Regulatory Notice 3.3.12~~(h)~~; 3.3.13 — Customer Margins

Issue Date	Cross Reference	Enquiries
Added on 22 September 2006 and amended on 25 August 2009 and 11 October 2013.	Rule 3.3.12~~(h)~~ Rule 3.3.13	Please contact Member Supervision: Facsimile No : 6538 8273 E-Mail Address: membersup@sgx.com

1. Introduction

1.1 The Regulatory Notice sets out the requirements in relation to Rules 3.3.12 and 3.3.13 ("the Relevant Rules") on the computation and monitoring of Customer margins ~~under Rule 3.3.12(h)~~.

2. ~~Customer Margins~~ Margin Rates and Acceptable Forms of Margins

2.1 Margin System

<u>Standard Portfolio Analysis of Risk Margin System</u>

~~Members shall compute, monitor and collect margins from Customers in accordance with the requirements in this Regulatory Notice. The detailed requirements under this Regulatory Notice are available to Members upon request.~~

2.1.1 The Standard Portfolio Analysis of Risk Margin System ("SPAN") is the risk margin system adopted by the Exchange and the Clearing House. Margin requirements generated by SPAN shall constitute the Exchange's and the Clearing House's minimum margin requirements ("minimum margin requirements").

2.1.2 SPAN is a risk-based, portfolio approach margining system used to compute minimum overall margin requirements for a portfolio of positions in Contracts. SPAN requirements are computed using risk parameter files which are distributed at least daily by the Clearing House.

2.1.3 The margin requirements computed under SPAN have two components: the risk component, which accounts for potential changes in the market price and volatility of the Futures Contract, and the equity component, which is the value of the Option Contract marked to the current day's settlement price. If the net option value in a Customer Account is short, it is added to the risk margins to increase the margin requirements. If the net option value is long, it may be applied towards reducing the risk margin requirements.

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2.1.4 All corporate Members are advised to use SPAN for Contracts. Members may use margining systems other than SPAN to compute the minimum margin requirements provided the Members can demonstrate that their systems will always produce margin requirements equal to or greater than the SPAN margin requirements.

2.2 Margin Rates and Requirements

2.2.1 Margin rates and requirements on Contracts are prescribed by the Clearing House. Under Rule 3.3.12, Members are required to procure Initial Margins from their Customers and ensure that their Customers comply with Maintenance Margins for such amounts as required by the Clearing House.

2.2.2 For contracts listed in other exchanges, Members shall ensure that they comply with Initial Margins and Maintenance Margins prescribed by the relevant exchanges or clearing houses.

2.2.3 For over-the-counter ("OTC") spot trades, Members shall ensure that they comply with the minimum margin requirements prescribed under Rule 3.3.13.

2.2.4 Members may, at their discretion, set higher margin rates/requirements than that required by the Relevant Rules. Members shall review their internal margin rates/requirements on a continual basis to ensure compliance with the required minimum Initial Margins and Maintenance Margins prescribed under the Relevant Rules.

2.3 Acceptable Forms of Margins

2.3.1 Pursuant to Rule 3.3.12, the Clearing House has prescribed a list of instruments which Members may accept from Customers for meeting their required Initial Margins and Maintenance Margins.

2.3.2 The list of the acceptable instruments and their prescribed maximum valuations can be found on the Exchange's website (http://www.sgx.com).

2.3.3 Where a Member does not have physical possession of Japanese Government Bonds or securities listed on the First Section of Tokyo Stock Exchange, the Member shall be deemed to have complied with the requirements of Rule 3.3.12 if the Member can obtain written confirmation from a financial institution in Singapore or in Japan, that the financial institution is holding such securities from the Customers, as custodian for the Member concerned.

2.3.4 Bank certificates of deposits, including fixed deposits, may be accepted as good security under the following terms and conditions:

(1) the Customer signs a memorandum of charge of its deposits in favour of the Member. The memorandum shall operate as an equitable assignment which entitles the Member to payment out of the monies in the accounts;

(2) where a memorandum of charge is given by a corporate Customer, the Member shall ensure that the memorandum is registered with the Accounting and Corporate Regulatory Authority ("ACRA") (with the filing of the necessary forms). The Member shall also make a search at ACRA to ensure that there is no prior charge of the same account to other persons;

(3) the Member shall also ensure that it receives a confirmation from the bank that the required amount is deposited with the bank and has not been subjected to any banker's lien or right of set-off or consideration, or any other lien or charge. The Member shall notify the bank of the memorandum of charge as soon as it is executed so that the bank withholds all further payments to its Customer unless such payments are made with the consent of the Member. The Member shall document proof of such notice; and

(4) where a memorandum of charge is given by a Customer who is an individual, the Member shall cause the Customer to authorise the bank to disclose to the Member whether there have been notices of earlier charges and the details thereof, if any. This is to ensure that there is no prior charge of the same account to other Persons.

