TD Ameritrade

Margin Handbook

Margin can be an important part of your investment strategy.
The Margin Handbook is designed to help you understand what margin accounts are and how they work. For specific questions about your margin account, we encourage you to contact a Client Services representative.

Contents

What Is Margin?

A margin account permits investors to borrow funds from their brokerage firm to purchase marginable securities on credit and to borrow against marginable securities already in the account. The terms of a margin loan require that the qualifying securities or cash that you have in your account be used as collateral to secure the loan. Interest is charged on the borrowed funds for the period of time that the loan is outstanding. Both the amount of money that a brokerage firm may loan an investor and the terms of the loan agreement are subject to change and regulated by the following: the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority, Inc. (FINRA), and our clearing firm, TD Ameritrade Clearing, Inc.

Investors opening a margin account must make a deposit of cash or eligible securities totaling at least $2,000 in equity. This serves as collateral for the loan. Thereafter, based upon Regulation T promulgated by the Federal Reserve Board, which is currently 50%, you can double the amount you invest in qualified securities as long as you maintain the minimum value in your account and conduct all trades within your margin account. As an example, if you were buying $10,000 worth of marginable securities, you could make the purchase using $5,000 of your money and $5,000 of your brokerage firm's money. Investors who buy on margin pay interest on the loan portion of their purchase (in this example, $5,000), but normally do not have to repay the loan itself until the stock is sold. After repaying the margin loan, any profit or loss belongs to the individual investor.

Since the value of the marginable securities in your account serves as collateral for the loan, margin accounts require that your equity meet or exceed certain minimum levels. If it should drop too low, your brokerage firm will ask you to increase the value of your account by trading assets held in your portfolio, such as selling securities, buying to cover short positions, or closing options positions. Or you may deposit marginable securities or cash into the account. This maintenance of minimum value will be described in greater detail in the sections that follow.

Securities that can be purchased on margin or used as collateral for a margin account include:

- Most securities listed on the New York Stock Exchange (NYSE)
- The majority of NASDAQ/AMEX securities
- Most mutual funds, after you have owned them for 30 days or more
- Over-the-counter stocks approved by the Federal Reserve Board
- Certain corporate, municipal, and government bonds

There are several accounts ineligible for margin privileges, including the following:

- Coverdell Accounts
- Minor Individual Retirement Account (IRA)
- Uniform Gifts to Minors Act (UGMA)
- Uniform Transfers to Minors Act (UTMA)

Please note:

An Individual Retirement Account or Qualified Plan Account approved for margin:

- Will not be permitted to borrow funds
- Will not have the ability to have a debit balance
- May not short stock or sell uncovered options

Carefully review the Margin Disclosure Document for additional details.

Borrowing on margin may not be appropriate for every investor. An investment strategy that includes trading on margin exposes investors to additional costs, increased risks, and potential losses in excess of the amount deposited. Carefully review your investment objectives, financial resources, and risk tolerance to determine whether it is right for you. No one should buy on margin without the temperament to accept the price fluctuations that are intrinsic to the marketplace, and the financial resources to meet margin calls and absorb trading losses. Please review the Client Agreement pertaining to margin accounts.

How Does Margin Work?

When you buy securities on margin, you pay only a portion of the total cost, and a brokerage firm extends credit to you on the balance. An interest charge is made monthly to your account on the amount you borrow. From then on, the price of your security may go up or down, but the amount you owe your brokerage firm should remain relatively unchanged, varying only with the interest charges.

The following is based upon current Regulation T requirements of 50%, and is an example of how the leverage in a margin account works:

- You open a margin account with $10,000 of your money and a $10,000 margin loan from your brokerage firm. You purchase 1,000 shares of a marginable stock at $20 per share. If the stock price rises to $25 and you decide to sell, the proceeds amount to $25,000. You repay the $10,000 you borrowed and put $15,000 in your pocket (minus interest, commissions and Regulatory fees). That's a net profit of $5,000—almost a 50% profit on your original investment. If you had used all of your own money and purchased $10,000 worth of stock, you would have made a 25% profit—a $2,500 return on a $10,000 investment.
- Following the same example, let's assume that the stock priced originally at $20 a share should go down 25% to $15 a share, and you sell the stock to cut your losses. The proceeds would be $15,000. After you repay your brokerage firm the $10,000 you borrowed, you put $5,000 in your pocket (minus interest, commissions and Regulatory fees). That's a net loss of $5,000—a 50% loss on your original investment. If you had used all of your own money and purchased $10,000 worth of stock, you would have experienced a 25% loss of $2,500 on a $10,000 investment.

As you see from the example, buying on margin can potentially double your return on investments, or double your losses, depending on stock price. When the stock you bought on margin drops in value so much that your maintenance requirement exceeds the equity in your account, we would issue a margin call. That means you must increase your equity by trading assets held in your portfolio, such as selling securities, buying to cover short positions, or closing options positions. Or you may deposit marginable securities or cash to increase your equity.[1] If you do not take action to meet the margin call, stocks may be sold with or without prior notice to increase your equity percentage to satisfy the margin call requirement.[2] Any loss suffered by the investor when selling securities to meet a margin call is the responsibility of the investor. Please consult a Client Services representative when you are making deposits or selling securities to meet margin requirements.

See below how the price fluctuations of a stock originally purchased at $20 per share affect the status of a margin account:*

Stock	**# of Shares**	**Current Price**	**Value**	**Loan**	**Equity** (value – loan)	**Equity %** (equity/value)	**Maintenance Requirement** (30% x value)	**Margin Excess/ Deficiency** (equity – maintenance requirement)
ABCD	1,000	$50	$50,000	$10,000	$40,000	80%	$15,000	$25,000
ABCD	1,000	$40	$40,000	$10,000	$30,000	75%	$12,000	$18,000
ABCD	1,000	$30	$30,000	$10,000	$20,000	67%	$9,000	$11,000
ABCD	1,000	$20	$20,000	$10,000	$10,000	50%	$6,000	$4,000
ABCD	1,000	$15	$15,000	$10,000	$5,000	33%	$4,500	$500
ABCD	1,000	$10	$10,000	$10,000	– 0 –	0%	$3,000	**-$3,000**

Deficiency in **boldface** indicates a maintenance call.

*These calculations do not include commissions, interest charges, or fees, and assume a 30% maintenance requirement. Equity balances in your account are based off the previous day's closing price. The market value of securities is obtained, if available, from quotations services or other independent sources. Values are based on the closing price, the mean between the bid and asking price, or other methods. In the event that no pricing is available your security may be priced as "No Price or NP," and may affect your balance and totals.

