

4110. Capital Compliance

The Rule

Notices

(a) When necessary for the protection of investors or in the public interest, FINRA may, at any time or from time to time with respect to a particular carrying or clearing member or all carrying or clearing members, pursuant to authority exercised by FINRA's Executive Vice President charged with oversight for financial responsibility, or his or her written officer delegate, prescribe greater net capital or net worth requirements than those otherwise applicable, including more stringent treatment of items in computing net capital or net worth, or require such member to restore or increase its net capital or net worth. In any such instance, FINRA shall issue a notice pursuant to Rule 9557.

(b)(1) Unless otherwise permitted by FINRA, a member shall suspend all business operations during any period in which it is not in compliance with applicable net capital requirements set forth in SEA Rule 15c3-1.

(2) FINRA may issue a notice pursuant to Rule 9557 directing a member that is not in compliance with applicable net capital requirements set forth in SEA Rule 15c3-1 to suspend all or a portion of its business.

(c)(1) No equity capital of a member may be withdrawn for a period of one year from the date such equity capital is contributed, unless otherwise permitted by FINRA in writing. Subject to the requirements of paragraph (c)(2) of this Rule, this paragraph shall not preclude a member from withdrawing profits earned.

(2) A carrying or clearing member shall not, without the prior written approval of FINRA, withdraw capital, pay a dividend or effect a similar distribution that would reduce such member's equity, or make any unsecured advance or loan to a stockholder, partner, sole proprietor, employee or affiliate, where such withdrawals, payments, reductions, advances or loans in the aggregate, in any 35 rolling calendar day period, on a net basis, exceeds 10% of its excess net capital.

(d) Sale-And-Leasebacks, Factoring, Financing, Loans and Similar Arrangements

(1)(A) No carrying or clearing member shall consummate a sale-and-leaseback arrangement with respect to any of its assets, or a sale, factoring, or financing arrangement with respect to any unsecured accounts receivable, where any such arrangement would increase the member's tentative net capital by 10% or more, without the prior written authorization of FINRA.

(B) No carrying member shall consummate any arrangement concerning the sale or factoring of customer debit balances, irrespective of amount, without the prior written

(2) Any loan agreement entered into by a carrying or clearing member, the proceeds of which exceed 10% of such member's tentative net capital and which is intended to reduce the deduction in computing net capital for fixed assets and other assets which cannot be readily converted into cash under SEA Rule 15c3-1(c)(2)(iv), must be submitted to and be acceptable to FINRA, prior to such reduction becoming effective.

(3) Members subject to paragraphs (d)(1)(A), (d)(1)(B) or (d)(2), shall not consummate any arrangement pursuant to such paragraph(s) if the aggregate of all such arrangements outstanding would exceed 20% of such member's tentative net capital, without the prior written authorization of FINRA.

(4) Any agreement relating to a determination of a "ready market" for securities based upon the securities being accepted as collateral for a loan by a bank under SEA Rule 15c3-1(c)(11)(ii), must be submitted to and be acceptable to FINRA before the securities may be deemed to have a "ready market."

(e) Subordinated Loans, Notes Collateralized by Securities and Capital Borrowings

(1) All subordinated loans or notes collateralized by securities shall meet such standards as FINRA may require to ensure the continued financial stability and operational capability of the member, in addition to those specified in Appendix D of SEA Rule 15c3-1.

(2) Unless otherwise permitted by FINRA, each member partnership whose general partner enters into any secured or unsecured borrowing, the proceeds of which will be contributed to the capital of the member, shall submit the following for approval in order for such proceeds to qualify as capital acceptable for inclusion in the computation of the net capital of the member:

A signed copy of the loan agreement which must:

(A) have at least a 12 month duration; and

(B) provide non-recourse to the assets of the member.

Additional documents may be required, the nature of which will vary, depending upon the legal status of the lender e.g. an individual, bank, estate, trust, corporation, partnership, etc.

••• **Supplementary Material:** -----

.01 Compliance with Applicable Law. For purposes of paragraph (e)(1), the member shall assure itself that any applicable provisions of the Securities Act and/or State Blue Sky laws have been

satisfied and may be required to submit evidence thereof to FINRA prior to approval of the subordinated loan agreement.

.02 Members Operating Pursuant to the Exemptive Provisions of SEA Rule 15c3-3(k)(2)(i). For purposes of this Rule, all requirements that apply to a member that clears or carries customer accounts shall also apply to any member that, operating pursuant to the exemptive provisions of SEA Rule 15c3-3(k)(2)(i), either clears customer transactions pursuant to such exemptive provisions or holds customer funds in a bank account established thereunder.

Amended by SR-FINRA-2010-002 eff. Feb. 8, 2010.

Adopted by SR-FINRA-2008-067 eff. Feb. 8, 2010.

Selected Notice: 09-71.

4111. Restricted Firm Obligations

(a) General

A member designated as a Restricted Firm shall be required, except as provided in paragraphs (e) and (f) of this Rule, to establish a Restricted Deposit Account and deposit in that account cash or qualified securities with an aggregate value that is not less than the member's Restricted Deposit Requirement, and shall be subject to such conditions or restrictions on the member's operations as determined by the Department to be necessary or appropriate for the protection of investors and in the public interest.

(b) Annual Calculation by FINRA of Preliminary Criteria for Identification

For each member, the Department will compute annually the Preliminary Identification Metrics to determine if the member meets the Preliminary Criteria for Identification.

(c) Initial Department Evaluation and One-Time Staff Reduction

(1) Initial Department Evaluation

If the member is deemed to meet the Preliminary Criteria for Identification, the Department shall conduct an internal evaluation to determine whether (A) the member does not warrant further review under this Rule because the Department has information to conclude that the computation of the member's Preliminary Identification Metrics included disclosure events (and other conditions) that should not have been included because they are not consistent with the purpose of the Preliminary Criteria for Identification and are not reflective of a firm posing a high degree of risk. The Department shall also consider whether the member has addressed the concerns signaled by the disclosure events or conditions or altered its business operations such that the Preliminary Criteria for Identification calculation no longer reflects the member's current risk profile, or (B) except as provided in paragraph (c)(2) of this Rule, the member should proceed to a Consultation.

(2) One-Time Staff Reduction

If the Department determines that the member meets the Preliminary Criteria for Identification and such member has met such criteria for the first time, such member may reduce its staffing levels to no longer meet the Preliminary Criteria for Identification within 30 business days after being informed by the Department. The member shall provide evidence of the staff reduction to the Department identifying the terminated individuals. Once the member has reduced staffing levels to no longer meet the Preliminary Criteria for Identification, it shall not rehire in any capacity a person terminated to accomplish the staff reduction for a period of one year.

(3) Close-Out Review

If the Department determines that the member no longer warrants further review in accordance with paragraph (c)(1)(A) or (c)(2) of this Rule, the Department shall close out the review of the

member for such year.

(d) Consultation

(1) General

If the Department determines that the member meets the Preliminary Criteria for Identification and should proceed to a Consultation, the Department shall conduct the Consultation to allow the member to demonstrate why it does not meet the Preliminary Criteria for Identification and should not be designated as a Restricted Firm. If the member is designated as a Restricted Firm, the Department may require it to be subject to a Restricted Deposit Requirement or to such conditions or restrictions as the Department in its discretion shall deem necessary or appropriate for the protection of investors or in the public interest, or both. The member bears the burden of demonstrating that it should not be designated as a Restricted Firm and should not be subject to the maximum Restricted Deposit Requirement.

(A) A member may overcome the presumption that it should be designated as a Restricted Firm by clearly demonstrating that the Department's calculation that the member meets the Preliminary Criteria for Identification included events in the Disclosure Event and Expelled Firm Association Categories that should not have been included because for example, they are duplicative, involving the same customer and the same matter, or are not sales practice related; and

(B) A member may overcome the presumption that it should be subject to the maximum Restricted Deposit Requirement by clearly demonstrating to the Department that the member would face significant undue financial hardship if it were subject to the maximum Restricted Deposit Requirement and that a lesser deposit requirement would satisfy the objectives of this Rule and be consistent with the protection of investors and the public interest; or that conditions and restrictions on the operations and activities of the member and its associated persons would address the concerns indicated by the Preliminary Criteria for Identification and protect investors and the public interest.

(2) Scheduling Consultation

The Department shall provide a written letter to each member it determines should proceed to a Consultation or that will proceed to a Consultation pursuant to paragraph (f)(2) of this Rule at least seven days prior to the Consultation, of the date, time and place of the Consultation and shall coordinate with the member to schedule further meetings as necessary. A Consultation shall begin at the time scheduled, unless the Department, for good cause shown by the member, provides a written letter that postpones the commencement of the Consultation. Postponements shall not exceed 30 days unless the member establishes the reasons a longer postponement is necessary.

(3) Consultation Process

In conducting its evaluation of whether a member should be designated as a Restricted Firm and subject to a Restricted Deposit Requirement, the Department shall consider:

- (A) information provided by the member during any meetings as part of the Consultation;
- (B) relevant information or documents, if any, submitted by the member, in the manner and form prescribed by the Department, as shall be necessary or appropriate for the Department to review the computation of the Preliminary Criteria for Identification;
- (C) a plan, if any, submitted by the member, in the manner and form prescribed by the Department, proposing in detail the specific conditions or restrictions that the member seeks to have the Department consider;
- (D) such other information or documents as the Department may reasonably request in its discretion from the member related to the evaluation; and
- (E) any other information the Department deems necessary or appropriate to evaluate the matter.

(e) Department Decision and Notice

(1) Department Decision

No later than 30 days from the Consultation, the Department shall render a Department Decision as follows:

- (A) If the Department determines that the member has rebutted the presumption set forth in paragraph (d)(1)(A) of this Rule that it should be designated as a Restricted Firm, the Department's decision shall state that the firm shall not be designated as a Restricted Firm.
- (B) If the Department determines that the member has failed to rebut the presumption set forth in paragraphs (d)(1)(A) and (d)(1)(B) of this Rule that it should be designated as a Restricted Firm that shall be subject to the maximum Restricted Deposit Requirement, the Department's decision shall designate the member as a Restricted Firm and require the member to: (i) promptly establish a Restricted Deposit Account and deposit in that account the maximum Restricted Deposit Requirement; and (ii) implement and maintain specified conditions or restrictions, as the Department deems necessary or appropriate, on the operations and activities of the member and its associated persons to address the concerns indicated by the Preliminary Criteria for Identification and protect investors and the public interest.
- (C) If the Department determines that the member has failed to rebut the presumption in paragraph (d)(1)(A) of this Rule that it should be designated as a Restricted Firm but that it has rebutted the presumption in paragraph (d)(1)(B) of this Rule that it shall be subject to the maximum Restricted Deposit Requirement, the Department shall designate the member as a Restricted Firm and shall: (i) impose no Restricted Deposit Requirement on the member or require the member to promptly establish a Restricted Deposit Account and deposit in that

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account a Restricted Deposit Requirement in such dollar amount less than the maximum Restricted Deposit Requirement as the Department deems necessary or appropriate; and (ii) require the member to implement and maintain specified conditions or restrictions, as the Department deems necessary or appropriate, on the operations and activities of the member and its associated persons to address the concerns indicated by the Preliminary Criteria for Identification and protect investors and the public interest.

(2) Notice of Department Decision, No Stays

No later than 30 days following the Consultation, the Department shall issue a notice of the Department's decision pursuant to Rule 9561(a) that states the obligations to be imposed on the member, if any, under this Rule 4111 and the ability of the member under Rule 9561 to request a hearing with the Office of Hearing Officers. A timely request for a hearing shall not stay the effectiveness of the notice issued under Rule 9561(a), except that for a notice under Rule 9561(a) a member subject to a Restricted Deposit Requirement shall be required to deposit in a Restricted Deposit Account the lesser of 25 percent of its Restricted Deposit Requirement or 25 percent of its average excess net capital during the prior calendar year, until the Office of Hearing Officers or the NAC issues a written decision under Rule 9559; provided, however, that a member that has been re-designated as a Restricted Firm as set forth in paragraph (f)(2) of this Rule and is already subject to a previously imposed Restricted Deposit Requirement shall be required to keep in the Restricted Deposit Account the assets then on deposit therein until the Office of Hearing Officers or NAC issues a written decision under Rule 9559.

(f) Continuation or Termination of Restricted Firm Obligations

(1) Currently Designated Restricted Firms

A member or Former Member that is currently designated as a Restricted Firm subject to the requirements of this Rule shall not be permitted to withdraw all or any portion of its Restricted Deposit Requirement, or seek to terminate or modify any deposit requirement, conditions, or restrictions that have been imposed pursuant to this Rule, without the prior written consent of the Department. There shall be a presumption that the Department shall deny an application by a member or Former Member that is currently designated as a Restricted Firm to withdraw all or any portion of its Restricted Deposit Requirement. An application under this paragraph for a withdrawal from a Restricted Deposit Requirement shall comply with the content requirements in paragraph (f)(3)(A)(i) through (iv) of this Rule.

(2) Re-Designation as a Restricted Firm

Where a member has been designated as a Restricted Firm in one year and is determined to meet the Preliminary Criteria for Identification the following year in accordance with paragraph (b) of this Rule, the Department shall provide a written letter to the member stating that it shall be re-designated as a Restricted Firm, and that the obligations previously imposed on the member in accordance with this Rule shall remain effective and unchanged, unless either the member or the

Department requests a Consultation in writing within seven days of the date of the letter, in which case the obligations previously imposed shall remain effective and unchanged unless and until the Department modifies or terminates them after the Consultation. If a Consultation is conducted, there shall be a presumption that the Restricted Deposit Requirement and conditions or restrictions, if any, previously imposed on the member shall remain effective and unchanged absent a showing by the party seeking changes that the previously imposed obligations are no longer necessary or appropriate for the protection of investors or in the public interest. If a Consultation is not timely requested, the member shall be subject to paragraph (f)(1) of this Rule. When FINRA re-designates a member as a Restricted Firm and the member is subject to a Restricted Deposit Requirement, the member shall promptly after such re-designation (or, in the case where a hearing is requested pursuant to Rule 9561, promptly after the Office of Hearing Officers or the NAC issues a written decision under Rule 9559) deposit additional cash or qualified securities in the member's Restricted Deposit Account to the extent necessary to cause the aggregate value of the cash and qualified securities in the member's Restricted Deposit Account to be not less than its re-designated Restricted Deposit Requirement.