2.3.5 The Clearing House has prescribed that where gold certificates issued by banks approved by MAS or gold bars are used to margin open short gold futures positions, the maximum valuation of these instruments shall be one hundred (100) percent of market value. If these instruments are used for margining positions other than open short gold futures positions, the maximum valuation of these instruments shall be seventy (70) percent of market value.

2.3.6 Members are allowed to apply a more conservative valuation (that is, less than the maximum valuation prescribed) on the acceptable instruments.

3. Margin Calls

3.1 Issuance of Margin Calls

3.1.1 Margin calls are issued to collect the required margins to ensure the performance of a contract. A margin call is a request from a Member to a Customer to deposit additional margins.

3.1.2 Pursuant to Rule 3.3.12, whenever a Customer's Total Net Equity falls below the Maintenance Margins, the Customer Account shall be deemed to be under-margined. The under-margined amount is equal to the difference between the Customer's Initial Margins and the Customer's Total Net Equity. This is the minimum amount that the Member must call from the Customer in order to restore the Customer's Total Net Equity to the Initial Margins level.

3.1.3 Margin calls shall be made within one Trading Day after the occurrence of the event giving rise to the margin calls.

3.1.4 A Member may, at their discretion, call for additional margins or issue margin calls on a more frequent basis, including the issuance of intra-day margin calls.

3.2 Computation of Margin Calls

3.2.1 In determining margin calls, Customer Accounts shall be reviewed at the close of the Trading Day. All Customer Accounts opened by the same Customer, for the benefit of its own clients shall be combined in one group. All other Customer Accounts opened by the same Customer shall be combined in a separate group. Below is an example to illustrate the treatment of the accounts opened by Customer XYZ under the following scenarios:

(1) XYZ – proprietary A/C 1
XYZ – client omnibus A/C 2
Treatment : A/C 1 and A/C 2 should be treated as separate accounts for the purpose of computing margin calls.

(2) XYZ – proprietary A/C 1A
XYZ – proprietary A/C 1B
Treatment : A/C 1A and A/C 1B should be combined when computing margin calls.

(3) XYZ – client speculative A/C 2A
XYZ – client omnibus A/C 2B
Treatment : A/C 2A and A/C 2B should be combined when computing margin calls.

3.2.2 If Customer Accounts are not combined in accordance with paragraph 5 above, there is a risk that the Member may either fail to issue a margin call or understate the amount required under a margin call. This is illustrated below:

Assume proprietary A/C A & proprietary A/C B are owned by the same Customer:

	A/C A $	A/C B $	Combined $
Total Net Equity	8,000	42,000	50,000
Initial Margins	26,000	50,000	76,000
Maintenance Margins	21,000	40,000	61,000
Under-margined	18,000	Nil	26,000
Margin Call Required	**18,000**	**Nil**	**26,000**

In the above example, if the two accounts are not combined, the Customer as a whole would be subjected to a lesser margin call of $18,000 instead of $26,000.

3.3 Reduction and Deletion of Margin Calls

3.3.1 A Member may:

(1) reduce the amount required under a margin call through a receipt of cash and other acceptable forms of margins which are less than the amount required under the margin call. The Customer is still required to meet the remaining amount required under the margin call; and

(2) consider the total margin call to be satisfied if the Customer's Total Net Equity is equal to or greater than the Customer's Initial Margins as of the close of the Trading Day.

3.3.2 A Member shall reduce a Customer's oldest outstanding margin call first. Individual margin calls shall be aged separately throughout their existence. A Customer's total margin call is the sum of all individually aged margin calls. A Member's records shall clearly indicate the age of all margin calls issued and outstanding.

3.3.3 In order to protect the age of outstanding margin calls for re-established positions, the liquidation and re-establishment of positions during the same Trading Day to circumvent the Relevant Rules is not allowed.