1. Equity equals marginable stock minus margin loans.

2. Please refer to your Client Agreement for more information.

Primary Uses, Advantages, and Disadvantages

People open a margin account and borrow against their eligible assets for a variety of reasons.

Primary uses for margin borrowing:

- To increase buying power and capitalize on potential market opportunities by leveraging an investment.
- To purchase additional marginable securities.
- To consolidate high-interest loans.
- To use as an alternative to traditional borrowing sources.
- To take advantage of a short-term cash-flow solution.
- To use as overdraft protection.

You may find that margin borrowing is a sensible and cost-effective way to take advantage of investment opportunities and market conditions without affecting your cash flow. Since you can buy more shares of marginable stock with the additional funds you borrow, you could increase the size of the profit you may realize.

Primary advantages of margin borrowing:

- Potential capital appreciation.
- An increase in current income from cash dividends.
- Competitive interest rates.
- An alternative source of financing to meet business or personal needs without additional paperwork or application fees.
- Margin interest may be tax-deductible. Please consult your tax advisor.

Just as the lever adds more power when used to perform a task, leverage lets you exert increased financial power with a relatively small amount of your cash. Just as you may realize higher profitability if the price of the stock you buy on margin goes up, you risk increased losses if the stock price should decline. If the market value of your margined securities—less the debit balance of your margin account—drops below our maintenance requirements, a maintenance call is issued, and you are required to bring your account equity up to the required maintenance level immediately. This is accomplished by depositing cash, adding marginable securities to your account, selling securities, or by transferring funds from another account. Although leverage is a useful tool for investors, it is not without risk.

Primary disadvantages of margin borrowing:

- Risk of increased loss.[3]
- Potential maintenance call or liquidation of securities.[4]
- Vigilant account monitoring.[5]

Responsibilities of Trading on Margin

The following is a list of some, but not all, of the responsibilities of account owners and TD Ameritrade, Inc. in the management of margin accounts.

Margin account owner's responsibilities:

- To deposit into your margin account the necessary funds, in cash or acceptable securities, to establish the account or to satisfy any commitments.
- To meet all margin calls immediately, should they occur.
- All securities used as collateral to finance your extension of credit must be left with us, in your account, and in our custody.
- All options orders should be placed by the following methods: the website, interactive phone system, or with a broker. Options exercise requests must be placed online or with a broker. Written orders or options exercise requests submitted by U.S. postal mail, email, and fax will not be accepted.

The responsibility of TD Ameritrade, Inc.:

- To abide by the rules and regulations of various regulatory bodies in the extension of margin loans and routing of clients' equity and options orders.
- To extend credit for any cash balances in a margin account as provided in the Client Agreement.
- To charge interest on margin loans as provided in the Client Agreement.[6]
- To liquidate all or part of your account, at any time with or without notice, in order to protect your interests and the interests of TD Ameritrade, Inc. and our clearing firm.

Margin Requirements

Initial equity requirements

Regulations require a client to establish a minimum equity on initial transactions in a margin account. For purchases, the minimum required deposit is $2,000, or 100% of the purchase price, whichever is less. If the deposit required by Regulation T meets the $2,000 requirement, the client would have to meet the Federal Reserve Board requirement of 50%. Equity requirements:

- A minimum of $2,000 is required to open a position on margin.
- A minimum of $2,000 is required to maintain a short stock position.
- A minimum of $5,000 is required to maintain an uncovered equity options position.[7]
- A minimum of $5,000 is required to maintain an uncovered index options position.

3. Margin investors may lose more than the amount they deposited in their account.
4. TD Ameritrade, Inc. is authorized, at its discretion and without prior notice to you, to liquidate any or all securities or other assets held in the account (a) to satisfy an outstanding margin call for which you have failed to provide additional collateral, or (b) to prevent or limit unsecured losses when the margin loan exceeds the value of the marginable securities. The liquidation of securities or assets is transacted regardless of the amount of time you have owned the asset, your intention to satisfy the call or secure the loan, or any profit or loss you may incur by such transactions. The investor is not entitled to an extension of time to satisfy the call, to choose which securities TD Ameritrade, Inc. may liquidate, and is responsible for losses resulting from the liquidation of an asset(s) to satisfy a margin call and for any remaining deficiency in the account.
5. There are few investors who can prudently afford the increased costs of, and the risks involved in, trading on margin. Investors who choose to do so must assume the responsibility to frequently monitor their assets, the markets, and the balance of their margin loan, and must continually reassess their investment objectives in light of their financial obligations.
6. **Daily interest charges shall be calculated by multiplying the margin loan by the interest rate and dividing the result by 360.** Please refer to the Client Agreement or contact an account representative for more information.
7. The maintenance requirement for puts on naked equity options is capped at the max loss.

Maintenance requirements

Like most brokerage firms, our clearing firm sets the minimum maintenance requirement higher than the 25% currently required by FINRA. Although certain securities are subject to more stringent requirements imposed by our clearing firm, the general margin maintenance requirements are as follows:[8]

- A 30% maintenance requirement is applicable for most stocks that the Board of Governors of the Federal Reserve System has determined are eligible for margin and that are priced at more than $4 per share.
- A maintenance requirement of $2 per share applies to marginable stock valued from $2 to $4 per share.
- A maintenance requirement of 100% is needed for all long stocks trading at $2 and below.
- A maintenance requirement of $5 per share applies to marginable stock valued from $5.01 to $16.67 per share that are sold short.[9]
- A maintenance requirement of 100% is needed for all short stocks trading from $2.50 to $5 per share.[10]
- A maintenance requirement of $2.50 per share is needed for all short stocks trading below $2.50 per share.
- A 40% maintenance requirement may be needed if a position represents 70% - 100% of the total marginable long value and short value.

Examples of these maintenance requirements follow:

# of Shares	Stock Price	Value	Maintenance Requirement
1,000	$1.50	$1,500	$1,500 (less than $2, 100% required)
1,000	$3	$3,000	$2,000 (less than $4, $2/share min. required)
1,000	$15	$15,000	$4,500 (normal 30% house requirements)

Please note that margin maintenance requirements are based on the market value of a stock, not on the purchase price. Therefore, a decline in the price of a marginable security may result in a higher margin maintenance requirement for the stock, and a margin call in the account. If this happens, you are responsible to promptly deposit the necessary cash or securities, or to liquidate sufficient positions in the account to satisfy the margin call.