(3) Previously Designated Restricted Firms

(A) A member or Former Member that is a Restricted Firm in one year, but does not meet the Preliminary Criteria for Identification or is not designated as a Restricted Firm the following year(s), shall no longer be subject to any deposit requirement, conditions, or restrictions previously imposed on it under this Rule; provided, however, the member or Former Member shall not be permitted to withdraw any portion of its Restricted Deposit Requirement without submitting an application and obtaining the prior written consent of the Department. Such application shall:

(i) be made in such form and manner as FINRA may prescribe;

(ii) be accompanied by a copy of a current account statement for the member or Former Member's Restricted Deposit Account;

(iii) include a certification by the member's or Former Member's chief executive officer (or equivalent officer) stating the member's or Former Member's Restricted Deposit Requirement; the value of the cash or qualified securities on deposit in the member's or Former Member's Restricted Deposit Account; the value of cash or qualified securities on deposit in the member's or Former Member's Restricted Deposit Account that the member or Former Member is seeking the Department's consent to withdraw; and

(iv) include evidence that there are no "Covered Pending Arbitration Claims," unpaid arbitration awards or unpaid settlements relating to arbitrations outstanding against the member, the member's associated persons or the Former Member, or if there are any "Covered Pending Arbitration Claims," unpaid arbitration awards or unpaid settlements relating to arbitrations outstanding, provide a detailed description of such.

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(B) After such review and investigation as it considers necessary or appropriate, the Department shall determine whether to authorize a withdrawal, in part or whole, of cash or qualified securities from the member's or Former Member's Restricted Deposit Account. There shall be presumptions that the Department shall: (i) approve an application for withdrawal if the member, the member's associated persons, or the Former Member have no "Covered Pending Arbitration Claims," unpaid arbitration awards or unpaid settlements relating to arbitrations outstanding; and (ii) (a) deny an application for withdrawal if the member, the member's associated persons who are owners or control persons, or the Former Member have any "Covered Pending Arbitration Claims," unpaid arbitration awards or unpaid settlements relating to arbitrations outstanding, or if the member's associated persons have any "Covered Pending Arbitration Claims," unpaid arbitration awards or unpaid settlements relating to arbitrations outstanding that involved conduct or alleged conduct that occurred while associated with the member; but (b) approve an application by a Former Member for withdrawal if the Former Member commits in the manner specified by the Department to use the amount it seeks to withdraw from its Restricted Deposit to pay the Former Member's specified unpaid arbitration awards or unpaid settlements relating to arbitrations outstanding. Within 30 days from the date the application is received by the Department, the Department shall issue a notice of the Department's decision pursuant to Rule 9561(a).

(g) Books and Records

Each member shall maintain records evidencing the member's compliance with this Rule and any Restricted Deposit Requirement or conditions or restrictions imposed in accordance with this Rule, including without limitation, records relating to the calculation of the Preliminary Criteria for Identification, Consultation, the Restricted Deposit Account, conditions or restrictions imposed, and agreements with bank(s) or clearing firm(s), for a period of six years from the date the member is no longer subject to the requirements of this Rule. In addition, a firm that is subject to a Restricted Deposit Requirement shall provide to the Department, upon its request, records, agreements and account statements that demonstrate the firm's compliance with the Restricted Deposit Requirement.

(h) Notice of Failure to Comply

Pursuant to the procedure set forth in Rule 9561(b), FINRA may issue a suspension or cancellation notice to a member that is not in compliance with a Restricted Deposit Requirement or conditions or restrictions imposed by this Rule, stating that the failure to comply within seven days of service of the notice will result in a suspension or cancellation of membership.

(i) Definitions

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

(1) The term "Consultation" means one or more meetings or consultations between the Department and a member that meets the Preliminary Criteria for Identification.

(2) The term "Covered Pending Arbitration Claim," for purposes of this Rule 4111, means an investment-related, consumer initiated claim filed against the member or its associated persons in any arbitration forum that is unresolved; and whose claim amount (individually or, if there is more than one claim, in the aggregate) exceeds the member's excess net capital. For purposes of this definition, the claim amount includes claimed compensatory loss amounts only, not requests for pain and suffering, punitive damages or attorney's fees, and shall be the maximum amount for which the member or associated person, as applicable, is potentially liable regardless of whether the claim was brought against additional persons or the associated person reasonably expects to be indemnified, share liability or otherwise lawfully avoid being held responsible for all or part of such maximum amount.

(3) The term "Department" means FINRA's Department of Member Regulation.

(4) The term "Disclosure Event and Expelled Firm Association Categories" means the following categories of disclosure events and other information:

(A) "Registered Person Adjudicated Events" means any one of the following events that are reportable on the registered person's Uniform Registration Forms:

(i) a final investment-related, consumer-initiated customer arbitration award or civil judgment against the registered person in which the registered person was a named party or was a "subject of" the customer arbitration award or civil judgment;

(ii) a final investment-related, consumer-initiated customer arbitration settlement, civil litigation settlement or a settlement prior to a customer arbitration or civil litigation for a dollar amount at or above \$15,000 in which the registered person was a named party or was a "subject of" the customer arbitration settlement, civil litigation settlement or a settlement prior to a customer arbitration or civil litigation;

(iii) a final investment-related civil judicial matter that resulted in a finding, sanction or order;

(iv) a final regulatory action that resulted in a finding, sanction or order, and was brought by the SEC or Commodity Futures Trading Commission (CFTC), other federal regulatory agency, a state regulatory agency, a foreign financial regulatory authority, or a self-regulatory organization; or

(v) a criminal matter in which the registered person was convicted of or pled guilty or nolo contendere (no contest) in a domestic, foreign, or military court to any felony or any reportable misdemeanor.

(B) "Registered Person Pending Events" means any one of the following events associated with the registered person that are reportable on the registered person's Uniform Registration Forms:

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- (i) a pending investment-related civil judicial matter;
- (ii) a pending investigation by a regulatory authority;
- (iii) a pending regulatory action that was brought by the SEC or CFTC, other federal regulatory agency, a state regulatory agency, a foreign financial regulatory authority, or a self-regulatory organization; or
- (iv) a pending criminal charge associated with any felony or any reportable misdemeanor.

(C) "Registered Person Termination and Internal Review Events" means any one of the following events associated with the registered person at a previous member that are reportable on the registered person's Uniform Registration Forms:

- (i) a termination in which the registered person voluntarily resigned, was discharged or was permitted to resign from a previous member after allegations; or
- (ii) a pending or closed internal review by a previous member.

(D) "Member Firm Adjudicated Events" means any one of the following events that are reportable on the member's Uniform Registration Forms, or are based on customer arbitrations filed with FINRA's dispute resolution forum:

- (i) a final investment-related, consumer-initiated customer arbitration award in which the member was a named party;
- (ii) a final investment-related civil judicial matter that resulted in a finding, sanction or order;
- (iii) a final regulatory action that resulted in a finding, sanction or order, and was brought by the SEC or CFTC, other federal regulatory agency, a state regulatory agency, a foreign financial regulatory authority, or a self-regulatory organization; or
- (iv) a criminal matter in which the member was convicted of or pled guilty or nolo contendere (no contest) in a domestic, foreign, or military court to any felony or any reportable misdemeanor.

(E) "Member Firm Pending Events" means any one of the following events that are reportable on the member's Uniform Registration Forms:

- (i) a pending investment-related civil judicial matter;
- (ii) a pending regulatory action that was brought by the SEC or CFTC, other federal regulatory agency, a state regulatory agency, a foreign financial regulatory authority, or a self-regulatory organization; or

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(iii) a pending criminal charge associated with any felony or any reportable misdemeanor.

(F) "Registered Persons Associated with Previously Expelled Firms" means any Registered Person In-Scope who was registered for at least one year with a previously expelled firm and whose registration with the previously expelled firm terminated during the Evaluation Period.

(5) The term "Evaluation Date" means the date, each calendar year, as of which the Department calculates the Preliminary Identification Metrics to determine if the member meets the Preliminary Criteria for Identification.

(6) The term "Evaluation Period" means the prior five years from the Evaluation Date, provided that for the Registered Person Pending Events and Member Firm Pending Events categories and pending internal reviews in the Registered Person Termination and Internal Review Events category, it would correspond to the Evaluation Date (and include all events that are pending as of the Evaluation Date).

(7) The term "Former Member" means an entity that has withdrawn or resigned its FINRA membership, or that has had its membership cancelled or revoked.

(8) The term "qualified security" has the meaning given it in SEA Rule 15c3-3(a)(6).

(9) The term "Preliminary Criteria for Identification" means meeting the following conditions:

(A) Two or more of the member's Preliminary Identification Metrics are equal to or more than the corresponding Preliminary Identification Metrics Thresholds, and at least one of these metrics is among the following metrics:

(i) Registered Person Adjudicated Event Metric;

(ii) Member Firm Adjudicated Event Metric; and

(iii) Expelled Firm Association Metric; and

(B) The member has two or more Registered Person and Member Firm Events during the Evaluation Period.

(10) The term "Preliminary Identification Metrics" means the following six metrics that are based on the number of disclosure events (defined above) per Registered Persons In-Scope or percent of Registered Persons In-Scope associated with previously expelled firms:

(A) "Registered Person Adjudicated Event Metric" would be computed as the sum of Registered Person Adjudicated Events that reached a resolution during the Evaluation Period, across all Registered Persons In-Scope and divided by the number of Registered Persons In-Scope.

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(B) "Registered Person Pending Event Metric" would be computed as the sum of Registered Person Pending Events as of the Evaluation Date, across all Registered Persons In-Scope and divided by the number of Registered Persons In-Scope.

(C) "Registered Person Termination and Internal Review Event Metric" would be computed as the sum of Registered Person Termination and Internal Review Events that reached a resolution during the Evaluation Period and pending internal reviews by a previous member as of the Evaluation Date, across all Registered Persons In-Scope and divided by the number of Registered Persons In-Scope.

(D) "Member Firm Adjudicated Event Metric" would be computed as the sum of Member Firm Adjudicated Events that reached a resolution during the Evaluation Period, divided by the number of Registered Persons In-Scope.

(E) "Member Firm Pending Event Metric" would be computed as the sum of Member Firm Pending Events as of the Evaluation Date, divided by the number of Registered Persons In-Scope.

(F) "Expelled Firm Association Metric" would be computed as the sum of Registered Persons Associated with Previously Expelled Firms, divided by the number of Registered Persons In-Scope.

(11) The term "Preliminary Identification Metrics Thresholds" means the following thresholds corresponding to each of the six Preliminary Identification Metrics.

		Preliminary Identification Metrics Thresholds					
Firm Size Category	Number of Registered Persons In-Scope in Firm Size Category	Thresholds for Registered Person Event Metrics:			Thresholds for Member Firm Event Metrics:		Threshold for Expelled Firm Association Metric:
		Registered Person Adjudicated Event Metric	Registered Person Pending Event Metric	Registered Person Termination and Internal Review Event Metric	Member Firm Adjudicated Event Metric	Member Firm Pending Event Metric	Expelled Firm Association Metric
		(1)	(2)	(3)	(4)	(5)	(6)
1	1-4	0.50	0.20	0.10	0.75	0.25	0.30
2	5-9	0.30	0.20	0.10	0.30	0.10	0.25
3	10-19	0.20	0.10	0.10	0.30	0.05	0.20
4	20-50	0.20	0.10	0.10	0.20	0.02	0.15
5	51-150	0.20	0.05	0.10	0.15	0.01	0.03
6	151-409	0.15	0.05	0.10	0.10	0.01	0.01
7	500+	0.10	0.05	0.10	0.05	0.01	0.01

(12) The term "Registered Person and Member Firm Events" means the sum of the following categories of defined events during the Evaluation Period:

- (A) Registered Person Adjudicated Events;
- (B) Registered Person Pending Events;
- (C) Registered Person Termination and Internal Review Events;
- (D) Member Firm Adjudicated Events; and
- (E) Member Firm Pending Events.

(13) The term "Registered Persons In-Scope" means all persons registered with the firm for one or more days within the one year prior to the Evaluation Date.

(14) The term "Restricted Deposit Account" means an account in the name of the member:

(A) at a bank (as defined in Section 3(a)(6) of the Exchange Act) or the member's clearing firm;

(B) subject to an agreement in which the bank or the member's clearing firm, as applicable, agrees:

(i) not to permit withdrawals (other than withdrawals of interest or the withdrawal of qualified securities or cash after and on the same day as the deposit of cash or qualified securities of equal value) from the Restricted Deposit Account without the prior written consent of FINRA;

(ii) to keep the account separate from any other accounts maintained by the member with the bank or clearing firm;

(iii) that the cash or securities on deposit in the account will at no time be used directly or indirectly as security for a loan to the member by the bank or clearing firm and will not be subject to any set-off, right, charge, security interest, lien, or claim of any kind in favor of the bank, clearing firm or any person claiming through the bank or clearing firm;

(iv) that if the member becomes a Former Member, the assets deposited in the Restricted Deposit Account to satisfy the Restricted Deposit Requirement shall be kept in the Restricted Deposit Account, and the bank or clearing firm will not permit withdrawals from the Restricted Deposit Account without the prior written consent of FINRA as set forth in paragraphs (f)(1) and (f)(3) of this Rule; and

(v) that FINRA is a third-party beneficiary to such agreement and that such agreement may not be amended without the prior written consent of FINRA; and

(C) not subject to any right, charge, security interest, lien or claim of any kind granted by the member.