3.4 Recording and Monitoring

3.4.1 A Member is required to keep written records which should include the following in respect of each Customer:

(1) all margin calls, whether made in writing or by telephone and the number of days such calls are outstanding; and

(2) all reductions and deletions of margin calls and the dates they occurred.

3.4.2 Any manual adjustments made to equity system reports to determine a Customer's margin status (e.g. adjustments to margin requirements, margin calls, etc.) shall be maintained on file.

3.4.3 Members shall maintain a proper monitoring system to ensure that all Customers who are under-margined are subject to prompt margin calls and that such calls are being properly monitored and followed up in order to restore the relevant Customers' Total Net Equity to the Initial Margins levels.

3.5 Ageing of Margin Calls

3.5.1 In ageing margin calls, for the purpose of determining whether calls are met within the reasonable period:
T = trade date/ date that the Customer's Total Net Equity falls below the Maintenance Margins
1 = first Trading Day after the date that the Customer's Total Net Equity falls below the Maintenance Margins
2 = second Trading Day after the date that the Customer's Total Net Equity falls below the Maintenance Margins
3 = third Trading Day after the date that the Customer's Total Net Equity falls below the Maintenance Margins
Reasonable period shall have the meaning ascribed to it in Rule 3.3.12.

3.6 Examples

The following examples illustrate how margin calls are aged, reduced and deleted.

Assumptions:

(1) Customer's Total Net Equity and margin requirements are as of the close of the respective Trading Days indicated.

(2) The Customer was properly margined on the previous Trading Day (Friday).
If an individual margin call is required to be issued, the margin call shall equal:
Initial Margins - Total Net Equity

Example 1 – Issuing of margin calls due to unfavourable market movements

Margin calls must be issued no later than one Trading Day after the date that the Customer's Total Net Equity falls below the Maintenance Margins.

	Monday	Tuesday	Wednesday	Thursday
Total Net Equity	50,000	49,000	44,000	44,000
Initial Margins	60,000	60,000	60,000	60,000
Maintenance Margins	50,000	50,000	50,000	50,000
UNDER-MARGINED	Nil	11,000	16,000	16,000
Unfavourable market movements [UMM] of $1,000 occurred on Tuesday and $5,000 on Wednesday. No margins were deposited.				
CALL RE'QD/(AGE)	-0-	11,000 (T)	11,000 (1)	11,000 (2)
			5,000 (T)	5,000 (1)
		Customer Account is under-margined	*Member must issue margin call of $11,000 no later than today.*	*Member must issue margin call of $5,000 no later than today.*
			Additional margin call of $5,000 required due to UMM.	

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Example 2 – Impact on margin calls due to liquidation of positions

Margin calls cannot be reduced/deleted if the liquidation does not restore the Customer's Total Net Equity to or above Initial Margins.

	Monday	Tuesday	Wednesday	Thursday
Total Net Equity	45,000	45,000	45,000	45,000
Initial Margins	60,000	55,000	55,000	50,000
Maintenance Margins	55,000	53,000	53,000	48,000
UNDER-MARGINED	15,000	10,000	10,000	5,000
Positions were liquidated on Tuesday reducing Initial Margins by $5,000 and Maintenance Margins by $2,000 and on Thursday reducing Initial Margins by $5,000 and Maintenance Margins by $5,000. No margins were deposited.				
CALL RE'QD/(AGE)	15,000 (T)	15,000 (1)	15,000 (2)	15,000 (3)
		Margin call cannot be reduced or deleted as the liquidation did not result in Total Net Equity equal to or exceed Initial Margins.		*Margin call cannot be reduced or deleted as the liquidation did not result in Total Net Equity equal to or exceed Initial Margins.*

Example 3 – Impact on margin calls due to receipt of margin deposits

Margin calls can be reduced by the amount of margins actually received.

