plus the current market value on the other option.

(ii) Where either or both the put and call specifying the same underlying component are not issued by a registered clearing agency and are issued, guaranteed or carried "short" for a customer by the same broker-dealer (as defined in subparagraph (f)(2)(G)(iii) below), the amount of margin required shall be the margin on the put or call, whichever is greater, as required pursuant to subparagraph (f)(2)(D)(iii) and (D)(iv) above, plus any unrealized loss on the other option. Where either or both the put or call are not issued, guaranteed or carried by the same broker/dealer then the put and call must be margined separately pursuant to subparagraph (f)(2)(D)(iii) and (D)(iv)

above, however, the minimum margin shall not apply to the other option.

(iii) If both a put and call for the same GNMA obligation in the principal amount of \$100,000 are issued, guaranteed or 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 subparagraph (f)(2)(D)(ii) above, plus the current market value of the other option.

(G)(i) Where a call that is issued by a registered clearing agency is carried "long" for a customer's account and the account is also "short" a call issued by a registered clearing agency, expiring on or before the date of expiration of the "long" listed call and specifying the same underlying component the margin required on the "short" call shall be the lower of:

- a. the margin required pursuant to subparagraph (f)(2)(D)(i) above; or
- b. the amount, if any, by which the exercise price of the "long" call exceeds the exercise price of the "short" call.

(ii) Where a put that is issued by a registered clearing agency is carried "long" for a customer's account and the account is also "short" a put issued by a registered clearing agency, expiring on or before the date of expiration of the "long" listed put and specifying the same underlying component the margin required on the "short" put shall be the lower of:

- a. the margin required pursuant to subparagraph (iv)a. above, in the case of stock options, United States Government obligations, foreign currency options or index stock group options; or
- b. the amount, if any, by which the exercise price of the "short" put exceeds the exercise price of the "long" put.

(iii)a. Where a call that is issued by a registered clearing agency is carried "long" for a customer's account and the account is also "short" a call issued by a registered clearing agency, expiring on or before the date of expiration of the "long" listed call and written on the same GNMA obligation in the principal amount of \$100,000, the margin required on the "short" call shall be the lower of:

1. the margin required pursuant to subparagraph (f)(2)(D)(ii) above; or
2. the amount, if any, by which the exercise price of the "long" call exceeds the exercise price of the "short" call multiplied by the appropriate multiplier factor set forth below.

b. Where a put that is issued by a registered clearing agency is carried "long" for a customer's account and the account is also "short" a put issued by a registered clearing agency, expiring on or before the date of expiration of the "long" listed put and written on the same GNMA obligation in the principal amount of \$100,000, the margin required on the "short" put shall be the lower of:

1. the margin required pursuant to subparagraph (iv)b. above; or
2. the amount, if any, by which the exercise price of the "short" put exceeds the exercise price of the "long" put multiplied by the appropriate multiplier factor set forth below.

c. For purposes of this subparagraph(f)(2)(G)(iii) the multiplier factor to be applied shall depend on the then current highest qualifying rate as defined by the rules of the national securities exchange or national securities association on or through which the option is listed or traded. If the then current highest qualifying rate is less than 8 percent, the multiplier factor shall be 1; if the then current highest qualifying rate is greater than or equal to 8 percent but less than 10 percent, the multiplier factor shall be 1.2; if the then current highest qualifying rate is greater than or equal to 10 percent but less than 12 percent, the multiplier factor shall be 1.4; if the then current highest qualifying rate is greater than or equal to 12 percent but less than 14 percent, the multiplier factor shall be 1.5; if the then current highest qualifying rate is greater than or equal to 14 percent

but less than 16 percent, the multiplier factor shall be 1.6; and if the then current highest qualifying rate is greater than or equal to 16 percent but less than or equal to 18 percent, the multiplier factor shall be 1.7. The multiplier factor or factors for higher qualifying rates shall be established by the Association as required.

(iv)a. Where a call that is issued by a broker/dealer is carried "long" for a customer's account and the account is also "short" a call issued by the same broker/dealer, expiring on or before the date of expiration of the "long" call and specifying the same underlying component, the margin required on the short "call" shall be the lower of:

1. the margin required pursuant to subparagraph (f)(2)(D)(iii) or (D)(iv) above; or
2. the amount, if any, by which the exercise price of the "long" call exceeds the exercise price of the "short" call.

b. Where a put that is issued by a broker/dealer is carried "long" for a customer's account and the account is "short" a put issued by the same broker/dealer, expiring on or before the date of expiration of the "long" put and specifying the same underlying component, the margin required on the "short" put shall be the lower of:

1. the margin required pursuant to subparagraphs (f)(2)(D)(iii) or (D)(iv) above; or
2. the amount, if any, by which the exercise price of the "short" put exceeds the exercise price of the "long" put.

c. A "long" call and a "short" call or a "long" put and a "short" put are deemed to be issued by the same broker/dealer when either the broker/dealer has issued or guaranteed both options or issued or guaranteed one of the options and the other option was issued by a registered clearing agency on behalf of that broker/dealer. If the options are not issued by the same broker/dealer then the "short" put or the "short" call must be margined separately pursuant to subparagraphs (f)(2)(D)(iii) or (D)(iv) above.

(v) The following requirements set forth the minimum amount of margin that must be maintained in margin accounts of customers having positions in components underlying options, and stock index warrants, when such components are held in conjunction with certain positions in the overlying option or warrant. The option or warrant must be issued by a registered clearing agency or guaranteed by the carrying broker/dealer. In the case of a call or warrant carried in a short position, a related long position in the underlying component shall be valued at no more than the call/warrant exercise price for margin equity purposes.

a. Long Option or Warrant Offset. When a component underlying an option or warrant is carried long (short) in an account in which there is also carried a long put (call) or warrant specifying equivalent units of the underlying component, the minimum amount of margin that must be maintained on the underlying component is 10% of the option/warrant exercise price plus the "out-of-the-money" amount, not to exceed the minimum maintenance required pursuant to paragraph (c) of this Rule.

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

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

d. Collars. When a call or warrant carried in a short position is covered by a long position in equivalent units of the underlying component and is also carried with a long put or warrant specifying equivalent units of the same underlying component and having a lower exercise price and the same expiration date as the short call/warrant, the minimum amount of margin that must be maintained for the underlying component shall be the lesser of 10% of the exercise price of the put plus the put "out-of-the-money" amount or 25% of the call aggregate exercise price.

e. Butterfly Spread. This subparagraph applies to a butterfly spread as defined in [Rule 2522](#) where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer.

1. With respect to a long butterfly spread as defined in [Rule 2522](#), the net debit must be paid in full.

2. With respect to a short butterfly spread as defined in [Rule 2522](#), margin must be deposited and maintained equal to at least the amount of the difference between the two lowest exercise prices with respect to short butterfly spreads comprised of calls or the difference between the two highest exercise prices with respect to short butterfly spreads comprised of puts. The net proceeds from the sale of short option components may be applied to the requirement.

f. Box Spread. This subparagraph applies to box spreads as defined in [Rule 2522](#), where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer.

1. With respect to a long box spread as defined in [Rule 2522](#), the net debit must be paid in full.

2. With respect to a short box spread as defined in [Rule 2522](#), margin must be deposited and maintained equal to at least the amount of the difference between the exercise prices. The net proceeds from the sale of the short option components may be applied to the requirement.

g. Long Box Spread in European-Style Options. With respect to a long box spread as defined in [Rule 2522](#), in which all component options have a European-style exercise provision and are issued by a registered clearing agency or guaranteed by the carrying broker/dealer, margin must be deposited and maintained equal to at least 50% of the 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% of the difference in the exercise prices.

h. Long Condor Spread. This subparagraph applies to a long condor spread as defined in [Rule 2522](#) where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a long condor spread as defined in [Rule 2522](#), the net debit must be paid in full.

i. Short Iron Butterfly Spread. This subparagraph applies to a short iron butterfly spread as defined in [Rule 2522](#) where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a short iron butterfly spread as defined in [Rule 2522](#), margin must be deposited and maintained equal to at least the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.

j. Short Iron Condor Spread. This subparagraph applies to a short iron condor spread as defined in [Rule 2522](#) where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a short iron condor spread as defined in [Rule 2522](#), margin must be deposited and maintained equal to at least the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.

k. Long Calendar Butterfly Spread. This subparagraph applies to a long calendar butterfly spread as defined in [Rule 2522](#) where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a long calendar butterfly spread as defined in [Rule 2522](#), the net debit must be paid in full.

l. Long Calendar Condor Spread. This subparagraph applies to a long calendar condor spread as defined in [Rule 2522](#) where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a long calendar condor spread as defined in [Rule 2522](#), the net debit must be paid in full.

m. Short Calendar Iron Butterfly Spread. This subparagraph applies to a short calendar iron butterfly spread as defined in [Rule 2522](#) where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a short calendar iron butterfly spread as defined in [Rule 2522](#), margin must be deposited and maintained equal to at least the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.

n. Short Calendar Iron Condor Spread. This subparagraph applies to a short calendar iron condor spread as defined in [Rule 2522](#) where all option positions are issued by a registered clearing agency or guaranteed by the carrying broker/dealer. With respect to a short calendar iron condor spread as defined in [Rule 2522](#), margin must be deposited and maintained equal to at least the amount of the exercise price interval. The net proceeds from the sale of short option components may be applied to the requirement.