(15) The term "Restricted Deposit Requirement" means one of the following amounts:

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(A) the specific maximum Restricted Deposit Requirement for a member, determined by the Department taking into consideration the nature of the firm's operations and activities, revenues, commissions, assets, liabilities, expenses, net capital, the number of offices and registered persons, the nature of the disclosure events counted in the numeric thresholds, insurance coverage for customer arbitration awards or settlements, concerns raised during FINRA exams, and the amount of any of the firm's or its associated persons' Covered Pending Arbitration Claims, unpaid arbitration awards or unpaid settlements related to arbitrations. Based on a review of these factors, the Department would determine a maximum Restricted Deposit Requirement for the member that would be consistent with the objectives of this Rule, but would not significantly undermine the continued financial stability and operational capability of the firm as an ongoing enterprise over the next 12 months; or

(B) the amount, adjusted after the Consultation, determined by the Department; and

(C) with respect to a Former Member, the Restricted Deposit Requirement last calculated pursuant to paragraph (i)(15)(A) or (15)(B) of this Rule when the firm was a member.

(16) The term "Restricted Firm" means each member that is designated as such in accordance with paragraphs (e)(1)(B) and (e)(1)(C) of this Rule.

(17) The term "Uniform Registration Forms" means the Forms BD, U4, U5 and U6, as applicable.

• • • **Supplementary Material:** -----

.01 Net Capital Treatment of the Deposits in the Restricted Deposit Account. Because of the restrictions on withdrawals from a Restricted Deposit Account, deposits in such an account cannot be readily converted into cash and therefore shall be deducted in determining the member's net capital under SEA Rule 15c3-1 and FINRA Rule 4110.

.02 Compliance with Rule 1017. Nothing in this Rule shall be construed as altering in any manner a member's obligations under Rule 1017.

.03 Examples of Conditions and Restrictions. For purposes of this Rule, the conditions or restrictions that the Department may impose include, but are not limited to, the following:

- (a) limitations on business expansions, mergers, consolidations or changes in control;
- (b) filing all advertising with FINRA's Department of Advertising Regulation;
- (c) imposing requirements on establishing and supervising offices;
- (d) requiring a compliance audit by a qualified, independent third party;
- (e) limiting business lines or product types offered;

(f) limiting the opening of new customer accounts;

(g) limiting approvals of registered persons entering into borrowing or lending arrangements with their customers;

(h) requiring the member to impose specific conditions or limitations on, or to prohibit, registered persons' outside business activities of which the member has received notice pursuant to Rule 3270; and

(i) requiring the member to prohibit or, as part of its supervision of approved private securities transactions for compensation under Rule 3280 or otherwise, impose specific conditions on associated persons' participation in private securities transactions of which the member has received notice pursuant to Rule 3280.

Amended by by SR-FINRA-2022-014 eff. May 26, 2022.

Adopted by by SR-FINRA-2020-041 eff. Jan. 1, 2022.

Selected Notice: [21-34](#).

4120. Regulatory Notification and Business Curtailment

The Rule

Notices

(a) Notification

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

(A) the member's net capital is less than 150 percent of its minimum dollar net capital requirement or such greater percentage thereof as may from time to time be designated by FINRA;

(B) the member is subject to the aggregate indebtedness requirement of SEA Rule 15c3-1, and its aggregate indebtedness is more than 1,000 percent of its net capital;

(C) the member elects to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1(a)(1)(ii), and its net capital is less than the level specified in SEA Rule 17a-11(b)(2);

(D) the member is approved to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1e, and

(i) its tentative net capital as defined in SEA Rule 15c3-1(c)(15) is less than 150 percent of the minimum tentative net capital amount required by SEA Rule 15c3-1(a)(7)(i)(A),

(ii) the member is subject to the aggregate indebtedness requirement of SEA Rule 15c3-1, and its net capital is less than the sum of 1/10th of its aggregate indebtedness and 150 percent of the amount required under SEA Rule 15c3-1(a)(7)(i)(A)(1), (2), or (3), or

(iii) the member elects to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1(a)(1)(ii), and its net capital is less than the sum of the level specified in SEA Rule 17a-11(b)(2) and 150 percent of the amount required under SEA Rule 15c3-1(a)(7)(i)(A)(1), (2), or (3);

(E) the member is registered as a security-based swap dealer operating pursuant to SEA Rule 15c3-1(a)(10), and

(i) the member is subject to the aggregate indebtedness requirement of SEA Rule 15c3-1, and its net capital is less than the sum of 1/10th of its aggregate indebtedness and 150 percent of the amount required under SEA Rule 15c3-1(a)(10)(i)(A)(1), (2), or (3), or

(ii) the member elects to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1(a)(1)(ii), and its net capital is less than the sum of the level specified in SEA Rule 17a-11(b)(2) and 150 percent of the amount required under SEA Rule 15c3-1(a)(10)(i)(A)(1), (2), or (3);

(F) the member is registered as a Futures Commission Merchant pursuant to the Commodity Exchange Act, and its net capital is less than 120 percent of the minimum risk-based capital requirements of Commodity Exchange Act Rule 1.17; or

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

(b) Restrictions on Business Expansion

(1) Except as otherwise permitted by FINRA in writing, a member that carries customer accounts or clears transactions shall not expand its business during any period in which any of the conditions described in paragraph (a)(1) of this Rule continue to exist for more than 15 consecutive business days, provided that such condition(s) has been known to FINRA or the member for at least five consecutive business days. FINRA may issue a notice pursuant to [Rule 9557](#) directing any such member not to expand its business; however, FINRA's authority to issue such notice does not negate the member's obligation not to expand its business in accordance with this paragraph (b)(1).

(2) No member may expand its business during any period in which FINRA restricts the member from expanding its business for any financial or operational reason. In any such instance, FINRA shall issue a notice pursuant to [Rule 9557](#).

(3) For purposes of paragraph (b) of this Rule, the term "expansion of business" may include:

(A) net increase in the number of registered representatives or other producing personnel;

(B) exceeding average capital commitments over the previous three months for market making or block positioning;

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(C) initiation of market making in new securities or any new proprietary trading or other commitment in securities or commodities in which a market is not made (other than riskless trades associated with customer orders);

(D) exceeding average commitments over the previous three months for underwritings;

(E) opening of new branch offices;

(F) entering any new line of business or deliberately promoting or expanding any present lines of business;

(G) making unsecured or partially secured loans, advances, drawings, guarantees or other similar receivables; and

(H) such other activities as FINRA deems appropriate under the circumstances, in the public interest or for the protection of investors.

(c) Reduction of Business

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

(A) the member's net capital is less than 125 percent of its minimum dollar net capital requirement or such greater percentage thereof as may from time to time be designated by FINRA;

(B) the member is subject to the aggregate indebtedness requirement of SEA Rule 15c3-1, and its aggregate indebtedness is more than 1,200 percent of its net capital;

(C) the member elects to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1(a)(1)(ii), and its net capital is less than one percentage point below the level specified in SEA Rule 17a-11(b)(2);

(D) the member is approved to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1e, and

(i) its tentative net capital as defined in SEA Rule 15c3-1(c)(15) is less than the amount specified under SEA Rule 15c3-1(a)(7)(ii),

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(ii) the member is subject to the aggregate indebtedness requirement of SEA Rule 15c3-1, and its net capital is less than the sum of 1/12th of its aggregate indebtedness and 125 percent of the amount required under SEA Rule 15c3-1(a)(7)(i)(A)(1), (2), or (3), or

(iii) the member elects to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1(a)(1)(ii), and its net capital is less than the sum of one percentage point below the level specified in SEA Rule 17a-11(b)(2) and 125 percent of the amount required under SEA Rule 15c3-1(a)(7)(i)(A)(1), (2), or (3);

(E) the member is registered as a security-based swap dealer operating pursuant to SEA Rule 15c3-1(a)(10), and

(i) the member is subject to the aggregate indebtedness requirement of SEA Rule 15c3-1, and its net capital is less than the sum of 1/12th of its aggregate indebtedness and 125 percent of the amount required under SEA Rule 15c3-1(a)(10)(i)(A)(1), (2), or (3), or

(ii) the member elects to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1(a)(1)(ii), and its net capital is less than the sum of one percentage point below the level specified in SEA Rule 17a-11(b)(2) and 125 percent of the amount required under SEA Rule 15c3-1(a)(10)(i)(A)(1), (2), or (3);

(F) the member is registered as a Futures Commission Merchant pursuant to the Commodity Exchange Act, and its net capital is less than 110 percent of the minimum risk-based capital requirements of Commodity Exchange Act Rule 1.17; or

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

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

(2) A member must reduce its business as directed by FINRA for any financial or operational reason. In any such instance, FINRA shall issue a notice pursuant to [Rule 9557](#).

(3) For purposes of paragraph (c) of this Rule, the term "business reduction" shall mean reducing or eliminating parts of a member's business in order to reduce the amount of capital

required, which may include:

- (A) promptly paying all or a portion of free credit balances to customers;
- (B) promptly effecting delivery to customers of all or a portion of fully paid securities in the member's possession or control;
- (C) introducing all or a portion of its business to another member on a fully disclosed basis;
- (D) reducing the size or modifying the composition of its inventory and reducing or ceasing market making;
- (E) closing of one or more existing branch offices;
- (F) collecting unsecured or partially secured loans, advances, drawings, guarantees or other similar receivables;
- (G) accepting no new customer accounts;
- (H) restricting the payment of salaries or other sums to partners, officers, directors, shareholders, or associated persons of the member;
- (I) effecting liquidating or closing customer and/or proprietary transactions;
- (J) accepting only unsolicited customer orders; and
- (K) such other activities as FINRA deems appropriate under the circumstances in the public interest or for the protection of investors.

• • • **Supplementary Material:** -----

.01 Exercise of Discretion by FINRA. The following are examples of the conditions under which FINRA may exercise its discretion pursuant to paragraphs (b)(2) or (c)(2) of this Rule:

- (a) The member has experienced a substantial change in the manner in which it processes its business, which, in the view of FINRA, increases the potential risk of loss to customers or other members;
- (b) The member's books and records are not maintained in accordance with the provisions of SEA Rules 17a-3 or 17a-4;
- (c) The member is not in compliance, or is unable to demonstrate compliance, with applicable net capital requirements;

(d) The member is not in compliance, or is unable to demonstrate compliance, with SEA Rule 15c3-3 (Customer Protection - Reserves and Custody of Securities);

(e) The member is unable to clear and settle transactions promptly; or

(f) The member's overall business operations are in such condition, given the nature of its business that, notwithstanding the absence of any of the conditions enumerated in paragraphs (a) through (e) of this Supplementary Material, a determination of financial or operational difficulty should be made.

.02 Correspondent Firms. The Rule contemplates that any restrictions or conditions imposed on a carrying or clearing member's business under this Rule may require that member to restrict the business activities of one or more correspondent firms for which the member clears, insofar as such business would be handled by such carrying or clearing member.

.03 Members Operating Pursuant to the Exemptive Provisions of SEA Rule 15c3-3(k)(2)(i). For purposes of this Rule, all requirements that apply to a member that clears or carries customer accounts shall also apply to any member that, operating pursuant to the exemptive provisions of SEA Rule 15c3-3(k)(2)(i), either clears customer transactions pursuant to such exemptive provisions or holds customer funds in a bank account established thereunder.

Amended by SR-FINRA-2021-008 eff. Feb. 6, 2022.

Amended by SR-FINRA-2010-024 eff. Dec. 2, 2010.

Adopted by SR-FINRA-2008-067 eff. Feb. 8, 2010.

Selected Notices: [09-71](#), [10-45](#), [22-03](#).

4130. Regulation of Activities of Section 15C Members Experiencing Financial and/or Operational Difficulties

The Rule

Notices

(a) Application - For purposes of this Rule, the term "member" shall be limited to any member of FINRA registered with the SEC pursuant to Section 15C of the Exchange Act that is not designated to another self-regulatory organization by the SEC for financial responsibility pursuant to Section 17 of the Exchange Act and SEA Rule 17d-1.

(b) Each member subject to Section 402.2 of the rules of the Treasury Department shall comply with the capital requirements prescribed therein and with the provisions of this Rule.

(c) A member, when so directed by FINRA shall not expand its business during any period in which:

(1) Any of the following conditions continue to exist for more than 15 consecutive business days:

(A) the member's liquid capital is less than 150 percent of the total haircuts or such greater percentage thereof as may from time to time be prescribed by FINRA;

(B) the member's liquid capital minus total haircuts is less than 150 percent of its minimum dollar capital requirement; or

(C) the deduction of ownership equity and maturities of subordinated debt scheduled during the next six months would result in any one of the conditions described in (A) or (B) of this subparagraph (1); or

(2) FINRA restricts the member for any other financial or operational reason.

(d) A member, when so directed by FINRA, shall forthwith reduce its business:

(1) To a point at which the member would not be subject to a prohibition against expansion of its business as set forth in paragraphs (c)(1)(A), (B), or (C) of this Rule if any of the following conditions continue to exist for more than 15 consecutive business days:

(A) the member's liquid capital is less than 125 percent of total haircuts or such greater percentage thereof as may from time to time be prescribed by FINRA;

(B) the member's liquid capital minus total haircuts is less than 125 percent of its minimum dollar capital requirement; or

(C) the deduction of ownership equity and maturities of subordinated debt scheduled during the next six months would result in any one of the conditions described in (A) or (B) of this subparagraph (1); and

(2) As required by FINRA when it restricts a member for any other financial or operational reason.

(e) A member shall suspend all business operations during any period of time when the member is not in compliance with applicable liquid capital requirements as set forth in Section 402.2 of the rules of the Treasury Department. FINRA staff may issue a notice to such member directing it to suspend all business operations; however, the member's obligation to suspend all business operations arises from its obligations under Section 402.2 of the rules of the Treasury Department and is not dependent on any notice that may be issued by FINRA staff.

(f) Any notice directing a member to limit or suspend its business operations shall be issued by FINRA staff pursuant to Rule 9557.

Amended by SR-FINRA-2008-067 eff. Feb. 8, 2010.
Amended by SR-NASD-2003-110 eff. June 28, 2004.
Amended by SR-NASD-2003-74 eff. Dec. 1, 2003.
Adopted by SR-NASD-95-39 eff. Oct. 10, 1996.

