

# Index

- A**
- Account. *See* Cash accounts; Customer account; Demand deposits accounts; Frozen account; Restricted account; Two-sided account
    - purchase, calculation, 86
    - recomputation, 50
    - restriction, 84
    - set-up, 126
  - Accounting, memorandum method, 33
  - Accrued interest, 169
  - Active box, 56
  - ADR. *See* American depository receipt
  - Aggregate exercise price, 94
  - American depository receipt (ADR), 169
  - American-style exercise feature, 111
  - American style option, 108
  - American Telephone and Telegraph (AT&T)
    - break-up, 80
    - stock split, 78
  - Ameritech, stock spinoff, 78
  - Approved theoretical pricing models, 123
  - Arbitrage, 169
  - Assignment. *See* Options
- B**
- Baby bond, 169
  - Bank, Federal Reserve requirement, 130
  - Bankers' acceptance, 46
  - Bearer bonds, 169
    - Bear spread call credit, 99, 107
    - Bell Atlantic, stock spinoff, 78
    - BellSouth, stock spinoff, 78
    - Board of Directors, 130
    - Board of Governors, 129–130
    - Bonds, 65, 169. *See also* Bearer bonds
      - account, elimination, 66
      - question, 74–76
      - answers, 143
    - Box spread long, 112, 169
    - Box spread short, 112
    - Breakeven point, 97–98
    - Break point, determination, 52–53
    - British pound contract, 110
    - Broad-based index
      - margin requirement, reduction, 109
      - options, 108
    - Broad index, option issues, 92
    - Broker
      - service, 81
      - transaction, 4
    - Brokerage firms
      - 90-day freeze, 3
      - money, transfer, 46–47
    - Broker/dealer
      - account, 61
      - executing brokers, action, 61
      - participants, settlement (OCC requirement), 100
      - registration, 123
    - Bull spread call debit (money spread // vertical spread), 98–99, 106–107
    - Bull spread put credit, 100, 107
    - Bull spread put debit, 100, 108
    - Business day, 169

- Butterfly spread. *See* Long butterfly spread; Short butterfly spread
- Buy-in, 170
- Buying power, 13  
 account, recomputation, 23  
 amount, 57  
 establishment, 14
- C**
- Cage, 170
- Callable, definition, 170
- Call credit. *See* Bull spread call credit
- Call debit. *See* Bull spread call debit
- Call loan, 170
- Call option, 92. *See also* Covered calls;  
 Uncovered calls  
 holder, 95  
 long, 97  
 option requirement, 105
- Call rate, 1
- Canadian dollar, exception, 110
- Cash accounts, 1. *See also* Customer cash account  
 cash account  
 questions, 7–8  
 answers, 139–140  
 usage, absence, 88
- Cash equivalents. *See* Money market instrument
- Cashiers department, 170
- Cash on delivery (C.O.D.), 4, 170  
 orders, 5–6  
 transaction, 6
- CBOE. *See* Chicago Board Options Exchange
- Certificates of deposit (CDs), 46, 130
- Chicago Board Options Exchange (CBOE), 91  
 Web site Margin Calculator, 124
- Clearing Agency, facilities, 6
- Clearinghouse funds, 131
- Closing transactions, 93  
 offset, 94
- Collar, 111–112
- Collateral  
 deposit, 26, 54  
 holding, 49  
 placement, 82
- Commercial paper (CP), 46
- Commingling, 170
- Commissions, noninclusion, 95
- Common stock, 170
- Competition, examination, 45
- Conversion, 111. *See also* Reverse conversion
- Convertible debt security account, elimination, 66
- Cover, 170
- Covered calls, 94
- CPM Calculator, 124
- Credit  
 account. *See* Non-securities credit account  
 availability, 132–133  
 balance, 170  
 extension, SEC rule, 85  
 spreads, profit, 98
- Credit outstanding, amount, 2
- Currency, market value, 110
- Current market value, 11, 105, 170  
 percentage, 133  
 calculation, 23  
 usage, 103–104
- Customer  
 credit balance, 58  
 debit  
 balance, 17  
 increase, 84  
 deposit, 10  
 equity/ownership, 82  
 securities, segregation, 80–81  
 SMA, 40–41, 69  
 balance, 41–42  
 profit placement, 86
- Customer account, 35–42  
 example, 11  
 liquidation, 4  
 long positions/short positions, 53  
 money, deposit, 13  
 review, 81–83
- Customer cash account, 27–28  
 calculation, 78  
 crediting, 32–33  
 funds, broker/dealer search, 88–89

