

Broker An agent who executes orders to buy and sell currencies and related instruments either for a commission or on a spread. Brokers are agents working on commission and not principals or agents acting on their own account. In the foreign exchange market brokers tend to act as intermediaries between banks bringing buyers and sellers together for a commission paid by the initiator or by both parties. There are four or five major global brokers operating through subsidiaries, affiliates, and partners in many countries.

Bull A person who believes that prices will rise.

Bull Market A market characterized by rising prices.

Cable A term used in the foreign exchange market for the US dollar/British pound rate.

Central Bank A central bank provides financial and banking services for a country's government and commercial banks. It implements the government's monetary policy as well, by changing interest rates. The Reserve Bank of India is the central bank of India, which performs the role of maintaining orderly conditions in the forex market by intervention through various instruments like cash reserve ratio, bank rate, open market operations, and moralization.

Confirmation A memorandum to the other party describing all the relevant details of the transaction.

Contract An agreement to buy or sell a specified amount of a particular currency or option for a specified month in the future.

Correspondent Bank A foreign bank's representative who regularly performs services for the bank, which has no branch in the relevant centre, e.g. to facilitate the transfer of funds. In the US this often occurs domestically due to interstate banking restrictions.

Counterparty The customer or bank with which a foreign exchange deal is executed.

Cross Rate An exchange rate between two currencies, usually constructed from the individual exchange rates of the two currencies, as most currencies are quoted against the dollar.

Currency The type of money that a country uses. It can be traded for other currencies on the foreign exchange market, so each currency has a value relative to another.

Currency Basket Various weightings of other currencies grouped together in relation to a basket currency (e.g. ECU or SDR). Sometimes used by currencies to fix their rate, often on a trade-weighted basket.

Deal Date The date on which a transaction is agreed upon.

Deal Ticket The primary method of recording the basic information relating to a transaction.

Dealer An individual or firm acting as a principal, rather than as an agent, in the purchase and/or sale of securities. Dealers trade for their own account and risk. This is in contrast to brokers who trade only on behalf of their clients.

Deficit Shortfall in the balance of trade, balance of payments, or government budgets.

Delivery The settlement of a transaction by receipt or tender of a financial instrument or currency.

Delivery Date The date of maturity of a contract, when the final settlement of a transaction is made by exchanging the currencies. This date is more commonly known as the value date.

Details All the information required to finalize a foreign exchange transaction, i.e. name, rate, dates, and point of delivery.

Discount Less than the spot price example: forward discount.

EFT Electronic Fund Transfer.

EMS European Monetary System.

European Union The group formerly known as the European Community.

Exchange Rate Risk The potential loss that could be incurred from an adverse movement in exchange rates.

Exotic A less broadly traded currency.

Expiry Date The last day on which the holder of an option can exercise his right to buy or sell the underlying security.

Fed The United States Federal Reserve. Federal Deposit Insurance Corporation Membership is compulsory for Federal Reserve members. The corporation had deep involvement in the Savings and Loans crisis of the late 1980s.

Fixed Exchange Rate Official rate set by monetary authorities for one or more currencies. In practice, even fixed exchange rates are allowed to fluctuate between definite upper and lower bands, leading to intervention by the central bank.

Flat/Square Where a client has not traded in that currency or where an earlier deal is reversed, thereby creating a neutral (flat) position.

FOMC Federal Open Market Committee, the committee that sets money supply targets in the US, which tend to be implemented through Fed Fund interest rates, etc.

Foreign Exchange The purchase or sale of a currency against the sale or purchase of another.

Forex An abbreviation of foreign exchange.

Forward Contract Sometimes used as synonym for “forward deal” or “future”. More specifically, for arrangements with the same effect as a forward deal between a bank and a customer.

Forward Points The interest rate differential between two currencies expressed in exchange rate points. The forward points are added to or subtracted from the spot rate to give the forward or outright rate (depending on whether the currency is at a forward premium or discount).

Forward Rate The rate at which a foreign exchange contract is struck today for settlement at a specified future date that is decided at the time of entering into the contract. The decision to subtract or add points is determined by the differential between the deposit rates for both currencies concerned in the transaction. The base currency with the higher interest rate is said to be at a discount to the lower interest rate quoted currency in the forward market. Therefore the forward points are subtracted from the spot rate. Similarly, the lower interest rate base currency is said to be at a premium, and the forward points are added to the spot rate to obtain the forward rate.

Front Office The activities carried out by the dealer, normal trading activities.

Fundamental Analysis Analysis based on economic and political factors.

FX Foreign exchange.

GTC (“Good Till Cancelled”) An order left with a dealer to buy or sell at a fixed price. The order remains in place until it is cancelled by the client.

Indicative Quote A market-maker’s price that is not firm.

Inflation Continued rise in the general price level in conjunction with a related drop in purchasing power. Sometimes referred to as an excessive movement in such price levels.

Info Quote Rate given for information purposes only.

Interbank Rates The foreign exchange rates large international banks quote to other large international banks. Normally the public and other businesses do not have access to these rates.

Interest Rate Risk The potential for losses arising from changes in interest rates.

Intervention Action by a central bank to effect the value of its currency by entering the market. In India the intervention by the Reserve Bank of India is confined to the events of extreme volatility.

Kiwi Dealer slang for the New Zealand dollar.

Leading Indicators Statistics that are considered to precede changes in economic growth rates and total business activity, e.g. factory orders.

Liability In terms of foreign exchange, the obligation to deliver to a counterparty an amount of currency either in respect of a balance sheet holding at a specified future date or in respect of an unmatured forward or spot transaction.

LIBOR (London Inter Bank Offer Rate) British Bankers' Association average of interbank offered rates for dollar deposits in the London market based on quotations at 16 major banks. Effective rate for contracts entered into two days from the date appearing.

Limit Order An order to perform a deal at a superior rate to the current market level. Can be removed on completion (filled) or cancelled at any time (pulled).

Margin The required initial deposit of collateral to enter into a position or foreign exchange trade. This is held as a deposit on any running contract.

Margin Call A demand for additional funds to cover positions.