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

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

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

(ii) Where a call representing stock options is issued, guaranteed or carried "short" against an existing net "long" position in a warrant convertible into the underlying security under option, margin shall be required on the call equal to any amount by which the conversion price of the "long" warrant exceeds the exercise price of the call, provided:

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

b. the right to convert the net "long" position does not expire on or before the date of expiration of the "short" call. However, when a payment of money is required to convert the "long" warrant such warrant shall have no value for purposes of this Rule.

(iii) In determining net "long" and net "short" positions, for purposes of subparagraphs (f)(2)(H)(i) and (ii) above, offsetting "long" and "short" positions in exchangeable or convertible securities (including warrants) or in the same security, as discussed in paragraph (c)(5)(A), shall be deducted. In computing margin on such an existing net security position carried against a put or call, the current market price to be used shall not be greater than the exercise price in the case of a call or less than the current market price in the case of a put and the required margin shall be increased by any unrealized loss.

(iv) Where a put or call is carried "short" in the account of a customer against a letter of guarantee in form satisfactory to the Association and issued by a third party custodian bank or trust company (the guarantor), which letter of guarantee is held in the account at the time the put or call is written, or is received in the account promptly thereafter, no margin need be required on the put or call.

In the case of a call on a broad index stock group, the letter of guarantee must certify that the guarantor holds for the account of the customer as security for the letter either cash, cash equivalents, one or more qualified securities, or any combination thereof, having an aggregate market value, computed as at the close of business on the day the call is written, of not less than 100 percent of the aggregate current index value computed as at the same time and that the guarantor will promptly pay the member the exercise settlement amount in the event the account is assigned an exercise notice. The letter of guarantee 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 traded on any national securities exchange; or any equity security, other than a warrant, listed in the current list of Over-the-Counter Margin Stocks as published by the Board of Governors of the Federal Reserve System.

In the case of a call on any other option contract, the letter of guarantee must certify that the guarantor holds for the account of the customer as security for the letter, the underlying security (or a security immediately convertible into the underlying security without the payment of money) or foreign currency and that the guarantor

will promptly deliver to the member the underlying security or foreign currency in the event the account is assigned an exercise notice.

In the case of a put on an option contract (including a put on a broad index stock group), the letter of guarantee must certify that the guarantor holds for the account of the customer as security for the letter, 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 guarantor will promptly pay the member the exercise settlement amount (in the case of a put on a broad index stock group) or the aggregate exercise price (in the case of any other put on an option contract) in the event the account is assigned an exercise notice. Cash equivalents shall mean those instruments referred to in Section 220.2 of Regulation T.

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

(J)(i) Registered specialists, market makers or traders — Notwithstanding the other provisions of this subparagraph (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 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 SEC Rule 15c3-1 under the Act. 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)(J), a permitted offset position means, in the case of an option in which a specialist or market maker makes a market, a position in the underlying asset or other related assets, and in the case of other securities in which a specialist or market maker makes a market, a position in options overlying the securities in which a specialist or market maker makes a market. Accordingly, a specialist or market maker in options may establish, on a share-for-share basis, a long or short position in the securities underlying the options in which the specialist or market maker makes a market, and a specialist or market maker in securities other than options may purchase or write options overlying the securities in which the specialist or market maker makes a market, if the account holds the following permitted offset positions:

- a. A short option position which is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money";
- b. A long option position which is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money";
- c. A short option position against which an exercise notice was tendered;
- d. A long option position which was exercised;
- e. A net long position in a security (other than an option) in which a specialist or market maker makes a market;
- f. A net short position in a security (other than an option) in which the specialist or market maker makes a market; or
- g. A specified portfolio type as referred to in SEC Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

Permitted offset transactions must be effected for specialist or market making purposes such as hedging, risk reduction, rebalancing of positions, liquidation, or accommodation of customer orders, or other similar specialist or market maker purpose. The specialist or market maker must be able to demonstrate compliance with this provision.

For purposes of this paragraph (f)(2)(J), the term "in the money" means the current market price of the underlying asset or index is not below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; and, the term "overlying option" means a put option purchased or a call option written

against a long position in an underlying asset; or a call option purchased or a put option written against a short position in an underlying asset.

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

- a. are subject to unusually rapid or violent changes in value including volatility in the expiration months of options;
- b. do not have an active market; or
- c. in one or more or all accounts, including proprietary accounts combined, are such that they cannot be liquidated promptly or represent undue concentration of risk in view of the carrying member's Net Capital and its overall exposure to material loss.

(K) The Association may at any time impose higher margin requirements with respect to any option position(s) when it deems such higher margin requirements are appropriate.

(L) Exclusive designation — A customer may designate at the time an option order is entered which security position held in the account is to serve in lieu of the required margin, if such service is offered by the member; or the customer may have a standing agreement with the member as to the method to be used for determining on any given day which security position will be used in lieu of the margin to support an option transaction. Any security held in the account which serves in lieu of the required margin for a short put or short call shall be unavailable to support any other option transaction in the account.

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

(i) The transaction is permissible under Regulation T, Section 220.8; or

(ii) Spreads. A European-style cash-settled index stock group option or stock index warrant carried in a short position is deemed a covered position, and eligible for the cash account, provided a long position in a European-style cash-settled stock group index option, or stock index warrant having the same underlying component or index that is based on the same aggregate current underlying value, is held in or purchased for the account on the same day, provided that:

- a. the long position and the short position expire concurrently;
- b. the long position is paid in full; and
- c. there is held in the account at the time the positions are established, or received into the account promptly thereafter:

1. cash or cash equivalents of not less than any amount by which the exercise price of the long call or call warrant (short put or put warrant) exceeds the exercise price of the short call or call warrant (long put or put warrant), to which net proceeds from the sale of the short position may be applied, or

2. an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement i. cash, ii. cash equivalents, or iii. a combination thereof having an aggregate market value at the time the positions are established of not less than any amount by which the exercise price of the long call or call warrant (short put or put warrant) exceeds the exercise price of a short call or call warrant (long put or put warrant) and that the bank will promptly pay the member such amount in the event the account is assigned an exercise notice or that the bank will promptly pay the member funds

sufficient to purchase a warrant sold short in the event of a buy-in.

d. A long warrant may offset a short option contract and a long option contract may offset a short warrant provided that they have the same underlying component or index and equivalent aggregate current underlying value. In the event that the long position is not listed, it must be guaranteed by the carrying broker/dealer; otherwise the short position is not eligible for the cash account and must be margined separately pursuant to subparagraph (f)(2)(D).

(iii) Long Butterfly Spreads, Short Butterfly Spreads, Long Condor Spreads, Short Iron Butterfly Spreads, or Short Iron Condor Spreads. Put or call options carried in a short position are deemed covered positions and eligible for the cash account provided that the account contains long positions of the same type which in conjunction with the short options, constitute a long butterfly spread, short butterfly spread, long condor spread, short iron butterfly spread, or short iron condor spread as defined in [Rule 2522](#) and provided that:

a. all component options are listed, or guaranteed by the carrying broker/dealer;

b. all component options are European-style;

c. all component options are cash settled;

d. the long options are held in, or purchased for the account on the same day;

e. all components options expire concurrently;

f. with respect to a long butterfly spread or long condor spread as defined in [Rule 2522](#), the net debit is paid in full; and

g. with respect to a short butterfly spread, short iron butterfly spread or short iron condor spread as defined in [Rule 2522](#), there is held in the account at the time the positions are established or received into the account promptly thereafter:

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

2. an escrow agreement.

The escrow agreement must certify that the bank holds for the account of the customer as security for the agreement i. cash, ii. cash equivalents or iii. a combination thereof having an aggregate market value at the time the positions are established of not less than the amount of the difference between the two lowest exercise prices with respect to short butterfly spreads comprised of calls or the difference between the two highest exercise prices with respect to short butterfly spreads comprised of puts and that the bank will promptly pay the member such amount in the event the account is assigned an exercise notice on the call (put) with the lowest (highest) exercise price.

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

a. all component options are listed, or guaranteed by the carrying broker/dealer;

b. all component options are European-style;

- c. all component options are cash settled;
- d. the long options are held in, or purchased for the account on the same day;
- e. all component options expire concurrently;
- f. with respect to a long box spread as defined in [Rule 2522](#), the net debit is paid in full; and
- g. with respect to a short box spread as defined in [Rule 2522](#), there is held in the account at the time the positions are established, or received into the account promptly thereafter:

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

- 2. an escrow agreement.