Selected Notices: 03-67, 04-36, 09-71.

4140. Audit

The Rule

Notices

(a) FINRA may at any time, due to concerns regarding the accuracy or integrity of a member's financial statements, books and records or prior audited financial statements, direct any member to cause an audit to be made by an independent public accountant of its accounts, or cause an examination to be made in accordance with attestation, review or consultation standards prescribed by the AICPA. Such audit or examination shall be directed pursuant to authority exercised by FINRA's Executive Vice President charged with oversight for financial responsibility, or his or her written officer delegate, and shall be made in accordance with such requirements as FINRA may prescribe.

(b) Any member failing to file an audited financial and/or operational report or examination report under this Rule in the prescribed time shall be subject to a late fee as set forth in Schedule A Section 4(g)(1) to the FINRA By-Laws.

Adopted by SR-FINRA-2008-067 eff. Feb. 8, 2010.

Selected Notice: 09-71.

4150. Guarantees by, or Flow Through Benefits for, Members

The Rule

Notices

(a) Prior written notice shall be given to FINRA whenever any member guarantees, endorses or assumes, directly or indirectly, the obligations or liabilities of another person.

(b) Prior written approval must be obtained from FINRA whenever any member receives flow through capital benefits in accordance with Appendix C of SEA Rule 15c3-1.

• • • Supplementary Material: -----

.01 Financial and Operational Impact. The written notice required by paragraph (a) of this Rule shall be given to FINRA at least 10 business days prior to entering into such arrangement or relationship with another person. Both the written notice required by paragraph (a) of this Rule and the request for approval under paragraph (b) of this Rule shall include the address and general nature of business conducted by such person, a description of the relationship or arrangement between the parties, details regarding the capitalization of such person (including the percentage of ownership or profits by the member), as well as the actual and potential effect of the arrangement or relationship on the member's capital (including net capital) and operations and such other information as FINRA may require. A request for approval under paragraph (b) of this Rule shall further include an opinion of counsel where such is required in conformity with Appendix C of SEA Rule 15c3-1.

.02 Member Dealings. A member may at any time be required to provide FINRA with information with respect to the arrangement, relationship and dealings with a person referred to in this Rule.

.03 Books and Records. No member shall enter into an arrangement described in this Rule unless it has the authority to make available promptly the books and records of such other person for inspection by FINRA in the United States. The books and records of such person shall be kept separately from those of the member.

.04 FOCUS Reporting Requirements. For persons referred to in this Rule that are registered broker-dealers, the member shall furnish to FINRA copies of such person's FOCUS Reports simultaneous with their being filed with the person's designated examining authority. For persons referred to in this Rule that are not registered broker-dealers, FINRA requires, in lieu of FOCUS, submission of financial and operational statements, in such format and at such time periods as may be required by FINRA, sufficient to gauge the capital and operational effects of the arrangement or relationship.

.05 Routine Guarantees. Guarantees executed routinely in the normal course of business such as trade guarantees, signature guarantees, endorsement of securities and the writing of options, are not subject to the requirements of this Rule provided that, in regard to the guarantee of the writing of options, the transaction is appropriately recorded on the member's books and records in accordance with SEA Rule 17a-3(a)(10) and is reflected in its net capital computation pursuant to SEA Rule 15c3-1.

.06 Guarantees Already in Effect. Within 30 days of August 1, 2011, each member shall advise FINRA, in writing, of any guarantees, endorsements, assumptions of obligations/liabilities, or flow through capital benefits, in effect as of August 1, 2011 not having otherwise been reported, in writing, to the appropriate Regulatory Coordinator.

Adopted by SR-FINRA-2010-061 eff. Aug. 1, 2011.

Selected Notice: 11-26.

4160. Verification of Assets

(a) A member, when notified by FINRA, may not continue to custody or retain record ownership of assets, whether such assets are proprietary or customer assets, at a financial institution that is not a member of FINRA, which, upon FINRA staff's request, fails promptly to provide FINRA with written verification of assets maintained by the member at such financial institution.

(b) The Rule shall not apply:

(1) to proprietary assets of members that are treated as non-allowable assets under SEA Rule 15c3-1; or

(2) in instances where FINRA determines that there is no independent custody or record ownership of the assets.

• • • Supplementary Material: -----

.01 Asset Transfers. Any member required to transfer its proprietary and/or customer assets pursuant to this Rule shall effect such transfer within a reasonable period of time.

.02 Member Obligations Under SEA Rule 15c3-3. Nothing in this Rule shall be construed as altering in any manner a member's obligations under SEA Rule 15c3-3.

Adopted by SR-FINRA-2010-042 eff. Feb 1, 2011; amended by SR-FINRA-2010-062 eff. Feb. 1, 2011.

Selected Notice: 10-61.

4210. Margin Requirements

The Rule

Notices

This version is valid from Mar 19, 2024 through May 21, 2024.

Amendments have been announced but are not yet effective. To view other versions open the versions tab on the right.

(a) Definitions

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

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

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

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

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

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

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

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

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

(E) a state or political subdivision thereof, or

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

(5) 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 Exchange 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 Exchange Act.

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

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

(11) The term "major foreign sovereign debt" means any debt securities issued or guaranteed by the government of a foreign country or a supranational entity, if at the time of the extension of credit the issue, the issuer or guarantor, or any other outstanding obligation of the

issuer or guarantor ranked junior to or on a parity with the issue or the guarantee is assigned a rating (implicitly or explicitly) in the top rating category by at least one nationally recognized statistical rating organization.

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

(13) The term "exempt account" means:

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

(B) any person that:

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

(ii) either:

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

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

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

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

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

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accurate, sufficient for the purposes of performing a risk analysis in respect of such person.

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

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

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

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

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

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

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

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

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

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

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

(b) Initial Margin

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

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

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

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

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

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

(c) Maintenance Margin

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

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

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

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

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

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

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

(d) Additional Margin

Procedures shall be established by members to:

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

(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

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(iv)	Five years but less than ten years to maturity	4 percent
(v)	Ten years but less than twenty years to maturity	5 percent
(vi)	Twenty years or more to maturity	6 percent

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

When such obligations other than United States Treasury bills are due to mature in 30 calendar days or less, a member, at its discretion, may permit the customer to substitute another such obligation for the maturing obligation and use the margin held on the maturing obligation to reduce the margin required on the new obligation, provided the customer has given the member irrevocable instructions to redeem the maturing obligation.

(B) All Other Exempted Securities

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

(C) Non-Equity Securities

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

(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 margin eligible 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 Exchange Act pursuant to the rules of a national securities exchange) upon a margin basis satisfactory to the concerned parties, provided all real and potential risks in accounts carried under such arrangements are at all

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times adequately covered by the margin maintained in the account or, in the absence thereof, by the carrying member when computing net capital under SEA Rule 15c3-1 and, if applicable, Rule 4110(a).

(E) Special Provisions

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

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

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

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

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

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

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

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

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15c3-1 and, if applicable, Rule 4110(a), subject to the limits provided in paragraph (e)(2)(I) of this Rule.

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

(H) Covered Agency Transactions

(i) Definitions

For purposes of paragraph (e)(2)(H) of this Rule:

a. (To be Implemented on May 22, 2024).

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

c. The term "Covered Agency Transaction" means:

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

2. Specified Pool Transactions, as defined in Rule 6710(x), for which the difference between the trade date and contractual settlement date is greater than one business day; and

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

d. through j. **(To be Implemented on May 22, 2024).**

(ii) Margin Requirements for Covered Agency Transactions

a. (To be Implemented on May 22, 2024)

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b. A member that engages in Covered Agency Transactions with any counterparty shall make a determination in writing of a risk limit for each such counterparty that the member shall enforce. The risk limit determination shall be made by a designated credit risk officer or credit risk committee in accordance with the member's written risk policies and procedures.

c. through g. **(To be Implemented on May 22, 2024).**

(I) Limits on Net Capital Deductions for Exempt Accounts

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

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

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

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

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

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

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

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

request:

(A) complete description of the security;

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

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

(D) approximate aggregate indebtedness;

(E) approximate net capital; and

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

(4) International Arbitrage Accounts

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

(5) Specialists' and Market Makers' Accounts

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

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

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

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

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

(6) Broker-Dealer Accounts

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

(B) Joint Back Office Arrangements

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

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

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a. maintain a minimum tentative net capital (as such term is defined in SEA Rule 15c3-1) of \$25 million as computed pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a), except that a member whose primary business consists of the clearance of options market-maker accounts may carry JBO accounts provided that it maintains a minimum net capital of \$7 million as computed pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a). In addition, the member must include in its ratio of gross options market maker deductions to net capital required by the provisions of SEA Rule 15c3-1 and, if applicable, Rule 4110(a), gross deductions for JBO participant accounts. Clearance of option market maker accounts shall be deemed a broker-dealer's primary business if a minimum of 60 percent of the aggregate deductions in the above ratio are options market maker deductions. In the event that a carrying and clearing, or a carrying member's tentative net capital (as such term is defined in SEA Rule 15c3-1), or net capital, respectively, has fallen below the above requirements, the firm shall: 1. promptly notify FINRA in writing of such deficiency, 2. take appropriate action to resolve such deficiency within three consecutive business days, or not permit any new transactions to be entered into pursuant to the JBO arrangement;

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

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

(ii) A participating broker-dealer must:

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

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

c. maintain a minimum liquidating equity of \$1 million in the JBO arrangement exclusive of the ownership interest established in subparagraph

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(ii)b. above. When the minimum liquidating equity decreases below the \$1 million requirement, the participant must deposit a sufficient amount to eliminate this deficiency within 5 business days or be subject to margin account requirements prescribed for customers in Regulation T, and the margin requirements pursuant to the other provisions of this Rule.

(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 FINRA or of the Board of Governors of the Federal Reserve System and Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures and Rules 41.42 through 41.49 under the CEA; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iii) The aggregate credit extended to all customers on all control and restricted securities (reduced by the amount of such aggregate credit which has been deducted

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in computing net capital under SEA Rule 15c3-1 and, if applicable, Rule 4110(a)), shall be deducted from net capital on the following basis for purposes of determining a member's status under Rule 4120.

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

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

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

a. 10 percent of the outstanding shares of such issue, or

b. 100 percent of the average weekly volume for such issue during the preceding three-month period.

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

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

For purposes of this paragraph (e)(8)(C)(iv), "excess securities" shall mean the amount of securities, if any, by which the aggregate position in control

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and restricted securities of any one issue exceeds the aggregate amount of securities that would be required to support the aggregate credit extended on such control and restricted securities if the applicable margin requirement were 50 percent.

(v) The amount to be deducted from net capital for purposes of determining a member's status under Rule 4120, pursuant to paragraph (e)(8)(C) shall not exceed 100 percent of the aggregate credit extended reduced by any amount deducted in computing net capital under SEA Rule 15c3-1 and, if applicable, Rule 4110(a).

(D) Certain Restricted Securities — Securities either:

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

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

(9) Security-Based Swaps; SBS Offsets

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

(f) Other Provisions

(1) Determination of Value for Margin Purposes

Active securities dealt in on a national securities exchange shall, for margin purposes, be valued at current market prices provided that only those options contracts on a stock or stock index, or a stock index warrant, having an expiration that exceeds nine months and that are listed or OTC (as defined in this Rule), may be deemed to have market value for the purposes of this Rule. Other securities shall be valued conservatively in view of current market prices and the amount that might be realized upon liquidation. Substantial additional margin must be required in

all cases where the securities carried in "long" or "short" positions are subject to unusually rapid or violent changes in value, or do not have an active market on a national securities exchange, or where the amount carried is such that the position(s) cannot be liquidated promptly.

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

(A) Definitions

Except where the context otherwise requires or as defined below, the definitions contained in paragraph (a) of Rule 2360, "Options," shall apply to the terms used in this Rule.

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

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

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

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

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

2. accrued interest:

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

B. on bonds issued or guaranteed by the United States

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

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

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

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

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

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

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

(vi) The term "box spread" means an aggregation of positions in a long call and short put with the same exercise price ("buy side") coupled with a long put and short call with the same exercise price ("sell side") structured as: (A) a "long box spread" in which the sell side exercise price exceeds the buy side exercise price or, (B) a "short

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"box spread" in which the buy side exercise price exceeds the sell side exercise price, all of which have the same contract size, underlying component or index and time of expiration, and are based on the same aggregate current underlying value.

(vii) The term "broad index stock group" means an index stock group of 25 or more stocks whose inclusion and relative representation in the group are determined by the inclusion and relative representation of their current market prices in a widely disseminated stock index reflecting the stock market as a whole or an inter-industry sector of the stock market.

(viii) The terms "call" and "put":

a. as used in connection with a currency, currency index or stock index warrant mean a warrant structured as a "call" or "put" (as appropriate) on the underlying currency, index currency group or stock index group (as the case may be) or

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

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

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

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

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

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

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

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

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(xii) The term "current cash market price" as used with reference to GNMA's means the prevailing price in the cash market for GNMA's bearing a particular stated rate of interest to be delivered on the next applicable monthly settlement date determined in the manner specified in the rules of The Options Clearing Corporation.

(xiii) The terms "current market value" or "current market price" of an option, currency warrant, currency index warrant, or stock index warrant are as defined in Section 220.2 of Regulation T.

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

(xv) The term "European-style option" means an option contract that can be exercised only at its expiration pursuant to the rules of The Options Clearing Corporation.

(xvi) The term "exercise price" in respect of an option or warrant contract means the stated price per unit at which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option contract.

(xvii) The term "exercise settlement amount" shall mean the difference between the "aggregate exercise price" and the "aggregate current index value" (as such terms are defined in the pertinent By-Laws of The Options Clearing Corporation).

(xviii) The term "expiration date" in respect of an option contract means the date and time fixed by the rules of The Options Clearing Corporation for the expiration of all option contracts covering the same underlying security or underlying index stock group and having the same expiration month as such option contract.

