Joint Audit Committee

REGULATORY ALERT

TO:	Chief Executive Officers Chief Financial Officers Chief Compliance Officers	#19-02
CC:	Division of Swap Dealer and Intermediary Oversight, CFTC	
DATE:	May 14, 2019	
SUBJECT:	Combining Accounts for Margin Purposes	

This JAC Regulatory Alert serves as a reminder to FCMs of certain requirements established in exchange rules, the JAC Margins Handbook, and regulations of the Commodity Futures Trading Commission ("CFTC") requiring the combining of accounts for margin purposes specifically with regards to the release of excess margin funds.[1]

All accounts of the same beneficial owner within the same regulatory account classification (i.e. customer segregated, customer secured, cleared swaps customer, or noncustomer) should be combined for margin purposes. Further, when determining an account's margin funds available for disbursement[2], all accounts of the same beneficial owner, even if under different control, within the same regulatory account classification must be combined. However, FCMs may choose to call for margin on an individual underlying account basis, provided the gross margin calls made are conservative in relation to the aggregate margin call calculated for the combined account.

Further an account's available funds from one regulatory account classification cannot be used for disbursement from another regulatory account classification.

An FCM's policies and procedures should be designed to ensure that any disbursement made to a beneficial owner is made in compliance with industry rules and regulations. That is, a firm's margin policies and procedures must combine all accounts of the same beneficial owner within the same

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1 This JAC Regulatory Alert reconfirms and reiterates the margin policies related to combining accounts as stated in JAC Regulatory Alert #14-03 dated May 21, 2014 (found at http://www.jacfutures.com).

2 Margin funds available for disbursement is defined by the JAC Margins Handbook (found at http://www.jacfutures.com) as an account's net liquidating value + margin deposits – initial margin requirements (risk margin only) ≥ zero. Alternatively, FCMs may compare the total equity plus margin deposits in an account to the initial margin requirement adjusted for the account's option value, commonly referred to as the Total Equity Method.

regulatory account classification to determine funds available for disbursement. Further, for any disbursement of excess margin funds to a beneficial owner, the FCM's records should clearly demonstrate the review and determination of funds available for disbursement prior to the release of funds.

Strong controls and procedures pertaining to the disbursement of funds is essential to ensure margin is properly maintained by beneficial owner.

If you have any questions, please contact your DSRO.