## Index

179

- Customer margin account, 48, 137–138  
 calculation, 33–34, 78, 82  
 examination, 27  
 example, 83
- D**
- Day-to-day credit, 133  
 Day trades, 83–89  
 definition, 170  
 Day trading, sophistication, 89  
 Day trading buying power, 87  
 allowance, 88  
 excess, 88  
 D.D.A. *See* Demand deposits accounts  
 DEA. *See* Designated examining  
 authority  
 Debit balance, 25–26, 171  
 change, absence, 57  
 collateral, impact, 26  
 increase, 34  
 change, absence, 11  
 reduction, 16  
 Debit spreads, profit, 98  
 Debt instruments, 67  
 Debt securities  
 conversion. *See* Margin security  
 convertibility, 66  
 Regulation T, relationship, 65  
 Delete rule, elimination, 48  
 Delivery *versus* payment (D.V.P.), 4–6  
 definition, 171  
 Demand (creation), purchases  
 (impact), 58  
 Demand deposits accounts (D.D.A.),  
 130  
 Demand loans, 132  
 Deposit, Regulation T requirement  
 (absence), 85–86  
 Depository Trust Clearing Corp.  
 (DTCC), 4  
 Derivatives. *See* Unlisted derivative  
 Designated examining authority  
 (DEA), 2  
 application, 122  
 Discount rate, 132  
 definition, 171  
 Discount window, definition, 171
- Dividends, 113  
 DK. *See* Don't know  
 Don't know (DK), 5, 171  
 Dow Jones averages, 65  
 Down tick, 171  
 DTCC. *See* Depository Trust Clearing  
 Corp.  
 D.V.P. *See* Delivery *versus* payment
- E**
- Eligible participants, 123–124  
 Eligible positions, 126  
 Employee stock options (ESOPs),  
 6–7  
 Equity  
 change, absence, 57  
 definition, 171  
 level, 66  
 mixture, 50  
 requirement. *See* Minimum equity  
 requirement  
 excess, 15  
 security, 171  
 sale, 87  
 short side, 50  
 Equity options  
 issues, 92  
 listing, 101–102  
 OCC issuance/clearance, 108  
 Equity-related securities, 121  
 ESOPs. *See* Employee stock options  
 European style option, 108  
 Excess margin, 171  
 Executing broker  
 actions, 61  
 adherence. *See* Short sales  
 Exempted securities, 65  
 Exempt securities, 171  
 usage, 66  
 Exercise. *See* Options  
 notice, 113  
 Expiration date, 112, 113
- F**
- Face value, 171  
 Fail to deliver, 171  
 Fail to receive, 171

