COMBINED ACCOUNTS

Chapter 9

Specific Topics

Related Accounts

Identically owned accounts within the same classification of customer segregated, customer secured, or nonsegregated should be combined for margin purposes. That is, positions across such identically owned accounts may be combined to recognize spreads and to net concurrent long and short positions. Such accounts may be combined even if denominated in different currencies.

As all noncustomer accounts are nonsegregated, identically owned noncustomer accounts trading futures and options on U.S. exchanges and foreign exchanges should be combined for margin purposes.

An FCM may not apply free funds in an account under identical ownership but of a different classification or account type (e.g. securities, customer segregated, customer secured) to an account's margin deficiency. The funds must actually transfer to the identically owned undermargined account in order for them to be used for margin purposes. An equity system transfer is permissible when the firm maintains excess segregated funds in an amount at least equal to the dollar value of the credit entry.

Accounts under different ownership, in which all parties have signed a transfer of funds agreement, shall be margined separately. The funds must actually transfer to the applicable account for them to be used for margin purposes.

Individual accounts with a common owner but not under identical ownership shall be margined separately. For instance, Mr. Smith may own 50% of account A and 90% of account B with different partners. Accounts A and B should be treated separately for margin purposes. In a second example, Jack Donn is 100% owner of Donn, Inc. Mr. Donn's individual trading account and Donn, Inc.'s corporate trading account must be treated separately for margin purposes as these accounts are different legal entities.

Affiliated Accounts

Accounts of branches/divisions and subsidiaries of a parent corporation trading through an FCM should be treated as follows for margin purposes:

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Branches/Divisions

A branch is not a separately incorporated entity apart from the parent itself, but merely a division of the parent. Thus, branch/division accounts are combined like all other related accounts. Refer to the Related Accounts discussion above.

For division accounts under the same control, a firm's internal bookkeeping may reflect a division's independent positions in a sub-account solely as a service to the division, i.e. for profit center accounting. The division sub-accounts would contain hold-open positions; positions closed at the clearing house level (master account) but open on the firm's internal bookkeeping records (sub-account).

For division accounts under different control, separate division accounts are maintained which do not offset against the trading of other divisions.

An FCM's records should clearly indicate and support the method of combining branch/division account trading activities.

Subsidiaries

A subsidiary of a parent corporation is a separate legal entity.

Subsidiaries holding bona fide positions must maintain separate accounts. Such accounts cannot be offset across subsidiaries or with divisions of the parent corporation regardless of whether the trading is for hedging or speculative purposes. An FCM shall treat each subsidiary account separately for margin purposes. Subsidiaries are independently responsible for the margin status of their accounts and for properly meeting their margin calls. If a subsidiary were to have divisions itself, the divisions would be accounted for as described above.

The above affiliated accounts are assumed to have funds and trading activities relating only to the division or subsidiary itself. If customers are introduced through the division or subsidiary, then either individual customer accounts or an omnibus account would need to be set up.

Joint Accounts

In general, the equity system classification, balance sheet presentation, and appropriate proprietary/undermargined charges of joint accounts are based upon the percentage of ownership interest of the parties.

The appropriate balances to be reflected as equities in customer accounts, noncustomer accounts, and in retained earnings are based on the ownership interests and the distribution of profits and losses.

The joint account agreement should clearly state the interests of the account owners whenever:

(1) a customer or noncustomer has a joint account with the firm, or
(2) a customer has a joint account with a noncustomer.

Whenever a customer has a joint account interest equal to 90% or less with either a proprietary or noncustomer account, the customer effectively forfeits segregation rights.

The following page contains a chart summarizing joint account treatment for the account types:

- Firm/Customer,
- Firm/Noncustomer
- Noncustomer/Customer.

For each joint account type, the chart should be read across to determine equity system classification, balance sheet presentation, and the appropriate proprietary/undermargined charges. For example, the first line of the chart would be read as follows:

- The firm has a proprietary interest equal to or greater than 10% in a joint account with a customer. Therefore, the customer's interest is equal to or less than 90%.

- The joint account is classified in the house section of the equity system.

- The firm's percentage interest is reflected in retained earnings on the balance sheet. The customer's percentage interest is reflected as equities in noncustomer accounts on the balance sheet.

- An immediate proprietary capital charge is taken on the firm's percentage interest of the margin requirement. An undermargined capital charge is taken on the customer's percentage interest of the margin requirement according to the noncustomer undermargined grace period of four business days.

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The chart should be used as a reference guide for standard joint account agreements.

As joint account agreements vary greatly and are tailored to the individual parties, an FCM should maintain adequate documentation of all joint account agreements.

A firm shall keep detailed records of joint account activities in order to support financial statement presentation and capital charges taken.

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Joint Accounts Summary Chart

TYPE OF JOINT ACCOUNT	OWNERSHIP INTEREST %	EQUITY SYSTEM CLASSIFICATION	BALANCE SHEET PRESENTATION	PROPRIETARY/ MARGIN CHARGE	GRACE PERIOD
Firm/ Customer	≥ 10% ≤ 90%	House	Retained Earnings Equities in Noncustomers	Proprietary Noncustomers	None 4 Days
Firm/ Customer	< 10% > 90%	Customer	Retained Earnings Equities in Customers	Proprietary Customers	None 5 Days
Firm/ Noncustomer	≥ 10% ≤ 90%	House	Retained Earnings Equities in Noncustomers	Proprietary Noncustomers	None 4 Days
Firm/ Noncustomer	< 10% > 90%	House	Retained Earnings Equities in Noncustomers	Proprietary Noncustomers	None 4 Days
Noncustomer/ Customer	≥ 10% ≤ 90%	House	Equities in Noncustomers	Noncustomers	4 Days
Noncustomer/ Customer	< 10% > 90%	Customer	Equities in Customers	Customers	5 Days

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EXAMPLES

Example #1 - Related Accounts

Assumptions:

1. All accounts are customer owned and under identical ownership.
2. All contracts traded in the accounts are settled in the currency indicated.
3. The currency indicated is deposited in the account for margin.