Market Value Market value of a foreign exchange position at any time is the amount of the domestic currency that could be purchased at the then market rate in exchange for the amount of foreign currency to be delivered under the foreign exchange contract.

Maturity Date for settlement of the transaction, which is decided at the time of entering into the contract.

Offer The rate at which a dealer is willing to sell the base currency.

One Cancels Other Order The execution of one order automatically cancels a previous order; also referred to as OCO or "one cancels the other".

Open Position Any deal that has not been settled by physical payment or reversed by an equal and opposite deal for the same value date. It can be termed as a high-risk, high- return proposition.

Outright Forward Foreign exchange transaction involving either the purchase or the sale of a currency for settlement at a future date.

Over The Counter (OTC) A market conducted directly between dealers and principals via a telephone and computer network rather than a regulated exchange trading floor. These markets have not been very popular because of the risks both the parties face in case the other party fails to honor the contract. They were never part of the stock exchange since they were seen as "unofficial".

Pip Also see "point". The term used in the currency market to represent the smallest incremental move an exchange rate can make. Depending on context,

normally one basis point (0.0001 in the case of EUR/USD, GBD/USD, USD/CHF and 0.01 in the case of USD/JPY).

Point (1) 100th part of a percent, normally 10 000 of any spot rate. Movement of exchange rates are usually in terms of points. (2) One percent on an interest rate, e.g. from 8 to 9%. (3) Minimum fluctuation or smallest increment of price movement.

Position The netted total exposure in a given currency. A position can be either flat or square (no exposure), long (more currency bought than sold), or short (more currency sold than bought).

Range The difference between the highest and lowest price of a future recorded during a given trading session.

Rate The price of one currency in terms of another.

Reserve Currency A currency held by a central bank on a permanent basis as a store of international liquidity; these are normally the dollar, euro, and sterling.

Resistance A price level at which the selling is expected to take place.

Revaluation Increase in the exchange rate of a currency as a result of official action.

Rollover Where the settlement of a deal is carried forward to another value date based on the interest rate differential of the two currencies. Example: next day.

Selling Rate Rate at which a bank is willing to sell foreign currency.

Settlement Actual physical exchange of one currency for another.

Settlement Date It means the business day specified for delivery of the currencies bought and sold under a foreign exchange contract.

Short A market position where the client has sold a currency they do not already own. Usually expressed in base currency terms.

Slippage The difference between the price a trader expects to be filled at and the price they are actually filled at.

Spot (1) The most common foreign exchange transaction. (2) Spot refers to the buying and selling of the currency where the settlement date is two business days forward.

Spot Price/Rate The price at which the currency is currently trading in the spot market.

Spread The difference between the bid and ask price of a currency.

Stable Market An active market that can absorb large sales or purchases of currency without having any major impact on the interest rates.

Sterling British pound.

Stop Loss Order Order given to ensure that should your trade lose a certain percentage, the position will be covered even though this involves taking a loss. Profit orders are less common.

Support Levels A price level at which the buying is expected to take place.

Swap The simultaneous purchase and sale of the same amount of a given currency for two different dates, against the sale and purchase of another. A swap can be a swap against a forward. In essence, swapping is somewhat similar to borrowing one currency and lending another for the same period. However, any rate of return or cost of funds is expressed in the price differential between the two sides of the transaction.

SWIFT Society for Worldwide Inter-bank Financial Telecommunication is a clearing system for international trading.

Swissy Market slang for Swiss franc rate.

Technical Analysis The study of the price that reflects the supply and demand factors of a currency. Common methods are flags, trend lines, spikes, bottoms, tops, pennants, patterns, and gaps.

Technical Correction An adjustment to price not based on market sentiment but technical factors such as volume and charting.

Tick A minimum change in price, up or down.

Trade Date The date on which a trade occurs.

Transaction Date The date on which a trade occurs.

Value Date Settlement date of a spot or forward contract. Also known as maturity date.

Value Spot Normally settlement for two working days from the date the contract is entered into.

Value Today Transaction Transaction executed for same day settlement; sometimes also referred to as "cash transaction".

Volatility A measure of the amount by which an asset price is expected to fluctuate over a given period. Normally measured by the annual standard deviation of daily price changes (historic). Can also be implied from futures pricing, which is referred to as implied volatility.

Whipsaw Dealer slang for a condition of a highly volatile market where a sharp price movement is quickly followed by a sharp reversal.

Working day A day on which the banks in a currency's principal financial centre are open for business. For foreign exchange transactions, a working day only occurs if the bank in both money centers are open for business.

Yard Dealer slang for a billion dollars.

Trading Maxims

12-01-1900, NEW YORK TIMES, p. 8: If the Wall Street proverb, to the effect that “nothing is so timid as a million dollars, except two millions,” is true, the timidity of fifty or seventy-five millions may be assumed to represent abject terror of any innovations involving expense and presenting unknown difficulties. ***The bigger you become, the harder it is to trade.***

12-27-1913, NEW YORK TIMES, p. 8: The subject being strictly sordid and mundane, it may be permissible to quote the Wall Street maxim that “everything is in the price”. ***Everything is priced-in by the market.***

03-14-1931, NEW YORK TIMES, p. 43: “Good times, good fellowship – hard times, hard faces” is a proverb brought to the Wall Street mind recurrently these days... ***A trader’s life....***

07-18-1959, NEW YORK TIMES, pg. 19: Lorillard introduced its long-heralded menthol filter cigarette and fell 1 3/8 on the Wall Street maxim to “sell on the news”. ***News are anticipated and usually already priced-in by professionals, thus there is no reason to take the price higher.***

11-08-1969, NEW YORK TIMES, p. 47: The pyrotechnics in telephone and in the glamour-laden computer issues came from heavy buying by mutual funds, other institutions and market traders following that old adage, “Don’t fight the tape”. ***Trade the price action. If the price is going up then demand must outstrip supply, irrespective of any outside news or backdrop. Always trade in the prevailing direction.***

03-05-1985, NEW YORK TIMES, p. C5: As they say in the corporate corridors, nobody ever got fired for buying IBM. ***Money managers protect their jobs above all else, even at the expense of performance.***

