REGULATORY CIRCULAR 98-19

Date: February 6, 1998

To: Members and Member Organizations

From: The Department of Financial and Sales Practice Compliance

Subject Market-Maker Margin Requirements

The purpose of this circular is to respond to inquiries regarding appropriate methods for meeting Regulation T margin calls for non market-maker positions. Option positions that are not deemed market-maker positions or stock and option positions that do not qualify as permitted offset positions according to Exchange Rule 12.3(f) are subject to customer margin requirements. A Regulation T margin call is to be issued when an account executes trades that require a margin deposit. The call will be issued for the deficiency between the market-maker's account equity and the margin requirement. Regulation T Section 220.4 requires the "deposit of cash, margin securities or any combination thereof" within a specified time frame (currently 5 business days) in order to satisfy a margin call. Margin calls that are not met by an appropriate deposit will be deemed liquidations. Market appreciation is not an acceptable method of meeting a Regulation T call. If a call is issued and the account equity appreciates due to market movement to a level that would cover or reduce the required margin deposit the market-maker is still obligated to deposit the cash or securities equal to the original call. Liquidating another non market-maker position after a Regulation T margin call has been issued is not an acceptable method of meeting the call.

If you have any questions regarding this memorandum, please contact Jim Adams at (312) 786-7718 or Rich Lewandowski at (312) 786-7183.

(Reg. Circular 95-12 revised)