Example:
Assuming there are no other marginable securities in the account, an investor with a $4,000 credit balance purchased 1,000 shares of a marginable stock when it was trading at $5 per share, creating a $1,000 debit. Based upon the general maintenance requirements given above, the margin maintenance requirement would be 30% or $1,500. If the stock price fell to $2, the margin maintenance requirement would be 100% or $2,000, and TD Ameritrade, Inc. would issue a margin call for $1,000. (Equity of $1,000 minus $2,000 requirement = $1,000 maintenance deficiency). An investor would be required to deposit $1,000 in cash or $1,428.57 in marginable securities (stocks priced over $4 per share), into their margin account, or sell any non-marginable assets held in the account, to sufficiently satisfy the margin call.

Our clearing firm may change the margin maintenance requirements at any time, without prior notice to margin account owners and for any reason. Factors that may cause this change include: the presence of a concentrated equity position held within an account, the current trading pattern of a security, volatility within a stock sector, or overall market conditions. The more stringent maintenance requirements may be set between 35% and 100% equity. In addition, initial public offerings (IPOs) may have a 100% maintenance requirement for up to 30 days following the commencement of trading within the secondary market. Please log on to your account or call a Client Services representative for the latest list of stocks affected by these higher requirements.

Day Trading Margin Requirements

Day trading is the practice of purchasing and selling, or selling and purchasing, the same security in the same trading day.

Examples which WOULD be considered day trading:

- Buying a security long and selling to close in the same trading day.
- Shorting a security and buying to cover in the same trading day.
- Buying a security long and selling the same security short in the same trading day.
- Shorting a security and buying the same security long in the same trading day.

Examples which would NOT be considered day trading:

- A long security held overnight and sold the next day prior to any new purchase of the same security.
- A short security held overnight and purchased the next day prior to any new sale of the same security.

Pattern day traders

A pattern day trader is defined as an account that makes four or more round-trip day trades within any rolling five-business-day period, provided the number of day trades represents at least 6% of the total trading activity during the same five-business-day period.

Pattern day trading on margin

Minimum equity of $25,000 is required in an account at the start of any day in which day trading occurs. Once identified as a pattern day trader, you may be provided with two buying power calculations:

- **Buying power**—Buying power is the amount available for opening a position in one or more fully marginable securities. Buying power is calculated as the lesser of maintenance excess/.30 or your Special Memorandum Account (SMA)[11] balance times two, never to exceed twice the SMA balance.

8. To learn which securities currently have a higher maintenance requirement, please log in to your account or contact a Client Services representative.

9. Short sell transactions require a minimum of $2,000 equity.

10. If the price of a security that has been sold short falls below $5 per share, the maintenance requirement is 100% of the market value with a minimum requirement of $2.50 per share.

11. SMA is a separate margin account maintained by the brokerage firm. Please see the SMA definition in the Glossary for more information.

- **Day trade buying power**—Day trade buying power is equal to the equity in your account at the close of business on the previous day, less the Self-Regulatory Organization (SRO) requirements, multiplied by up to four. Each security will have an SRO requirement, which is based on the exchange minimums allowed. These are 25% for long marginable equities priced over $1, and as low as 30% for short equities, depending on the equity's price.[12] Accounts that are engaged in day trading activities should consider being limited to day trade buying power.[13] **Day trade buying power is calculated with the intent that it is used in conjunction with day trading activities.**[14] Example:
  An account that has a cash balance of $40,000 and no positions in the account could have access to $160,000 in day trade buying power ($40,000 x 4 = $160,000).

Be aware that accounts that have been flagged as pattern day traders will have access to the greater of either buying power or day trade buying power. Our systems will accept orders based on the higher of the two amounts. Since we have no way of determining whether or not you will hold the position overnight or just for the day, it is your responsibility to enter orders that remain within the buying power for the type of trade that you are placing. House and federal requirements apply to positions held overnight.

Day trading minimum equity call

If your account has less than $25,000 day trading equity and is identified as a pattern day trading account, a day trading minimum equity call will be issued. Pattern day trader accounts that fall below the $25,000 minimum equity requirement will not be allowed to day trade. If a day trade is executed when the equity is below $25,000, your account will be restricted to closing transactions only for 90 days, or until the equity is brought back up to $25,000.[15] Funds deposited in an account to satisfy a day trading minimum equity call are subject to a four-business-day hold for checks and three-business-day hold for ACHs.

Note: IRA accounts approved for margin and flagged as a Day Trading account may not be permitted to deposit additional funds to avoid an excess contribution.

Day trade buying power call

If your account meets the minimum equity requirements for day trading and exceeds the day trade buying power on executed day trades, a day trade buying power call may be issued. Once a day trade buying power call is issued, the day trade buying power is restricted to two times the SRO excess for five business days unless the call is met earlier. If the day trade buying power call is not met within five business days, the account will only be permitted to execute transactions on a cash-available basis for 90 days or until the call is met. Multiple day trade buying power violations may result in a restriction limiting transactions to a cash-available basis as well. Day trading calls can only be met by depositing cash or fully paid-for securities, or by selling non-marginable securities. Funds deposited in an account to satisfy a day trading minimum equity call are subject to a four-business-day hold for checks and three-business-day hold for ACHs.

Example:
Your account has a cash balance of $40,000 and no positions. The day trade buying power, for purposes of this example, is $160,000 ($40,000 x 4 = $160,000).

You place two day trades:

- A $150,000 buy and sell of ABCD, followed by a $200,000 buy and sell of WXYZ.
- The ABCD day trade is within your day trade buying power and will not create a call because the initial buy of the ABCD did not exceed your day trade buying power of $160,000. However, the initial buy of WXYZ was $200,000, which exceeds your day trade buying power by $40,000 ($200,000 - $160,000 = $40,000).

When you exceed your day trade buying power, you are subject to a day trade buying power call based on the FINRA day trading margin requirements. The FINRA day trading margin requirement is equal to 25% of the highest open position during the day. In this example, the largest position of $200,000 exceeded the day trade buying power by $40,000. The day trade buying power call would be calculated as follows: $40,000 x .25 = $10,000 day trade buying power call.

Regulation T restricted accounts

Pattern day trader accounts that are under a Regulation T restriction will have their day trade buying power limited in the following manner:

- If the account meets the $25,000 minimum equity requirement, they will receive the lesser of the SMA requirement times two or the SRO requirement times four. Closing day trade transactions will still replenish day trade buying power.
- Pattern day trader accounts that fall below the $25,000 minimum equity requirement will not be allowed to day trade. If a day trade is executed when the equity is below $25,000, your account will be restricted to closing transactions only for 90 days, or until the equity is brought back up to $25,000.