6-17-1998, NIGHTLY BUSINESS REPORT: There’s an old Wall Street saying that cash is trash. ***The search for yield is constant.***

8-2-1998, FORBES MAGAZINE, p. 265: What's been going on with Amazon stock is best explained by an old Wall Street maxim: "A stock and a company are not always the same thing". *When emotions enter the markets, irrational things happen.*

8-6-1998, CHRISTIAN SCIENCE MONITOR, p. 1: There is an old Wall Street saying that the stock market has anticipated eight of the last three recessions. *Analysts are wrong more than they are right.*

8-12-1998, WALL STREET JOURNAL EUROPE, p. UK7B: Mr Manley recalls an old Wall Street saying: "If you are going to panic, panic early". *When in doubt, get out!*

9-21-1998, BUSINESS WEEK, p. 114: Grant, the newsletter editor, likes to quote a play-it-safe Wall Street maxim: "Never meet a margin call". *Never let a losing position run away from you. Cut your losses short.*

10-12-1998, RICHMOND TIMES-DISPATCH: Guy Chance, director of marketing strategy at Scott & Stringfellow Inc., recalled an old Wall Street maxim during a recent selling spree: "This is when money returns to its rightful owners". *The "smart money" always ends up on top.*

4-11-1999, SOUTH CHINA MORNING POST, p. 3: It proves an old Wall Street saying – when you rob a warehouse, take the piano player too, because no one is entirely innocent. *Money attracts sharks.*

10-4-1999, SEATTLE POST-INTELLIGENCER, p. C3: As the Wall Street proverb says: "You can't eat relative performance". *You can't be satisfied with beating your peers, you have to learn to make money in down times.*

3-29-2000, YOMIURI SHIMBUN/DAILY YOMIURI: There is a Wall Street maxim that says a bullish market is born amid pessimism, grows up under skepticism, matures with optimism, and dies with euphoria. *Most of the people are wrong most of the time.*

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CFTC Minimum Finance Requirement

Title 17: Commodity and Securities Exchanges
Minimum Financial and Related Reporting Requirements
(selected parts)

§ 1.17 Minimum financial requirements for futures commission merchants and introducing brokers.

(a)(1)(i) Except as provided in paragraph (a)(2)(i) of this section, each person registered as a futures commission merchant must maintain adjusted net capital equal to or in excess of the greatest of:

(A) \$250,000;

(B) The futures commission merchant's risk-based capital requirement computed as follows:

(1) Eight percent of the total risk margin requirement (as defined in §1.17(b)(8)) for positions carried by the futures commission merchant in customer accounts (as defined in §1.17(b)(7)), plus

(2) Four percent of the total risk margin requirement (as defined in §1.17(b)(8)) for positions carried by the futures commission merchant in noncustomer accounts (as defined in §1.17(b)(4)).

(C) The amount of adjusted net capital required by a registered futures association of which it is a member; or

(D) For securities brokers and dealers, the amount of net capital required by Rule 15c3-1(a) of the Securities and Exchange Commission (17 CFR 240.15c3-1(a)).

(ii) Each person registered as a futures commission merchant engaged in soliciting or accepting orders and customer funds related thereto for the purchase or sale of any commodity for future delivery or any commodity option on or subject to the

rules of a registered derivatives transaction execution facility from any customer who does not qualify as an "institutional customer" as defined in §1.3(g) must:

(A) Be a clearing member of a derivatives clearing organization and maintain net capital in the amount of the greater of \$20,000,000 or the amounts otherwise specified in paragraph (a)(1)(i) of this section; or

(B) Receive orders on behalf of the customer from a commodity trading advisor acting in accordance with §4.32 of this chapter.

(iii) Except as provided in paragraph (a)(2) of this section, each person registered as an introducing broker must maintain adjusted net capital equal to or in excess of the greatest of:

(A) \$30,000;

(B) The amount of adjusted net capital required by a registered futures association of which it is a member; or

(C) For securities brokers and dealers, the amount of net capital required by Rule 15c3-1(a) of the Securities and Exchange Commission (17 CFR 240.15c3-1(a)).

(2)(i) The requirements of paragraph (a)(1) of this section shall not be applicable if the registrant is a member of a designated self-regulatory organization and conforms to minimum financial standards and related reporting requirements set by such designated self-regulatory organization in its bylaws, rules, regulations or resolutions approved by the Commission pursuant to section 4f(b) of the Act and §1.52.

(ii) The minimum requirements of paragraph (a)(1)(iii) of this section shall not be applicable to an introducing broker which elects to meet the alternative adjusted net capital requirement for introducing brokers by operation pursuant to a guarantee agreement which meets the requirements set forth in §1.10(j). Such an introducing broker shall be deemed to meet the adjusted net capital requirement under this section so long as such agreement is binding and in full force and effect, and, if the introducing broker is also a securities broker or dealer, it maintains the amount of net capital required by Rule 15c3-1(a) of the Securities and Exchange Commission (17 CFR 240.15c3-1(a)).

(3) No person applying for registration as a futures commission merchant or as an introducing broker shall be so registered unless such person affirmatively demonstrates to the satisfaction of the National Futures Association that it complies with the financial requirements of this section. Each registrant must be in compliance with this section at all times and must be able to demonstrate such compliance to the satisfaction of the Commission or the designated self-regulatory organization.

(4) A futures commission merchant who is not in compliance with this section, or is unable to demonstrate such compliance as required by paragraph (a)(3) of this section, must transfer all customer accounts and immediately cease doing business as a futures commission merchant until such time as the firm is able

to demonstrate such compliance: Provided, however, The registrant may trade for liquidation purposes only unless otherwise directed by the Commission and/or the designated self-regulatory organization: And, Provided further, That if such registrant immediately demonstrates to the satisfaction of the Commission or the designated self-regulatory organization the ability to achieve compliance, the Commission or the designated self-regulatory organization may in its discretion allow such registrant up to a maximum of 10 business days in which to achieve compliance without having to transfer accounts and cease doing business as required above. Nothing in this paragraph (a)(4) shall be construed as preventing the Commission or the designated self-regulatory organization from taking action against a registrant for non-compliance with any of the provisions of this section.