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

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

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

(xxi) The term "index group value," when used in respect of a currency index warrant or a stock index warrant, shall mean \$1.00 (1) multiplied by the numerical value reported for the index that is derived from the market prices of the currencies in the index currency group or the stocks in the stock index group and (2) divided by the applicable divisor in the prospectus (if any). When used with reference to the exercise of an stock index group option, the value is the last one reported on the day of exercise or, if the day of exercise is not a trading day, on the last trading day before exercise.

(xxii) The term "index multiplier" as used in reference to an index option contract means the amount specified in the contract by which the index value is to be multiplied to arrive at the value required to be delivered to the holder of a call or by the holder of a put upon valid exercise of the contract.

(xxiii) The term "industry stock index group" means an index stock group of six or more stocks whose inclusion and relative representation in the group are determined by the inclusion and relative representation of their current market prices in a widely disseminated stock index reflecting a particular industry or closely related industries.

(xxiv) The term "listed" as used with reference to a call or put option contract means an option contract that is traded on a national securities exchange or issued and guaranteed by a registered clearing agency and shall include an OCC Cleared OTC Option (as defined in Rule 2360).

(xxv) 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.

(xxvi) The term "numerical index value," when used in respect of a currency index warrant or stock index warrant, shall mean the level of a particular currency index or stock index as reported by the reporting authority for the index.

(xxvii) The term "OTC" as used with reference to a call or put option contract means an over-the-counter option contract that is not traded on a national securities exchange and is issued and guaranteed by the carrying broker-dealer and shall not include OCC Cleared OTC Option (as defined in Rule 2360).

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(xxviii) A "registered clearing agency" shall mean a clearing agency as defined

in Section 3(a)(23) of the Exchange Act that is registered with the SEC pursuant to Section 17A(b)(2) of the Exchange Act.

(xxix) The term "reporting authority," when used in respect of a currency index warrant or a stock index warrant, shall mean the institution or reporting service specified in the prospectus as the official source for calculating and reporting the level of such currency index or stock index.

(xxx) The term "series (of options)" means all option contracts of the same class of options having the same expiration date, exercise price and unit of trading.

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

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

- a. all options must have the same underlying security or instrument;
- b. all "long" and "short" option contracts must be either all American-style or all European-style;
- c. all "long" and "short" option contracts must be either all listed or all OTC;
- d. the aggregate underlying contract value of "long" versus "short" contracts within option type(s) must be equal; and
- e. the "short" option(s) must expire on or before the expiration date of the "long" option(s).

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

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

(xxxv) The term "underlying component" shall mean in the case of stock, the equivalent number of shares; industry and broad index stock groups, the index group

value and the applicable index multiplier; U.S. Treasury bills, notes and bonds, the underlying principal amount; foreign currencies, the units per foreign currency contract; and interest rate contracts, the interest rate measure based on the yield of U.S. Treasury bills, notes or bonds and the applicable multiplier. The term "interest rate measure" represents, in the case of short term U.S. Treasury bills, the annualized discount yield of a specific issue multiplied by ten or, in the case of long term U.S. Treasury notes and bonds, the average of the yield to maturity of the specific multiplied by ten.

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

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

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

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

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

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

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

which the current market value of the option or warrant exceeds its "in-the-money" amount provided the option or warrant:

- (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.

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

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

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

	I Type of Option	II Initial and/or Maintenance Margin Required	III Minimum Margin Required	IV Underlying Component Value
(1)	Stock	20 percent	10 percent	The equivalent number of shares at current market prices.
(2)	Industry index stock group	20 percent	10 percent	The product of the index group value and the applicable index multiplier.

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(3)	Broad index stock group	15 percent	10 percent	The product of the index group value and the applicable index multiplier.
(4)	U.S. Treasury bills — 95 days or less to maturity	.35 percent	1/20 percent	The underlying principal amount.
(5)	U.S. Treasury notes	3 percent	1/2 percent	The underlying principal amount.
(6)	U.S. Treasury bonds	3.5 percent	1/2 percent	The underlying principal amount.
(7)	Foreign Currency Options and Warrants*	4 percent	3/4 percent	The product of units per foreign currency contract and the closing spot price.
(8)	Interest Rate contracts	10 percent	5 percent	The product of the current interest rate measure and the applicable multiplier.
(9)	Currency Index Warrants	**	**	The product of the index group value and the applicable index multiplier.
(10)	Stock Index Warrant on Broad Index Stock Group	15%	10%	The product of the index group value and the applicable index multiplier.
(11)	Stock Index Warrant on Industry Index Stock Group	20%	10%	The product of the index group value and the applicable index multiplier.

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

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

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

Option or Warrant Issue	Call	Put
Stock Options	Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.	Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.
U.S. Treasury Options	Any excess of the aggregate exercise price of the option over the current market value of the underlying principal amount.	Any excess of the current market value of the underlying principal amount over the aggregate exercise price of the option.
Index Stock Group Options, Currency Index Warrants, and Stock Index Warrants	Any excess of the aggregate exercise price of the option or warrant over the product of the index group value and the applicable multiplier.	Any excess of the product of the index group value and the applicable multiplier over the aggregate exercise price of the option or warrant.
Foreign Currency Options and Warrants	Any excess of the aggregate exercise price of the option or warrant over the product of units per foreign currency contract and the closing spot prices.	The product of units per foreign currency contract and the closing spot prices over the aggregate price of the option or warrant.
Interest Rate Options	Any excess of the aggregate exercise price	Any excess of the product of the current

	of the option over the product of the current interest rate measure value and the applicable multiplier.	interest rate measure value and the applicable multiplier over the aggregate exercise price of the option.
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If the option or warrant contract provides for the delivery of obligations with different maturity dates or coupon rates, the computation of the "out-of-the-money amount," if any, where required by this Rule, shall be made in such a manner as to result in the highest margin requirement on the short option or warrant position.

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

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

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

	I Type of Option	II Initial and/or Maintenance Margin Required	III Minimum Margin Required	IV Underlying Component Value
1.	Stock and convertible corporate debt securities	30%	10%	The equivalent number of shares at current market prices for stocks or the underlying principal amount for convertible corporate debt securities.

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2	Industry Index stock group	30%	10%	The product of the index group value and the applicable index multiplier.
3	Broad index stock group	20%	10%	The product of the index group value and the applicable index multiplier.
4.	U.S. Government or U.S. Government Agency debt securities other than those exempted by SEA Rule 3a12-7*	5%	3%	The underlying principal amount.
5.	Listed non-equity securities and other margin eligible non-equity securities as defined in paragraphs (a)(15) and (a)(16).	15%	5%	The underlying principal amount.
6.	All other OTC options not covered above	45%	20%	The underlying principal amount.

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

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

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

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

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

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

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

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

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

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

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

When:

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

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

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

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

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

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

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

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

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

j. a broad index stock group put option position is carried "short" for a customer account and is offset by a "short" broad index stock group call option position and the offset position is of equivalent underlying value on the same currency, currency index or index stock group, as appropriate,

then the amount of margin required shall be the margin on the put position or the call position, whichever is greater, as required pursuant to subparagraph (E)(i), plus the current market value of the other warrant and/or option position.

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

(iii) If both a put and call for the same GNMA obligation in the principal amount of \$100,000 are listed or OTC and are carried "short" for a customer, the amount of

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margin required shall be the margin on the put or call, whichever is greater, as required pursuant to paragraph (f)(2)(E)(ii) above, plus the current market value of the other option.

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

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

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

"Long" options must be paid for in full. The proceeds of the "short" options may be applied towards the cost of the "long" options and/or any margin requirement.

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

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

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

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

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

"Long" options must be paid for in full. The proceeds of the "short" options may be applied towards the cost of the "long" options and/or any margin requirement.

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

(iv) The "long" and "short" OTC option contracts that comprise a spread as defined in paragraph (f)(2)(A)(xxxii) must be issued and guaranteed by the **same** carrying broker-dealer and the carrying broker-dealer must also be a FINRA member. If the "long" and "short" OTC option contracts are not issued and guaranteed by the **same** carrying broker-dealer, or if the carrying broker-dealer is not a FINRA member, then the "short" option contracts must be margined separately pursuant to paragraph (f)(2)(E)(iii) or (E)(iv) above.

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

a. "Long" Option or Warrant Offset. When a component underlying an option or warrant is carried "long" ("short") in the same account as a "long" put (call) or warrant specifying equivalent units of the underlying component, the

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minimum amount of margin that must be maintained on the underlying component is 10 percent of the aggregate option/warrant exercise price plus the "out-of-the-money" amount, not to exceed the minimum maintenance required pursuant to paragraph (c) of this Rule.

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

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

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

e. "Long" Box Spread in European-Style Options. With respect to a "long" box spread as defined in paragraph (f)(2)(A) of this Rule, in which all component options have a European-style exercise provision and are listed or OTC (as defined in this Rule), margin must be deposited and maintained equal to at least 50 percent of the aggregate difference in the exercise prices. The net proceeds from the sale of "short" option components may be applied to the requirement. For margin purposes, the "long" box spread may be valued at an amount not to exceed 100 percent of the aggregate difference in the exercise prices.

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f. Protected Options. When an index call (put) option or warrant is carried

“short” (the “protected option or warrant position”) and there is carried in the same account a long (short) position in an underlying stock basket, non-leveraged index mutual fund or non-leveraged exchange-traded fund (each, the “protection”) that is based on the same index underlying the index option or warrant, the protected option or warrant position is not subject to the requirements set forth in paragraphs (f)(2)(E)(i) and (f)(2)(E)(iii) of this Rule if the following conditions are met:

1. when the protected option or warrant position is created, the absolute value of the protection is not less than 100 percent of the aggregate current underlying index value associated with the protected option or warrant position determined at either:

A. the time the order that created the protected option or warrant position was entered or executed; or

B. the close of business on the trading day the protected option or warrant position was created;

2. the absolute value of the protection is at no time less than 95 percent of the aggregate current underlying index value associated with the protected option or warrant position; and

3. margin is maintained in an amount equal to the greater of:

A. the amount, if any, by which the aggregate current underlying index value is above (below) the aggregate exercise price of the protected call (put) option or warrant position; or

B. the amount, if any, by which the absolute value of the protection is below 100 percent of the aggregate current underlying index value associated with the protected option or warrant.

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

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

b. the right to exchange or convert the net “long” position does not expire on or before the date of expiration of the “short” call. Where a listed or OTC put is carried

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"short" against an existing net "short" position in the security underlying the option, no margin need be required on the put, provided such net "short" position is adequately margined in accordance with this Rule.

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

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

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

(iii) In determining net "long" and net "short" positions, for purposes of paragraphs (f) (2)(I)(i) and (ii) above, offsetting "long" and "short" positions in exchangeable or convertible securities (including warrants) or in the same security, as discussed in paragraph (e)(1), shall be deducted. In computing margin on such an existing net security position carried against a put or call, the current market price to be used shall not be greater than the exercise price in the case of a call or less than the current market price in the case of a put and the required margin shall be increased by any unrealized loss.

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

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

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diminished. A qualified security means an equity security, other than a warrant, right or option, that is registered on any national securities exchange.

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

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

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

(K)(i) Registered specialists, market makers or traders — Notwithstanding the other provisions of this paragraph (f)(2), a member may clear and carry the listed option transactions of one or more registered specialists, registered market makers or registered traders in options (whereby registered traders are deemed specialists for all purposes under the Exchange Act, pursuant to the rules of a national securities exchange) (hereinafter referred to as "specialist(s)"), upon a "Good Faith" margin basis satisfactory to the concerned parties, provided the "Good Faith" margin requirement is not less than the net capital haircut deduction of the member carrying the transaction pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a). In lieu of collecting the "Good Faith" margin requirement, a carrying member may elect to deduct in computing its net capital the amount of any deficiency between the equity maintained in the account and the "Good Faith" margin required.

For purposes of this paragraph (f)(2)(K), a permitted offset position means, in the case of an option in which a specialist or market maker makes a market, a position in the underlying asset or other related assets, and in the case of other securities in which a specialist or market maker makes a market, a position in options overlying the securities in

which a specialist or market maker makes a market. Accordingly, a specialist or market maker in options may establish, on a share-for-share basis, a long or short position in the securities underlying the options in which the specialist or market maker makes a market, and a specialist or market maker in securities other than options may purchase or write options overlying the securities in which the specialist or market maker makes a market, if the account holds the following permitted offset positions:

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

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

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

(ii) Securities, including options, in such accounts shall be valued conservatively in the light of current market prices and the amount which might be realized upon liquidation.

Substantial additional margin must be required or excess net capital maintained in all cases where the securities carried:

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

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

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

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

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

(ii) A spread, as defined in paragraph (f)(2)(A)(xxxii) of this Rule, comprised of European-style cash-settled index stock group options, or a "short" stock index warrant and a "long" stock index warrant, having the same underlying component or index that is based on the same aggregate current underlying value, that is held in or purchased for the account on the same day, is deemed a covered position and eligible for the cash account provided that:

- a. the "long" positions and the "short" positions expire concurrently;
- b. the "long" positions are 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 the maximum loss, as described in paragraph (f)(2)(H)(i)b. of this Rule, to which net proceeds from the

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sale of the "short" positions 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 maximum loss, as described in paragraph (f)(2)(H)(i)b. of this Rule and that the bank will promptly pay the member such amount in the event the account is assigned an exercise notice or that the bank will promptly pay the member sufficient funds to purchase a warrant sold "short" in the event of a buy-in.

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

(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.

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

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

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

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

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

(4) Guaranteed Accounts

Any account guaranteed by another account may be consolidated with such other account and the margin to be maintained may be determined on the net position of both accounts, provided the guarantee is in writing and permits the member carrying the account, without restriction, to use the money and securities in the guaranteeing account to carry the guaranteed account or to pay any deficit therein; and provided further that such guaranteeing account is not owned directly or indirectly by (i) a member, or any stockholder (other than a holder of freely transferable stock only) in the member carrying such account, or (ii) a member, or any stockholder (other than a holder of freely transferable stock only) therein having a definite arrangement for participating in the commissions earned on the guaranteed account. However, the guarantee of a limited partner or of a holder of non-voting stock, if based upon his resources other than his capital contribution to or other than his interest in a member, is not affected by the foregoing prohibition, and such a guarantee may be taken into consideration in computing margin to be maintained in the guaranteed account.