Prohibition on liquidating to meet a Regulation T call

Clients may not make a practice of meeting Regulation T calls by liquidating securities. TD Ameritrade, Inc. defines a practice, for this purpose, as three times in a 12-month period. This prohibition on liquidations shall only apply to those accounts that are also below the minimum maintenance margin required by the exchange (SRO Requirement) for the securities held.

Margin Calls

TD Ameritrade, Inc. may issue one of the following types of margin calls in your account under the circumstances described below:

- **Regulation T call—**Issued when the initial equity provided for the purchase of a security is below that required by the Federal Reserve Board.
- **Maintenance call—**Takes place when the market value of your margined securities plus any cash balance in your account, less the debit balance of your account, drops below our maintenance requirements.
- **Minimum equity call—**A minimum equity call will be issued when a trade reduces a client's account equity to less than $2,000 or if a client's account falls below one of the initial requirements listed on Page 4 of the handbook. For short positions, a minimum equity call will be issued any time an account's equity is less than $2,000, even if the account is not holding a debit balance. The client will be required to deposit the lesser of the debit balance, or an amount necessary to bring the equity to $2,000 or greater.

12. If an account is SMA-deficient, day trade buying power will be zero regardless of SRO balance.
13. Non-marginable securities, equities trading under $2.50, and options may have day trade buying power decremented by as much as four times the cost of the trade.
14. Multiplier of four assumes your account has more than $25,000 equity, and has no outstanding day trade buying power calls. Purchases and sales of securities held at a higher requirement may increment/decrement day trade buying power by a factor related to their requirement. To learn which securities currently have a higher maintenance requirement, please log on to your account. Note: IRA accounts approved for margin and flagged as Day Trading accounts will only receive 1X the Day Trading Buying Power.
15. Purchases made while in a day trading call will decrease buying power, but sales will not increase day trade buying power.

If a margin call is issued, you are required to promptly bring your account to the required maintenance level. You may do this by depositing cash or marginable stock, closing long or short equity or options positions, or transferring funds or marginable stock from another TD Ameritrade, Inc. account. **TD Ameritrade, Inc. may forcibly liquidate all or part of your account without prior notice, regardless of your intent to satisfy a margin call, in order to protect your interests or ours.**

Because it involves the extension of credit, borrowing on margin may not be appropriate for every investor. An investment strategy which includes trading on margin exposes the investor to additional costs, increased risks, and potential losses in excess of the amount deposited. Because your account with TD Ameritrade, Inc. is self-directed, you must carefully review your investment objectives, financial resources, and risk tolerance to determine whether it is right for you. No one should buy on margin without the temperament to accept the price fluctuations intrinsic to the marketplace, and the financial resources to meet margin calls and absorb losses resulting from a drop in stock prices. Please review the Client Agreement pertaining to margin accounts.

Portfolio Margin

Portfolio Margin (PM) is a risk based methodology that sets margin requirements for an account based on the largest projected net loss of all positions in a product group using a theoretical option pricing model. This is in contrast to the traditional Reg T methodology, which uses fixed requirements for individual positions and strategies. Time frame for calculating theoretical loss is one trading day. Additional requirements are applied for volatility and concentration.

Clients must have $125,000 initial equity and must maintain $100,000 equity at all times. Additionally, clients must have full option approval, three years of option experience, pass a Portfolio Margin Test, pass a client risk review, and currently have no outstanding margin calls. Entity accounts may be required to supply a personal guarantee.

Margin calls are due sooner in Portfolio Margin accounts (T+2) and are strictly adhered to with no exceptions. Portfolio Margin privileges may be removed at any time. Reasons Portfolio Margin may be removed include, but are not limited to: if account is unable to maintain the minimum equity requirement, using liquidations to meet margin calls resulting from trade activity three times within a rolling year (calls due to depreciation may be liquidated without penalty), or otherwise establishing practices deemed unsuitable for a higher leveraged account.

There are two call types issued to Portfolio Margin accounts. Deficiency Calls and Net Liquidating Value Calls.

- Deficiency calls are issued when the margin requirements for the positions in the account exceed the net liquidation value of the account. Upon issuance of the call, a client may only place trades that reduce risk within the account until the call has been satisfied. Deficiency calls are due two days (T+2) after the account closes deficient. At the open of the third day, the call is considered past due and liquidated.
- Net Liquidating Value calls are issued when an account's net liquidating value ends the day below $100,000. Upon issuance of the call, a client may only place trades that reduce risk within the account until the call has been satisfied. Net Liquidating Value calls are due two days (T+2) after the account closes below $100,000. At the end of the third day, the call is past due and the account will have the Portfolio Margin eligibility reviewed.

Portfolio Margin requirements are calculated by examining all the positions of a single underlying stock or within a single class group at 10 equidistant stress steps, and determining the largest projected loss. The minimum stress parameters are as follows: Equities are stressed up and down 15%. Small Cap or Non-High-Cap Broad-based indices are stressed up and down 10%. Broad-based indices are stressed up 8% and down 6%. Wider stress parameters that result in larger margin requirements may be enforced at any time.

The below diagram shows a hypothetical equity position with a 15% stress and illustrates how Portfolio Margin requirements are calculated. The positions are 100 shares of ABC stock at $100 per share and one long Jan 100 put at $1.

+/-15%	Dn5	Dn4	Dn3	Dn2	Dn1	Up1	Up2	Up3	Up4	Up5
Stock Price	**$85.00**	**$88.00**	**$91.00**	**$94.00**	**$97.00**	**$103.00**	**$106.00**	**$109.00**	**$112.00**	**$115.00**
Stock	-$1,500	-$1,200	-$900	-$600	-$300	$300	$600	$900	$1,200	$1,500
Put	$1,400	$1,100	$801	$509	$248	-$48	-$87	-$98	-$99	-$100
Net Total	-$100	-$100	-$99	-$91	-$52	$252	$513	$802	$1,101	$1,400

The first grey row shows the steps of the stress model, while the second grey row shows the underlying equity price at those steps.

The first white row shows the profit or loss of 100 shares of that stock at the corresponding stress. So, if ABC stock drops 15% (to $85 a share) the loss on the 100 shares will equal $1,500. On the Up5 side of the array, we see the stock rising to $115, resulting in a $1,500 profit.