(5) An introducing broker who is not in compliance with this section, or is unable to demonstrate such compliance as required by paragraph (a)(3) of this section, must immediately cease doing business as an introducing broker until such time as the registrant is able to demonstrate such compliance: Provided, however, That if such registrant immediately demonstrates to the satisfaction of the Commission or the designated self-regulatory organization the ability to achieve compliance, the Commission or the designated self-regulatory organization may in its discretion allow such registrant up to a maximum of 10 business days in which to achieve compliance without having to cease doing business as required above. If the introducing broker is required to cease doing business in accordance with this paragraph (a)(5), the introducing broker must immediately notify each of its customers and the futures commission merchants carrying the account of each customer that it has ceased doing business. Nothing in this paragraph (a)(5) shall be construed as preventing the Commission or the designated self-regulatory organization from taking action against a registrant for non-compliance with any of the provisions of this section.

(b) For the purposes of this section:

(1) Where the applicant or registrant has an asset or liability which is defined in Securities Exchange Act Rule 15c3-1 (§240.15c3-1 of this title) the inclusion or exclusion of all or part of such asset or liability for the computation of adjusted net capital shall be in accordance with §240.15c3-1 of this title, unless specifically stated otherwise in this section.

(2) Customer means customer (as defined in §1.3(k)), option customer (as defined in §1.3(jj) of this part and in §32.1(c) of this chapter) and includes a foreign futures and foreign options customer (as defined in §30.1(c) of this chapter).

(3) Proprietary account means a commodity futures or options account carried on the books of the applicant or registrant for the applicant or registrant itself, or for general partners in the applicant or registrant.

(4) Noncustomer account means a commodity futures or option account carried on the books of the applicant or registrant which is either:

(i) An account that is not included in the definition of customer (as defined in §1.17(b)(2)) or proprietary account (as defined in §1.17(b)(3)), or

(ii) An account for a foreign-domiciled person trading futures or options on a foreign board of trade, and such account is a proprietary account as defined in §1.3(y) of this title, but is not a proprietary account as defined in §1.17(b)(3).

(5) Clearing organization means clearing organization (as defined in §1.3(d)) and includes a clearing organization of any board of trade.

(6) Business day means any day other than a Sunday, Saturday, or holiday.

(7) Customer account means a commodity futures or option account carried on the books of the applicant or registrant which is either:

(i) An account that is included in the definition of customer (as defined in §1.17(b)(2)), or

(ii) An account for a foreign-domiciled person trading on a foreign board of trade, where such account for the foreign-domiciled person is not a proprietary account (as defined in §1.17(b)(3)) or a noncustomer account (as defined in §1.17(b)(4)(ii)).

(8) Risk margin for an account means the level of maintenance margin or performance bond that the futures commission merchant is required to collect under the rules of an exchange, or the rules of a clearing organization if the level of margin to be collected is not determined by the rules of an exchange, from the owner of a customer account or noncustomer account, subject to the following:

(i) Risk margin does not include the equity component of short or long option positions maintained in an account;

(ii) The maintenance margin or performance bond requirement associated with a long option position may be excluded from risk margin to the extent that the value of such long option position does not reduce the total risk maintenance or performance bond requirement of the account that holds the long option position;

(iii) The risk margin for an account carried by a futures commission merchant which is not a member of the exchange or the clearing organization that requires collection of such margin should be calculated as if the futures commission merchant were such a member; and

(iv) If a futures commission merchant does not possess sufficient information to determine what portion of an account's total margin requirement represents risk margin, all of the margin required by the exchange or the clearing organization that requires collection of such margin for that account, shall be treated as risk margin.

(c) Definitions: For the purposes of this section:

(1) Net capital means the amount by which current assets exceed liabilities. In determining "net capital":

(i) Unrealized profits shall be added and unrealized losses shall be deducted in the accounts of the applicant or registrant, including unrealized profits and losses on fixed price commitments and forward contracts;

(ii) All long and all short positions in commodity options which are traded on a contract market and listed security options shall be marked to their market value and all long and all short securities and commodities positions shall be marked to their market value;

(iii) The value attributed to any commodity option which is not traded on a contract market shall be the difference between the option's strike price and the market value for the physical or futures contract which is the subject of the option. In the case of a call commodity option which is not traded on a contract market, if the market value for the physical or futures contract which is the subject of the option is less than the strike price of the option, it shall be given no value. In the case of a put commodity option which is not traded on a contract market, if the market value for the physical or futures contract which is the subject of the option is more than the strike price of the option, it shall be given no value; and

(iv) The value attributed to any unlisted security option shall be the difference between the option's exercise value or striking value and the market value of the underlying security. In the case of an unlisted call, if the market value of the underlying security is less than the exercise value or striking value of such call, it shall be given no value; and, in the case of an unlisted put, if the market value of the underlying security is more than the exercise value or striking value of the unlisted put, it shall be given no value.

(2) The term current assets means cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold during the next 12 months. "Current assets" shall:

(i) Exclude any unsecured commodity futures or option account containing a ledger balance and open trades, the combination of which liquidates to a deficit or containing a debit ledger balance only: Provided, however, Deficits or debit ledger balances in unsecured customers', non-customers', and proprietary accounts, which are the subject of calls for margin or other required deposits may be included in current assets until the close of business on the business day following the date on which such deficit or debit ledger balance originated providing that the account had timely satisfied, through the deposit of new funds, the previous day's debit or deficits, if any, in its entirety.

