

Introduction to Margin: Margin Accounts

We offer a cash account which requires enough cash in the account to cover transaction plus commissions, and two types of margin accounts: Reg T Margin and Portfolio Margin. New customers must select an account type during the application process and can upgrade or downgrade their account type at any time.

A Portfolio Margin account can provide lower margin requirements than a Reg T Margin account. However, for a portfolio with concentrated risk, the requirements under Portfolio Margin may be greater than those under Reg T, as the true economic risk behind the portfolio may not be adequately accounted for under static Reg T calculations. Customers can compare their current Reg T margin requirements for their portfolio with those current projected under Portfolio Margin rules by [clicking the Try PM](#) button from the Account Window in CCG Trader (demo or customer account).

Margin has a different meaning for securities versus commodities. For securities, margin is the amount of cash a client borrows. For commodities, margin is the amount of cash a client must put up as collateral to support a futures contract.

Securities Margin Definition

For securities, the definition of margin includes three important concepts: the Margin Loan, the Margin Deposit and the Margin Requirement. The Margin Loan is the amount of money that an investor borrows from his broker to buy securities. The Margin Deposit is the amount of equity contributed by the investor toward the purchase of securities in a margin account. The Margin Requirement is the minimum amount that a customer must deposit and it is commonly expressed as a percent of the current market value. The Margin Deposit can be greater than or equal to the Margin Requirement. We can express this as an equation:

$$\begin{aligned} \text{Margin Loan} + \text{Margin Deposit} &= \text{Market Value of Security} \\ \text{Margin Deposit} &\geq \text{Margin Requirement} \end{aligned}$$

Borrowing money to purchase securities is known as "buying on margin". When an investor borrows money from his broker to buy a stock, he must open a margin account with his broker, sign a related agreement and abide by the broker's margin requirements. The loan in the account is collateralized by investor's securities and cash. If the value of the stock drops too much, the investor must deposit more cash in his account, or sell a portion of the stock.

Securities Initial and Maintenance Margin

The Federal Reserve Board and self-regulatory organizations (SROs), such as the New York Stock Exchange and FINRA, have clear rules regarding margin trading. In the United States, the Fed's Regulation T ("Reg T") allows investors to borrow up to 50 percent of the price of the securities to be purchased on margin. The percentage of the purchase price of securities that an investor must pay for is called the initial margin. To buy securities on margin, the investor must first deposit enough cash or eligible securities with a broker to meet the initial margin requirement for that purchase.

Once an investor has started buying a stock on margin, the NYSE and FINRA require that a minimum amount of equity be maintained in the investor's margin account. These rules require investors to have at least 25% of the total market value of the securities they own in their margin account. This is called the maintenance margin. For market participants identified as pattern day traders, the

maintenance margin requirement is a minimum of \$25,000 (or 25% of the total market value of the securities, whichever is higher).

When the balance in the margin account falls below the maintenance requirement, the broker can issue a margin call requiring the investor to deposit more cash, or the broker can liquidate the position.

Brokers also set their own minimum margin requirements called "house requirements". Some brokers extend more lenient lending conditions than others and lending terms may also vary from one client to the other but brokers must always operate within the parameters of margin requirements set by regulators.

Not all securities can be bought on margin. Buying on margin is a double-edged sword that can translate into bigger gains or bigger losses. In volatile markets, investors who borrowed from their brokers may need to provide additional cash if the price of a stock drops too much for those who bought on margin or rallies too much for those who shorted a stock. In such cases, brokers are also allowed to liquidate a position, even without informing the investor. Real-time position monitoring is a crucial tool when buying on margin or shorting a stock.

Commodities Margin Definition

Commodities margin is the amount of equity contributed by an investor to support a futures contract. This can be expressed as a simple equation:

$$\begin{aligned} \text{Collateral} &= \text{Amount of Equity Required to Support Futures Contract} \\ \text{Collateral} &\geq \text{Margin Requirement} \end{aligned}$$

Margin requirements for futures and futures options are established by each exchange through a calculation algorithm known as SPAN margining. SPAN (Standard Portfolio Analysis of Risk) evaluates overall portfolio risk by calculating the worst possible loss that a portfolio of derivative and physical instruments might reasonably incur over a specified time period (typically one trading day.) This is done by computing the gains and losses that the portfolio would incur under different market conditions. The most important part of the SPAN methodology is the SPAN risk array, a set of numeric values that indicate how a particular contract will gain or lose value under various conditions. Each condition is called a risk scenario. The numeric value for each risk scenario represents the gain or loss that that particular contract will experience for a particular combination of price (or underlying price) change, volatility change, and decrease in time to expiration.

Commodities Initial and Maintenance Margin

Just like securities, commodities have required initial and maintenance margins. These are typically set by the individual exchanges as a percentage of the current value of a futures contract, based on the volatility and price of the contract. The initial margin requirement for a futures contract is the amount of money you must put up as collateral to open position on the contract. To be able to buy a futures contract, you must meet the initial margin requirement, which means that you must deposit or already have that amount of money in your account.

Maintenance margin for commodities is the amount that you must maintain in your account to support the futures contract and represents the lowest level to which your account can drop before you must deposit additional funds. Commodities positions are marked to market daily, with your account adjusted for any profit or loss that occurs. Because the price of underlying commodities fluctuates, it is possible that the value of the commodity may decline to the point at which your account balance falls below the required maintenance margin. If this happens, brokers typically make a margin call, which means you must deposit additional funds to meet the margin requirement.