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

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

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

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

This prohibition on liquidations shall not apply (i) to those accounts that, at the time of liquidation, are in compliance with the equity to be maintained pursuant to the provisions of this Rule or (ii) to any account carried on an omnibus basis as prescribed by Regulation T.

(8) Special Initial and Maintenance Margin Requirements

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

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

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

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

(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:

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a. a "long" security position held overnight and sold the next day prior to any new purchase of the same security, or

b. a "short" security position held overnight and purchased the next day prior to any new sale of the same security.

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

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

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

Whenever day trading occurs in a customer's margin account the special maintenance margin required, based on the cost of all the day trades made during the day, shall be 25 percent for margin eligible equity securities, and 100 percent for non-margin eligible equity securities. For non-equity securities, the special maintenance margin shall be as required pursuant to the other provisions of this Rule. Alternatively, when two or more day trades occur on the same day in the same customer's account, the margin required may be computed utilizing the highest (dollar amount) open position during that day. To utilize the highest open position computation method, a record showing the "time and tick" of each trade must be maintained to document the sequence in which each day trade was completed.

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

(iv) Special Requirements for Pattern Day Traders

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

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

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

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

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

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

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

f. Funds deposited into a pattern day trader's account to meet the minimum equity or maintenance margin requirements of paragraph (f)(8)(B) of

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this Rule cannot be withdrawn for a minimum of two business days following
the close of business on the day of deposit.

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

(9) Free-Riding in Cash Accounts Prohibited

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

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

(10) Customer Margin Rules Relating to Security Futures

(A) Applicability

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

(B) Amount of customer margin

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

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

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notify the member of this fact before establishing any new security futures positions. Any new security futures positions will be subject to the provisions of this subparagraph.

(iii) Permissible Offsets.

Notwithstanding the minimum margin levels specified in paragraph (f)(10)(B)(i) of this Rule, customers with offset positions involving security futures and related positions may have initial or maintenance margin levels (pursuant to the offset table below) that are lower than the levels specified in paragraph (f)(10)(B)(i) of this Rule.

	Description of Offset	Security Underlying the Security Future	Initial Margin Requirement	Maintenance Margin Requirement
(1)	"Long" security future (or basket of security futures representing each component of a narrow-based securities index) and "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.

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(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.

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

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	same security (or securities basket) underlying the security future.	based security index.	Regulation T for the "long" security or securities.	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 ¹ security future traded on a different market.	Individual stock and narrow-based security index.	The greater of: (1) 3 percent of the current market value of the "long" security future(s); or (2) 3 percent of the current market value of the short security future(s).	The greater of: (1) 3 percent of the current market value of the "long" security future(s); or (2) 3 percent of the current market value of the "short" security future(s).
(17)	"Long" ("short") a basket of security futures that together tracks a narrow-based index and "short" ("long") a narrow-based index future.	Individual stock and narrow-based security index.	The greater of: (1) 5 percent of the current market value of the "long" security future(s); or (2) 5 percent of the current market value of the "short" security future(s).	The greater of: (1) 5 percent of the current market value of the "long" security future(s); or (2) 5 percent of the current market value of the "short" security future(s).

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

(C) Definitions

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

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

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

(iii) The term "underlying security" means, in the case of physically settled security futures contracts, the security that is delivered upon expiration of the

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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) of SEC Customer Margin Requirements for Security Futures and Rule 41.43(a)(32) under the CEA.

(D) Security Futures Dealers' Accounts

(i) Notwithstanding the other provisions of this paragraph (f)(10), a member may carry and clear the market maker permitted offset positions (as defined below) of one or more security futures dealers in an account that is limited to market maker transactions, upon a "Good Faith" margin basis that is satisfactory to the concerned parties, provided the "Good Faith" margin requirement is not less than the net capital haircut deduction of the member carrying the transaction pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a). In lieu of collecting the "Good Faith" margin requirement, a carrying member may elect to deduct in computing its net capital the amount of any deficiency between the equity maintained in the account and the "Good Faith" margin required.

For the purpose of this paragraph (f)(10)(D), the term "security futures dealer" means (1) a member of a national securities exchange or a national securities

association registered pursuant to Section 15A(a) of the Exchange Act; (2) is registered with such exchange or association as a security futures dealer pursuant to rules that are effective in accordance with Section 19(b)(2) of the Exchange Act and, as applicable Section 5c(c) of the CEA, that: (a) requires such member to be registered as a floor trader or a floor broker with the CFTC under Section 4f(a)(1) of the CEA, or as a dealer with the SEC under Section 15(b) of the Exchange Act; (b) requires such member to maintain sufficient records to prove compliance with the rules of the exchange or association of which it is a member; (c) requires such member to hold itself out as being willing to buy and sell security futures for its own account on a regular and continuous basis; and (d) provides for disciplinary action, including revocation of such member's registration as a security futures dealer, for such member's failure to comply with Rules 400 through 406 of SEC Customer Margin Requirements for Security Futures and Rules 41.42 through 41.49 of the CEA or the rules of the exchange or association of which the security futures dealer is a member.

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

- 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;

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f. A net "short" position in a security futures contract in which a security futures dealer makes a market or the underlying asset; or

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

(E) Approved Options Specialists' or Approved Market Makers' Accounts

(i) Notwithstanding the other provisions of paragraphs (f)(10) and (f)(2)(K), a member may carry and clear the market maker permitted offset positions (as defined below) of one or more approved options specialists or approved market makers in an account that is limited to bona fide approved options specialist or approved market maker transactions, upon a "Good Faith" margin basis that is satisfactory to the concerned parties, provided the "Good Faith" margin requirement is not less than the net capital haircut deduction of the member carrying the transaction pursuant to SEA Rule 15c3-1 and, if applicable, Rule 4110(a). In lieu of collecting the "Good Faith" margin requirement, a carrying member may elect to deduct in computing its net capital the amount of any deficiency between the equity maintained in the account and the "Good Faith" margin required. For the purpose of this paragraph (f)(10)(E), the term "approved options specialist" or "approved market maker" means a specialist, market maker, or registered trader in options as referenced in paragraph (f)(2)(K) of this Rule, who is deemed a specialist for all purposes under the Exchange Act and who is registered pursuant to the rules of a national securities exchange.

(ii) For purposes of this paragraph (f)(10)(E), a permitted offset position means a position in the underlying asset or other related assets. Accordingly, a specialist or market maker may establish a long or short position in the assets underlying the options in which the specialist or market maker makes a market, or a security futures contract thereon, if the account holds the following permitted offset positions:

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

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

c. A stock position resulting from the assignment of a market-maker short option position or delivery in respect of a "short" security futures contract;

d. A stock position resulting from the exercise of a market maker "long" option position or taking delivery in respect of a long security futures contract;

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e. A net "long" position in a security (other than an option) in which the market maker makes a market;

f. A net "short" position in a security (other than an option) in which the market maker makes a market; or

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

(iii) For purposes of paragraphs (f)(10)(D) and (E), the term "in or at the money" means that the current market price of the underlying security is not more than two standard exercise intervals below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; the term "in the money" means that the current market price of the underlying asset or index is not below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; the term "overlying option" means a put option purchased or a call option written against a "long" position in an underlying asset; or a call option purchased, or a put option written against a "short" position in an underlying asset.

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

(F) Approved Specialists' and Approved Market Makers' Accounts — Others

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

(ii) For purposes of this paragraph (f)(10)(F), the term "approved specialist" or "approved market maker" means a specialist or market maker who is deemed a

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specialist or market maker for all purposes under the Exchange Act and who is registered pursuant to the rules of a national securities exchange.

(G) Additional Requirements

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

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

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

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

(g) Portfolio Margin

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

In addition, a member, provided that it is a Futures Commission Merchant ("FCM") and is either a clearing member of a futures clearing organization or has an affiliate that is a clearing member of a futures clearing organization, is permitted under this paragraph (g) to combine an eligible participant's related instruments with listed index options, unlisted derivatives, options on exchange traded funds ("ETF"), stock index warrants and underlying instruments and compute a margin requirement for such combined products on a portfolio margin basis.

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

(1) Monitoring

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

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

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

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

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

(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 issued and guaranteed by a registered clearing agency and shall include an OCC Cleared OTC Option (as defined in Rule 2360).

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

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

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

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

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

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

(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 option, forward contract, or security-based swap that can be valued by a theoretical pricing model approved by the SEC for valuing that type of option, forward contract, or security-based swap, and that is neither traded on a national securities exchange, nor issued and guaranteed by a registered clearing agency and shall not include an OCC Cleared OTC Option (as defined in Rule 2360).

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

(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, stock index warrants or underlying instruments hedge the member's index futures; and

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

(B) Only eligible participants that have been approved to engage in uncovered short option contracts pursuant to Rule 2360, or the rules of the member's DEA if other than FINRA, are permitted to utilize a portfolio margin account. If eligible participants engage in

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security futures products transactions, approval from the member will also be required pursuant to Rule 2370.

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

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

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

(6) Establishing Account and Eligible Positions

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

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

(B) Eligible Products

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

a. a margin equity security (including a foreign equity security and option on a foreign equity security, provided the foreign equity security is deemed to have a "ready market" under SEA Rule 15c3-1 or a "no-action" position issued thereunder, and a control or restricted security, provided the security has met the requirements in a manner consistent with Securities Act Rule 144 or an SEC "no-action" position issued thereunder, sufficient enough to permit the sale

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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, with the exception of securities subject to other provisions of paragraph (g). Shares of a money market mutual fund may be carried in a portfolio margin account, also subject to the applicable strategy-based margin requirement under this Rule provided that:

(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;

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

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

(E) Non-margin eligible equity securities held "long" in a portfolio margin account shall be maintained at 100 percent of the current market value at all times. Non-margin eligible equity securities held "short" in a portfolio margin account shall be maintained at 50 percent of the current market value at all times.

(8) Method of Calculation

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

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

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

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

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

(9) Portfolio Margin Minimum Equity Deficiency

(A) If, as of the close of business, the equity in the portfolio margin account of an eligible participant as described in paragraph (g)(4)(C), declines below the \$5 million minimum equity required, if applicable, and is not restored to at least \$5 million within three business days by a deposit of funds and/or securities or through favorable market action, members are prohibited from accepting new opening orders beginning on the fourth

business day, except that new opening orders entered for the purpose of reducing market risk may be accepted if the result would be to lower margin requirements. This prohibition shall remain in effect until,

(i) equity of \$5 million is established, or

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

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

(10) Portfolio Margin Deficiency

(A) If, as of the close of business, the equity in the portfolio margin account of an eligible participant, as described in 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) FINRA, or the member's DEA if other than FINRA, may grant additional time for an eligible participant to meet a portfolio margin deficiency upon written request, which is expected to be granted in extraordinary circumstances only.

(E) Notwithstanding the provisions of subparagraph (A) above, members should not permit an eligible participant to make a practice of meeting a portfolio margin deficiency by liquidation. Members must have procedures in place to identify accounts that periodically liquidate positions to eliminate margin deficiencies, and the member is expected to take

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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 SEC in Washington, D.C., the district or regional office of the SEC for the district or region in which the member maintains its principal place of business; and to FINRA, or the member's DEA if other than FINRA. The notice to FINRA shall be in such form as FINRA may prescribe.

(13) Day Trading Requirements — The day trading restrictions promulgated under paragraph (f)(8)(B) of this Rule shall not apply to portfolio margin accounts that establish and maintain at least \$5 million in equity, provided that a member has the ability to monitor the intra-day risk associated with day trading. Portfolio margin accounts that do not establish and maintain at least \$5 million in equity will be subject to the day trading restrictions under paragraph (f)(8)(B) of this Rule, provided the member has the ability to apply the applicable day trading requirement under this Rule. However, if the position or positions day traded were part of a hedge strategy, the day trading restrictions will not apply. A "hedge strategy" for purposes of this Rule means a transaction or a series of transactions that reduces or offsets a material portion of the risk in a portfolio. Members are expected to monitor these portfolio margin accounts to detect and prevent circumvention of the day trading requirements. In the event day trades executed in a portfolio margin account exceed the day-trading buying power, the day trade margin deficiency that is created must be met by the deposit of cash and/or securities within three business days.

(14) Requirements to Liquidate

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(A) A member is required immediately either to liquidate, or transfer to another

broker-dealer eligible to carry portfolio margin accounts, all portfolio margin accounts with positions in related instruments if the member is:

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

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

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

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

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

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

(h) Margin Requirement Exception for Certain Members.

Any member designated to another self-regulatory organization for oversight of the member's compliance with applicable securities laws, rules and regulations, and self-regulatory organization rules under SEA Rule 17d-1 is exempt from the provisions of Rule 4210.

• • • Supplementary Material: -----

.01 The following tables are given to illustrate the method of computing the number of elapsed days in conformity with paragraph (f)(2)(A)(ii):

On bonds (except bonds issued or guaranteed by the United States Government):
From 1st to 30th of the same month to be figured as 29 days
From 1st to 31st of the same month to be figured as 30 days
From 1st to 1st of the following month to be figured as 30 days.

Where interest is payable on 30th or 31st of the month:

From 30th or 31st to 1st of the following month to be figured as 1 day

From 30th or 31st to 30th of the following month to be figured as 30 days

From 30th or 31st to 31st of the following month to be figured as 30 days

From 30th or 31st to 1st of second following month, figured as 1 month, 1 day

On bonds issued or guaranteed by the United States Government:

From 15th of a 28-day month to the 15th of the following month is 28 days

From 15th of a 30-day month to the 15th of the following month is 30 days

From 15th of a 31-day month to the 15th of the following month is 31 days.

The six month's interest period ending:

January 15 is 184 days

July 15 is 181* days

February 15 is 184 days

August 15 is 181* days

March 15 is 181* days

September 15 is 184 days

April 15 is 182* days

October 15 is 183 days

May 15 is 181* days

November 15 is 184 days

June 15 is 182* days

December 15 is 183 days

* Leap Year Adds 1 day to this period.