(ii) Exclude all unsecured receivables, advances and loans except for:

(A) Receivables resulting from the marketing of inventories commonly associated with the business activities of the applicant or registrant and advances on fixed price purchases commitments: Provided, Such receivables or advances are outstanding no longer than 3 calendar months from the date that they are accrued;

(B) Interest receivable, floor brokerage receivable, commissions receivable from other brokers or dealers (other than syndicate profits), mutual fund concessions receivable and management fees receivable from registered investment companies and commodity pools: Provided, Such receivables are outstanding no longer than thirty (30) days from the date they are due; and dividends receivable outstanding no longer than thirty (30) days from the payable date;

(C) Receivables from clearing organizations and securities clearing organizations;

(D) Receivables from registered futures commission merchants or brokers, resulting from commodity futures or option transactions, except those specifically excluded under paragraph (c)(2)(i) of this section;

(E) Insurance claims which arise from a reportable segment of the applicant's or registrant's overall business activities, as defined in generally accepted accounting principles, other than in the commodity futures, commodity option, security and security option segments of the applicant's or registrant's business activities which are not outstanding more than 3 calendar months after the date they are recorded as a receivable;

(F) All other insurance claims not subject to paragraph (c)(2)(ii)(E) of this section, which are not older than seven (7) business days from the date the loss giving rise to the claim is discovered; insurance claims which are not older than twenty (20) business days from the date the loss giving rise to the claim is discovered and which are covered by an opinion of outside counsel that the claim is valid and is covered by insurance policies presently in effect; insurance claims which are older than twenty (20) business days from the date the loss giving rise to the claim is discovered and which are covered by an opinion of outside counsel that the claim is valid and is covered by insurance policies presently in effect and which have been acknowledged in writing by the insurance carrier as due and payable: Provided, Such claims are not outstanding longer than twenty (20) business days from the date they are so acknowledged by the carrier;

(iii) Exclude all prepaid expenses and deferred charges;

(iv) Exclude all inventories except for:

(A) Readily marketable spot commodities; or spot commodities which "adequately collateralize" indebtedness under paragraph (c)(7) of this section;

(B) Securities which are considered "readily marketable" (as defined in §240.15c3-1(c)(11) of this title) or which "adequately collateralize" indebtedness under paragraph (c)(7) of this section;

(C) Work in process and finished goods which result from the processing of commodities at market value;

(D) Raw materials at market value which will be combined with spot commodities to produce a finished processed commodity; and

(E) Inventories held for resale commonly associated with the business activities of the applicant or registrant;

(v) Include fixed assets and assets which otherwise would be considered noncurrent to the extent of any long-term debt adequately collateralized by assets acquired for use in the ordinary course of the trade or business of an applicant or registrant and any other long-term debt adequately collateralized by assets of the applicant or registrant if the sole recourse of the creditor for nonpayment of such liability is to such asset: Provided, Such liabilities are not excluded from liabilities in the computation of net capital under paragraph (c)(4)(vi) of this section;

(vi) Exclude all assets doubtful of collection or realization less any reserves established therefore;

(vii) Include, in the case of future income tax benefits arising as a result of unrealized losses, the amount of such benefits not exceeding the amount of income tax liabilities accrued on the books and records of the applicant or registrant, but only to the extent such benefits could have been applied to reduce accrued tax liabilities on the date of the capital computation, had the related unrealized losses been realized on that date;

(viii) Include guarantee deposits with clearing organizations and stock in clearing organizations to the extent of its margin value;

(ix) In the case of an introducing broker or an applicant for registration as an introducing broker, include 50 percent of the value of a guarantee or security deposit with a futures commission merchant which carries or intends to carry accounts for the customers of the introducing broker; and

(x) Exclude exchange memberships.

(3) A loan or advance or any other form of receivable shall not be considered "secured" for the purposes of paragraph (c)(2) of this section unless the following conditions exist:

(i) The receivable is secured by readily marketable collateral which is otherwise unencumbered and which can be readily converted into cash: Provided, however, That the receivable will be considered secured only to the extent of the market value of such collateral after application of the percentage deductions specified in paragraph (c)(5) of this section; and

(ii)(A) The readily marketable collateral is in the possession or control of the applicant or registrant; or

(B) The applicant or registrant has a legally enforceable, written security agreement, signed by the debtor, and has a perfected security interest in the readily marketable collateral within the meaning of the laws of the State in which the readily marketable collateral is located.

(4) The term liabilities means the total money liabilities of an applicant or registrant arising in connection with any transaction whatsoever, including economic obligations of an applicant or registrant that are recognized and measured in conformity with generally accepted accounting principles. "Liabilities" also include certain deferred credits that are not obligations but that are recognized and measured in conformity with generally accepted accounting principles. For the purposes of computing "net capital," the term "liabilities":

(i) Excludes liabilities of an applicant or registrant which are subordinated to the claims of all general creditors of the applicant or registrant pursuant to a satisfactory subordination agreement, as defined in paragraph (h) of this section;

(ii) Excludes, in the case of a futures commission merchant, the amount of money, securities and property due to commodity futures or option customers which is held in segregated accounts in compliance with the requirements of the Act and these regulations: Provided, however, That such exclusion may be taken only if such money, securities and property held in segregated accounts have been excluded from current assets in computing net capital;

(iii) Includes, in the case of an applicant or registrant who is a sole proprietor, the excess of liabilities which have not been incurred in the course of business as a futures commission merchant or as an introducing broker over assets not used in the business;

(iv) Excludes the lesser of any deferred income tax liability related to the items in paragraphs (c)(4)(i) (A), (B), and (C) below, or the sum of paragraphs (c)(4)(i) (A), (B), and (C) below:

(A) The aggregate amount resulting from applying to the amount of the deductions computed in accordance with paragraph (c)(5) of this section the appropriate Federal and State tax rate(s) applicable to any unrealized gain on the asset on which the deduction was computed;

(B) Any deferred tax liability related to income accrued which is directly related to an asset otherwise deducted pursuant to this section;

(C) Any deferred tax liability related to unrealized appreciation in value of any asset(s) which has been otherwise excluded from current assets in accordance with the provisions of this section;

(v) Excludes any current tax liability related to income accrued which is directly related to an asset otherwise deducted pursuant to this section; and

(vi) Excludes liabilities which would be classified as long term in accordance with generally accepted accounting principles to the extent of the net book value of plant, property and equipment which is used in the ordinary course of any trade or business of the applicant or registrant which is a reportable segment of the applicant's or registrant's overall business activities, as defined in generally accepted accounting principles, other than in the commodity futures, commodity option, security

and security option segments of the applicant's or registrant's business activities: Provided, That such plant, property and equipment is not included in current assets pursuant to paragraph (c)(2)(v) of this section.