The second white row shows the theoretical losses and gains of the long Jan 100 put. Because the put is only worth one dollar, and is held long, when the stock increases to $115 the put loses $100, or the full value (the price of the put is zero). When the stock drops to $85, the put value goes up and is used to off-set the declining value of the stock. In this example, the total requirement to hold this position would be $100. This is because the worst theoretical loss at the defined steps illustrated above is $100, as seen in the Dn5 and Dn4 steps. If at any point, the margin requirement as calculated above is lower than the 'minimum requirement,' the minimum requirement is used.

The minimum requirement is $.375 (multiplied by the deliverable, so $37.50 for a standard option) per short option contract held and the lesser of $.375 or the premium for long option contracts held. These minimum requirements are aggregated together (they do not offset) and compared with the projected loss model described above. The larger requirement is then used.

Furthermore, accounts that are considered concentrated in a single security (or combination of securities) will have larger requirements to account for the increased risk that the concentrated position may pose to the account. Each position and its underlying derivatives are evaluated to determine the point at which the entire account's value is consumed. This point is called 'the point of no return' (PNR). For example: if an account holds 10,000 shares of ABC stock at $50 per share ($500,000 position value) and has $100,000 net liquidating value, the 'point of no return' is -20%, because the value of ABC stock would need to drop 20%, to $40 per share, for the net liquidating value of $100,000 to become zero.

Once the PNR is determined, it is compared to the expected price range (EPR) of the underlying product. The expected price range represents the Firm's current best estimate of the volatility of a given security over a one-day period. For example, after reviewing various risk metrics of ABC stock, including but not limited to the historical returns, implied volatility, and upcoming announcements, it is determined that a 25% move within a single day is possible. A more volatile stock may have a wider range, like 50%, while a less volatile stock might have a narrower range, like 17%.

When an account's total value can be consumed by the movement of a single position within what is considered an expected move, the account is concentrated and will have a higher margin requirement calculated by widening the risk array to the underlying securities EPR until the PNR is outside of the expected price range.

For example: the PNR of an account's ABC stock position is -20% (as shown above) with an EPR of -25%, then the 'point of no return' is within the 'expected price range.' When this occurs, the account is considered to be concentrated in the ABC position. When this condition occurs (PNR within EPR) then the margin requirement of that position is calculated using the stress points (risk array) determined by the EPR, +/-25%. If the EPR of ABC stock has been set to 17%, then the 'point of no return' is outside the 'expected price range,' and would not be considered concentrated.

Initial Public Offerings

When a company needs to raise capital, it may offer for sale shares of stock that represent an ownership interest in the corporation. A company's first sale of stock to the public is called its initial public offering (IPO).[16] The shares are offered by an underwriter or investment bank at a predetermined offering price. IPO shares that are purchased from the underwriter's selling group at the offering price are not marginable and must be fully paid at the time of purchase. TD Ameritrade, Inc. will not use these shares purchased through the IPO as collateral for margin loans during the first 30 days following the day on which the shares start trading in the secondary market. The same restriction applies to shares purchased from the underwriter for a secondary offering or follow-on offering.

The Board of Governors of the Federal Reserve System may immediately determine that IPO shares are eligible for margin once they start trading in the secondary market; however, our clearing firm may impose stricter margin requirements.

Selling Stock

When you sell stock originally purchased on margin, your profit or loss is determined by the sale proceeds less the amount you owe your broker for the margin loan. You receive all the net profit or assume all the loss depending on the profitability of the sale.

If the price of the stock goes up. Typically, in a margin account, you pay only a portion of the purchase price of the stock, but you receive 100% of the net profit. For example, you buy $10,000 worth of marginable stock when the federal margin requirement is 50%. You would deposit $5,000 in your margin account, and the broker would loan you $5,000. Your account would have a market value of $10,000, a debit balance of $5,000, and equity of $5,000. If your stock is worth $12,000 when you sell it, you would receive the proceeds from the sale of the stock less the margin loan (plus any accrued interest, commissions, and Regulatory fees) or $12,000 minus $5,000. You would have a credit balance in your account of approximately $7,000—or $2,000 more than you originally deposited.

If the price of the stock goes down. Typically, in a margin account, you pay only a portion of the purchase price of the stock, but you take 100% of the loss. As in the example cited above, you buy $10,000 worth of marginable stock when Regulation T is 50%. You would deposit $5,000 in your margin account and the broker would loan you $5,000. Your account would have a market value of $10,000, a debit balance of $5,000, and equity of $5,000. If your stock is worth $8,000 when you sell it, you receive the proceeds from the sale of the stock less the margin loan, accrued interest, commissions, and Regulatory fees, or $8,000 minus $5,000. You would have a credit balance in your account of approximately $3,000—or $2,000 less than your original investment.

Withdrawals

You may withdraw either the cash or the available funds from your margin account. The cash may be withdrawn from your margin account at any time, subject to the availability of any newly deposited funds.[17]

The available funds in your margin account are composed of the cash balance in the account, if there is one, plus the amount of money available from a margin loan on your marginable securities. As stated above, you may withdraw the available funds from the account. The amount available for withdrawal is subject to the preservation of $2,000 equity and the lesser of the SMA balance (see Glossary) or maintenance excess in the account.

For example, assume you open an account with $20,000 in cash and purchase $30,000 worth of a marginable security priced at $20 per share. The SMA balance is $5,000 and the maintenance excess is $11,000. The amount you could have withdrawn at this time is $5,000. However, if you did not place any further trades and the stock fell to $10 per share, the SMA balance would remain at $5,000 and the maintenance excess would now be $500, thus you could only withdraw $500.

The same rules apply to the withdrawal of stock from your margin account.

Substitutions

Substitution is the buying and selling of marginable securities in a margin account on the same trading day. Since the stocks will settle on the same business day, for each dollar value of securities sold, an equal dollar amount of marginable securities can be purchased, assuming that the securities are both marginable and have the same maintenance requirements. Please refer to our website or consult a Client Services representative to determine if a security has a special, more stringent margin requirement.

If your purchase exceeds the amount of the sale, you are required to deposit the initial requirement of the Federal Reserve Board (FRB)—currently 50%—on the difference between the funds received and the funds needed to purchase the new security. The funds available in your margin account will be used to reduce part or all of the federal requirement. To see how this works, review the following example:

(Assume that the initial FRB requirement is 50%, the equity in your margin account is 30%, and you have no additional funds in your account.)

16. Investing in initial public offerings is speculative and risky and is only appropriate for certain clients. TD Ameritrade, Inc. strongly encourages you to obtain a copy of the IPO prospectus, and read it carefully before you invest or send money.