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

### **(3) "When Issued" and "When Distributed" Securities**

#### **(A) 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.

#### **(B) Cash Accounts**

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

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

On any net position resulting from contracts for a "when issued" security made for a member or for or with a "designated account," no margin need be required and such net position need not be marked to the market. However, where such net position is not marked to the market, an amount equal to the loss at the market in such position shall be charged against the member's net capital as provided in SEC Rule 15c3-1.

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

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

- (ii) which is exempt by the Association as involving a primary distribution. The term "when issued" as used herein also means "when distributed."

### **(4) Guaranteed Accounts**

Any account guaranteed by another account may be consolidated with such other account and the margin to be maintained may be determined on the net position of both accounts, provided the guarantee is in writing and permits the

member carrying the account, without restriction, to use the money and securities in the guaranteeing account to carry the guaranteed account or to pay any deficit therein; and provided further that such guaranteeing account is not owned directly or indirectly by (i) a member, or any stockholder (other than a holder of freely transferable stock only) in the organization 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 SEC Rule 15c3-1.

#### **(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.

#### **(6) Time Within Which Margin or "Mark to Market" Must Be Obtained**

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

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

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

This prohibition on liquidations shall only apply to those accounts that, at the time of liquidation, are not in compliance with the equity to be maintained pursuant to the provisions of this Rule.

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

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

- (i) higher initial margin requirements for the purpose of effecting new securities transactions and commitments in accounts of customers with respect to specific securities;
- (ii) higher maintenance margin requirements for accounts of customers with respect to any securities; and
- (iii) such other terms and conditions as the Association shall deem appropriate relating to initial and/or maintenance margin requirements for accounts of customers with respect to any securities.

#### **(B) Day Trading**

(i) The term "day trading" means the purchasing and selling or the selling and purchasing of the same security on the same day in a margin account except for:

- a. a long security position held overnight and sold the next day prior to any new purchase of the same security, or
- b. a short security position held overnight and purchased the next day prior to any new sale of the same security.

(ii) The term "pattern day trader" means any customer who executes four or more day trades within five business days. However, if the number of day trades is 6% or less of total trades for the five business day period, the customer will not be considered a pattern day trader and the special requirements under paragraph (f)(8)(B)(iv) of this Rule will not apply. In the event that the organization at which a customer seeks to open an account or to resume day trading knows or has a reasonable basis to believe that the customer will engage in pattern day trading, then the special requirements under paragraph (f)(8)(B)(iv) of this Rule will apply.

(iii) The term "day-trading buying power" means the equity in a customer's account at the close of business of

the previous day, less any maintenance margin requirement as prescribed in paragraph (c) of this Rule, multiplied by four for equity securities.

Whenever day trading occurs in a customer's margin account the special maintenance margin required for the day trades in equity securities shall be 25% of the cost of all the day trades made during the day. For non-equity securities, the special maintenance margin shall be as required pursuant to the other provisions of this Rule. Alternatively, when two or more day trades occur on the same day in the same customer's account, the margin required may be computed utilizing the highest (dollar amount) open position during that day. To utilize the highest open position computation method, a record showing the "time and tick" of each trade must be maintained to document the sequence in which each day trade was completed.

**(iv) Special Requirements for Pattern Day Traders**

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

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

1. The account will be margined based on the cost of all the day trades made during the day,
2. The customer's day-trading buying power will be limited to the equity in the customer's account at the close of business of the previous day, less the maintenance margin required in paragraph (c) of this Rule, multiplied by two for equity securities, and
3. "time and tick" (i.e., calculating margin using each trade in the sequence that it is executed, using the highest open position during the day) may not be used.

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

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

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

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

In addition, on the sixth business day only, members are required to deduct from Net Capital the amount of unmet maintenance margin calls pursuant to SEC Rule 15c3-1.

**(9) Free-Riding in Cash Accounts Prohibited**

No member shall permit a customer (other than a broker/dealer or a "designated account") to make a practice, directly or indirectly, of effecting transactions in a cash account where the cost of securities purchased is met by the sale of the same securities. No member shall permit a customer to make a practice of selling securities with them in a cash account which are to be received against payment from another broker/dealer where such securities were purchased and are not yet paid for. A member transferring an account which is subject to a Regulation T 90-day freeze to another member firm shall inform the receiving member of such 90-day freeze.

The provisions of Section 220.8(c) of Regulation T dictate the prohibitions and exceptions against customers' free-riding. Members may apply to the Association in writing for waiver of a 90-day freeze not exempted by Regulation T.

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

(A) This subparagraph (10) sets forth the minimum amount of margin that must be deposited and maintained in margin accounts of customers having positions in index warrants, currency index warrants or currency warrants dealt in on a national securities exchange. The Association may at any time impose higher margin requirements in respect of such

positions when it deems such higher margin requirements to be advisable. The initial deposit of margin required under this Rule must be made within five full business days after the date on which a transaction giving rise to a margin requirement is effected. The margin requirements set forth in this subparagraph (J) are applicable only to index warrants, currency index warrants and currency warrants listed for trading on a national securities exchange on or after September 28, 1995.

(B) Definitions

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

(i) The term "currency call warrant" means a warrant structured as a call on the underlying currency. The term "currency put warrant" means a warrant structured as a put on the underlying currency.

(ii) The term "currency index call warrant" means a warrant structured as a call on the underlying currency index. The term "currency index put warrant" means a warrant structured as a put on the underlying currency index.

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

(iv) The term "index call warrant" means a warrant structured as a call on the underlying stock index group. The term "index put warrant" means a warrant structured as a put on the underlying stock index group.

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

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

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

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

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

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

(xi) The term "spot price" in respect of a currency warrant on a particular business day means the noon buying rate in U.S. dollars on such day in New York City for cable transfers of the particular underlying currency as certified for customs purposes by the Federal Reserve Bank of New York.

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

(xiii) The term "strike price" in respect of an index warrant, currency index warrant or currency warrant means the price at which the warrant may be exercised in accordance with its terms.

(xiv) The term "unit of underlying currency" in respect of a currency warrant means a single unit of the currency covered by the warrant.

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

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

(ii) In the case of a currency put or call warrant, 100% of the current market value of each such warrant plus 4% (or such other percentage, as specified by the national securities exchange listing the warrant and approved by the Commission on a case-by-case basis) of the product of the units of underlying currency per warrant and the spot price for such currency. The add-on percentage with respect to warrants on the German Mark, French Franc, Swiss Franc, Japanese Yen, British Pound, Australian Dollar, U.S. and European Currency Unit ("ECU") shall be four percent (4%), and for the Canadian Dollar the "add-on" percentage shall be one percent (1%). Such amount shall be decreased by the excess of the strike price of the warrant over the product of the units of underlying currency per warrant and the spot price of the currency in the case of a currency call warrant, or any excess of the product of the units of underlying currency per warrant and the spot price over the strike price of the warrant in the case of a currency put warrant; or

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

Notwithstanding the foregoing:

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

(i) 10% of the current index group value in the case of an index warrant;

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

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

(E)(i) When a "short" position in an index call warrant, currency index call warrant or currency call warrant is offset by a "short" position of equivalent underlying value in a put warrant or a put option issued by The Options Clearing Corporation on the same index or currency, or a "short" position in an index put warrant, currency index put warrant or currency put warrant is offset by a "short" position of equivalent underlying value in a call warrant or a call option issued by The Options Clearing Corporation on the same index or currency, the margin required shall be the margin on the put position or the call position, whichever is greater, plus the current market value of the other position.

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

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

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

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

- a. cash;
- b. cash equivalents;
- c. one or more qualified equity securities; or
- d. a combination thereof;

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

**(11) Customer Margin Rules Relating to Security Futures**

**(A) Applicability**

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

**(B) Amount of customer margin**

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

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

(iii) Permissible Offsets.

Notwithstanding the minimum margin levels specified in paragraph (f)(11)(B)(i) of this Rule, customers with offset positions involving security futures and related positions may have initial or maintenance margin levels (pursuant to the offset table below) that are lower than the levels specified in paragraph (f)(11)(B)(i) of this Rule.