Classification	Currency	NLE- U.S.$ Equivalent	MMR- U.S.$ Equivalent	Excess U.S.$ Equivalent
Segregated #1	US$	$ 10,000	$ 9,000	$ 1,000
Segregated #2	J-Yen	(3,000)	2,000	(5,000)
Total Segregated		7,000	11,000	
Secured #1	US$	3,000	5,000	(2,000)
Secured #2	D-Mark	4,000	1,000	3,000
Total Secured		7,000	6,000	
Delivery Account	US$	10,000	-0-	10,000

- **The customer's segregated accounts are undermargined by $4,000 computed as:**

  $5,000 J-Yen Deficiency + $1,000 US$ NLE (Excess)

- **The customer's secured accounts are not undermargined; the accounts have margin funds in excess of the maintenance margin requirements of $1,000 computed as:**

  $2,000 US$ Deficiency + $3,000 NLE Excess

- **The excess equity balances in the secured accounts and in the delivery account cannot be used to margin the segregated accounts.**

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Examples - Joint Accounts

Assumptions:

1. The ownership interests of the joint account equals the profit/loss split.
2. Account equity is only made up of profits.
3. The FCM clears the trades.
4. The account's equity and margin information is as follows:

LB	-	$ 15,000
OTE	-	$ (5,000)
NOV	-	$ 40,000
NLE	-	$ 50,000
MMR	-	$ 60,000

Example #2 - Firm/Customer Joint Account

The firm and a customer have agreed to a jointly owned account with a 60%/40% split of all profits and losses respectively.

A. Equity System Classification: Account is classified in the house section of the equity system as the proprietary interest is equal to or greater than 10%.

B. Balance Sheet Presentation: The balance sheet presentation is determined by the profit and loss split of 60%/40%. The firm's NLE interest of $30,000 ($50,000 NLE * 60%) is reflected in retained earnings. The customer's NLE portion of $20,000 ($50,000 NLE * 40%) is classified as equities in noncustomer accounts.

C. Capital Charges: A $36,000 ($60,000 MMR * 60%) charge would be taken immediately on the proprietary interest of the account. (As the firm's equity interest has been reflected in retained earnings, it may not reduce the proprietary charge.) Since the customer's interest is classified as noncustomer, an undermargined charge of $4,000 [($60,000 MMR * 40%) - ($50,000 NLE * 40%)] would apply if the account was undermargined four business days or more (the noncustomer undermargined grace period).

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Example #3 - Firm/Customer Joint Account

The firm and a customer have agreed to a jointly owned account with a 5%/95% split of all profits and losses respectively.

A. Equity System Classification: Account is classified in the customer section of the equity system as the proprietary interest is less than 10%.

B. Balance Sheet Presentation: The balance sheet presentation is determined by the profit and loss split of 5%/95%. The firm's NLE interest of $2,500 ($50,000 NLE * 5%) is reflected in retained earnings. The customer's NLE portion of $47,500 ($50,000 NLE * 95%) is classified as equities in customer accounts.

C. Capital Charges: A $3,000 ($60,000 MMR * 5%) charge would be taken immediately on the proprietary interest of the account. (As the firm's equity interest has been reflected in retained earnings, it may not reduce the proprietary charge.) Since the customer's interest is classified as customer, an undermargined charge of $9,500 [($60,000 MMR * 95%) - ($50,000 NLE * 95%)] would apply if the account was undermargined five business days or more (the customer undermargined grace period).

Example #4 - Noncustomer/Customer Joint Account

A noncustomer and a customer have agreed to a jointly owned account with a 60%/40% split of all profits and losses respectively.

A. Equity System Classification: Account is classified in the house section of the equity system as the noncustomer interest is equal to or greater than 10%.

B. Balance Sheet Presentation: The account's entire NLE of $50,000 is classified as equities in noncustomer accounts.

C. Capital Charges: The account is margined as a noncustomer. Since the entire account, including the customer's interest, is classified as noncustomer, an undermargined charge of $10,000 ($60,000 MMR - $50,000 NLE) would apply if the account was undermargined four business days or more (the noncustomer undermargined grace period).

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Example #5 - Noncustomer/Customer Joint Account

A noncustomer and a customer have agreed to a jointly owned account with a 5%/95% split of all profits and losses respectively.

A. **Equity System Classification: Account is classified in the customer section of the equity system as the noncustomer interest is less than 10%.**

B. **Balance Sheet Presentation: The account's entire NLE of $50,000 is classified as equities in customer accounts.**

C. **Capital Charges: The account is margined as a customer. Since the entire account, including the noncustomer's interest, is classified as customer, an undermargined charge of $10,000 ($60,000 MMR - $50,000 NLE) would apply if the account was undermargined five business days or more (the customer undermargined grace period).**