Action	# of Shares	Price	Value
Sold XYZ	100	$45	$4,500
Bought ABCD	100	$75	$7,500

The difference is $3,000. Since $3,000 x 50% = $1,500, the amount you need to deposit is $1,500.

If the amount of the sale exceeds the amount of the purchase, you may not be required to deposit additional funds to meet the initial margin requirement for the security that is purchased. The funds received from the sale will be credited to the account and will be available to purchase the new security. Therefore, the initial margin requirement for the new security will be satisfied from the sale proceeds, assuming that both marginable securities have the same maintenance requirement.

Please remember that maintenance requirements will apply at all times. Any portfolio change may increase the maintenance required and result in a margin call.

Different margin requirements apply to day trades. Please contact a Credit Risk analyst for more information.

Short Selling

If you think that a stock will fall in price, you may be able to make a profit by short selling. Short selling is borrowing a stock from your brokerage firm and immediately selling it. You are speculating that you will be able to purchase the stock back at a lower price and replace the borrowed shares, pocketing the difference between the higher selling price and the lower repurchase price (less any commissions, interest charges, or Regulatory fees). Short selling is a trading strategy that attempts to take advantage of a falling market.

The following should be considered when short selling a stock:

- Historically, stock prices rise over time.
- The risk of loss on a short sale is potentially unlimited since there is no limit to the price increase of a security.
- You are liable for any dividends, stock splits, or spin-offs paid on the borrowed stock.
- Your short position will be updated for any Mandatory Reorganizations.
- You may be held liable for the terms of any Voluntary Reorganizations.
- You may be required to cover the short position at an unfavorable price.
- You do not earn interest on the proceeds from short selling a security.

Short selling can occur only in an account that has margin privileges and meets the minimum equity requirement of $2,000.[18]

Note that if you hold a security long and sell more than you currently hold at TD Ameritrade in your margin account, the amount you oversell may result in a short sale for that amount. For example, if you hold 100 shares of XYZ common stock in your margin account and submit a sell order for 200 shares of XYZ, depending on the system used by you (ex., website, Trade Architect Platform, mobile or tablet apps), such a sale may result in a long sale of 100 shares and a short sale for 100 shares. Please contact Client Services representative to better understand how to operate TD Ameritrade's various trading systems.

Certain circumstances may prevent TD Ameritrade, Inc. from placing an order to establish, or from continuing to maintain, your short position. A short sale will not be placed if the stock cannot be borrowed. TD Ameritrade, Inc. must ask the lending brokerage firm to locate the shares requested for your order.[19] All orders to short sell a security are subject to SEC and FINRA execution rules.

If the lending brokerage firm requests that the borrowed shares be returned, your brokerage firm must buy in the shares which you are short, close out your short position, and deliver those borrowed shares back to the lending brokerage firm regardless of the profit or loss to you. There can be no guarantee that the brokerage firm can continue to maintain a short position for an unlimited duration of time.

When you short sell a stock, TD Ameritrade, Inc. retains the proceeds of the sale, and the Federal Reserve Board requires that you make an initial deposit based on the net proceeds of that sale. The initial margin is usually the same as the percentage of the total amount you would deposit in your account for a long margin purchase.

For example:

Action	# of Shares	Price	Value	Margin %	Deposit
Sell short JKL	100	$100	$10,000	50%	$5,000

In addition to the initial federal requirements, established maintenance requirements apply to short sales. Marginable stocks priced at more than $16.67 per share have a 30% margin maintenance requirement when sold short. Marginable stocks priced between $5.01 and $16.67 will have a $5-per-share requirement when sold short. Please review the “Margin Requirements” section or consult with a Client Services representative to determine if a stock will have a 30%, $5-per-share or other maintenance requirement. In addition, for all short sale transactions, TD Ameritrade, Inc. requires a minimum equity in the account of $2,000 in cash or marginable securities.

SPECIAL STATEMENT FOR ETFS

ETFs are subject to risk similar to those of their underlying securities, including, but not limited to, market, sector, or industry risks, and those regarding short-selling and margin account maintenance.

Leveraged and inverse ETFs entail unique risks, including but not limited to: use of leverage; aggressive and complex investment techniques; and use of derivatives. Leveraged ETFs seek to deliver multiples of the performance of a benchmark. Inverse ETFs seek to deliver the opposite of the performance of a benchmark. Both seek results over periods as short as a single day. Results of both strategies can be affected substantially by compounding. Returns over longer periods will likely differ in amount and even direction. These products require active monitoring and management, as frequently as daily. They are not suitable for all investors.

17. A four-business-day hold is placed on any funds deposited into your account via check. A three-business-day hold is placed on any funds deposited electronically via Automated Clearing House (ACH). Additionally, funds deposited via ACH can only be withdrawn to the originating account in the first 60 days after the account is opened. There is no hold on funds deposited via wire transfer. You will be authorized to trade certain securities with these funds; however, no withdrawals of these funds can be made during the three- or four-business-day hold period.

18. Equity is determined by the market value of your marginable stocks minus the amount loaned to you by your brokerage firm, but is computed differently when a short position is maintained in the account. The equity is computed by adding the cash balance in the account to the market value of the “long” security positions, and then subtracting the current market value of the “short” security positions and the margin loan balance. For more information, please see the “Margin Requirements” section or consult with a Client Services representative.

19. This may necessarily delay the processing of your order. Please refer to the Client Agreement for more information.

Bonds and Debt Securities

Collateralized debt obligations (CDOs)

Generally, CDOs are held as non-marginable.

Convertible bonds

Because convertible bonds give investors the choice to convert them into company stock instead of receiving a cash payment, the initial margin requirements are the same as for marginable stock, 50% of the market value. In addition, a maintenance equity of 30% of the market value must be maintained at all times.

Registered nonconvertible bonds

Listed bonds are eligible to be purchased on margin. The initial margin requirements on listed bonds are the greater of 30% of the market value or 7% of face value. In addition, a maintenance equity of 25% of the market value or 7% of face value, whichever is greater, must be maintained at all times.

Municipal bonds

The initial and maintenance requirement for municipal bonds is the greater of 20% of market value or 7% of face value.

Federal government securities

The principal and interest of these securities is a direct obligation guaranteed by the U.S. government. Initial requirements and maintenance on U.S. Treasury notes, bonds, and bills will depend on the length of time until maturity. [20]

Less than 1 year	1% of market value
1 to less than 3 years	2% of market value
3 to less than 5 years	3% of market value
5 to less than 10 years	4% of market value
10 to less than 20 years	5% of market value
20 years or more	6% of market value

Government agency securities

The initial requirement for government agency securities—notes and bonds—is 25% of the market value. Also, a maintenance equity of 25% of the market value is required at all times.