	Description of Offset	Security Underlying the Security	Initial Margin Requirement	Maintenance Margin Requirement
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		<b>Future</b>		
(1)	Long security future (or basket of security futures representing each component of a narrow-based securities index) and long put option on the same underlying security (or index).	Individual stock or narrow-based security index	20 percent of the current market value of the long security future, plus pay for the long put in full.	The lower of: (1) 10 percent of the aggregate exercise price of the put plus the aggregate put out-of-the-money amount, if any; or (2) 20 percent of the current market value of the long security future.
(2)	Short security future (or basket of security futures representing each component of a narrow-based securities index) and short put option on the same underlying security (or index).	Individual stock or narrow-based security index.	20 percent of the current market value of the short security future, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20 percent of the current market value of the short security future, plus the aggregate put in-the-money amount, if any.
(3)	Long security future and short position in the same security (or securities basket) underlying the security future.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the short stock or stocks.	5 percent of the current market value as defined in Regulation T of the stock or stocks underlying the security future.
(4)	Long security future (or basket of security futures representing each component of a narrow-based securities index) and short call option on the same underlying security (or index).	Individual stock or narrow-based security index.	20 percent of the current market value of the long security future, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20 percent of the current market value of the long security future, plus the aggregate call in-the-money amount, if any.
(5)	Long a basket of narrow-based security futures that together tracks a broad based index and short a broad-based security index call option contract on the same index.	Narrow-based security index.	20 percent of the current market value of the long basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20 percent of the current market value of the long basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any.
(6)	Short a basket of narrow-based security futures that together tracks a broad-based security index and short a broad-based security index put option contract on the same index.	Narrow-based security index.	20 percent of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20 percent of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any.

(7)	Long a basket of narrow-based security futures that together tracks a broad-based security index and long a broad-based security index put option contract on the same index.	Narrow-based security index.	20 percent of the current market value of the long basket of narrow-based security futures, plus pay for the long put in full.	The lower of: (1) 10 percent of the aggregate exercise price of the put, plus the aggregate put out-of-the-money amount, if any; or (2) 20 percent of the current market value of the long basket of security futures.
(8)	Short a basket of narrow-based security futures that together tracks a broad-based security index and long a broad-based security index call option contract on the same index.	Narrow-based security index.	20 percent of the current market value of the short basket of narrow-based security futures, plus pay for the long call in full.	The lower of: (1) 10 percent of the aggregate exercise price of the call, plus the aggregate call out-of-the-money amount, if any; or (2) 20 percent of the current market value of the short basket of security futures.
(9)	Long security future and short security future on the same underlying security (or index).	Individual stock or narrow-based security index.	The greater of: 5 percent of the current market value of the long security future; or (2) 5 percent of the current market value of the short security future.	The greater of: 5 percent of the current market value of the long security future; or (2) 5 percent of the current market value of the short security future.
(10)	Long security future, long put option and short call option. The long security future, long put and short call must be on the same underlying security and the put and call must have the same exercise price. (Conversion)	Individual stock or narrow-based security index.	20 percent of the current market value of the long security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from the call sale may be applied.	10 percent of the aggregate exercise price, plus the aggregate call in-the-money amount, if any.
(11)	Long security future, long put option and short call option. The long security future, long put and short call must be on the same underlying security and the put exercise price must be below the call exercise price. (Collar)	Individual stock or narrow-based security index.	20 percent of the current market value of the long security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from call sale may be applied.	The lower of: (1) 10 percent of the aggregate exercise price of the put plus the aggregate put out-of-the-money amount, if any; or (2) 20 percent of the aggregate exercise price of the call, plus the aggregate call in-the-money amount, if any.
(12)	Short security future and long position in the same security (or securities basket) underlying the security future.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the long security or securities.	5 percent of the current market value, as defined in Regulation T, of the long stock or stocks.

(13)	Short security future and long position in a security immediately convertible into the same security underlying the security future, without restriction, including the payment of money.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the long security or securities.	10 percent of the current market value, as defined in Regulation T, of the long stock or stocks.
(14)	Short security future (or basket of security futures representing each component of a narrow-based securities index) and long call option or warrant on the same underlying security (or index).	Individual stock or narrow-based security index.	20 percent of the current market value of the short security future, plus pay for the call in full.	The lower of: (1) 10 percent of the aggregate exercise price of the put plus the aggregate put out-of-the-money amount, if any; or (2) 20 percent of the current market value of the short security future.
(15)	Short security future, short put option and long call option. The short security future, short put and long call must be on the same underlying security and the put and call must have the same exercise price. (Reverse Conversion)	Individual stock or narrow-based security index.	20 percent of the current market value of the short security future, plus the aggregate put in-the-money amount, if any, plus pay for the call in full. Proceeds from put sale may be applied.	10 percent of the aggregate exercise price, plus the aggregate put in-the-money amount, if any.
(16)	Long (short) a security future and short (long) an identical <sup>1</sup> security future traded on a different market.	Individual stock and narrow-based security index.	The greater of: (1) 3 percent of the current market value of the long security future(s); or (2) 3 percent of the current market value of the short security future(s).	The greater of: (1) 3 percent of the current market value of the long security future(s); or (2) 3 percent of the current market value of the short security future(s).
(17)	Long (short) a basket of security futures that together tracks a narrow-based index and short (long) a narrow-based index future.	Individual stock and narrow-based security index.	The greater of: (1) 5 percent of the current market value of the long security future(s); or (2) 5 percent of the current market value of the short security future(s).	The greater of: (1) 5 percent of the current market value of the long security future(s); or (2) 5 percent of the current market value of the short security future(s).

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

**(C) Definitions**

For the purposes of paragraph (f)(11) of this Rule and the offset table noted above, with respect to the term "security futures contracts," the following terms shall have the meanings specified below:

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

(ii) The term "current market value" has the same meaning as defined in Rule 401(a)(4) under the Act and Rule 41.43(a)(4) under the CEA.

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

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

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

(vi) The term "variation settlement" has the same meaning as defined in Rule 401(a) under the Act and Rule 41.43(a)(32) under the CEA.

#### **(D) Security Futures Dealers' Accounts.**

(i) Notwithstanding the other provisions of this paragraph (f)(11), a member may carry and clear the market maker permitted offset positions (as defined below) of one or more security futures dealers in an account that is limited to market maker transactions, upon a "Good Faith" margin basis that is satisfactory to the concerned parties, provided the "Good Faith" margin requirement is not less than the Net Capital haircut deduction of the member carrying the transaction pursuant to Rule 15c3-1 under the Act. 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)(11)(D), the term "security futures dealer" means (1) a member or member organization of a national securities exchange or a national securities association registered pursuant to Section 15A(a) of the 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 Act and, as applicable Section 5c(c) of the CEA, that: (a) requires such member or member organization to be registered as a floor trader or a floor broker with the CFTC under Section 4f(a)(1) of the CEA, or as a dealer with the Commission under Section 15(b) of the Act; (b) requires such member or member organization to maintain records sufficient to prove compliance with the rules of the exchange or association of which it is a member; (c) requires such member or member organization to hold itself out as being willing to buy and sell security futures for its own account on a regular and continuous basis; and (d) provides for disciplinary action, including revocation of such member's or member organization's registration as a security futures dealer, for such member's or member organization's failure to comply with Rule 400 through 406 of the Act and Rules 41.42 through 41.49 of the CEA or the rules of the exchange or association of which the security futures dealer is a member or member organization.

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

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

- b. A short position in the security futures contract or underlying asset offset by a long option position that is "in or at the money;"
- c. A position in the underlying asset resulting from the assignment of a market-maker short option position or making delivery in respect of a short security futures contract;
- d. A position in the underlying asset resulting from the assignment of a market-maker long option position or taking delivery in respect of a long security futures contract;
- e. A net long position in a security futures contract in which a security futures dealer makes a market or the underlying asset;
- f. A net short position in a security futures contract in which a security futures dealer makes a market or the underlying asset; or
- g. An offset position as defined in Rule 15c3-1 under the Act, including its appendices, or any applicable SEC staff interpretation or no-action position.

**(E) Approved Options Specialists' or Market Maker Accounts.**

(i) Notwithstanding the other provisions of (f)(11) and (f)(2)(J), a member may carry and clear the market maker permitted offset positions (as defined below) of one or more approved options specialists or market makers in an account that is limited to approved options specialist or 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 Rule 15c3-1 under the Act. 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)(11)(E), the term "approved options specialist or market maker" means a specialist, market maker, or registered trader in options as referenced in paragraph (f)(2)(J) of this Rule, who is deemed a specialist for all purposes under the Act and who is registered pursuant to the rules of a national securities exchange.

(ii) For purposes of this paragraph (f)(11)(E), a permitted offset position means a position in the underlying asset or other related assets. Accordingly, a specialist or market maker may establish a long or short position in the assets underlying the options in which the specialist or market maker makes a market, or a security futures contract thereon, if the account holds the following permitted offset positions:

- a. A long position in the underlying instrument or security futures contract offset by a short option position that is "in or at the money;"
- b. A short position in the underlying instrument or security futures contract offset by a long option position that is "in or at the money;"
- c. A stock position resulting from the assignment of a market-maker short option position or delivery in respect of a short security futures contract;
- d. A stock position resulting from the exercise of a market maker long option position or taking delivery in respect of a long security futures contract;
- e. A net long position in a security (other than an option) in which the market maker makes a market;
- f. A net short position in a security (other than an option) in which the market maker makes a market; or

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

(iii) For purposes of paragraphs (f)(11)(D) and (E), the term "in or at the money" means that the current market price of the underlying security is not more than two standard exercise intervals below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; the term "in the money" means that the current market price of the underlying asset or index is not below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; the term "overlying option" means a put option purchased or a call option written against a long position in an underlying asset; or a call option purchased, or a put option written against a short position in an underlying asset.

