MARGIN RATES AND REQUIREMENTS

General Information

Margin rates and requirements on domestic contracts are governed by the individual exchanges.

Exchanges establish different margin rates/requirements for different account types (i.e. speculative, hedge, and member).

With the exception of the NYCE, any changes in initial and maintenance margin requirements made by an exchange are applicable to all positions, new or existing. At the NYCE, increases in margin requirements apply only to new positions, whereas decreases in margin requirements may be applied to all positions, new or existing.

FCMs, at their discretion, may set higher margin rates/requirements than required by exchange rules and regulations. FCMs should review their internal margin rates/requirements on a continual basis to ensure compliance with exchange minimum requirements.

Specific Topics

<u>Standard Portfolio Analysis of Risk Margin System (SPAN)</u>

The Standard Portfolio Analysis of Risk Margin System (SPAN) is the risk margin system adopted by all domestic futures exchanges. Margin requirements generated by the SPAN margin system shall constitute exchange minimum margin requirements.

The SPAN margin system is a risk-based, portfolio approach margining system used to compute minimum margin requirements for all futures and options positions. SPAN margin system requirements are computed using risk parameter files which are distributed daily, at a minimum, by the individual exchanges.

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Firms should apply the SPAN methodology or an alternative equivalent system to compute margin requirements on all accounts with domestic futures or options on futures. Generally, the firm's bookkeeping system will automatically calculate the margin requirement. However, firms could use PC-SPAN® to verify or estimate margin requirements. FCMs and other market participants could purchase PC-SPAN from the Chicago Mercantile Exchange. In addition to the PC-SPAN software, market participants must obtain the SPAN array file for the positions contained in the portfolio. PC-SPAN users could download the array for any exchange from the CME and CBOT web sites at:

http://www.cbot.com/mplex/contract/SPAN.htm

and

http://www.cme.com/SPAN/SPANdatx.htm

SPAN Margin System Requirements

Initial and maintenance margin requirements include only the risk component of the SPAN margin system requirement. The risk component is the assessment for changes in the underlying portfolio's price and volatility.

The equity component of the SPAN margin system requirement is included in margin equity. The equity component is the marked to the market value of options. See Chapter 11 for additional detail on the SPAN margin system.

Hedge Accounts

A hedge transaction is the purchase or sale of futures or options contracts executed for the purpose of minimizing price risk or facilitating the customary or normal conduct of business. Refer to CFTC Regulation 1.3(z) for a definition of "bona fide hedging transactions and positions".

FCMs should have a reasonable basis to grant hedge status to positions held in an account. A signed letter from an account holder may be considered satisfactory evidence of hedge status unless there is reason to suspect otherwise. Such letter shall clearly indicate which contracts/product categories are eligible for hedge status unless the account owner indicates that all activity in an account is held for hedging purposes.

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Bona fide hedge and speculative positions must be held in separate accounts unless the firm is able to identify within the account hedge from speculative positions.

A firm's records should clearly identify hedge accounts.