Options

The last portion of this Margin Handbook is devoted to a discussion of options. In particular, we will address the margin requirements applicable to the most common options transactions. This discussion is intended for general reference and education only. TD Ameritrade, Inc. does not recommend any investment product nor recommend that you include options trading in your investment strategy. **Due to the inherent risks involved, and the complexities of certain options transactions, options are not suitable for all investors.**

To learn more about options, you may contact the Chicago Board Options Exchange, 400 South LaSalle Street, Chicago, IL 60605 (cboe.com) or The Options Clearing Corporation, One North Wacker Dr., Suite 500, Chicago, IL 60606 (optionsclearing.com). **And for a detailed description of options transactions and their risks, please refer to "Characteristics and Risks of Standardized Options," a disclosure document published by The Options Clearing Corporation.**

You may contact a Client Services representative to receive a copy of this document or by mailing your request to 200 S 108th Ave, Omaha, NE 68154-2631

Options are a contract specifying the terms by which an asset may be traded. The terms of an options contract provide:

- The rights and obligations assumed by the investors,
- The security to be traded and the number of shares or value to be delivered for each options contract,
- The price at which the owner of an option can purchase (call) or sell (put) the underlying stock, known as the "strike price,"
- The manner by which the contract's rights can be exercised, and
- The date on which the options expire.

The investor who purchases an options contract is known as the options "owner" or "holder." By purchasing an option, the owner is granted the right to buy or sell a specific security or index value at the strike price by the expiration date. A **call** option grants the right to buy an asset. A **put** option grants the right to sell an asset. Depending upon the options owner's strategy and the price of the underlying security, the options owner may sell and close the options position,[21] exercise the options contracts, or let the options expire.[22] The options transactions permitted in an IRA are the writing of covered calls, the writing of cash secured puts, if qualified, the purchase of a call or put, as well as creating spreads.

The investor who sells an options contract is known as the options "seller" or "writer." By selling and establishing a short options position, the options writer is obligated to trade an asset at the strike price, if assigned on the contracts.[23] Depending upon the style of option, the options writer may be subject to assignment at any time during the options contract period. A **call** option obligates the options writer to sell an asset. A **put** option obligates the options writer to buy an asset. The options seller may buy and close the options position before assignment or expiration.[24]

Equity options are available on most listed and NASDAQ securities. Normally, stock options have a deliverable of 100 shares of the underlying security per contract. By contrast, index options have a cash settlement and typically a multiplier of $100 per contract. The deliverable for an equity or index option may change as the result of a stock split, reverse stock split, stock dividend, merger, or other action. Please contact a Credit Risk analyst with any questions regarding the multiplier or deliverable on your options contracts.

Again, the "strike price" is the fixed dollar amount at which the options investors agree to trade the asset or index value.

The options owner has the right to exercise his/her options contracts and to purchase or sell the underlying security or index value. The style of option determines when the contracts may be exercised. "American-style" options can be exercised at any time prior to expiration. Most equity options are American-styled. "European-style" options can only be exercised during a specified exercise period before expiration. Typically the exercise period coincides with the expiration date. Index options may be European-styled.

As with any contract, the rights and obligations expire after a specified time—the options expiration date. It is important that options owners and holders recognize the distinction in the style of options. The rights granted by the options contracts will be forfeited if the options owner fails to exercise his/her rights in the appropriate manner. The options writer will be obligated to deliver shares of stock or funds if assigned on the options contracts. Please review the "Options Exercise and Assignment" on Page 14 for more information or contact a Client Services representative.[25]

20. Treasuries that have a maturity of more than five years will require a minimum of 3% of face value.
21. If a secondary market in the options becomes unavailable, the options owner could not engage in closing transactions.
22. The options owner may lose his/her entire investment if, during the options contract period, the price of the underlying security trades in an opposite direction than what the options owner anticipated, and the options contracts lose all or a significant portion of their value.
23. An uncovered options writer may be exposed to potentially unlimited losses.
24. If a secondary market in the options becomes unavailable, the options seller could not engage in closing transactions, and would remain obligated until expiration or assignment.

Buying Equity Options

The buyer of long options must pay 100% of the purchase price. Cash or equity is required to be in the account at the time the order is placed. Regulation T and maintenance requirements are also 100%.

Writing a covered call means selling the right to another party to buy a security from you at a specific price until the expiration date. By establishing a short call position, the writer of the call option assumes an obligation to sell a security if assigned on the options contract. If the call-options writer owns the underlying deliverable shares, they're "covered." If assigned, you can deliver your shares of the security instead of purchasing them on the open market. Therefore, the writer of a covered call is not required to come up with additional funds.[26] The backing for the call is the stock. The underlying security for the covered call can never be valued higher for margin-requirement purposes than the strike price of the short call.

Writing a cash-secured put means you are creating an obligation to purchase the underlying security at the strike price until the expiration date. The writer of the put options assumes the obligation to purchase the underlying security if the options contracts are assigned. If the put-options writer maintains a cash balance equal to the total exercise value of the contracts, the put contracts are "cash-secured." If the option is assigned, the put-options writer purchases the security with the cash that had been held to cover the put.

Writing a covered put means you are creating an obligation to purchase the underlying security at the strike price until the expiration date. The writer of the put options assumes the obligation to purchase the underlying security if the options contracts are assigned. If the put-options writer has sold short the underlying deliverable shares, the put contracts are "covered." If the option is assigned, the put-options writer purchases the security and delivers it to the lending brokerage firm to "cover" the short equity position. The short stock can never be valued lower, for margin requirement purposes, than the strike price of the short put.

Uncovered equity options

Because writing uncovered—or naked—options represents greater risk of loss, the margin account requirements are higher. The writing of uncovered puts and calls requires an initial deposit and maintenance of the greatest of the following three formulas:

a) 20% of the underlying stock[27] less the out-of-the-money amount, if any, plus 100% of the current market value of the option(s).

b) For calls, 10% of the market value of the underlying stock PLUS the premium value. For puts, 10% of the exercise value of the underlying stock PLUS the premium value.

or

c) $50 per contract plus 100% of the premium.