(5) The term adjusted net capital means net capital less:

(i) The amount by which any advances paid by the applicant or registrant on cash commodity contracts and used in computing net capital exceeds 95 percent of the market value of the commodities covered by such contracts;

(ii) In the case of all inventory, fixed price commitments and forward contracts, the applicable percentage of the net position specified below:

(A) Inventory which is currently registered as deliverable on a contract market and covered by an open futures contract or by a commodity option on a physical.—No charge.

(B) Inventory which is covered by an open futures contract or commodity option.—5 percent of the market value.

(C) Inventory which is not covered.—20 percent of the market value.

(D) Inventory and forward contracts in those foreign currencies that are purchased or sold for future delivery on or subject to the rules of a contract market, and which are covered by an open futures contract.—No charge

(E) Inventory and forward contracts in euros, British pounds, Canadian dollars, Japanese yen, or Swiss francs, and which are not covered by an open futures contract or commodity option.—6 percent of the market value.

(F) Fixed price commitments (open purchases and sales) and forward contracts which are covered by an open futures contract or commodity option.—10 percent of the market value.

(G) Fixed price commitments (open purchases and sales) and forward contracts which are not covered by an open futures contract or commodity option.—20 percent of the market value.

(iii)–(iv) [Reserved]

(v) In the case of securities and obligations used by the applicant or registrant in computing net capital, and in the case of a futures commission merchant with securities in segregation pursuant to section 4d(2) of the Act and the regulations in this chapter which were not deposited by customers, the percentages specified in Rule 240.15c3–1(c)(2)(vi) of the Securities and Exchange Commission (17 CFR 240.15c3–1(c)(2)(vi)) (“securities haircuts”) and 100 percent of the value of “non-marketable securities” as specified in Rule 240.15c3–1(c)(2)(vii) of the Securities and Exchange Commission (17 CFR 240.15c3–1(c)(2)(vii));

(vi) In the case of securities options and/or other options for which a haircut has been specified for the option or for the underlying instrument in §240.15c3–1

appendix A of this title, the treatment specified in, or under, §240.15c3-1 appendix A, after effecting certain adjustments to net capital for listed and unlisted options as set forth in such appendix;

(vii) In the case of an applicant or registrant who has open contractual commitments, as hereinafter defined, the deductions specified in §240.15c3-1(c)(2)(viii) of this title;

(viii) In the case of a futures commission merchant, for undermargined customer commodity futures accounts and commodity option customer accounts the amount of funds required in each such account to meet maintenance margin requirements of the applicable board of trade or if there are no such maintenance margin requirements, clearing organization margin requirements applicable to such positions, after application of calls for margin or other required deposits which are outstanding three business days or less. If there are no such maintenance margin requirements or clearing organization margin requirements, then the amount of funds required to provide margin equal to the amount necessary after application of calls for margin or other required deposits outstanding three business days or less to restore original margin when the original margin has been depleted by 50 percent or more: Provided, To the extent a deficit is excluded from current assets in accordance with paragraph (c)(2)(i) of this section such amount shall not also be deducted under this paragraph (c)(5)(viii). In the event that an owner of a customer account has deposited an asset other than cash to margin, guarantee or secure his account, the value attributable to such asset for purposes of this subparagraph shall be the lesser of (A) the value attributable to the asset pursuant to the margin rules of the applicable board of trade, or (B) the market value of the asset after application of the percentage deductions specified in this paragraph (c)(5);

(ix) In the case of a futures commission merchant, for undermargined commodity futures and commodity option noncustomer and omnibus accounts the amount of funds required in each such account to meet maintenance margin requirements of the applicable board of trade or if there are no such maintenance margin requirements, clearing organization margin requirements applicable to such positions, after application of calls for margin or other required deposits which are outstanding two business days or less. If there are no such maintenance margin requirements or clearing organization margin requirements, then the amount of funds required to provide margin equal to the amount necessary after application of calls for margin or other required deposits outstanding two business days or less to restore original margin when the original margin has been depleted by 50 percent or more: Provided, To the extent a deficit is excluded from current assets in accordance with paragraph (c)(2)(i) of this section such amount shall not also be deducted under this paragraph (c)(5)(ix). In the event that an owner of a noncustomer or omnibus account has deposited an asset other than cash to margin, guarantee or secure his account the value attributable to such asset for purposes of this subparagraph shall be the lesser of (A) the value attributable to such asset pursuant to the margin

rules of the applicable board of trade, or (B) the market value of such asset after application of the percentage deductions specified in this paragraph (c)(5);

(x) In the case of open futures contracts and granted (sold) commodity options held in proprietary accounts carried by the applicant or registrant which are not covered by a position held by the applicant or registrant or which are not the result of a “changer trade” made in accordance with the rules of a contract market:

(A) For an applicant or registrant which is a clearing member of a clearing organization for the positions cleared by such member, the applicable margin requirement of the applicable clearing organization;

(B) For an applicant or registrant which is a member of a self-regulatory organization 150 percent of the applicable maintenance margin requirement of the applicable board of trade, or clearing organization, whichever is greater;

(C) For all other applicants or registrants, 200 percent of the applicable maintenance margin requirements of the applicable board of trade or clearing organization, whichever is greater; or

(D) For open contracts or granted (sold) commodity options for which there are no applicable maintenance margin requirements, 200 percent of the applicable initial margin requirement: Provided, The equity in any such proprietary account shall reduce the deduction required by this paragraph (c)(5)(x) if such equity is not otherwise includable in adjusted net capital;

(xi) In the case of an applicant or registrant which is a purchaser of a commodity option not traded on a contract market which has value and such value is used to increase adjusted net capital, ten percent of the market value of the physical or futures contract which is the subject of such option but in no event more than the value attributed to such option;

