

## **PREFACE**

The futures industry's Joint Audit Committee (JAC) developed the initial edition of this handbook during 1994 in an effort to standardize margin procedures, where possible. The handbook was approved by each of the domestic futures exchanges and the National Futures Association ("NFA").

The initial edition of the Margins Handbook was distributed via a mass mailing to all Futures Commission Merchants ("FCM") registered as of October 1, 1994. The preparation and distribution of the handbook was intended as a one-time event. However, since that time the industry has seen the mergers of several Exchanges, resulting in an increase of uniform margin procedures. In addition, the JAC has received very favorable comments on its initiative and has noticed a demand for a more current edition. As such, the JAC has developed a second edition to account for recent margin policy changes and to include comments and recommendations received from industry participants.

This second edition Margins Handbook will be distributed to all FCMs registered as of July 31, 1999. The JAC will in the future periodically update the handbook to account for material changes. Subsequent editions will be available through the Web sites of the various Exchanges and NFA. Each FCM will receive a notice of any material change and will be instructed to download the new edition from the applicable Web site.

The JAC's objectives in maintaining this handbook remain the same: To establish sound policies for monitoring margin risk exposure and to improve operational efficiency. Consistent treatment of these policies across all exchanges is beneficial to both market participants and regulators. Through an improved understanding and application of margin policies, this handbook strives to strengthen the financial protection margin is intended to provide.

Users of this handbook are reminded of the difference between the definition of "margin" within the futures industry (a bond that ensures performance) versus the securities industry (a percentage payment toward the outright purchase of stock).

The JAC is not responsible for any errors or omissions contained within. Any questions concerning margin and related topics should be directed to a firm's "Designated" Self-Regulatory Organization ("DSRO").

*The JAC is a representative committee of U.S. futures exchanges and regulatory organizations which participate in a joint audit and financial surveillance program that has been approved and is overseen by the CFTC. The purpose of the joint program is to coordinate amongst the participants numerous audit and financial surveillance procedures over registered futures industry entities. Each registered futures entity is thus allocated a "Designated" Self-Regulatory Organization, known as the DSRO, which is responsible for, among other things, conducting periodic audits of that entity and sharing any and all information with the other regulatory bodies of which the firm is a member. The result of the coordinated audit and surveillance effort is an effective and efficient regulatory forum. By standardizing the audit function and avoiding duplication, the JAC has streamlined the regulation necessary to assure the best interests of market participants.*

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