	Monday	Tuesday	Wednesday	Thursday
Total Net Equity	50,000	45,000	44,000	47,000
Initial Margins	60,000	60,000	60,000	60,000

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Maintenance Margins	55,000	55,000	55,000	55,000
UNDER-MARGINED	10,000	15,000	16,000	13,000
Unfavourable market movements [UMM] of $5,000 occurred on Tuesday and $1,000 on Wednesday. Cash of $3,000 was deposited on Thursday.				
CALL RE'QD/(AGE)	10,000 (T)	10,000 (1)	10,000 (2)	7,000 (3)
		5,000 (T)	5,000 (1)	5,000 (2)
			1,000 (T)	1,000 (1)
		Additional margin call of $5,000 required due to UMM.	*Additional margin call of $1,000 required due to UMM.*	*Margin call of $10,000 can be reduced by the cash receipt of $3,000.*

Example 4 – Impact on margin calls due to favourable market movements that are less than total margin call outstanding

Margin calls cannot be reduced/deleted if favourable market movements do not restore the Customer's Total Net Equity to or above Initial Margins.

	Monday	Tuesday	Wednesday	Thursday
Total Net Equity	55,000	58,000	52,000	58,000
Initial Margins	60,000	60,000	60,000	60,000
Maintenance Margins	58,000	58,000	58,000	58,000
UNDER-MARGINED	5,000	No (see below)	8,000	No (see below)
Favourable market movements [FMM] of $3,000 occurred on Tuesday. Unfavourable market movements [UMM] of $6,000 occurred on Wednesday. FMM of $6,000 occurred on Thursday. No margins were deposited.				

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CALL RE'QD/(AGE)	5,000 (T)	5,000 (1)	5,000 (2)	5,000 (3)
			3,000 (T)	3,000 (1)
		Margin call of $5,000 cannot be reduced or deleted as FMM did not result in Total Net Equity equal to or exceed Initial Margins.	*Additional margin call of $3,000 required due to UMM.*	*Margin call of $5,000 and $3,000 cannot be reduced or deleted as FMM did not result in Total Net Equity equal to or exceed Initial Margins.*

Example 5 – Impact on margin calls due to favourable market movements that exceed total margin call

Margin calls can be deleted if favourable market movements restore the Customer's Total Net Equity to or above Initial Margins.

	Monday	Tuesday	Wednesday	Thursday
Total Net Equity	54,000	51,000	58,000	60,000
Initial Margins	60,000	60,000	60,000	60,000
Maintenance Margins	55,000	55,000	55,000	55,000
UNDER-MARGINED	6,000	9,000	No (see below)	-0-
Unfavourable market movements [UMM] of $3,000 occurred on Tuesday. Favourable market movements [FMM] of $7,000 occurred on Wednesday and $2,000 on Thursday. No margins were deposited.				
CALL RE'QD/(AGE)	6,000 (T)	6,000 (1)	6,000 (2)	-0-
		3,000 (T)	3,000 (1)	
		Additional margin call of $3,000 required due to UMM.	*Margin call of $6,000 was not reduced or deleted as FMM did not result in Total Net Equity equal to or exceed*	*Total margin call of $9,000 deleted as Total Net Equity equals Initial Margins.*

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			Initial Margins.	

Example 6 – Impact on margin calls due to favourable market movements plus receipt of margins that exceed total margin call

Margin calls can be deleted if favourable market movements and receipt of margins restore the Customer's Total Net Equity to or above Initial Margins.

	Monday	Tuesday	Wednesday	Thursday
Total Net Equity	50,000	52,000	52,000	61,000
Initial Margins	60,000	60,000	60,000	60,000
Maintenance Margins	58,000	58,000	58,000	58,000
UNDER-MARGINED	10,000	8,000	8,000	-0-
Favourable market movements [FMM] of $2,000 occurred on Tuesday. Cash of $9,000 was deposited on Thursday.				
CALL RE'QD/(AGE)	10,000 (T)	10,000 (1)	10,000 (2)	-0-
		Margin call of $10,000 was not reduced or deleted as FMM did not result in Total Net Equity equal to or exceed Initial Margins.		*As both cash receipt and FMM caused Total Net Equity to exceed Initial Margins, the margin call of $10,000 was deleted.*

4. Under-Margined Accounts

4.1 Acceptance of Orders

4.1.1 Pursuant to the Relevant Rules, a Member shall only allow a Customer to incur a new trade when the required margins are on deposit or forthcoming within a reasonable period.

4.1.2 In a situation where a Customer has failed to place margins within the reasonable period, such that the Customer's Total Net Equity is not restored to the Initial Margins level, the Member concerned:

(1) is required to promptly take all necessary actions including but not limited to closing all or such part of the Customer's positions to restore the Customer's Total Net Equity to the Initial Margins level; and

(2) shall not accept orders for new trades, including day trades, for such Customers. However, orders which would result in reducing the Customer's Maintenance Margins requirements may be accepted by the Member.