(iv) Securities, including options and security futures contracts, in such accounts shall be valued conservatively in light of current market prices and the amount that might be realized upon liquidation. Substantial additional margin must be required or excess 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.

#### **(F) Approved Specialists' Accounts-others**

(i) Notwithstanding the other provisions of (f)(11) and (f)(2)(J), a member may carry the account of an "approved specialist," which account is limited to specialist 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 Rule 15c3-1 shall be charged against the member's net capital when computing net capital under SEC Rule 15c3-1.

(ii) For purposes of this paragraph (f)(11)(F), the term "approved specialist" means a specialist who is deemed a specialist for all purposes under the Act and who is registered pursuant to the rules of a national securities exchange.

#### **(G) Additional Requirements**

(i) Money market mutual funds, as defined in Rule 2a-7 under the Investment Company Act of 1940, can be used for satisfying margin requirements under this paragraph (f)(11), provided that the requirements of Rule 404(b) under the Act and Rule 46(b)(2) under the CEA are satisfied.

(ii) Day trading of security futures is subject to the minimum requirements of this Rule. If deemed a pattern day-trader, the customer must maintain equity of \$25,000. The 20 percent requirement, for security futures contracts, should be calculated based on the greater of the initial or closing transaction and any amount exceeding NASD excess must be collected. The creation of a customer call subjects the account to all the restrictions contained in Rule 2520(f)(8)(B).

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

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

#### **(g) Portfolio Margin**

As an alternative to the "strategy-based" margin requirements set forth in paragraphs (a) through (f) of this Rule, members may elect to apply the portfolio margin requirements set forth in this paragraph (g) to all margin equity securities,<sup>1</sup> listed options, security futures products (as defined in Section 3(a)(56) of the Exchange Act), unlisted derivatives, warrants, index warrants and related instruments, 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 as defined in paragraph (g)(2)(D), with listed index options, unlisted derivatives, options on exchange traded funds ("ETF"), index warrants and underlying instruments and compute a margin requirement for such combined products on a portfolio margin basis.

The portfolio margin provisions of this Rule shall not apply to Individual Retirement Accounts ("IRAs").

**(1) Monitoring.** — Members must monitor the risk of portfolio margin accounts and maintain a comprehensive written risk analysis methodology for assessing the potential risk to the member's capital over a specified range of possible market movements of positions maintained in such accounts. The risk analysis methodology shall specify the computations to be made, the frequency of computations, the records to be reviewed and maintained, and the person(s) within the organization responsible for the risk function. This risk analysis methodology must be filed with NASD, or the member's designated examining authority ("DEA") if other than NASD, and submitted to the Commission prior to the implementation of portfolio margining. In performing the risk analysis of portfolio margin accounts required by this Rule, each member shall include in the written risk analysis methodology procedures and guidelines for:

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

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

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

(D) the use of stress testing of portfolio margin accounts in order to monitor market risk exposure from individual accounts and in the aggregate;

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

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

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

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

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

Moreover, management must periodically review, in accordance with written procedures, the member's credit extension activities for consistency with these guidelines. Management must periodically determine if the data necessary to apply this paragraph (g) is accessible on a timely basis and information systems are available to adequately capture, monitor, analyze and report relevant data.

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

(A) The term "listed option" means any equity-based or equity index-based option traded on a registered national securities exchange or automated facility of a registered national securities association.

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

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

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

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

(F) The term "theoretical gains and losses" means the gain and loss in the value of individual eligible products and

related instruments at ten equidistant intervals (valuation points) ranging from an assumed movement (both up and down) in the current market value of the underlying instrument. The magnitude of the valuation point range shall be as follows:

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

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

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

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

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

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

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

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

#### **(5) Opening of Accounts**

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

(B) Only eligible participants that have been approved to engage in uncovered short option contracts pursuant to NASD Rule 2860, or the rules of the member's DEA if other than NASD, are permitted to utilize a portfolio margin account.

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

(i) furnish the eligible participant with a special written disclosure statement describing the nature and risks of portfolio margining which includes an acknowledgement for all portfolio margin account owners to sign, attesting that they have read and understood the disclosure statement, and agree to the terms under which a portfolio margin account is provided (see NASD Rule 2860(c)); and

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

#### **(6) Establishing Account and Eligible Positions**

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

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

transfer any funds and/or securities.

(B) Eligible Products

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

(a) a margin equity security (including a foreign equity security and option on a foreign equity security, provided the foreign equity security is deemed to have a "ready market" under SEC Rule 15c3-1 or a "no-action" position issued thereunder, and a control or restricted security, provided the security has met the requirements in a manner consistent with SEC Rule 144 or a Commission "no-action" position issued thereunder, sufficient enough to permit the sale of the security, upon exercise or assignment of any listed option or unlisted derivative written or held against it, without restriction);

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

(c) a security futures product;

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

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

(f) a related instrument as defined in paragraph (g)(2)(D).

**(7) Margin Required.** — The amount of margin required under this paragraph (g) for each portfolio shall be the greater of:

(A) the amount for any of the ten equidistant valuation points representing the largest theoretical loss as calculated pursuant to paragraph (g)(8) below; or

(B) for eligible participants as described in 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.

(C) Account guarantees pursuant to paragraph (f)(4) of this Rule are not permitted for purposes of meeting margin requirements.

(D) Positions other than those listed in Paragraph (g)(6)(B)(i) above are not eligible for portfolio margin treatment. However, positions not eligible for portfolio margin treatment (except for ineligible related instruments) may be carried in a portfolio margin account, provided the member has the ability to apply the applicable strategy-based margin requirements promulgated under this Rule. Shares of a money market mutual fund may be carried in a portfolio margin account, also subject to the applicable strategy-based margin requirement under this Rule provided that:

(i) the customer waives any right to redeem shares without the member's consent;

(ii) the member (or, if the shares are deposited with a clearing organization, the clearing organization) obtains the right to redeem shares in cash upon request;

(iii) the fund agrees to satisfy any conditions necessary or appropriate to ensure that the shares may be redeemed in cash, promptly upon request; and

(iv) the member complies with the requirements of Section 11(d)(1) of the Exchange Act and SEC Rule 11d1-2 thereunder.

**(8) Method of Calculation**

(A) Long and short positions in eligible products, including underlying instruments and related instruments, are to be grouped by security class; each security class group being a "portfolio." Each portfolio is categorized as one of the portfolio types specified in paragraph (g)(2)(F) above, as applicable.

(B) For each portfolio, theoretical gains and losses are calculated for each position as specified in paragraph (g)(2)(F) above. For purposes of determining the theoretical gains and losses at each valuation point, members shall obtain and utilize the theoretical values of eligible products as described in this paragraph (g) rendered by an approved theoretical pricing model.

(C) Offsets. Within each portfolio, theoretical gains and losses may be netted fully at each valuation point. Offsets between portfolios within the eligible product groups, as described in paragraph (g)(2)(F), may then be applied as permitted by SEC Rule 15c3-1a.

(D) After applying the offsets above, the sum of the greatest loss from each portfolio is computed to arrive at the total margin required for the account (subject to the per contract minimum).

(E) In addition, if a security that is convertible, exchangeable, or exercisable into a security that is an underlying instrument requires the payment of money or would result in a loss if converted, exchanged, or exercised at the time when the security is deemed an underlying instrument, the full amount of the conversion loss is required.

#### **(9) Portfolio Margin Minimum Equity Deficiency**

(A) If, as of the close of business, the equity in the portfolio margin account of an eligible participant as described in paragraph (g)(4)(C), declines below the five million dollar minimum equity required, if applicable, and is not restored to at least five million dollars within three business days by a deposit of funds and/or securities or through favorable market action, members are prohibited from accepting new opening orders beginning on the fourth business day, except that new opening orders entered for the purpose of reducing market risk may be accepted if the result would be to lower margin requirements. This prohibition shall remain in effect until,

(i) equity of five million dollars is established, or

(ii) all unlisted derivatives are liquidated or transferred from the portfolio margin account to the appropriate securities account.

(B) Members will not be permitted to deduct any portfolio margin minimum equity deficiency amount from Net Capital in lieu of collecting the minimum equity required.

#### **(10) Portfolio Margin Deficiency**

(A) If, as of the close of business, the equity in the portfolio margin account of an eligible participant, as described in 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.