(xii) In the case of an applicant or registrant which is a purchaser of a commodity option which is traded on a contract market the same safety factor as if the applicant or registrant were the grantor of such option in accordance with paragraph (c)(5)(x) of this section, but in no event shall the safety factor be greater than the market value attributed to such option;

(xiii) Five percent of all unsecured receivables includable under paragraph (c)(2)(ii)(D) of this section used by the applicant or registrant in computing “net capital” and which are not due from:

(A) A registered futures commission merchant;

(B) A broker or dealer that is registered as such with the Securities and Exchange Commission; or

(C) A foreign broker that has been granted comparability relief pursuant to §30.10 of this chapter, Provided, however, that the amount of the unsecured receivable not subject to the five percent capital charge is no greater than 150 percent of the current

amount required to maintain futures and option positions in accounts with the foreign broker, or 100 percent of such greater amount required to maintain futures and option positions in the accounts at any time during the previous six-month period, and Provided, that, in the case of customer funds, such account is treated in accordance with the special requirements of the applicable Commission order issued under §30.10 of this chapter.

(xiv) For securities brokers and dealers, all other deductions specified in §240.15c3-1 of this title.

(6) Election of alternative capital deductions that have received approval of Securities and Exchange Commission pursuant to §240.15c3-1(a)(7) of this title.

(i) Any futures commission merchant that is also registered with the Securities and Exchange Commission as a securities broker or dealer, and who also satisfies the other requirements of this paragraph (c)(6), may elect to compute its adjusted net capital using the alternative capital deductions that, under §240.15c3-1(a)(7) of this title, the Securities and Exchange Commission has approved by written order. To the extent that a futures commission merchant is permitted by the Securities and Exchange Commission to use alternative capital deductions for its unsecured receivables from over-the-counter transactions in derivatives, or for its proprietary positions in securities, forward contracts, or futures contracts, the futures commission merchant may use these same alternative capital deductions when computing its adjusted net capital, in lieu of the deductions that would otherwise be required by paragraph (c)(2)(ii) of this section for its unsecured receivables from over-the-counter derivatives transactions; by paragraph (c)(5)(ii) of this section for its proprietary positions in forward contracts; by paragraph (c)(5)(v) of this section for its proprietary positions in securities; and by paragraph (c)(5)(x) of this section for its proprietary positions in futures contracts.

(ii) Notifications of election or of changes to election. (A) No election to use the alternative market risk and credit risk deductions referenced in paragraph (c)(6)(i) of this section shall be effective unless and until the futures commission merchant has filed with the Commission, addressed to the Director of the Division of Clearing and Intermediary Oversight, a notice that is to include a copy of the approval order of the Securities and Exchange Commission referenced in paragraph (c)(6)(i) of this section, and to include also a statement that identifies the amount of tentative net capital below which the futures commission merchant is required to provide notice to the Securities and Exchange Commission, and which also provides the following information: a list of the categories of positions that the futures commission merchant holds in its proprietary accounts, and, for each such category, a description of the methods that the futures commission merchant will use to calculate its deductions for market risk and credit risk, and also, if calculated separately, deductions for specific risk; a description of the value at risk (VaR) models to be used for its market risk and credit risk deductions, and an overview of the integration of the models into the internal risk management control system of the futures

commission merchant; a description of how the futures commission merchant will calculate current exposure and maximum potential exposure for its deductions for credit risk; a description of how the futures commission merchant will determine internal credit ratings of counterparties and internal credit risk weights of counterparties, if applicable; and a description of the estimated effect of the alternative market risk and credit risk deductions on the amounts reported by the futures commission merchant as net capital and adjusted net capital.

(B) A futures commission merchant must also, upon the request of the Commission at any time, supplement the statement described in paragraph (c)(6)(ii)(A) of this section, by providing any other explanatory information regarding the computation of its alternative market risk and credit risk deductions as the Commission may require at its discretion.

(C) A futures commission merchant must also file the following supplemental notices with the Director of the Division and Clearing and Intermediary Oversight:

(1) A notice advising that the Securities and Exchange Commission has imposed additional or revised conditions for the approval evidenced by the order referenced in paragraph (c)(6)(i) of this section, and which describes the new or revised conditions in full, and

(2) A notice which attaches a copy of any approval by the Securities and Exchange Commission of amendments that a futures commission merchant has requested for its application, filed under 17 CFR 240.15c3-1e, to use alternative market risk and credit risk deductions approved by the Securities and Exchange Commission.

(D) A futures commission merchant may voluntarily change its election to use the alternative market risk and credit risk deductions referenced in paragraph (c)(6)(i) of this section, by filing with the Director of the Division of Clearing and Intermediary Oversight a written notice specifying a future date as of which it will no longer use the alternative market risk and credit risk deductions, and will instead compute such deductions in accordance with the requirements otherwise applicable under paragraph (c)(2)(ii) of this section for unsecured receivables from over-the-counter derivatives transactions; by paragraph (c)(5)(ii) of this section for proprietary positions in forward contracts; by paragraph (c)(5)(v) of this section for proprietary positions in securities; and by paragraph (c)(5)(x) of this section for proprietary positions in futures contracts.

(iii) Conditions under which election terminated. A futures commission merchant may no longer elect to use the alternative market risk and credit risk deductions referenced in paragraph (c)(6)(i) of this section, and shall instead compute the deductions otherwise required under paragraph (c)(2)(ii) of this section for unsecured receivables from over-the-counter derivatives transactions; by paragraph (c)(5)(ii) of this section for proprietary positions in forward contracts; by paragraph (c)(5)(v) of this section for proprietary positions in securities; and by

paragraph (c)(5)(x) of this section for proprietary positions in futures contracts, upon the occurrence of any of the following:

(A) The Securities and Exchange Commission revokes its approval of the market risk and credit risk deductions for such futures commission merchant;

(B) A futures commission merchant fails to come into compliance with its filing requirements under this paragraph (c)(6), after having received from the Director of the Division of Clearing and Intermediary Oversight written notification that the firm is not in compliance with its filing requirements, and must cease using alternative capital deductions permitted under this paragraph (c)(6) if it has not come into compliance by a date specified in the notice; or

(C) The Commission by written order finds that permitting the futures commission merchant to continue to use such alternative market risk and credit risk deductions is no longer necessary or appropriate for the protection of customers of the futures commission merchant or of the integrity of the futures or options markets.