- Federal funds, 172
  - rate, 131, 172
- Federal margin requirements, 9
  - questions, 19–20
  - answers, 140
- Federal Open Market Committee (FOMC), 132–133
  - Federal Reserve governors, 133
- Federal Reserve, 129
  - banks, 135t
  - deposit requirement, 10
  - funds, 131
  - purpose, 130
  - requirements, 130, 132–135
    - imposition, 70
- Federal Reserve Board, 172
- Federal Reserve System
  - division, 129
  - Regulation Z, 83
- Federal wire, 172
- Final examination
  - answers, 161–167
  - questions, 151–160
- FOMC. *See* Federal Open Market Committee
- Foreign currency, option issues, 92
- Foreign market stock, 9
- Foreign sovereign debt securities, 65
- Free funds letter, 172
  - obtaining, 5
- Free riding, 5, 172
- Frozen account, 172
- Full cash payment, 2
- Fully paid-for customer securities, 81
- Funds
  - deposit, 42
  - withdrawal, 22
- G**
- General account, 172
- General obligation, 172
  - backing, 69–70
- Glossary, 169–176
- Good-faith loan value, 74
- Government securities, purchase, 69
- Guarantee, 124
  - limit, 28
- Guaranteed account, 172
  - variation, 28
- H**
- Hedged positions, 126. *See also*
  - Unhedged positions
- Hedge funds, 5
  - competition, 60
  - investment strategies, 60–61
  - number, 59–60
- Hedging strategies, 112
- House requirement, 3
- House rules, 172
- Hypothecation agreement, 172
- I**
- IBM APR, 125
- ID. *See* Institutional Delivery
- Index multiplier, 112
- Index options, 108–109. *See also*
  - Broad-based index
  - retail customer usage, 109
- Industry index, option issues, 92
- Initial call, sending, 106
- Initial maintenance requirements, 21
  - questions, 29–30
  - answers, 140–141
- Initial margin, 172
  - computation, 107
  - requirement, 107
- Initial requirements, 21–29. *See also*
  - Zero-coupon government obligations
- Institutional customers, setup, 4–5
- Institutional Delivery (ID) System, 5
- Instrument. *See* Underlying instrument
- Interest. *See* Accrued interest
  - charges, 83–85
    - amount, 84
    - impact, 84
  - fixed amount, 67
  - payment, 131
- Interest-bearing notes/bonds, 67
- Interest rates, 70
  - options, 109–111
  - issues, 92
- In the money, 93

## Index

181

- Intrinsic value, 94  
Investment companies, 5  
    securities, 85  
Investment Company Act of 1940, 9, 60  
Investors, pool, 91
- L**  
LEAPS. *See* Long-term equity anticipation securities  
Ledger credit balance, 48–49  
Lender, privilege (loss), 46  
Liquidations, 18  
    questions, 127  
Listed bond, sale, 72  
Listed option, 122  
Listed securities, customer purchase, 23  
Listed stocks, 172  
Loan value, 173  
Long, definition, 173  
Long accounts, short accounts (combination), 50  
Long butterfly spread, 112  
Long call, 95  
Long combination, 97  
Long market value, 53  
    change, absence, 57  
Long positions  
    creation, 45  
    NYSE minimum maintenance, 23  
    short positions  
    separation, computer (usage), 48  
    simultaneity, 38  
Long put, 96  
Long straddle, 96–97  
Long-term debt obligations, 109–110  
Long-term equity anticipation securities (LEAPS), 101–108  
    advantages, 102  
    availability, 102  
    example, 102–103  
    trading, factors, 103  
    usage, 102–103  
Loss, reduction, 99  
Low-priced securities, NYSE requirements (establishment), 52
- M**  
Maintenance call, 173  
    amount, 54–55  
    answering, 25  
    difference, 28  
    incurring, 24  
    market activity, 29  
Maintenance requirements, 173. *See also* Zero-coupon government obligations  
    computation, 107  
Margin. *See* Excess margin; Initial margin; New issues  
    account, appearance, 34  
    calculation premium, 109  
    computations, 12  
    deficiencies, 125  
    elimination, liquidations (usage), 125  
    excess, transfer, 32  
    purchase, 11  
Marginable securities  
    deposit, 17  
    payment, 17  
    Regulation T definition, 9  
Margin account. *See* New margin account  
    debit, 31  
    examination, 70–71  
    example, 16  
    SMA maintenance, 31  
Marginal securities, financing, 56  
Margin Calculator. *See* Chicago Board Options Exchange  
Margin call, 173  
    meeting, 17–19  
    meeting, liquidation (usage), 54  
Margin requirement, 103–104, 111  
    absence, 94  
    method. *See* Trading  
    risk, basis, 122  
Margin security, 173  
    convertibles, 65  
    debt security, conversion, 10  
    issuance, 79–80