4.1.3 Where a Customer is meeting a margin call by remitting cash funds, Members shall take into consideration only those funds that they have actually received when determining whether the Customer's Total Net Equity has been restored to the Initial Margins level. Members shall not treat cash funds as received even though the Customer's remittance indicates that the funds would be forthcoming on a future value date. Members are not allowed to use the Customer's confirmation that the funds are forthcoming within the reasonable period to reduce or delete a margin call as the funds have yet to be received.

4.1.4 For example, if a Member has received indication from the Customer's banker on T + 1, that the Customer has remitted cash of US$1 million for value date T + 4, the Member shall not treat the US$1 million as part of the Customer's ledger balance on T + 1, as the funds would actually be received by the Member only on the value date of T + 4. The amount shall be accounted as part of Customer's ledger balance only on close of business T + 4. In the above example, since the Customer's funds are not forthcoming within the reasonable period (i.e. by the close of business T + 2), the Customer is not allowed to incur any new trade during this period (T + 1 and T + 2) except for trades which reduce the Customer's Maintenance Margins requirements.

4.1.5 In a situation where a Customer has liquidated all its positions resulting in a negative Total Net Equity, the Member shall not accept orders for the Customer until sufficient funds or acceptable instruments are deposited such that Total Net Equity is no longer negative.

4.1.6 The following indicates what is the allowable trading activity for a Customer whose Total Net Equity is not restored to the Initial Margins level after a margin call:

(A) During the reasonable period,

(i) *<u>if the Member receives indication from the Customer that margins are forthcoming within the reasonable period</u>*

Allowable Trading Activity Within The Reasonable Period

Trading Activity	Risk Increasing	Risk Neutral	Day Trading	Risk Reducing
Allowed for Customer	Yes	Yes	Yes	Yes

(ii) *<u>if the Member receives indication from the Customer that margins are forthcoming after the reasonable period or that no funds are forthcoming</u>*

Allowable Trading Activity Within The Reasonable Period

Trading Activity	Risk Increasing	Risk Neutral	Day Trading	Risk Reducing
Allowed for Customer	No	No	No	Yes

(B) Beyond the reasonable period,

Allowable Trading Activity Beyond The Reasonable Period

Trading Activity	Risk Increasing	Risk Neutral	Day Trading	Risk Reducing
Allowed for Customer	No	No	No	Yes

<u>In the above examples</u>:

A risk increasing trade is the establishment or closure of a position in a contract which increases a Customer's Maintenance Margins requirement (e.g. closing one leg of a spread position).

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A risk neutral trade is the establishment of a position in a contract which does not impact a Customer's Maintenance Margins requirement (e.g. spread trades that do not impact Maintenance Margins requirements).

A risk reducing trade is the establishment or closure of a position in a contract which reduces the Customer's Maintenance Margins requirement (e.g. liquidation of a naked open position).

4.2 Prohibition of Financing of Trading Margins

4.2.1 Under no circumstances shall a Member enter into any financing arrangement with any Customer to allow the Customer to trade without placing the required minimum margins. This shall not apply to a Bank Trading Member.

4.3 Monitoring Procedures

4.3.1 A Member is required to maintain proper monitoring and internal control procedures to ensure that the requirements under the Relevant Rules are complied with at all times.

4.4 Examples

Assumptions:

(1) All accounts are Customer Accounts.

(2) All margin calls are properly issued and aged for the full amount.

(3) The Customer's Initial Margins and Maintenance Margins remain unchanged.

(4) The Customer was properly margined on the previous Trading Day (Friday).

(5) The Customer has indicated that margins are forthcoming within the reasonable period.

Example 1 – Under-margined beyond reasonable period – Deletion of margin calls

Trading is allowed within reasonable period but no trading is allowed beyond reasonable period except for risk reducing trades until the Customer's Total Net Equity is restored to the Initial Margins level.

