# PROPRIETARY ACCOUNTS

**Chapter 8**

**General Information**

**Proprietary accounts are trading accounts carried for the FCM itself or for any general partners of the FCM. Additionally, firm error accounts are included as proprietary accounts. For further information refer to CFTC Regulations 1.3(y) and 1.17(b)(3).**

**Joint accounts with an FCM or general partner interest equal to or greater than 10% are also considered proprietary accounts. For further information on joint accounts refer to Chapter 9 - Combined Accounts.**

**A firm must take an immediate capital charge for uncovered futures and options positions in any proprietary account. The proprietary capital charge applies to positions on both domestic and foreign contract markets.**

**Specific Topics**

**Financial Statement Presentation**

**For corporations:**

- **The equity in proprietary accounts, including firm error accounts, should be written off to profit/loss and reflected in retained earnings. This write off to profit/loss should be made on a monthly basis.**

- **Securities used to margin proprietary accounts should be classified as firm-owned securities at the appropriate depository on the balance sheet.**

**For partnerships:**

- **The balances in general partners' accounts should be classified as equity capital or equities in partners' trading accounts as determined by the partnership agreement.**

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## Covered Positions

**A covered position is a futures or options contract in which the risk is effectively eliminated by an equal offsetting position in a cash commodity, physical inventory, forward contract or fixed price commitment. Refer to CFTC Regulation 1.17(j) for further explanation.**

**Other transactions may be recognized as cover if the FCM can demonstrate in writing to the CFTC that the transaction is economically appropriate to the reduction of risk in the conduct and management of its business.**

**Both the futures or options position and related cover position (e.g. inventory or forward contract) must be under identical ownership and under the FCM's control.**

**Covered positions of an FCM are not subject to a proprietary capital charge.**

## Calculation of Proprietary Capital Charges

**An FCM must take an immediate charge against net capital for uncovered proprietary futures and options positions on both domestic and foreign exchanges, including open positions in firm error accounts.**

**The proprietary capital charge is the maintenance margin requirement multiplied by the applicable haircut percentage less proprietary equity not includable in adjusted net capital.**

**Proprietary Capital Charge =**

**(Maintenance Margin Requirement * Applicable Haircut Percentage) - Equity not Includable in Adjusted Net Capital**

**Margin requirements for positions maintained on domestic exchanges are based on the SPAN® margin system. Thus, in calculating proprietary capital charges, the maintenance margin requirement includes only the risk component.**

**The required haircut percentage is applied to a proprietary position's exchange or clearing house maintenance margin requirement based on the FCM's clearing relationship with the exchange on which the contract is cleared.**

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**Proprietary Capital Charge Percentages:**

- **If the FCM clears its own trades, 100% of the clearing house margin requirement.**

- **If the FCM is a member of a self-regulatory organization (SRO) and clears its trades through another clearing member, 150% of the greater of the clearing house or exchange maintenance margin requirement.**

- **If the exchange does not have a maintenance margin level, 200% of the initial margin requirement.**

**As proprietary equity of corporate FCMs is required to be included in adjusted net capital, it shall not reduce the proprietary capital charge. Only an FCM's partners' equity reported as a liability rather than as partnership capital shall reduce the proprietary capital charge.**

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**Sample Format: Proprietary Charge Calculation**

| EXCHANGE | MMR | APPLICABLE PERCENTAGE | ADJUSTED MMR | EQUITY | CAPITAL CHARGE |
|---|---|---|---|---|---|
| (A) | (B) | (C) | (D) | (E) | (F) |

**(A)** The exchange on which the positions are cleared.

**(B)** The exchange or clearing house SPAN® margin system maintenance requirement.

**(C)** Based on the FCM's clearing relationship with the exchange on which the contract is cleared, the appropriate haircut percentage.

**(D)** The adjusted maintenance margin requirement for the proprietary capital charge. (Column B * Column C)

**(E)** Account equity not includable in adjusted net capital. For corporate FCMs, this is always zero.

**(F)** The computed proprietary capital charge. (Column D - Column E) The total of column F is the proprietary capital charge reported on the firm's net capital computation.

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**EXAMPLES**

**Assumptions:**

1. FCM is a clearing member of and clears their own trades at the CME.
2. FCM is a clearing member of the NYMEX, but prefers to clear its NYMEX trades through a carrying broker.
3. FCM clears its trades at the CBOT through a carrying broker. (The FCM is not a clearing member of the CBOT.)
4. All positions in the proprietary account are uncovered.

**Example #1 - Proprietary Charge/Presentation of Equity - Corporate Account**

| | |
|---|---|
| MMR (CME Positions) | $ 100,000 |
| MMR (CBOT Positions) | $ 50,000 |
| NLE | $ 120,000 |

| EXCHANGE | MMR | APPLICABLE PERCENTAGE | ADJUSTED MMR | EQUITY | CAPITAL CHARGE |
|---|---|---|---|---|---|
| CME | 100,000 | 100% | 100,000 | 0 | $ 100,000 |
| CBOT | 50,000 | 150% | 75,000 | 0 | $ 75,000 |
| | | | TOTAL CHARGE | | $ 175,000 |

The proprietary capital charge is $175,000. The $120,000 net liquidating equity is recorded in retained earnings (written off to profit/loss). As the proprietary equity is included in adjusted net capital, it cannot be used to reduce the proprietary capital charge.

**Example #2 - Proprietary Charge/Presentation of Equity - Corporate Account**

| | |
|---|---|
| MMR (CME positions) | $ 75,000 |
| MMR (NYMEX positions) | $ 80,000 |
| NLE | $ 150,000 |
| Securities at Market | $ 99,300 |

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| EXCHANGE | MMR | APPLICABLE PERCENTAGE | ADJUSTED MMR | EQUITY | CAPITAL CHARGE |
|---|---|---|---|---|---|
| CME | 75,000 | 100% | 75,000 | 0 | $ 75,000 |
| NYMEX | 80,000 | 150% | 120,000 | 0 | $ 120,000 |
| | | | TOTAL CHARGE | | $ 195,000 |

**The proprietary capital charge is $195,000. The $150,000 net liquidating equity is recorded in retained earnings (written off to profit/loss). The $99,300 market value of securities should be classified as firm-owned securities at the appropriate depository. As the proprietary equity is included in adjusted net capital, it cannot be used to reduce the proprietary capital charge.**

**Example #3 - Proprietary Charge/Presentation of Equity - Partnership Account**

**MMR (CME positions) $ 80,000**

**NLE - Equity Capital $ 100,000**
**NLE - Partners' Capital $ 20,000**
**Total Account NLE $ 120,000**

| EXCHANGE | MMR | APPLICABLE PERCENTAGE | ADJUSTED MMR | EQUITY | CAPITAL CHARGE |
|---|---|---|---|---|---|
| CME | 80,000 | 100% | 80,000 | 20,000 | $ 60,000 |
| | | | TOTAL CHARGE | | $ 60,000 |

**The proprietary capital charge is $60,000. The allocation of partners' and equity capital is determined by the partnership agreement. The $100,000 net liquidating equity allocated as equity capital should be included as additional partnership capital (Ownership Equity). As the partnership equity capital is included in adjusted net capital, it cannot be used to reduce the proprietary capital charge. The $20,000 net liquidating equity allocated as partners' capital should be classified as a liability (Equities in Partners' Trading Accounts) and can be used to reduce the proprietary capital charge.**