Regulatory Circular RG92-48

Date: **September 24, 1992**

To: **Selected Clearing Member Organizations**

From: **Department of Financial Compliance**

Re: **Cross Margins for Market Maker Accounts**

At the request of the Exchange, the Securities and Exchange Commission issued a no action letter dated June 2, 1992, regarding the treatment of accounts participating in the market marker cross margin program of the Options Clearing Corporation and certain commodity futures clearing organizations. Below is a summary of certain important points addressed in the no action letter; however, potential users of the market maker cross margin program are advised to review the letter in its entirety.

<u>Equity Calculation</u>

A clearing broker-dealer may aggregate the net liquidating value in related cross margin commodity account and options market maker cross margin account in order to determine whether the market maker has a deficit for purposes of Federal Reserve Board Regulation T and SEC Rule 15c3-1 (c)(2)(x)(G). Essentially the securities and commodity cross margin accounts are treated as one account. (It should be noted that this combined account will also be treated as one account for purposes of commodity segregation.) If a liquidating deficit exists in the combined cross margin account, no further opening transactions would be allowed until the account has positive equity, but trading could continue in a non-cross margin market maker account if positive equity were maintained (and vice versa).

<u>Margin Requirements</u>

A clearing broker-dealer may include the value of positions carried for a market maker in a cross margin commodities account in determining to extend "good faith" credit or to calculate margin requirements in the options market maker cross margin account.

<u>Net Capital Treatment</u>

Haircut requirements under SEC Rule 15c3-1 (c)(2)(x) will be computed separately for the combined cross margin account and non- cross margin accounts. Generally, excess equity over haircuts in one account may be used to offset a net deduction in the other account. (If the commodity margin requirement on the combined cross margin account exceeds the haircut, only the equity in excess of the margin requirement may be used to offset a net deduction in the non-cross margin account.) However, if one account is in deficit the excess equity in the other account may only be used to offset the haircut on the deficit account. Unless the deficit can be eliminated, a capital charge for the deficit would be required. If the combined cross margin account has a commodity margin deficiency, the capital charge will be the greater of the net haircut deduction on the combined cross margin account or the commodity margin deficiency. To satisfy the margin deficiency from excess equity in the non-cross margin account, funds must be transferred from the non-cross margin account to the combined cross margin account.

Normally, five days is permitted before an outstanding margin call results in a net capital charge. However, for the combined cross margin account, the capital charge must be taken on the day the deficiency occurs. Therefore, a margin deficiency in the combined cross margin account which results from activity today, will result in a capital charge today.

Questions regarding market maker cross margin should be directed to the following individuals:

Carolin Henderson Chicago Board Options Exchange	786-7943
William Pauly Chicago Mercantile Exchange	930-3226
Michael Cahill Options Clearing Corporation	322-2069