Joint Audit Committee

REGULATORY ALERT

TO: Chief Executive Officers #18-02
Chief Financial Officers
Chief Compliance Officers

DATE: June 6, 2018

SUBJECT: Omnibus Accounts

The accurate calculation and proper collection of margin is not only required by industry rules and regulations, but is a critical component of sound risk management and strong financial safeguards. The collection of margin is required for all U.S. and non-U.S. customers and noncustomers including omnibus accounts. Margin is required for trading on both U.S. and non-U.S. markets. Furthermore, margin is based on the gross positions of each account holder per regulatory classification. This bulletin discusses the unique requirements related to omnibus accounts which FCMs should be aware of and monitor for.

Omnibus Accounts

U.S. and non-U.S. omnibus accounts are subject to the same rules and regulations. For clarity, the use of the term “omnibus accounts” throughout this JAC Regulatory Alert includes both U.S. and non-U.S. omnibus accounts.

An FCM’s risk management program should include specific due diligence and review pertaining to the carrying and surveillance of omnibus accounts. The policies and procedures should be designed to ensure the proper treatment of all omnibus accounts on their books. This includes the establishment of the accounts as well as ensuring the proper reporting of gross positions, spread positions and purchase and sale (“P&S”) offsets.

The records of an FCM should clearly indicate all omnibus accounts. Further the customer and house omnibus accounts of the same entity must be separately established and reviewed. Similarly, separate omnibus accounts of the same FCM must be established and reviewed for margin purposes for different customer regulatory classifications.

<u>Reporting of Positions</u>

Omnibus accounts generally contain the trades and positions of more than one undisclosed entity or person. Further, omnibus accounts are required to report gross positions to their carrying brokers. As such, omnibus accounts generally contain concurrent long and short positions and should not be set-up to automatically offset (P&S) positions.

For P&S offsets, the carrying broker should receive written instructions on a daily basis that the positions to be offset are for one underlying account owner. If there is a delay in closing out positions, the carrying broker should manually recompute the omnibus account's margin requirements. Such calculation shall be maintained on file along with any instructions for offsets.

Notwithstanding the foregoing, an omnibus account may be set-up to automatically offset (P&S) positions, if the omnibus account is solely for one underlying account owner and the FCM maintains written evidence and regularly confirms that the omnibus account is solely for one underlying account owner. It is critical that FCMs take all necessary steps to ensure omnibus accounts are reporting positions on a gross basis.

Furthermore, an FCM should obtain and maintain on file written instructions from omnibus accounts for positions which are entitled to be margined as spread positions.

Margin Rates and Requirements

Omnibus accounts are required to be margined on a gross basis.

Omnibus accounts are margined using only maintenance margin requirements at exchanges; thus, initial margin requirements do not apply. An omnibus account's initial margin requirements equals the account's maintenance margin requirement. For clarity, the maintenance margin requirement is the minimum margin required; an FCM may charge higher margin on omnibus accounts at its discretion.

For an omnibus account to receive spread margin rates, the carrying broker must receive and maintain on file written instructions for such positions.

Undermargined Accounts

For omnibus accounts, margin calls should be met within 3 business days or an appropriate undermargined capital charge should be taken. For clarity, days are counted as Day 1 – business day omnibus account becomes undermargined; Day 2 – business day margin call is issued; Day 3 – first business day margin call is outstanding. If the margin call has not been met by close of business on Day 3, an undermargined charge must be taken.

NFA Required Notification

In accordance with NFA Compliance Rule 2-33, an FCM must notify its designated self-regulatory organization ("DSRO") or if so directed by its DSRO, the NFA whenever it accepts other than immediately available funds from an FCM doing business on an omnibus basis. This notification must be received within 24 hours of the acceptance of such funds. For purposes of this notification, wire transfers and certified checks shall be considered immediately available funds.

Summary

Strong controls and procedures pertaining to the review of omnibus accounts is essential to ensure the positions of omnibus accounts are properly reported and margined. The policies and procedures should be enhanced as necessary when reviewing non-U.S. omnibus accounts which may not be as familiar with U.S. rules and regulations.

For further information on margins in general and the margining of omnibus accounts, refer to the JAC Margins Handbook at http://www.jacfutures.com/jac/MarginHandBookAdobe.aspx.

If you have any questions, please contact your DSRO.