.02 Monitoring Procedures. (To be implemented on May 22, 2024).

.03 Mark to Market Loss/Deficiency. (To be implemented on May 22, 2024).

.04 Determination of Exempt Account. (To be implemented on May 22, 2024).

.05 Risk Limit Determination.

(a) For purposes of any risk limit determination pursuant to paragraphs (e)(2)(F), (e)(2)(G) or (e)(2)(H) of this Rule:

(1) If a member engages in transactions with advisory clients of a registered investment adviser, the member may elect to make the risk limit determination at the investment adviser level;

(2) Members of limited size and resources that do not have a credit risk officer or credit risk committee may designate an appropriately registered principal to make the risk limit determinations;

(3) The member may base the risk limit determination on consideration of all products involved in the member's business with the counterparty, provided the member makes a daily record of the counterparty's risk limit usage; and

(4) A member shall consider whether the margin required pursuant to this Rule is adequate with respect to a particular counterparty account or all its counterparty accounts and, where appropriate, increase such requirements.

.06 Good Faith Account. A Regulation T good faith account, other than a non-securities account, is a margin account for purposes of Rule 4210.

¹ For purposes of this paragraph (g) of this Rule, the term "margin equity security" utilizes the definition at Section 220.2 of Regulation T.

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

³ See footnote 2.

Amended by SR-FINRA-2023-010 eff. March 19, 2024.
Amended by SR-FINRA-2021-008 eff. April 6, 2022.
Amended by SR-FINRA-2015-036 eff. Dec. 15, 2016.
Amended by SR-FINRA-2013-027 eff. Nov. 7, 2013.
Amended by SR-FINRA-2013-001 eff. Feb. 4, 2013.
Amended by SR-FINRA-2012-024 eff. Jan. 23, 2013.
Amended by SR-FINRA-2012-024 eff. Oct. 26, 2012.
Amended by SR-FINRA-2010-024 eff. Dec. 2, 2010.
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-93-48 eff. Mar. 8, 1994.

Amended by SR-NASD-92-35 eff. April 19, 1993.

Amended eff. Feb. 15, 1974.

Selected Notices: 74-08, 76-08, 76-31, 77-19, 88-26, 93-15, 93-23, 94-24, 94-70, 95-82, 00-51, 01-11, 01-26, 03-66, 06-26, 07-11, 08-41, 10-45, 12-44, 13-39, 16-31, 22-03, 24-08.

4220. Daily Record of Required Margin

The Rule

Notices

Each member carrying securities margin accounts for customers (as such term is defined in [Rule 4210\(a\)\(3\)](#)) or subject to [Rule 4240](#) shall make a record each day of every case in which, pursuant to FINRA rules or Regulation T of the Board of Governors of the Federal Reserve System, initial or additional margin must be obtained in a customer's account in such format as FINRA may require. The record shall show, for each account, the amount of margin so required and the date when and manner in which cash or securities are deposited or the margin requirements were otherwise complied with. Individual entries will be deemed a "record," and such entries need not be combined and kept as a separate record.

Amended by SR-FINRA-2021-008 eff. April 6, 2022.
Adopted by SR-FINRA-2010-024 eff. Dec. 2, 2010.

Selected Notice: [10-45](#), [22-03](#).

4230. Required Submissions for Requests for Extensions of Time Under Regulation T and SEA Rule 15c3-3

The Rule

Notices

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

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

Amended by SR-FINRA-2010-024 eff. Dec. 2, 2010.
Adopted by SR-NASD-2006-064 eff. March 1, 2007.

Selected Notices: 06-62, 10-45.

4240. Security-Based Swap Margin Requirements

The Rule

Notices

Every member that is a party to a security-based swap with a customer, broker or dealer, or other Counterparty, or who has guaranteed or otherwise become responsible for any other person's SBS obligations, shall comply with the following requirements, except that a member that is registered as a security-based swap dealer under Exchange Act section 15F shall instead comply with SEA Rule 18a-3.

(a) Cleared SBS Margin Requirements

Except as provided in paragraph (b)(5) of this Rule, the margin to be maintained on any Cleared SBS is the margin on such Cleared SBS required by the Clearing Agency through which such SBS is Cleared.

(b) Uncleared SBS Margin Requirements

(1) Current Exposure Computation

As of the close of business on each business day, the member shall calculate with respect to each Uncleared SBS Account an amount equal to:

(A) The net Value (which may be negative) of all Uncleared SBS in the Uncleared SBS Account; plus

(B) The Value of all Variation Margin collected from the Counterparty that has not been returned or applied to an obligation of the Counterparty; minus

(C) The Value of all Variation Margin delivered to the Counterparty that has not been returned or applied to an obligation of the member.

If this amount is positive, it is the Counterparty's "**Current Exposure**" to the member; if it is negative, then its absolute value is the member's "**Current Exposure**" to the Counterparty.

(2) Initial Margin Computation

As of the close of business on each business day, the member shall compute an amount (the "**Initial Margin Requirement**") for each Uncleared SBS Account equal to the sum of the following Initial Margin Requirements on the Uncleared SBS and securities positions in that Uncleared SBS Account.

(A) Initial Margin Requirements

For purposes of the computation of an Initial Margin Requirement for an Uncleared SBS Account and subject to paragraph (b)(2)(B) of this Rule:

(i) The “**Initial Margin Requirement**” on an Uncleared Basic CDS is an amount equal to the “haircut” on that position under SEA Rule 15c3-1(c)(2)(vi)(P)(1); provided, however, that if the member has a netting or collateral agreement that is legally enforceable against the Counterparty and covers any combination of Uncleared Basic CDS or securities specified in clause (iii), (iv) or (v) of SEA Rule 15c3-1(c)(2)(vi)(P)(1), the member may compute an Initial Margin Requirement on such combination of positions equal to the “haircut” on that combination under SEA Rule 15c3-1(c)(2)(vi)(P)(1);

(ii) The “**Initial Margin Requirement**” on an Uncleared Basic SBS is the margin that Rule 4210 would require to be maintained on the Equivalent Margin Account; provided, however, that if the member has a netting or collateral agreement that is legally enforceable against the Counterparty and covers any combination of Uncleared Basic SBS, securities or options positions, the member may compute an Initial Margin Requirement on the combination of such positions equal to the margin that Rule 4210 would require to be maintained on the combination of Equivalent Margin Accounts for such Uncleared Basic SBS and securities or options positions;

(iii) Subject to the foregoing, the “**Initial Margin Requirement**” on long or short securities positions in an Uncleared SBS Account is the margin that Rule 4210 would require to be maintained on those positions in the Counterparty’s margin account; provided, however, that there shall be no Initial Margin Requirement on securities that the member has chosen to haircut pursuant to paragraph (d)(20)(B)(ii) of this Rule;

(iv) The “**Initial Margin Requirement**” on any Uncleared SBS other than a Basic CDS or Basic SBS shall be determined in a manner approved by FINRA pursuant to paragraph (b)(2)(C) of this Rule; provided, however, that the Initial Margin Requirement for any Legacy SBS, other than a Basic CDS, Basic SBS, or other SBS for which FINRA has approved the use of specific margin requirements by the member pursuant to paragraph (b)(2)(C) of this Rule, shall be computed using the applicable method specified in SEA Rule 15c3-1(c)(2)(vi)(P).

(B) Combining Positions in the Computation of Initial Margin Requirements

To be included in a combination referred to in paragraph (b)(2)(A)(i) or (A)(ii) of this Rule, securities positions must be in the Counterparty’s Uncleared SBS Account or margin account at the member. Securities may not be included in a combination referred to in paragraph (b)(2)(A)(i) or (A)(ii) if the member has chosen to haircut them pursuant to

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paragraph (d)(20)(B)(ii) of this Rule. To be included in a combination referred to in paragraph (b)(2)(A)(ii), option positions must be in the Counterparty's margin account at the member. No SBS, security or option position may be included in more than one combination referred to in paragraph (b)(2)(A)(i) or (A)(ii), nor may such combinations include any securities or options positions for which reduced margin requirements are computed under paragraphs (e)(1) or (f)(2)(F)(ii) through (f)(2)(I) of Rule 4210. When an Initial Margin Requirement is computed on a combination referred to in paragraph (b)(2)(A)(i) or (A)(ii) that includes securities or options positions in the Counterparty's margin account, the Initial Margin Requirement on the Uncleared SBS included in that combination shall be equal to such Initial Margin Requirement computed on the combination, reduced (but not below zero) by the aggregate Rule 4210 maintenance margin requirements applicable to such margin account positions.

(C) Initial Margin Requirements for SBS Other Than Basic CDS and Basic SBS

Any member may apply to FINRA for the approval of an Initial Margin Requirement for a type of SBS other than Basic CDS and Basic SBS. Any such application must:

- (i) define the specific type of SBS covered by the application;
- (ii) describe the purpose(s) that the member and its Counterparties would have for entering that type of SBS;
- (iii) identify all variables that influence the value of that type of SBS;
- (iv) explain all risks of that type of SBS;
- (v) propose a specific Initial Margin Requirement (not a margin model) for that type of SBS;
- (vi) explain how the proposed specific Initial Margin Requirement would adequately protect a member and its capital against each of those risks;
- (vii) attach copies of the member's SBS risk management procedures and describe the application of those procedures to that type of SBS; and
- (viii) provide the results of backtesting of the proposed specific Initial Margin Requirement over periods of significant volatility in the variables influencing the value of that type of SBS.

If FINRA approves any such application, such approval: (a) may be unconditional or conditional, including in the form of a time-limited pilot program; (b) may approve the use of the specific Initial Margin Requirement only by the applicant; or (c) may take the form of a regulatory notice or other communication approving the use of the specific margin

requirements by members generally. No member shall become a party to an SBS other than a Basic CDS or Basic SBS unless FINRA has approved an Initial Margin Requirement for such member's use with respect to that type of SBS.

(3) Collection or Delivery of Variation and Initial Margin

Subject to paragraph (b)(5) of this Rule:

(A) Variation Margin

Each member shall deliver or return to each Counterparty cash or margin securities with a Value equal to the Counterparty's Current Exposure (if any) to the member; or collect or retrieve from the Counterparty cash or margin securities with a Value equal to the member's Current Exposure (if any) to the Counterparty;

(B) Initial Margin

Each member shall collect from each Counterparty cash or margin securities with a Value at least equal to any Initial Margin Deficit; and

(C) SBS Guarantees

Each member that guarantees, or otherwise becomes responsible for, the obligations under one or more Uncleared SBS that one party (the "**Primary Obligor**") has to the other party (the "**Beneficiary**"), shall be required to collect Variation Margin and Initial Margin from the Primary Obligor to the extent such collection would be required if those Uncleared SBS were between the Primary Obligor and the member (rather than the Beneficiary), unless the member can establish that such margin has been delivered by or on behalf of the Primary Obligor to the Beneficiary (and not returned or applied).

(4) Manner and Time of Collection or Delivery of Variation and Initial Margin; Prohibited Returns and Withdrawals

(A) Variation Margin or Initial Margin is deemed collected from a Counterparty, or returned to the member, when it is received by the member for the Counterparty's Uncleared SBS Account, or when it is transferred to the Counterparty's Uncleared SBS Account from another account at the member.

(B) Variation Margin is deemed delivered to a Counterparty, and Variation Margin or Initial Margin is deemed returned to the Counterparty, when it is transferred from the Counterparty's Uncleared SBS Account in a manner consistent with the Counterparty's instructions or agreement with the member, including when it is transferred to another account of the Counterparty carried by the member if that is consistent with the Counterparty's instructions or agreement with the member.

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(C) Margin required to be collected or delivered by paragraph (b)(3) of this Rule shall be collected or delivered as promptly as possible and no later than the close of business on the business day after the date as of which the relevant Current Exposure or Initial Margin Requirement was required to be computed. Unless FINRA has specifically granted the member additional time, any member that has not collected any Initial Margin or Variation Margin required to be collected under paragraph (b)(3) by the close of business on the third business day after the date as of which the relevant Current Exposure or Initial Margin Requirement was required to be computed, shall take prompt steps to liquidate positions in such Counterparty's Uncleared SBS Account to the extent necessary to eliminate the margin deficiency.

(D) If member is required by paragraph (b)(3)(A) of this Rule to deliver or return Variation Margin to the Counterparty and is also required by paragraph (b)(3)(B) of this Rule to collect Initial Margin from the Counterparty, the member shall net the delivery or return of Variation Margin against the collection of Initial Margin. If a member is required by paragraph (b)(3)(A) to collect or retrieve Variation Margin from the Counterparty and, giving effect to such collection or retrieval, would be permitted to return Initial Margin to the Counterparty, the member may net the return of Initial Margin against the collection or retrieval of Variation Margin.

(E) A member may not return Initial Margin to a Counterparty, nor permit a Counterparty to make a withdrawal from the Counterparty's margin account at the member, if such return or withdrawal, together with all other transactions, transfers, deposits and withdrawals on the same day, would create or increase an Initial Margin Deficit.

(5) Exceptions

(A) Clearing Agencies

A member is not required to deliver Variation Margin to, or collect Initial Margin or Variation Margin from, any Clearing Agency, and is not required to deduct otherwise required Variation Margin or Initial Margin in the computation of its net capital under SEA Rule 15c3-1 or, if applicable, FINRA Rule 4110(a).

(B) Legacy SBS

A member may omit all (but not less than all) Legacy SBS with a Counterparty from the Counterparty's Uncleared SBS Account when computing Current Exposure under paragraph (b)(1) of this Rule and the Initial Margin Requirement under paragraph (b)(2) of this Rule, provided that (i) it collects and delivers margin on Legacy SBS to the extent of its contractual rights or obligations to do so and (ii) in the computation of its net capital under SEA Rule 15c3-1 or, if applicable, FINRA Rule 4110(a), it deducts the amount of any additional Variation Margin and Initial Margin it would have been required to collect under

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paragraph (b)(3) of this Rule if the Legacy SBS had been included in the Counterparty's
Uncleared SBS Account.