- Market
    - appreciation, 54
    - price movements, 124
    - sell-off, 15
  - Market value, 54. *See also* Current market value
    - change, 11
    - decline, 14, 24, 49
    - increase, 49
    - maximum loan value, SEC approval, 101
  - Marks to the market, 80
  - Mark to the market, 173
  - Maximum profit, limitlessness, 97
  - Medium-term debt obligations, 109–110
  - Member organization, 6
  - Minimum equity requirement, 88
  - Minimum initial deposit, 21
  - Minimum maintenance requirements, 21. *See also* New York Stock Exchange
    - questions, 29–30
    - answers, 140–141
  - Miscellany, 77
    - questions, 89–90
    - answers, 143–144
  - Money deposit, 25
  - Money market instrument, 46
    - cash equivalents, 101
  - Money market mutual funds, 88
  - Money spread. *See* Bull spread call debit
  - Municipals, 69–72
  - Municipal securities, 173
  - Mutual funds. *See* Money market mutual funds
    - problems, 85
    - requirement, 60
- N**
- Naked call. *See* Uncovered call
  - Naked combination. *See* Uncovered combination
  - Naked put, 104. *See also* Uncovered put
  - Naked short call, 103–106
  - Naked straddle. *See* Uncovered straddle
  - Narrow-based index, 108
  - NASDAQ
    - stock market, 9
    - volume, increase, 59
  - National Association of Securities Dealers (NASD), 173
    - initial/minimum maintenance requirements, 21
  - National futures exchange, member, 123
  - National securities exchange, unlisted trading privileges, 9
  - Net debit, 108
  - Net premium, 94
    - receiving, 99
  - New issues, margin, 83
  - New margin account, 22
  - New York City (NYC) bonds, exempt securities, 72
  - New York exchanges, margin rules, 21
  - New York Stock Exchange (NYSE)
    - initial/maintenance requirements, 70. *See also* U.S. government obligations
    - maintenance, meeting, 27
    - maintenance requirement, 25–26
      - compliance, 24
    - minimum maintenance call, 28
      - requirement, 37, 53, 66. *See also* Long positions
    - requirement, 22
      - establishment. *See* Low-priced securities
      - sliding scale, 67
  - Rule 431, 78
  - rules, compliance, 25
  - trading volume, 65
  - New York Stock Exchange (NYSE),
    - minimum maintenance requirements, 52–53
  - Nonconvertible corporate bonds, 72–74

## Index

183

- Nonequity securities, 65  
 Non-equity security, 9  
 Nonpurpose loan, 173  
 Non-securities credit account, 173–174  
 NYNEX, stock spinoff, 78
- O**  
 OCC. *See* Option Clearing Corp.  
 Open-end investment companies,  
   problem, 85  
 Open-end investment shares, customer  
   purchase, 85  
 Opening transactions, 93  
 Open interest, 94  
 Option Clearing Corp. (OCC), 100  
 Options, 91. *See also* American style  
   option; European style option  
   assignment, 113  
   class, 92  
   combination, 93  
   cost, maximum, 96  
   definitions, 92–93  
   details, 113–114  
   examples, 95–100  
   exercise, 113  
   issues, 92  
   listing, SEC approval, 102  
   payment, 113  
   purchase, requirements, 100–101  
   questions, 114–120  
     answers, 144–148  
   sale, requirements, 100–101  
   series, 92  
   spread, 92  
   strap, 93  
   strategies, 112  
   strip, 93  
   trading hours, 113  
   types, 92–93, 108–112  
     definitions, relationship, 93–95  
 OTC. *See* Over-the-counter  
 Out of the money, 94, 109  
   difference, 104  
 Out-of-the-money current market  
   value, 105  
 Out-of-the-money option, 94
- Outstanding short position, 94  
 Over-the-counter (OTC) margin debt  
   securities, 65  
 Over-the-counter (OTC) margin  
   stock/security, 10  
 Over-the-counter (OTC) securities,  
   permission (absence), 27
- P**  
 Pacific Telesis, stock spinoff, 78  
 Paid-for securities, segregation, 81  
 Partial delivery, 174  
 Pattern day trader  
   equity, usage, 86  
   regulatory agency consideration, 86  
   requirements, 86–87  
 Payment. *See* Options  
 Payment on delivery (P.O.D.), 5  
   transaction, 5  
 Plus tick, 174  
 P.O.D. *See* Payment on delivery  
 Portfolio  
   definition, 122  
   diversification, 46  
   lender conversion, 46  
   margin  
     account, 121, 125  
     requirement, 124  
   meaning, 122  
 Portfolio margining, 121  
   questions, 126–127  
     answers, 149–150  
 Practice, constitution, 18  
 Premium, 94  
   receiving, 96, 100  
 Pricing models. *See* Approved  
   theoretical pricing models  
 Prime broker, 59–62, 122  
   responsibility, 61  
 Principal, percentage, 73  
 Product group, 122  
 Profit  
   calculation, 99  
   reduction, 100  
   retention, 79  
 Promptly, term (importance), 1