Week 1

	Monday	Tuesday	Wednesday	Thursday	Friday
AMT U/M	5,000	5,000	5,000	5,000	-0-
CALL/AGE	5,000 (T)	5,000 (1)	5,000 (2)	5,000 (3)	
TRADING	All*	All	All	RR**	All

* All trading activity

** Only risk reducing trades

Assuming the margin call is in US Dollars, the reasonable period is T + 2, which is as of the close of business on Wednesday. As of Thursday, the Customer cannot be allowed to incur any risk increasing, risk neutral or day trades. The Customer can only be allowed to incur risk reducing trades.

On Friday, a cash deposit of $5,000 was received to delete the margin call. Once the Customer's Total Net Equity is restored to the Initial Margins level, all trading activities would be allowed.

Example 2 – Under-margined beyond reasonable period – Deletion and reduction of margin calls

Trading is allowed within reasonable period but no trading is allowed beyond reasonable period except for risk reducing trades until the Customer's Total Net Equity is restored to the Initial Margins level.

Week 1

	Monday	Tuesday	Wednesday	Thursday	Friday
AMT U/M	10,000	10,000	10,000	10,000	15,000
CALL/AGE	10,000 (T)	10,000 (1)	10,000 (2)	10,000 (3)	10,000 (4) 5,000 (T)
TRADING	All*	All	All	All	RR**
Unfavourable market movements of JPY 5,000 occurred on Friday.					

Assuming the margin call is in Japanese Yen, the reasonable period is T + 3, which is as of the close of business on Thursday. As of the close of business on Thursday, the Customer's Total Net Equity was not

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restored to the Initial Margins level. Thus on Friday, the Customer can only be allowed to incur risk reducing trades.

Week 2

	Monday	Tuesday	Wednesday	Thursday	Friday
AMT U/M	15,000	5,000	4,000	1,000	1,000
CALL/AGE	10,000 (5) 5,000 (1)	5,000 (2)	5,000 (3)	2,000 (4)	2,000 (5)
TRADING	RR**	All*	All	RR	RR
Favourable market movements of JPY 1,000 occurred on Wednesday.					

* All trading activity

** Only risk reducing trades

On Tuesday of Week 2, cash deposit of JPY 10,000 was received which deleted the outstanding margin call of JPY10,000. After this, the only margin call of JPY 5,000 is still within the reasonable period of T + 3. Thus during this period, Tuesday and Wednesday, all trading is allowed. On the close of business on Wednesday, the Customer's Total Net Equity was not restored to the Initial Margins level. On Thursday, cash of JPY3,000 was received which reduced the margin call to JPY2,000. As the Customer Account is still under-margined with a margin call of JPY2,000 outstanding beyond the reasonable period, the Customer on Thursday and Friday can only be allowed to incur risk reducing trades.

5. Omnibus Accounts and Other Margin Policies

5.1 Omnibus Accounts

5.1.1 Omnibus Accounts generally contain concurrent long and short positions. Members shall ensure that positions in an Omnibus Account are carried and margined on a gross basis.

5.1.2 A Member shall obtain and maintain written instructions from undisclosed Omnibus Account holders for positions which are entitled to be margined as spread positions.

5.1.3 For purchase and sale offsets, a Member shall obtain and maintain written instructions from undisclosed Omnibus Account holders on a daily basis. If no such instructions are received, the Member must assume that the positions belong to separate owners. These positions must be margined on a gross basis.

5.2 Grouping of Accounts

5.2.1 For the purpose of margin computation, positions in accounts belonging to the same beneficial owner who may be the Customer or a client of the Customer, may be combined. Concurrent speculative long and short positions may also be netted in such accounts.

5.2.2 Accounts which are owned by different legal entities e.g. Related Corporations must be treated separately for margin computation purposes.

5.3 Excess Margins Payments

5.3.1 Pursuant to Rule 3.3.12, a Member may allow its Customers to withdraw Excess Margins. The withdrawal of Excess Margins must be supported by proper documentation.

5.3.2 If the net option value is long, it may be applied towards reducing the risk margin requirements. However, option value in excess of Initial Margins cannot be treated as Excess Margins available for disbursement. The computation of Excess Margins available for disbursement treats option value differently from all other margins. This is because option value is not a cash asset and does not form part of Customer's Total Net Equity.