(B) If the portfolio margin deficiency is not met by the close of business on the next business day after the business day on which such deficiency arises, members will be required to deduct the amount of the deficiency from Net Capital until such time the deficiency is satisfied or positions are liquidated pursuant to paragraph (g)(10)(A) above.

(C) Members will not be permitted to deduct any portfolio margin deficiency amount from Net Capital in lieu of collecting the margin required.

(D) NASD, or the member's DEA if other than NASD, may grant additional time for an eligible participant to meet a portfolio margin deficiency upon written request, which is expected to be granted in extraordinary circumstances only.

(E) Notwithstanding the provisions of subparagraph (B) above, members should not permit an eligible participant to make a practice of meeting a portfolio margin deficiency by liquidation. Members must have procedures in place to identify accounts that periodically liquidate positions to eliminate margin deficiencies, and the member is expected to take appropriate action when warranted. Liquidation to eliminate margin deficiencies that are caused solely by adverse price movements may be disregarded.

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

#### **(12) Net Capital Treatment of Portfolio Margin Accounts**

(A) No member that requires margin in any portfolio account pursuant to paragraph (g) of this Rule shall permit the aggregate portfolio margin requirements to exceed ten times its Net Capital for any period exceeding three business days. The member shall, beginning on the fourth business day, cease opening new portfolio margin accounts until compliance is achieved.

(B) If, at any time, a member's aggregate portfolio margin requirements exceed ten times its Net Capital, the member shall immediately transmit telegraphic or facsimile notice of such deficiency to the principal office of the Commission in Washington, D.C., the district or regional office of the Commission for the district or region in which the member maintains its principal place of business; and to NASD, or the member's DEA if other than NASD. Notice to NASD shall be in such form as NASD may prescribe.

**(13) Day Trading Requirements.** — The day trading restrictions promulgated under paragraph (f)(8)(B) of this Rule shall not apply to portfolio margin accounts that establish and maintain at least five million dollars in equity, provided that a member has the ability to monitor the intra-day risk associated with day trading. Portfolio margin accounts that do not establish and maintain at least five million dollars in equity will be subject to the day trading restrictions under paragraph (f)(8)(B) of this Rule, provided the member has the ability to apply the applicable day trading requirement under this Rule. However, if the position or positions day traded were part of a hedge strategy, the day trading restrictions will not apply. A “hedge strategy” for purposes of this Rule means a transaction or a series of transactions that reduces or offsets a material portion of the risk in a portfolio. Members are expected to monitor these portfolio margin accounts to detect and prevent circumvention of the day trading requirements. In the event day trades executed in a portfolio margin account exceed the day trading buying power, the day trade margin deficiency that is created must be met by the deposit of cash and/or securities within three business days.

**(14) Requirements to Liquidate**

(A) A member is required immediately either to liquidate, or transfer to another broker-dealer eligible to carry portfolio margin accounts, all portfolio margin accounts with positions in related instruments if the member is:

(i) insolvent as defined in section 101 of title 11 of the United States Code, or is unable to meet its obligations as they mature;

(ii) the subject of a proceeding pending in any court or before any agency of the United States or any State in which a receiver, trustee, or liquidator for such debtor has been appointed;

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

(iv) unable to make such computations as may be necessary to establish compliance with such financial responsibility or hypothecation rules.

(B) Nothing in this paragraph (g)(14) shall be construed as limiting or restricting in any way the exercise of any right of a registered clearing agency to liquidate or cause the liquidation of positions in accordance with its by-laws and rules.

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

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

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

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

Amended by SR-FINRA-2008-042 eff. Aug. 1, 2008.  
Amended by SR-FINRA-2008-041 eff. Aug. 1, 2008.  
Amended by SR-NASD-2007-045 eff. Aug. 1, 2007.  
Amended by SR-NASD-2007-024 eff. April 2, 2007.  
Amended by SR-NASD-2007-013 eff. April 2, 2007.  
Amended by SR-NASD-2005-087 eff. Aug. 1, 2006.  
Amended by SR-NASD-2006-045 eff. April 3, 2006.  
Amended by SR-NASD-2000-08 eff. Dec. 1, 2003.  
Amended by SR-NASD-2003-45 eff. March 20, 2003.  
Amended by SR-NASD-2002-166 eff. Jan. 24, 2003.  
Amended by SR-NASD-2000-03 eff. Sept. 28, 2001.  
Amended by SR-NASD-2000-15 eff. Feb. 26, 2001.  
Amended by SR-NASD-99-05 eff. Aug. 21, 2000.  
Amended by SR-NASD-97-28 eff. Aug. 7, 1997.  
Amended by SR-NASD-97-14 eff. June 10, 1997.  
Amended by SR-NASD-95-37 eff. Sept. 28, 1995.  
Amended by SR-NASD-92-35 eff. April 19, 1993.

**Selected Notices:** 74-08, 76-08, 76-31, 77-19, [93-23](#), [00-51](#), [01-11](#), [01-26](#), [03-66](#), [06-26](#), [07-11](#), [08-41](#).

**2521. Margin Requirements — 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 SEC Rule 17d-2 is exempt from the provisions of [Rule 2520](#).

Adopted by SR-NASD-97-14 eff. June 10, 1997.

## 2522. Definitions Related to Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants Transactions

(a) The following definitions shall apply to the margin requirements for options, currency warrants, currency index warrants and stock index warrants transactions:

### (1) Aggregate Discount Amount

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.

### (2) Aggregate Exercise Price

The term "aggregate exercise price" as used with reference to an option contract means:

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

(B) if a Treasury bond or Treasury note underlies the option contract,

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

(ii) accrued interest:

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

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

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(Rule 2522 continued after [IM-2522](#))

## IM-2522. Computation of Elapsed Days

The following tables are given to illustrate the method of computing the number of elapsed days in conformity with [Rule 2522\(a\)](#) (2)(B) above:

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

## **2522. (continued) Definitions Related to Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants Transactions**

(C) if a Treasury bill underlies the option contract, the difference between the principal amount of such Treasury bill and the aggregate discount amount;

(D) if an index stock group underlies the option contract, the exercise price of the option contract times the index multiplier; or

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

### **(3) Annualized Discount**

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.

### **(4) Applicable Current Options Disclosure Document**

The term "applicable current Options Disclosure Document" means, as to any kind of option, the most recent edition of the Options Disclosure Document and any supplement that pertains to that kind of option and that meet the requirements of SEC Rule 9b-1.

**(5) Appropriate Differential**

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.

**(6) Box Spread**

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.

**(7) Broad Index Stock Group**

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.

**(8) Broad Index Stock Group Option (Contract)**

The term "broad index stock group option (contract)" means an option contract on a broad index stock group.

**(9) Butterfly Spread**

The term "butterfly spread" means an aggregation of positions in three series of either puts or calls, structured as either: (A) a "long butterfly spread" in which two short options in the same series are offset by one long option with a higher exercise price and one long option with a lower exercise price or (B) a "short butterfly spread" in which two long options in the same series offset one short option with a higher exercise price and one short option with a lower exercise price, all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, and the exercise prices are in ascending order.

**(10) Calendar Spread**

The term "calendar spread" or "time spread" means the sale of one option and the simultaneous purchase of another option of the same type, both specifying the same underlying component with the same exercise price or different exercise prices, where the "long" option expires after the "short" option.

**(11) Call**

The term "call" means an option contract under which the holder has the right, in accordance with the terms of the option, to purchase from The Options Clearing Corporation:

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

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

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

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

**(12) Class (of Options)**

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

**(13) Clearing Member**

The term "clearing member" means a member which has been admitted to membership in The Options Clearing Corporation pursuant to the provisions of the rules of The Options Clearing Corporation.

**(14) Closing Purchase Transaction**

The term "closing purchase transaction" means an option transaction in which the purchaser's intention is to reduce or eliminate a short position in the series of options involved in such transaction.

**(15) Closing Sale Transaction**

The term "closing sale transaction" means an option transaction in which the seller's intention is to reduce or eliminate a long position in the series of options involved in such transaction.

**(16) Complement**

The term "complement," as used with reference to an annualized discount, means the difference between 100 percent and the annualized discount.

**(17) Covered**

(A) The term "covered" in respect of a short position in a call option contract means that the writer's obligation is secured either by a "specific deposit" or an "escrow deposit" meeting the conditions of Rule 610(e) or 610(h), respectively, of the rules of The Options Clearing Corporation, or by a letter of guarantee meeting the requirements of [Rule 2520\(f\)\(2\)\(H\)\(iv\)](#) or that the writer holds in the same account as the short position,

(i) on a share-for-share basis (if a single stock underlies the option contract),

(ii) on the basis of a matching principal amount (if a Government security underlies the option contract),

(iii) on the basis of market value ("covering" underlying stocks) or of the index multiplier ("covering" option contracts) (if an index stock group underlies the option contract), or

(iv) on the basis of the remaining unpaid principal balance (if a GNMA underlies the option contract), a long position either in the underlying security or underlying index stock group or in an option contract of the same class having an expiration date on or subsequent to the expiration date of the option contract in such short position and having an exercise price equal to or less than the exercise price of the option contract in such short position.