- Purchases, 9–15
  - impact. *See* Demand
- Put option, 92
  - coverage, 94
  - option requirement, 105
- R**
- Receive *versus* payment, 174
- Regional stock exchanges, margin
  - rules, 21
- Registered representative, 174
- Registered security, 174
- Regularity, degree, 3
- Regular way
  - settlement, 174
  - transaction, 174
- Regular-way basis, 77–78
- Regulation G, 134
  - definition, 174
- Regulation T, 133
  - call, 14, 18
  - usage, 86
  - definition, 174. *See also* Marginable securities
  - exception, allowance, 2
  - excess, 12, 15
  - impact. *See* Securities
  - margin account, 121
  - margin requirement, 35
  - requirement, 13, 111. *See also* Short sales
    - absence, 58
    - recomputation, 50
    - rules, 61
    - Section 220.4(b)(3), 79–80
- Regulation U, 134
  - definition, 174
- Regulation W, definition, 174
- Regulation Z, 83
- Rehypothecation, 174
  - meaning, 82–83
- Rejection, 174
- Related instrument, 122
- Required funds, deposit, 54
- Required margin, deposit, 10, 15, 35
- Reserve requirement, 174
- Restricted account, 175
- Restricted margin account, 14–15
  - usage, 66
- Retention requirement, 175
  - effect, 66
- Revenue bond, 175
- Reverse conversion, 111
- Reverse mark to the market, 47
- Rights offering, 46
- Rule 387, 5–6
- S**
- Safekeeping, 175
- Sales, 16–17
- Savings deposits, 130–131
- Schwaberg, Aaron, 33
- SEC. *See* Securities and Exchange Commission
- Securities. *See* Exempt securities; Registered security
  - class, 123
  - customer purchase, 81
  - customer sale, 55–56
  - investor sale, 45
  - lender, 57–58
  - loan, 175
  - market value, 21, 49
    - decline, 37
    - increase, 71
  - overvaluation, 45
  - owner, 46
  - payment, 3–4
  - price, 59
  - purchase, 28
  - sale, 3, 16
  - short, 53–54
  - short sales, Regulation T (impact), 51–52
  - short side, requirements (determination), 53
  - value, 26
- Securities and Exchange Commission (SEC)
  - approval. *See* Options
  - hedge funds registration, 60
  - rule. *See* Credit

## Index

185

- Rule 10(b), 83
- Rule 15c3-1, 62, 122
- Rule 15c3-3, 62
- Rule 11(d)(1), 62
- Rules 17A-3/17A-4, 62
- Securities Exchange Act of 1934
  - definition. *See* Short sales
  - Rule 15c 3-3-(M)/(N), 3
- Segregate, definition, 175
- Segregated, term (usage), 81
- Segregation rule, 82
- Self-regulatory organization (SRO), 122
- Series. *See* Options
- Settlement date, 175
  - purchase, 1
  - usage, 79
- Shareholders, majority vote, 60
- Share purchases, 36
- Shares, liquidation, 54
- Short account
  - combination. *See* Long accounts
  - credit, examination, 49
- Short against the box, 55–56
  - long side, maintenance percentage, 58
- Short butterfly spread, 112
- Short call. *See* Naked short call
  - Uncovered short call
    - option, 94
    - premium, receiving, 111
- Short market value (SMV), 48–49
  - credit balance, 48–49
- Short options, 112
- Short positions. *See* Outstanding short position
  - closure, 56
  - covering, 51
  - customer closure, 51
  - exposure, 54
  - separation, computer (usage). *See* Long positions
- Short sales, 45
  - covering, 51–52
  - entry, 48
  - occurrence, 56
  - prerequisites, 47–48
  - proceeds, 51–52
  - provisions, executing broker
    - adherence, 62
  - questions, 62–64
    - answers, 142–143
  - Regulation T requirement, 48
  - Securities Exchange Act of 1934
    - definition, 45, 55
  - short against the box, contrast, 55–59
- Short seller
  - account, appearance, 49
  - crediting, 47
  - disappearance, 46
  - investigation, 45
  - position, holding, 59
- Short-term debt obligations, 109–110
- Short uncovered call option, 103
- Short *versus* the box, definition, 175
- Single entry account, SMA reduction, 31
- SMV. *See* Short market value
- Southwestern Bell, stock spinoff, 78
- Special memorandum account (SMA), 31
  - appearance, change, 39–40
  - balance, 41
  - change occurrence, absence, 71
  - crediting, 58
  - deposit/charge, 108
  - entries, 31–32
    - change, 38–40
  - maintenance. *See* Margin account
  - questions, 42–44
    - answers, 141–142
  - sheets, 137–138
- Special miscellaneous account, establishment, 33
- Spread. *See* Options
  - contribution, 99
  - long. *See* Box spread long
  - net cost, 98
  - short. *See* Box spread short
  - term, preference, 98

