MISCELLANEOUS MARGIN TOPICS

Chapter 10

Excess Margin Payments

Throughout the handbook, the margin status of an account (i.e. margin calls and undermargined charges) is determined based upon margin equity and initial/maintenance margin requirements. The handbook has defined (1) margin equity as net liquidating equity plus the applied margin value of acceptable margin deposits and (2) initial/maintenance margin requirements to include only the risk component of the SPAN margin system requirement. Thus, option value is allowed to meet an account's total risk margin requirement and is considered an acceptable margin deposit. It may also be included in the computation of funds available for disbursement. That is, the excess of an account's net liquidating equity plus the applied margin value of acceptable margin deposits over the risk initial margin requirement is available for disbursement.

Margin Funds Available for Disbursement =

Net Liquidating Value + Margin Deposits – Initial Margin Requirement $\geq$ 0

FCMs may also use the Total Equity Method, as referred to in Chapter 4, for determining funds available for disbursement. In computing excess margin payments, if total equity plus margin deposits is zero or negative, a disbursement cannot be made as there are no funds available.

All identically owned accounts must be combined for purposes of determining the amount of funds available for disbursement within the account classifications of customer segregated, customer secured, or nonsegregated. Available funds from one account classification cannot be used for disbursement from another account classification. The transfer of funds must first occur in order for a disbursement to be made.

Concurrent Long and Short Positions

Concurrent long and short positions are long and short positions traded on the same contract market in the same futures or options contract for the same delivery month or expiration date and, if applicable, having the same strike price.

A firm may carry concurrent long and short positions as follows (see CFTC Reg. 1.46):

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- **In domestic and foreign omnibus accounts. All positions held by domestic and foreign omnibus accounts shall be margined on a gross basis.**

- **In a hedge account in which both the long and short positions are bona fide hedge positions. Such positions shall be margined on a net basis at all exchanges.**

- **In an account or identically owned accounts in which one side is a bona fide hedge position and the other side is a speculative position. Such positions shall be margined on a net basis at all exchanges.**

- **In separate accounts for identically owned speculative concurrent long and short positions that are separately and independently controlled. Such positions shall be margined on a net basis at all exchanges.**

- **For positions margined on a net basis, no margin is required; however, the account must maintain a zero or credit net liquidating equity.**

Concurrent Long and Short Hold-Open Positions

Hold-open positions are positions offset at the exchange that, for convenience and customer service purposes, have been held open on the FCM's internal bookkeeping records. The firm's internal bookkeeping records shall clearly indicate all hold-open positions.

As hold-open positions only remain open on the firm's internal records and are not true exchange positions, no margin is required.

Alternative Margining Systems

The SPAN margin system has been adopted by all domestic futures exchanges. If an FCM elects to use an alternative margining system, the firm should contact the individual exchanges to determine its acceptability. A firm's records shall clearly identify the margining system used for all accounts.

An FCM should contact its DSRO for information on computing an account's margin status, margin calls, undermargined capital charges, and funds available for disbursement under the alternative margining system.