(B) The term "covered" in respect of a short position in a put option contract means that the writer's obligation is secured by a letter of guarantee meeting the requirements of [Rule 2520\(f\)\(2\)\(H\)\(iv\)](#) of this Rule or that the writer holds in the same account as the short position,

(i) on a share-for-share basis (if a single stock underlies the option contract),

(ii) on the basis of a matching principal amount (if a Government security underlies the option contract),

(iii) on the basis of the index multiplier (if an index stock group underlies the option contract), or

(iv) on the basis of a matching remaining unpaid principal balance (if a GNMA underlies the option contract), a

long position in an option contract of the same class having an expiration date on or subsequent to the expiration date of the option contract in such short position and having an exercise price equal to or greater than the exercise price of the option contract in such short position.

(C) In the case of a "covering" underlying GNMA, the remaining unpaid principal balance must be equal to, or be a permissible variant of, the nominal principal amount and the "covering" underlying GNMA must bear a qualifying rate of interest.

**(18) Current Cash Market Price**

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.

**(19) Current Options Disclosure Document**

See "Applicable Current Options Disclosure Document."

**(20) Current Index Group Value**

The term "current index group value" means \$1.00 multiplied by the current value reported for the index that is derived from the current market prices of the stocks in the group. When used with reference to the exercise of an index stock 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.

**(21) Current Market Value or Current Market Price**

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 of the Board of Governors of the Federal Reserve System.

**(22) Designated Rate**

The term "designated rate" as used with reference to a GNMA option means a rate of interest of eight percent or such other rate as may be designated in the manner specified in the rules of The Options Clearing Corporation.

**(23) Dominant Underlying Stock**

The term "dominant underlying stock" means, when used with reference to an industry index stock group, a stock that accounts for 30 percent or more of the index group value.

**(24) Escrow Agreement**

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 NASD 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 warrant or cash, cash equivalents or a combination thereof in the case of a put or warrant is obligated (in the case of an option) to pay the creditor the exercise settlement amount in the event an option is assigned an exercise notice or, (in the case of a warrant) the funds sufficient to purchase a warrant sold short in the event of a buy-in.

**(25) Exchange Option Transaction**

The term "Exchange option transaction" means an option transaction effected on the floor of a registered securities exchange between or among members.

**(26) Exchange Options Trading**

The term "Exchange options trading" means options trading on the floor of a registered securities exchange.

**(27) Exercise Price**

The term "exercise price" in respect of an option contract means:

(A) if a single stock underlies the option contract, the stated price per share at which the underlying stock;

(B) if a Treasury bond or Treasury note underlies the option contract, the specified percentage of the principal amount at which the underlying Treasury security;

(C) if a Treasury bill underlies the option contract, the specified complement of the annualized discount at which the underlying Treasury bill;

(D) if an index stock group underlies the option contract, the specified index group value at which the current index group value; or

(E) if a GNMA underlies the option contract, the specified percentage of the nominal principal amount (assuming delivery of a GNMA bearing a stated rate of interest equal to the designated rate) at which the underlying GNMA; may be purchased (in the case of call) or sold (in the case of a put) upon the exercise of such option contract. In the case of an underlying GNMA, if the stated rate of interest of a GNMA delivered upon exercise of an option contract is a qualifying rate other than the designated rate, the exercise price shall be an amount which provides the same yield to maturity as the amount which would have been payable if the stated rate of interest had been equal to the designated rate (assuming a 30-year term and prepayment at the end of the twelfth year of the mortgage obligations underlying GNMA's).

#### **(28) Exercise Settlement Amount**

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).

#### **(29) Expiration Date**

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.

#### **(30) Expiration Month**

The term "expiration month" in respect of an option contract means the month and year in which such option contract expires.

#### **(31) GNMA**

The term "GNMA" means a mortgage pass-through security guaranteed as to timely payment of principal and interest by the Government National Mortgage Association, as described in the current standard prospectus of the Department of Housing and Urban Development covering such securities, bearing a stated rate of interest which is a qualifying rate. Any two or more separate certificates representing GNMA's bearing the same qualifying rate delivered in accordance with the rules of The Options Clearing Corporation upon exercise of an option contract shall, for purposes of this Rule, be deemed to be a single GNMA, having a remaining unpaid principal balance equal to the sum of the remaining unpaid principal balances of such separate certificates.

#### **(32) GNMA Option (Contract)**

The term "GNMA option (contract)" means an option contract on GNMA's.

#### **(33) GNMA Production Rate**

The term "GNMA production rate" means a rate of interest .50 percent below the maximum stated rate of interest on residential mortgages which the Federal Housing Administration is willing to insure and which the Veterans Administration is willing to guarantee, as it may vary from time to time in accordance with official announcements of changes in such rates made by the Federal Housing Administration.

#### **(34) Government Security**

The term "Government security" means a bond, note, bill, debenture or other evidence of indebtedness that is a direct obligation of, or an obligation guaranteed as to principal or interest by, the United States or a corporation in which the United States has a direct or indirect interest (except debt securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association).

#### **(35) Government Security Option (Contract)**

The term "Government security option (contract)" means an option contract on Government securities.

### **(36) Index Multiplier**

The term "index multiplier" as used with reference to an index stock group option contract means the amount specified in the contract by which the current index group 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.

### **(37) Index Stock Group**

The term "index stock group" means either a broad index stock group or an industry index stock group.

### **(38) Index Stock Group Option (Contract)**

The term "index stock group option (contract)" means either a broad index stock group option contract or an industry index stock group option contract.

### **(39) Industry Index Stock Group**

The term "industry index stock 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.

### **(40) Industry Index Stock Group Option (Contract)**

The term "industry index stock group option (contract)" means an option contract on an industry index stock group.

### **(41) Kind of Option**

The term "kind of option" means either a stock option contract, a Government security option contract, a broad index stock group option contract, an industry index stock group option contract or a GNMA option contract.

### **(42) Long Calendar Butterfly Spread**

The term "long calendar butterfly spread" means an aggregation of positions in three series of either puts or calls, structured as two short options with the same exercise price, offset by a long option with a lower exercise price and a long option with a higher exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a long calendar butterfly spread cannot be composed of cash-settled, European-style index options. This strategy can also be considered a combination of one long calendar spread and one long butterfly spread, as defined in this rule.

### **(43) Long Calendar Condor Spread**

The term "long calendar condor spread" means an aggregation of positions in four series of either puts or calls, structured as a long option with the lowest exercise price, two short options with the next two consecutively higher exercise prices and a long option with the highest exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a long calendar condor spread cannot be composed of cash-settled, European-style index options. This strategy can also be considered a combination of one long calendar spread and two long butterfly spreads, as defined in this rule.

### **(44) Long Condor Spread**

The term "long condor spread" means an aggregation of positions in four series of either puts or calls, structured as a long option with the lowest exercise price, two short options with the next two consecutively higher exercise prices and a long option with the highest exercise price, all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, and the exercise prices are in consecutive order. This strategy can also be considered a combination of two long butterfly spreads, as defined in this rule.

### **(45) Long Position**

The term "long position" means the number of outstanding option contracts of a given series of options held by a person (purchaser).

### **(46) Nominal Principal Amount**

The term "nominal principal amount" as used with reference to a GNMA option means the remaining unpaid principal balance of GNMA's required to be delivered to the holder of a call or by the holder of a put upon exercise of an option without regard to any variance in the remaining unpaid principal balance permitted to be delivered upon such exercise and shall be

\$100,000 in the case of a single call or put.

**(47) Opening Purchase Transaction**

The term "opening purchase transaction" means an option transaction in which the purchaser's intention is to create or increase a long position in the series of options involved in such transaction.

**(48) Opening Writing Transaction**

The term "opening writing transaction" means an option transaction in which the seller's (writer's) intention is to create or increase a short position in the series of options involved in such transaction.

**(49) Option (Contract)**

The term "option (contract)" means a put or a call issued, or subject to issuance, by The Options Clearing Corporation pursuant to the rules of The Options Clearing Corporation.

**(50) Option Transaction**

The term "option transaction" means a transaction for the purchase or sale of an option contract, or for the closing out of a long or short position in an option contract.

**(51) Options Trading**

The term "options trading" means trading in any option issued by The Options Clearing Corporation, whether or not of a type, class or series that has been approved for trading on a national securities exchange.

**(52) Outstanding**

The term "outstanding" in respect of an option contract means an option contract which has been issued by The Options Clearing Corporation and has neither been the subject of a closing sale transaction on or through the facilities of, or otherwise subject to the rules of, a Participating Exchange or Association nor been exercised nor reached its expiration date.