- SRO. *See* Self-regulatory organization
- Standing instructions, 4–5
- Stock loan  
 department, loan arrangement, 47–48  
 segregation/vault, 83  
 short seller repayment, 47  
 usage, 84
- Stocks  
 dividends, 113  
 market price, 93  
 options, issuance, 6–7  
 record, 175  
 split. *See* Two-for-one stock split plan, announcement, 77
- Straddle, 93  
 cost, 97  
 expiration, 97
- Straight corporate debt securities, 72
- Strike price, 93  
 comparison, 104–105
- Striking prices, difference, 99
- Sub-prime mortgage, debacle, 132
- T**
- Theoretical gains/losses, 123
- Theoretical Inter Market System (TIMS), 124
- Time and tick, 87–89  
 term, usage, 88
- Time deposits, 130
- Time value, 94
- TIMS. *See* Theoretical Inter Market System
- Trade  
 information, supply, 61  
 no knowledge, 5
- Trading, margin requirement method, 109
- Transactions, 53–55
- Truth in Lending Law of 1968, 83–84
- Two-day holding period, 89
- Two-for-one stock split, 77
- Two-sided account, 13
- U**
- Uncovered call (naked call), sale, 96
- Uncovered calls, 94
- Uncovered combination (naked combination), sale, 97–98
- Uncovered put (naked put), sale, 96
- Uncovered short call, 103–106
- Uncovered straddle (naked straddle), sale, 97
- Underlying instrument, 123
- Unhedged positions, 126
- Unissued security, net long/short commitment (requirement margin), 79–80
- Unlisted derivative, 123  
 questions, 126–127
- Unlisted securities, definition, 175
- U.S. government obligations  
 inclusions, 65  
 NYSE initial/maintenance requirements, 67t
- U.S. government securities, 67
- U.S. margin requirements, 134t
- U.S. political subdivisions, 65, 67
- U.S. Treasury bill, 109, 175  
 instrument, 46
- U.S. Treasury bond, 109, 175  
 exempt securities, 72
- U.S. Treasury note, 109, 175
- U.S. Treasury securities, sale, 66
- U.S. West, stock spinoff, 78
- V**
- Vertical spread. *See* Bull spread call debit
- W**
- When-distributed, definition, 175
- When-distributed transactions, 77–80
- When-issued security  
 customer purchase, 79  
 marks to the market, 80  
 price, increase, 80  
 purchase, 78

*Index*

**187**

When-issued transactions,  
77–80

Writer, 93

**Z**

Zero-coupon government obligations,  
67–69

face value, redemption, 68

government note/bond, 68

initial/maintenance requirements,  
68t

principal amount, 73

Zero-coupon U.S. Treasury bonds,  
customer purchase, 68

Zero-minus tick, definition, 176

Zero-plus tick, definition, 176

<http://www.pbookshop.com>

<http://www.pbookshop.com>