Real-Time Margining

We use real-time margining to allow you to see your trading risk at any moment of the day. Our real-time margin system applies margin requirements throughout the day to new trades and trades already on the books and enforces initial margin requirements at the end of the day, with real-time liquidation of positions instead of delayed margin calls. This system allows us to maintain our low commissions because we do not have to spread the cost of credit losses to customers in the form of higher costs.

The Account Window in CCG Trader (demo or customer account) shows your margin requirements at any time.

Universal Account

Your universal account provides you with the ability to trade both securities and commodities/futures and therefore consists of two underlying accounts: a securities account governed by rules of the U.S. Securities and Exchange Commission (SEC) and a futures account governed by rules of the U.S. Commodity Futures Trading Commission (CFTC).

Whether you have assets in a securities account or in a futures account, your assets are protected by U.S. federal regulations governing how brokers must protect your property and funds. In the securities account, your assets are protected by SEC and SIPC rules. In the futures account, your assets are protected by CFTC rules requiring segregation of customer funds. You are also protected by our advanced security technologies and conservative risk management philosophy. See our [Security & Asset Protection](#) page.

As part of the universal account service, we are authorized to automatically transfer funds as necessary between your securities account and your futures account in order to satisfy margin requirements in either account. You can configure how you want us to handle the transfer of excess funds between accounts on the Excess Funds Sweep page in Account Management: you can choose to sweep funds to the securities account, to the futures account, or you can choose to not sweep excess funds at all.

Margin Model

Margin requirements are calculated either on a rules basis and/or a risk basis.

Margin Calculation Basis	Available Products
Rule-Based Margin System: Predefined and static calculations are applied to each position or predefined groups of positions ("strategies").	Reg T accounts: US stocks, index options, stock options, single stock futures, and mutual funds. All accounts: Forex; bonds; Canadian, European, and Asian stocks; and Canadian stock options and index options.
Risk-Based Margin System: Exchanges consider the maximum one day risk on all the positions in a complete portfolio, or sub-portfolio together (for example, a future and all the options delivering that future).	Portfolio Margin accounts: US stocks, index options, stock options, single stock futures, and mutual funds. All accounts: All futures and future options in any account. Non-US/Non-Canadian stock options and index options in any account.

Margin requirements for each underlying are listed on the appropriate exchange site for the contract. A summary of the requirements for the major futures contracts as well as links to the exchange sites are available on the Futures & FOPs tab above.

Supplemental Margin Model

Systems that derive risk-based margin requirements deliver adequate assessments of the risk for complex derivative portfolios under small/moderate move scenarios. Such systems are less comprehensive when considering large moves in the price of the underlying stock or future. We have enhanced the basic exchange margin models with algorithms that consider the portfolio impact of larger moves up 30% (or even higher for extremely volatile stocks). This 'Extreme Margin Model' may increase the margin requirement for portfolios with net short options positions, and is particularly sensitive to short positions in far out-of-the-money options.

We also apply a concentrated margining requirement to Standard and/or REG T margin accounts. An account's two largest positions and their underlying derivatives will be re-valued using the worst case scenario within a +/- 30% scanning range. The remaining positions will be re-valued based upon a move of +/-5%. If the concentrated margining requirement exceeds that of the standard rules based margin required, then the newly calculated concentrated margin requirement will be applied to the account.

If you sell a security short, you must have sufficient equity in your account to cover any fees associated with borrowing the security. If you borrow the security through us, we will borrow the security on your behalf and your account must have sufficient collateral to cover the margin requirements of the short sale. To cover administrative fees and stock borrowing fees, we must post 102% of the value of the security borrowed as collateral with the lender. In instances in which the security shorted is hard to borrow, borrowing fees charged by the lender may be so high (greater than the interest earned) that the short seller must pay additional interest for the privilege of borrowing a security. Customers may view the indicative short stock interest rates for a specific stock through the Short Stock (SLB) Availability tool located in the Tools section of their Account Management page.

Disclosures

1. Futures trading in a SIPP Cash account opened with CCG is also subject to substantially higher margin requirements than in a non-SIPP account.

-
- In the interest of ensuring the continued safety of its clients, the broker may modify certain margin policies to adjust for unprecedented volatility in financial markets. The changes will promote reduction of leverage in client portfolios and help ensure that clients' accounts are appropriately capitalized.
 - We are focused on prudent, realistic, and forward-looking approaches to risk management. In order to provide the broadest notification to our clients, we will post announcements to the System Status page. We strongly encourage all clients to monitor this web page for advance alerts regarding margin policy changes.
 - Note that the credit check for order entry always considers the initial margin of existing positions. Therefore, although an account may be holding an existing position at 35%, for example, it is the initial margin requirement of that position that is used in the credit check calculation for order acceptance.
 - The market values/prices used to compute the equity or margin requirement in a CCG account may differ from the price disseminated by exchanges or other market data sources, and may represent CCG's valuation of the product. Among other things, CCG may calculate its own index values, Exchange Traded Fund values or derivatives values, and CCG may value securities or futures or other investment products based on bid price, offer price, last sale price, midpoint or using some other method. CCG may use a valuation methodology that is more conservative than the marketplace as a whole.