(C) Multilateral Organizations

A member is not required to deliver Variation Margin to, or collect Initial Margin or Variation Margin from, any Multilateral Organization, provided that, in the computation of its net capital under SEA Rule 15c3-1 or, if applicable, FINRA Rule 4110(a), it deducts the amount of any Variation Margin and Initial Margin it would otherwise be required to collect under paragraph (b)(3) of this Rule.

(D) Financial Market Intermediaries

A member must deliver Variation Margin to, and collect Variation Margin from, a Counterparty that is a Financial Market Intermediary as required by paragraph (b)(3)(A) of this Rule. However, it is not required to collect Initial Margin from such a Counterparty provided that, in the computation of its net capital under SEA Rule 15c3-1 or, if applicable, FINRA Rule 4110(a), it deducts the amount of any Initial Margin it would otherwise be required to collect under paragraph (b)(3)(B) of this Rule.

(E) Sovereign Counterparties

A member must deliver Variation Margin to, and collect Variation Margin from, a Sovereign Counterparty as required by paragraph (b)(3)(A) of this Rule. However, if the member has determined pursuant to policies and procedures or credit risk models established pursuant to SEA Rule 15c3-1(c)(2)(vi)(I) that the Sovereign Counterparty has only a minimal amount of credit risk, the member is not required to collect Initial Margin from such Sovereign Counterparty provided that, in the computation of its net capital under SEA Rule 15c3-1 or, if applicable, FINRA Rule 4110(a), it deducts the amount of any Initial Margin it would otherwise be required to collect under paragraph (b)(3)(B) of this Rule.

(F) Majority Owners

A member must deliver Variation Margin to, and collect Variation Margin from, a Counterparty that is a direct or indirect owner of a majority of the equity and voting interests in the member as required by paragraph (b)(3)(A). However, it is not required to collect Initial Margin from such a Counterparty provided that, in the computation of its net capital under SEA Rule 15c3-1 or, if applicable, FINRA Rule 4110(a), it deducts the amount of any Initial Margin it would otherwise be required to collect under paragraph (b)(3)(B).

(G) ANC Firms Transacting with Majority Owners or Registered or Foreign SBS Dealers under Common Ownership

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A member approved to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1e must deliver Variation Margin to, and collect Variation Margin from, a Counterparty that is either (i) a direct or indirect owner of a majority of the equity and voting interests in the member, or (ii) a Registered or Foreign SBS Dealer a majority of whose equity and voting interests are directly or indirectly owned by such a direct or indirect owner of the member, in each case as required by paragraph (b)(3)(A). However, it is not required to collect Initial Margin from such a Counterparty provided that, in the computation of its net capital under SEA Rule 15c3-1 or, if applicable, FINRA Rule 4110(a), it takes a deduction for credit risk on transactions with such Counterparty computed in accordance with SEA Rule 15c3-1e(c).

(H) Portfolio Margin

This Rule 4240 shall not apply to any unlisted derivative, as defined in Rule 4210(g) (2)(H), carried by a member in a portfolio margin account subject to the requirements of Rule 4210(g) if such unlisted derivative is of a type addressed in the comprehensive written risk analysis methodology filed by the member with FINRA in compliance with Rule 4210(g) (1). This Rule 4240 also shall not apply to any SBS carried in a commodity account or other account under the jurisdiction of the Commodity Futures Trading Commission in accordance with an SEC rule, order, or no-action letter permitting SBS and swaps to be carried and portfolio margined together in such an account.

(c) Risk Monitoring Procedures and Guidelines

Members shall monitor the risk of any Uncleared SBS Accounts and shall 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 over a specified time period. For purposes of this Rule, members must employ the risk monitoring procedures and guidelines set forth in paragraphs (c)(1) to (13). The member must review, in accordance with the member's written procedures, at reasonable periodic intervals, the member's SBS activities for consistency with the risk monitoring procedures and guidelines set forth in this Rule, and must determine whether the data necessary to apply the risk monitoring procedures and guidelines is accessible on a timely basis and information systems are available to adequately capture, monitor, analyze and report relevant data, including:

(1) obtaining and reviewing the required documentation and financial information necessary for assessing the amount of credit to be extended to SBS Counterparties;

(2) determining and documenting the legal enforceability of netting or collateral agreements, including enforceability in the event a Counterparty becomes subject to bankruptcy or other insolvency proceedings;

- (3) assessing the determination, review and approval of credit limits to each Counterparty, and across all Counterparties;
- (4) monitoring credit risk exposure to the member from SBS, including the type, scope and frequency of reporting to senior management;
- (5) the use of stress testing of accounts containing SBS contracts in order to monitor market risk exposure from individual accounts and in the aggregate;
- (6) managing the impact of credit extended related to SBS contracts on the member's overall risk exposure;
- (7) determining the need to collect additional margin from a particular customer or broker or dealer, including whether that determination was based upon the creditworthiness of the customer or broker or dealer and/or the risk of the specific contracts;
- (8) determining the need for higher margin requirements than required by this Rule and formulating the member's own margin requirements, including procedures for identifying unusually volatile positions, concentrated positions (with a particular Counterparty and across all Counterparties and customers), or positions that cannot be liquidated promptly;
- (9) monitoring the credit exposure resulting from concentrated positions with a single Counterparty and across all Counterparties, and during periods of extreme volatility;
- (10) identifying any Uncleared SBS Accounts with intraday risk exposures that are not reflected in their end of day positions (e.g., Uncleared SBS Accounts that frequently establish positions and then trade out of, or hedge, those positions by the end of the day) and collecting appropriate margin to address those intraday risk exposures;
- (11) identifying any Uncleared SBS Account that, in light of current market conditions, could not be promptly liquidated for an amount corresponding to the Current Exposure computed with respect to such account and determining the need for higher margin requirements on such accounts or the positions therein;
- (12) maintaining sufficient Initial Margin in the accounts of each Counterparty to protect against the largest individual potential future exposure of an Uncleared SBS in such Counterparty's Uncleared SBS Account, as measured by computing the largest maximum possible loss that could result from the exposure; and
- (13) increasing the frequency of calculations of Current Exposure and Initial Margin Requirements during periods of extreme volatility and for accounts with concentrated positions.

(d) Definitions

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

(1) The term “**Basic CDS**” means a Basic Single-Name Credit Default Swap or a Basic Narrow-Based Index Credit Default Swap. For this purpose:

(A) The term “**Basic Narrow-Based Index Credit Default Swap**” means an SBS consisting of multiple component Basic Single-Name Credit Default Swaps; and

(B) The term “**Basic Single-Name Credit Default Swap**” means an SBS in which one party pays either a single fixed amount or periodic fixed amounts or floating amounts determined by reference to a specified notional amount, and the other party pays either a fixed amount or an amount determined by reference to the value of one or more loans, debt securities or other financial instruments issued, guaranteed or otherwise entered into by a third party (the “**Reference Entity**”) upon the occurrence of one or more specified credit events with respect to the Reference Entity (for example, bankruptcy or payment default). The term “**Basic Single-Name Credit Default Swap**” also includes a swap that, upon the occurrence of one or more specified credit events with respect to the Reference Entity, is physically settled by payment of a specified fixed amount by one party against delivery by the other party of eligible obligations of the Reference Entity.

(2) The term “**Basic SBS**” means an SBS, other than a credit default swap, under which each party is contractually obligated to provide the other the economic equivalent of a margin account containing a portfolio of long or short positions in securities or options (the “**Equivalent Margin Account**”).

(3) An SBS is “**Cleared**” if it is cleared through a Clearing Agency by or on behalf of the member.

(4) The term “**Clearing Agency**” means a clearing agency registered pursuant to Exchange Act section 17A or exempted by the SEC from such registration by a rule or order pursuant to Exchange Act section 17A.

(5) The term “**Counterparty**” means a person with whom a member has entered into an Uncleared SBS.

(6) The term “**Current Exposure**” has the meaning given it in paragraph (b)(1) of this Rule.

(7) The term “**Equivalent Margin Account**” with respect to a Basic SBS has the meaning given such term in the definition of “Basic SBS” in paragraph (d)(2) of this Rule.

(8) The term “**Financial Market Intermediary**” means a security-based swap dealer, swap dealer, broker or dealer, futures commission merchant, bank, foreign bank, or foreign broker or dealer.

(9) The term “**Initial Margin**” means all cash or margin securities, excluding Variation Margin, received by the member for a Counterparty’s Uncleared SBS Account or transferred to the Counterparty’s Uncleared SBS Account from another account at the member, including margin collected from a Counterparty in accordance with paragraph (b)(3)(B) of this Rule, that in each case have not been returned to the Counterparty or applied to an obligation of the Counterparty.

(10) The term “**Initial Margin Deficit**” means the amount, if any, by which (A) the sum of the Value of the Initial Margin in an Uncleared SBS Account and the Counterparty’s Rule 4210 Excess is less than (B) the Initial Margin Requirement for the Uncleared SBS Account.

(11) The term “**Initial Margin Requirement**” has the meaning given it in paragraph (b)(2) (A) of this Rule.

(12) The term “**Legacy SBS**” means an Uncleared SBS entered into before April 6, 2022.

(13) The term “**Multilateral Organization**” means the Bank for International Settlements, the European Stability Mechanism, the International Bank for Reconstruction and Development, the Multilateral Investment Guarantee Agency, the International Finance Corporation, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the European Investment Fund, the Nordic Investment Bank, the Caribbean Development Bank, the Islamic Development Bank, the Council of Europe Development Bank, or any other multilateral development bank that provides financing for national or regional development in which the U.S. government is a shareholder or contributing member.

(14) The term “**Registered or Foreign SBS Dealer**” means (A) any person registered with the Commission as a security-based swap dealer, or (B) any foreign person if the Commission has made a substituted compliance determination under SEA Rule 3a71-6(a)(1) that compliance by a registered security-based swap dealer or class thereof with specified requirements of a foreign regulatory system that are applicable to such foreign person may satisfy the capital requirements of Exchange Act section 15F(e) and SEA Rule 18a-1 that would otherwise apply to such security-based swap dealer or class thereof.

(15) A Counterparty’s “**Rule 4210 Excess**” is the amount, if any, by which the equity (as defined in Rule 4210(a)(5)) in the Counterparty’s margin account at the member exceeds the amount required by Rule 4210.

(16) The term “**SBS**” or “**security-based swap**” means a “security-based swap” as defined in Exchange Act section 3(a)(68).

(17) The term “**Sovereign Counterparty**” means Counterparty that is a central government (including the U.S. government) or an agency, department, ministry, or central bank

of a central government.

(18) An SBS is “**Uncleared**” if it is not Cleared.

(19) The term “**Uncleared SBS Account**” means an account with respect to a Counterparty consisting of:

(A) All Uncleared SBS between the member and the Counterparty;

(B) Long positions for all Variation Margin in the form of securities, and a credit balance for all Variation Margin in the form of cash, in each case collected from the Counterparty and not returned to, or applied to an obligation of, the Counterparty;

(C) Short positions for all Variation Margin in the form of securities, and a debit balance for all Variation Margin in the form of cash, in each case delivered to the Counterparty and not returned to, or applied to an obligation of, the member; and

(D) Long positions for all Initial Margin in the form of securities, and a credit balance for all Initial Margin in the form of cash, in each case collected from the Counterparty and not returned to, or applied to an obligation of, the Counterparty.

(20) The term “**Value**” means:

(A) With respect to one or more outstanding SBS with a Counterparty, a reasonable estimate of the amount of U.S. dollars that the member would receive (expressed as a positive amount) or pay (expressed as a negative amount) to enter at mid-market prices into one or more replacement SBS collectively providing the equivalent of the material terms of such existing SBS;

(B) With respect to a security position:

(i) the current market value of those margin securities, as defined in Rule 4210(a)(2), determined in accordance with Rule 4210(f)(1); or

(ii) at the member’s option with respect to any margin securities collected as Variation Margin or Initial Margin, means the current market value of those margin securities, as defined in Rule 4210(a)(2) and determined in accordance with Rule 4210(f)(1), reduced (“haircut”) by the margin requirement that would be applicable to such securities under Rule 4210 if they were held in the Counterparty’s margin account;

(C) With respect to cash in U.S. dollars, the amount of such cash; and

(D) With respect to a freely convertible foreign currency, the amount of U.S. dollars into which such currency could be converted, provided the currency is marked-to-market

(21) The term “**Variation Margin**” means cash or margin securities collected from, or delivered to, a Counterparty in accordance with paragraph (b)(3)(A) of this Rule.

• • • **Supplementary Material:** -----

.01 Good Faith Account. A Regulation T good faith account, other than a non-securities account, is a margin account for purposes of Rule 4240.

Amended by SR-FINRA-2021-008 eff. April 6, 2022.
Amended by SR-FINRA-2021-021 eff. Sept. 1, 2021.
Amended by SR-FINRA-2020-016 eff. July 20, 2020.
Amended by SR-FINRA-2019-016 eff. July 18, 2019.
Amended by SR-FINRA-2018-025 eff. July 18, 2018.
Amended by SR-FINRA-2017-019 eff. July 18, 2017.
Amended by SR-FINRA-2016-020 eff. July 18, 2016.
Amended by SR-FINRA-2015-013 eff. July 17, 2015.
Amended by SR-FINRA-2014-029 eff. June 23, 2014.
Amended by SR-FINRA-2013-030 eff. July 11, 2013.
Amended by SR-FINRA-2013-017 eff. Mar. 8, 2013.
Amended by SR-FINRA-2012-035 eff. July 13, 2012.
Amended by SR-FINRA-2012-015 eff. Mar. 7, 2012.
Amended by SR-FINRA-2012-014 eff. Jan. 17, 2012.
Amended by SR-FINRA-2011-034 eff. July 16, 2011.
Amended by SR-FINRA-2010-063 eff. Nov. 22, 2010.
Amended by SR-FINRA-2009-063 eff. Sep. 21, 2009.
Adopted by SR-FINRA-2009-012 eff. June 3, 2009.

Selected Notices: [09-30](#), [11-31](#), [22-03](#).