(iv) Additional filing requirements. Any futures commission merchant that elects to use the alternative market risk and credit risk deductions referenced in paragraph (c)(6)(i) of this section must file with the Commission, in addition to the filings required by paragraph (c)(6)(ii) of this section, copies of any and all of the following documents, at such time as the originals are filed with the Securities and Exchange Commission:

(A) Information that the futures commission merchant files on a monthly basis with its designated examining authority or the Securities and Exchange Commission, whether by way of schedules to its FOCUS reports or by other filings, in satisfaction of 17 CFR 240.17a-5(a)(5)(i);

(B) The quarterly reports required by 17 CFR 240.17a-5(a)(5)(ii);

(C) The supplemental annual filings as required by 17 CFR 240.17a-5(k);

(D) Any notification to the Securities and Exchange Commission or the futures commission merchant's designated examining authority of planned withdrawals of excess net capital; and

(E) Any notification that the futures commission merchant is required to file with the Securities and Exchange Commission when its tentative net capital is below an amount specified by the Securities and Exchange Commission.

(7) Liabilities are "adequately collateralized" when, pursuant to a legally enforceable written instrument, such liabilities are secured by identified assets that are otherwise unencumbered and the market value of which exceeds the amount of such liabilities.

(8) The term contractual commitments shall include underwriting, when issued, when distributed, and delayed delivery contracts; and the writing or endorsement of security puts and calls and combinations thereof; but shall not include uncleared

regular way purchases and sales of securities. A series of contracts of purchase or sale of the same security, conditioned, if at all, only upon issuance, may be treated as an individual commitment.

(d) Each applicant or registrant shall have equity capital (inclusive of satisfactory subordination agreements which qualify under this paragraph (d) as equity capital) of not less than 30 percent of the debt-equity total, provided, an applicant or registrant may be exempted from the provisions of this paragraph (d) for a period not to exceed 90 days or for such longer period which the Commission may, upon application of the applicant or registrant, grant in the public interest or for the protection of investors. For the purposes of this paragraph (d):

(1) Equity capital means a satisfactory subordination agreement entered into by a partner or stockholder or limited liability company member which has an initial term of at least 3 years and has a remaining term of not less than 12 months if:

(i) It does not have any of the provisions for accelerated maturity provided for by paragraphs (h)(2) (ix)(A), (x)(A), or (x)(B) of this section, or the provisions allowing for special prepayment provided for by paragraph (h)(2)(vii)(B) of this section, and is maintained as capital subject to the provisions restricting the withdrawal thereof required by paragraph (e) of this section; or

(ii) The partnership agreement provides that capital contributed pursuant to a satisfactory subordination agreement as defined in paragraph (h) of this section shall in all respects be partnership capital subject to the provisions restricting the withdrawal thereof required by paragraph (e) of this section, and

(A) In the case of a corporation, the sum of its par or stated value of capital stock, paid in capital in excess of par, retained earnings, unrealized profit and loss, and other capital accounts.

(B) In the case of a partnership, the sum of its capital accounts of partners (inclusive of such partners' commodities, options and securities accounts subject to the provisions of paragraph (e) of this section), and unrealized profit and loss.

(C) In the case of a sole proprietorship, the sum of its capital accounts of the sole proprietorship and unrealized profit and loss.

(D) In the case of a limited liability company, the sum of its capital accounts of limited liability company members, and unrealized profit and loss. (A)

(2) Debt-equity total means equity capital as defined in paragraph (d)(1) of this section L) plus the outstanding principal amount of satisfactory subordination agreements. E

(e) No equity capital of the applicant or registrant or a subsidiary's or affiliate's equity x capital consolidated pursuant to paragraph (f) of this section, whether in the form of (A) capital contributions by partners (including amounts in the commodities, options and n securities trading accounts of partners which are treated as equity capital but excluding d amounts in such trading accounts which are not

equity capital and excluding balances (R) in limited partners' capital accounts in excess of their stated capital contributions), par A or stated value of capital stock, paid-in capital in excess of par or stated value, retained earnings or other capital accounts, may be withdrawn by action of a stockholder or partner or limited liability company member or by redemption or repurchase of shares of stock by any of the consolidated entities or through the payment of dividends or any similar distribution, nor may any unsecured advance or loan be made to a stockholder, partner, sole proprietor, limited liability company member, or employee if, after giving effect thereto and to any other such withdrawals, advances, or loans and any payments of payment obligations (as defined in paragraph (h) of this section) under satisfactory subordination agreements and any payments of liabilities excluded pursuant to paragraph (c)(4)(vi) of this section which are scheduled to occur within six months following such withdrawal, advance or loan:

(1) Either adjusted net capital of any of the consolidated entities would be less than the greatest of:

(i) 120 percent of the appropriate minimum dollar amount required by paragraphs (a)(1)(i)(A) or (a)(1)(iii)(A) of this section;

(ii) For a futures commission merchant or applicant therefor, 120 percent of the amount required by paragraph (a)(1)(i)(B) of this section;

(iii) 120 percent of the amount of adjusted net capital required by a registered futures association of which it is a member; or

(iv) For an applicant or registrant which is also a securities broker or dealer, the amount of net capital specified in Rule 15c3-1(e) of the Securities and Exchange Commission (17 CFR 240.15c3-1(e)); or

(2) In the case of any applicant or registrant included within such consolidation, if equity capital of the applicant or registrant (inclusive of satisfactory subordination agreements which qualify as equity under paragraph (d) of this section) would be less than 30 percent of the required debt-equity total as defined in paragraph (d) of this section.

Provided, That this paragraph (e) shall not preclude an applicant or registrant from making required tax payments or preclude the payment to partners of reasonable compensation. The Commission may, upon application of the applicant or registrant, grant relief from this paragraph (e) if the Commission deems it to be in the public interest or for the protection of nonproprietary accounts.

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