5.3.3 For example, Customer deposits $1,000 in its account. It then purchases an option contract where the option premium is $1,000. At the time of purchase, the full premium of $1,000 is deducted from its account resulting in zero Total Net Equity. Thus, there are no funds available for withdrawal. The option value of the long option position, which at the time of purchase is $1,000 (option value would vary with passage of time), cannot be available for withdrawal as it does not form part of the Customer's Total Net Equity. Furthermore, the Member would be deemed to be financing the Customer's trades, which is prohibited under these guidelines, in the purchase of the option contract if the option value is allowed to be withdrawn.

5.3.4 If Total Net Equity is zero or negative, a disbursement cannot be made as there are no funds available. The Member shall use the Customer's latest available Total Net Equity and latest required Initial Margins to determine the amount of Excess Margins available for disbursement, notwithstanding that the Customer (e.g. a Customer in different time zone) has yet to receive the latest Customer statement sent out by the Member. In determining the

Excess Margins available for disbursement, the Member shall take into consideration the Customer's incoming remittance and the Member's disbursement based on value dates. If an incoming remittance is accounted for in determining the amount of Excess Margins to be released, the Member shall effect the disbursement only after the receipt of the funds. This means that the value date for the disbursement shall be subsequent to the value date of the Customer's incoming remittance.

5.3.5 For the purpose of determining the amount of Excess Margins available for disbursement, all Customer Accounts opened by the same Customer, for the benefit of its own clients shall be combined in one group ("Group A"). All other Customer Accounts opened by the same Customer shall be combined in a separate group ("Group B"). If the Member does not combine such accounts, it runs the risk of allowing a Customer to withdraw more funds than what the Customer actually has available with the Member [see Example 4 below for illustration]. Available Excess Margins from Group A cannot be used for disbursement for Group B and vice versa.

5.4 Payment of Premiums

5.3.1 A Member shall not accept orders for the purchase of option contracts unless the full amount of premium is on deposit or forthcoming within a reasonable period. For settlement currency denominated in Japanese Yen, 'reasonable period' means a period which shall not exceed three (3) Trading Days from the trade date (T+3). For all other settlement currencies, it means a period which shall not exceed two (2) Trading Days from the trade date (T+2).

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5.5 Examples

Note: In the computation, if the net option value is greater than the Initial Margin risk component, the maximum amount of Excess Margins available for disbursement shall be equal to the Total Net Equity.

Example 1 – Excess Margins Payments

Customer Account	**Balance**
Total Net Equity	$5,000
Net option value	$1,200
Initial Margins risk component	$3,000

* An Excess Margins payment can be made from the Customer Account for $3,200
{$5,000 – [($3,000 - $1,200) which = $1,800]}

Example 2 – Excess Margins Payments

Customer Account	**Balance**
Total Net Equity	$-0-
Net option value	$9,000
Initial Margins risk component	$7,000

* As Total Net Equity is zero, no payment can be made.
{$-0- – [($7,000 - $9,000) which = 0]}. The only margin asset in the Customer Account is long option value which cannot be used to make an Excess Margins payment.

Example 3 – Excess Margins Payments

Customer Account	**Balance**
Total Net Equity	$32,800
Net option value	$<12,000>
Initial Margins risk component	$14,000

* An Excess Margins payment can be made from the Customer Account for $6,800
{$32,800 - [($14,000 - <$12,000>) which = $26,000]}

Example 4 – Accounts owned by the same Customer

Assume client A/C A & client A/C B are owned by the same Customer.

	A/C A $	A/C B $	COMBINED $

Total Net Equity	8,000	80,000	88,000
Initial Margins	25,000	50,000	75,000
Maintenance Margins	20,000	40,000	60,000
Excess Margins for withdrawal	(17,000)	30,000	13,000

If client A/C A and client A/C B are not combined, then the amount of Excess Margins that is available for withdrawal, ie $30,000, is greater than what is actually available for the Customer as a whole.

5.6 Concurrent Long and Short Positions

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

5.6.2 A Member may carry concurrent long and short positions as follows:

(1) all positions held by Omnibus Account holders shall be margined on a gross basis, unless otherwise exempted by the Exchange; and

(2) 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, unless otherwise required by other regulatory bodies.

5.6.3 A Member may carry concurrent long and short hold-open positions for speculative and hedge accounts. Hold-open positions are positions offset at the Exchange but have been held open on the Member's internal bookkeeping records for the convenience of the Customer. As hold-open positions only remain open on the Member's internal records and have been offset at the Exchange, no margin is required. The Member's internal bookkeeping records shall clearly indicate all hold-open positions.