

US Bonds Margin

The following rules apply for Reg T Margin and Portfolio Margin accounts. Bonds must be paid-in-full in a Cash account.

FINRA and the NYSE have imposed rules to limit small investor day trading. Customers that these organizations classify as Pattern Day Traders are subject to special [Day Trading Restrictions](#) for US securities.

Government Bonds Margin

US Treasury Securities	Initial Margin Requirements	Maintenance Margin Requirements
Less than six months to maturity	1% * Market Value	Same as Initial Margin
Less than one year to maturity	2% * Market Value	Same as Initial Margin
One year but less than three years to maturity	3% * Market Value	Same as Initial Margin
Three years but less than five years to maturity	4% * Market Value	Same as Initial Margin
Five years but less than ten years to maturity	5% * Market Value	Same as Initial Margin
Ten years but less than twenty years to maturity	7% * Market Value	Same as Initial Margin
Twenty years or more to maturity	9% * Market Value	Same as Initial Margin
Zero coupon bonds with five years or more to maturity	3% * Principal Amount of the Obligation	Same as Initial Margin

Municipal Bonds

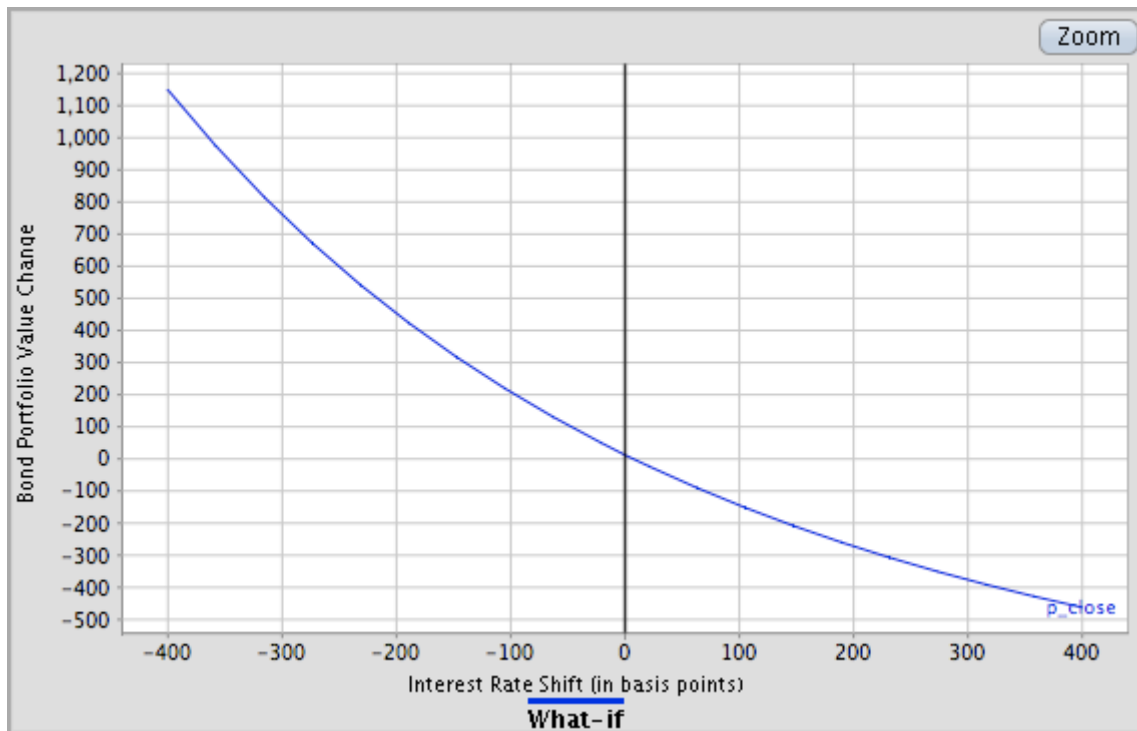
	Initial Margin Requirements	Maintenance Margin Requirements
Investment Grade ¹	1.25 * Maintenance Margin ²	25% * Bond Market Value
Speculative Grade ¹	1.25 * Maintenance Margin ²	50% * Bond Market Value
Junk Grade ¹	1.25 * Maintenance Margin ²	75% * Bond Market Value
Defaulted ¹	100% * Bond Market Value ²	100% * Bond Market Value

Corporate Bonds

The margin for the following types of corporate bonds is determined using a proprietary Value At Risk (VAR) methodology³:

- Investment Grade
- NYSE-listed Speculative Grade
- NYSE-listed Junk Grade

The theoretical price of each bond is calculated over a range of interest rate offsets to the prevailing Treasury yield curve. The result of such a calculation is illustrated in the following figure. As the interest rate offset increases, the bond price decreases. The upward curvature of the line is indicative of the "convexity" of the bond.



The VAR is the worst case loss in the bond price over a specified range of underlying interest rate changes. The scanning ranges are listed in the table below.

Bond Type	Basis Points
Investment Grade (Moody's Aaa to Baa3)	200 basis points
NYSE-Listed Speculative Grade (Moody's Ba1 to B3)	300 basis points
NYSE-Listed Junk Grade (Moody's Caa1 to C)	400 basis points

Within the Value At Risk calculation, bonds that contain embedded options (calls or puts) are subjected to stress tests that separately increase and decrease the interest rate period volatilities used to calculate the theoretical price of the bond by 15% of their values. Under each volatility change scenario, another theoretical price curve is calculated over the same range of interest rate offsets to the prevailing Treasury yield curve. The VAR for bonds with embedded options is taken as the worst case loss on the appropriate interest rate scanning range across each of the unchanged, up and down volatility scenarios.

The regulatory minimum margin of 10% of market value applies to investment grade bonds. The regulatory minimum of the larger of 20% of market value and 7% of face value applies to non-investment grade, NYSE-listed bonds.

Non-NYSE-Listed Speculative and Junk Bonds are margined as follows:

Bond Type	Initial Margin	Maintenance Margin
Non-NYSE-Listed Speculative Grade	50% * Bond Market Value	50% * Bond Market Value
Non-NYSE-Listed Junk Grade	70% * Bond Market Value	70% * Bond Market Value

Bonds that have defaulted or that are not rated are not eligible for margin treatment.

Special Margin Bonds

We may reduce the collateral value of securities (reduces marginability) for a variety of reasons, including:

- small market capitalization or small issue size
- low liquidity in the collective primary/secondary exchanges
- involvement in tenders and other corporate action

Changes in marginability are generally considered for a specific security. However, in cases of concerns about the viability or liquidity of a company, marginability reductions will apply to all securities issued by, or related to, the affected company, including bonds, derivatives, depository receipts, etc.

In addition, please see discussions on special risk management algorithms, for example, large position and position concentration algorithms which may affect the margin rate applied to a given security within an account and may vary between accounts.

Disclosures

1. Grades are based on Moody's ratings.
 - Investment Grade – AAA to BAA3
 - Speculative Grade – BA1 to B3
 - Junk Grade – Below B3
2. In order to apply other than 100% margin requirement, the bond must satisfy the following:
 - not private placement

- not RegS
 - not Rule 144A
 - original issue size at least \$25 million
3. At this time, we are unable to provide additional details about the proprietary VAR methodology used to calculate margin for requirements of corporate bonds.