**(53) Participating Exchange (Association)**

The term "Participating Exchange (Association)" means a national securities exchange (association) which has qualified for participation in The Options Clearing Corporation.

**(54) Primary Market**

The term "primary market" means (A) in respect of an underlying security that is principally traded on a national securities exchange, the principal exchange market in which the underlying security is traded and (B) in respect of an underlying security that is principally traded in the over-the-counter market, the market reflected by any widely recognized quotation dissemination system or service .

**(55) Public Customer of a Member Organization**

The term "public customer of a member organization" means a customer that is not a broker or a dealer.

**(56) Put**

The term "put" means an option contract under which the holder has the right, in accordance with the terms of the option, to sell to The Options Clearing Corporation:

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

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

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

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

**(57) Qualifying Rate**

The term "qualifying rate" as used with reference to a GNMA option means any rate of interest equal to or less than the GNMA production rate, provided that:

(A) in the event of any increase in the GNMA production rate, a GNMA issued prior to the date of any such change bearing a stated rate of interest equal to any such increased GNMA production rate (or any lower rate of interest which was not a qualifying rate on the day prior to that date) shall be deemed not to bear a qualifying rate until the expiration of 45 days from the date of such increase or until after the settlement date for options on GNMA's following the next expiration date for any series of such options, whichever shall last occur unless such GNMA bears a stated rate of interest deemed to constitute a qualifying rate in accordance with subparagraph (B) below; and

(B) in the event of any decrease in the GNMA production rate, a GNMA bearing a stated rate of interest which was equal to the GNMA production rate (or any lower rate of interest which is not otherwise a qualifying rate) on the day prior to the date of any such decrease shall be deemed to continue to bear a qualifying rate for a period of 45 days from the date of such decrease or until the settlement date for options on GNMA's following the next expiration date for any series of such options, whichever shall last occur.

#### **(58) Registered Clearing Agency**

The term "registered clearing agency" shall mean a clearing agency as defined in Section (3)(a)(23) of the Act that is registered with the Commission pursuant to Section 17A(b)(2) of the Act.

#### **(59) Registered Options Principal**

The term "Registered Options Principal" means a person who has qualified as a "Registered Options Principal."

#### **(60) Registered Options Representative**

The term "Registered Options Representative" means a registered representative who has qualified as a "Registered Options Representative."

#### **(61) Related Security**

The term "related security" means:

(A) as used with reference to a Government security option, (i) all securities underlying Government security options, (ii) futures contracts on such underlying security, and (iii) all options on such futures contracts;

(B) as used with reference to a stock option, the underlying stock; and

(C) as used with reference to an index stock group option, (i) all futures contracts on the underlying stock group or on any substantially identical index stock group, all options contracts on any substantially identical index stock group, and all options on such futures contracts, and (ii) also, in the case of an industry index stock group option only, all underlying stocks accounting for five percent or more of the current index group value of the underlying industry index stock group and all individual stock options on such underlying stocks.

#### **(62) Rules of The Options Clearing Corporation**

The term "rules of The Options Clearing Corporation" means the by-laws and the rules of The Options Clearing Corporation and all written interpretations thereof, as the same may be in effect from time to time.

#### **(63) Series (of Options)**

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.

#### **(64) Shares**

The term "shares" means the basic unit of issue of a stock.

#### **(65) Short Calendar Iron Butterfly Spread**

The term "short calendar iron butterfly spread" means an aggregation of positions in two series of puts and two series of calls, structured as a short put and a short call with the same exercise price, offset by a long put with a lower exercise price and a long call with a higher exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a short calendar iron butterfly spread cannot be composed of cash-settled, European-style index options. This strategy can also be considered a combination of one long calendar spread, one long butterfly spread, and one short box spread, as defined in this rule.

#### **(66) Short Calendar Iron Condor Spread**

The term "short calendar iron condor spread" means an aggregation of positions in two series of puts and two series of calls, structured as a long put with the lowest exercise price, a short put and a short call with the next two consecutively higher exercise prices and a long call with the highest exercise price, all of which have the same contract size, underlying component or index, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, the exercise prices are in consecutive order, and one long option expires after the other three options expire concurrently. However, a short calendar iron condor spread cannot be composed of cash-settled, European-style index options. This strategy can also be considered a combination of one long calendar spread, two long butterfly spreads, and one short box spread, as defined in this rule.

#### **(67) Short Iron Butterfly Spread**

The term "short iron butterfly spread" means an aggregation of positions in two series of puts and two series of calls, structured as a short put and a short call with the same exercise price, offset by a long put with a lower exercise price and a long call with a higher exercise price, all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, and the exercise prices are in consecutive order. This strategy can also be considered a combination of one long butterfly spread and one short box spread, as defined in this rule.

#### **(68) Short Iron Condor Spread**

The term "short iron condor spread" means an aggregation of positions in two series of puts and two series of calls, structured as a long put with the lowest exercise price, a short put and a short call with the next two consecutively higher exercise prices, and a long call with the highest exercise price, all of which have the same contract size, underlying component or index and time of expiration, are based on the same aggregate current underlying value, where the interval between the exercise price of each series is equal, and the exercise prices are in consecutive order. This strategy can also be considered a combination of two long butterfly spreads and one short box spread, as defined in this rule.

#### **(69) Short Position**

The term "short position" means the number of outstanding option contracts of a given series of options with respect to which a person is obligated as a writer (seller).

#### **(70) Stock**

The term "stock" shall be broadly interpreted to mean any equity security, as defined in Section 3(a)(11) of the Act, and SEC Rule 3a11-1 under the Act, that confers directly on the holder a present equity ownership or participation interest in an enterprise.

#### **(71) Stock Option (Contract)**

The term "stock option (contract)" means an option contract on a single stock.

#### **(72) Stock Index Warrant**

The term "stock index warrant" shall mean a put or call warrant that overlies a broad index stock group or an industry index stock group.

#### **(73) Stock-Related Option (Contract)**

The term "stock-related option (contract)" means either a stock option contract, a broad industry index stock group option contract or any industry index stock group option contract.

#### **(74) The Options Clearing Corporation**

The term "The Options Clearing Corporation" means The Options Clearing Corporation, a subsidiary of the Participating Exchanges and Association.

**(75) Treasury Bill**

The term "Treasury bill" means a Government security sold by the U.S. Treasury Department at a discount from principal amount, bearing no interest and normally having a term to maturity of not more than one year at the time of original issue.

**(76) Treasury Bond**

The term "Treasury bond" means a Government security sold by the U.S. Treasury that has been designated by the U.S. Treasury Department with reference to its term to maturity as a "bond" (normally confined to Treasury securities with a term to maturity of more than ten years at the time of original issue).

**(77) Treasury Note**

The term "Treasury note" means a Government security sold by the U.S. Treasury Department that has been designated by the U.S. Treasury Department with reference to its term to maturity as a "note" (normally confined to Treasury securities with a term to maturity of more than one year but not more than ten years at the time of original issue).

**(78) Type of Option**

The term "type of option" means the classification of an option contract as either a put or a call.

**(79) Uncovered**

The term "uncovered" in respect of a short position in an option contract means that the short position is not covered.

**(80) Underlying Component**

The term "underlying component" shall mean in the case of stock, the equivalent number of share: industry and broad index stock groups, the current 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 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 issues multiplied by ten.

**(81) Underlying GNMA**

The term "underlying GNMA" means an underlying security that is a GNMA.

**(82) Underlying Government Security**

The term "underlying Government security" means an underlying security that is a Government security.

**(83) Underlying (Index) Stock Group**

The term "underlying (index) stock group" as used with reference to an index stock group option contract means the index stock group, a multiple of the current index group value at which The Options Clearing Corporation is obligated to sell (in the case of a call) or purchase (in the case of a put) upon valid exercise of the contract.

**(84) Underlying Security**

The term "underlying security" means:

(A) as used with reference to an option contract other than an index stock group option contract, the security which The Options Clearing Corporation is obligated to sell (in the case of a call) or purchase (in the case of a put) upon valid exercise of the contract; and

(B) as used with reference to an index stock group option contract, any of the stocks included in the underlying index stock group.

**(85) Underlying Stock**

The term "underlying stock" means an underlying security that is a stock.

Amended by SR-NASD-2005-087 eff. Aug. 1, 2006.  
Amended by SR-NASD-2006-045 eff. April 3, 2006.  
Amended by SR-NASD-2000-15 eff. Feb. 26, 2001.

Amended by SR-NASD-97-14 eff. June 10, 1997.  
Amended by SR-NASD-95-37 eff. Sept. 28, 1995.  
Amended by SR-NASD-93-48 eff. Mar. 8, 1994.  
Amended eff. Apr. 19, 1993.  
Added eff. Feb. 15, 1974.

**Selected Notices:** [88-26](#), [93-15](#), [94-24](#), [94-70](#), [95-82](#), [01-11](#), [06-26](#).