For example:

Example 1

Action: Sell six uncovered puts on PQR Corp.
Deliverable Per Contract: 100 Shares of PQR
Price of Security: $81.25
Market Strike Price: $80
Options Premium: $2.50

20% Calculation		
Percentage of Stock Value: 20% x [$81.25 x (6 x 100)]	=	$9,750
Out-of-the-Money Amount: ($80 – $81.25) x 600	=	-$750
Current Market Value of the Option: $2.50 x 600	=	$1,500
Total Requirement		**$10,500**
10% Calculation		
Percentage of Exercise Value: 10% x [$80 x (6 x 100)]	=	$4,800
Current Market Value of the Option: $2.50 x 600	=	$1,500
Total Requirement		**$6,300**
$50 plus premium Calculation		
$50 x 6 contracts	=	$300
Current Market Value of the Option: $2.50 x 600	=	$1,500
Total Requirement		**$1,800**

In the first example, the 20% maintenance requirement would be used.

Example 2

Action: Sell six uncovered puts on PQR Corp.
Deliverable Per Contract: 100 Shares of PQR
Price of Security: $81.25
Market Strike Price: $70
Options Premium: $0.75

20% Calculation		
Percentage of Stock Value: 20% x [$81.25 x (6 x 100)]	=	$9,750
Out-of-the-Money Amount: ($70 - $81.25) x 600	=	- $6,750
Current Market Value of the Option: $0.75 x 600	=	$450
Total Requirement		**$3,450**
10% Calculation		
Percentage of Exercise Value: 10% x [$70 x (6 x 100)]	=	$4,200
Current Market Value of the Option: $0.75 x 600	=	$450
Total Requirement		**$4,650**
$50 plus premium Calculation		
$50 x 6 contracts	=	$300
Current Market Value of the Option: $0.75 x 600	=	$450
Total Requirement		**$750**

25. Please review the Client Agreement.
26. TD Ameritrade, Inc. reserves the right to impose a maintenance requirement on covered LEAPS® (Long-Term Equity AnticiPation Securities). Before engaging in an investment strategy involving a covered LEAPS position, please consult your Credit Risk analyst for more details.
27. Our clearing firm may impose more stringent margin requirements on the underlying security. The higher maintenance requirement on the security may increase the requirement on the uncovered equity option. To learn which securities currently have a higher maintenance requirement, please log in to your account.

In this second example, the 10% maintenance requirement would be used.

Minimum Equity Requirements

For uncovered equity call options, the minimum equity required is $5,000 in marginable securities or cash. For uncovered equity put options, the minimum equity required is the maximum potential loss for all uncovered equity puts in the account. The minimum equity required to write uncovered index options is $5,000.

Equity Spreads

A "spread" is a position taken in two or more options contracts with the intent of profiting from or reducing the risk of loss from a sudden market shift in the underlying security or index. A spread position is created by buying and selling options of the same type (calls or puts) for the underlying security or index, which have different exercise prices and/or expiration dates. A "call spread" is a long call and a different short call on the same security or index. A "put spread" is a long put and a different short put on the same underlying security. In either case, the short options must expire before, or at the same time as, the long options contract.

This is an example of a debit spread:

Action: Buy eight calls PQR Corp.
Date: October
Price/Share: $58.50
Market Strike Price: $60
Options Premium: $4.50

Action: Sell eight calls PQR Corp.
Date: October
Price/Share: $58.50
Market Strike Price: $70
Options Premium: $1.25

The investor paid more in premiums than was received in premiums from the simultaneous sale of the options contracts. The short call options have a strike price which is higher than the long side. The initial requirement is calculated by multiplying the difference between the premium paid for the long contracts and the premium received by selling the short contracts by the number of shares deliverable for the options contracts:

($4.50 – $1.25) x 800 = $2,600

This is an example of a credit spread:

Action: Buy eight calls PQR Corp.
Date: October
Price/Share: $58.50
Market Strike Price: $70
Options Premium: $1.25

Action: Sell eight calls PQR Corp.
Date: October
Price/Share: $58.50
Market Strike Price: $60
Options Premium: $4.50

The simultaneous sale of the contracts results in a credit to the investor's account, since more money is received from the options' premiums than is paid for them. Since the short side on these calls has a strike price which is less than the long side, initial and maintenance requirements are computed as the difference between the strike price of the long and short options multiplied by the number of shares deliverable:

($70 – $60) x 800 = $8,000

For this spread position, the total requirement is $8,000. Since proceeds of $2,600 are received in the transaction, an additional deposit of $5,400 is required to satisfy the margin requirement.

Equity Straddles

A straddle generally involves purchasing or writing both a call and a put on the same stock or index with options that have the same expiration date.

Long straddles

Margin requirements for purchasing long straddles are the same as for buying any other long options contracts: 100% of the purchase price for each side of the straddle.

Example of a long straddle:

Action: Buy five puts STUE Corp.
Date: March
Price/Share: $39.25
Market Strike Price: $40
Options Premium: $2.50

Action: Buy five calls STUE Corp.
Date: March
Price/Share: $39.25
Market Strike Price: $40
Options Premium: $1.75

Since this is a long straddle, the margin requirements are 100% on each position.

Long Put Requirement		
$2.50 x (5 x 100)	=	$1,250
Long Call Requirement $1.75 x (5 x 100)	 =	 $875
Requirement		$2,125

Short straddles

For short straddles, the potential for risk is unlimited. The total margin requirement is the greater of the uncovered requirement for the calls or puts, plus the value of the premium received on the other, non-holding side of the straddle.

Example of a short straddle:

Action: Sell 10 calls VWX Corp.
Date: April
Price/Share: $72.25
Market Strike Price: $70
Options Premium: $5

Action: Sell 10 puts VWX Corp.
Date: April
Price/Share: $72.25
Market Strike Price: $70
Options Premium: $1.50

Since this is a short straddle, the uncovered margin requirement on each side of the straddle is computed separately.

Short calls

Percentage of Stock Value: 20% x ($72.25 x 100) x 10	=	$14,450
Out-of-the-Money Amount:	=	-0-
Short Call Side: Current Market Value of the Option: ($5 x 1,000)	=	$5,000
Total Requirement		**$19,450**

Short puts

Percentage of Stock Value: 20% x ($72.25 x 100) x 10	=	$14,450
Out-of-the-Money Amount: ($70 – $72.25) x 1,000	=	-$2,250
Current Market Value of the Option: ($1.50 x 1,000)	=	$1,500
Total Requirement		**$13,700**

The total margin requirement on this straddle is computed as follows:

Greater Requirement (calls)	=	$19,450
Value of Non-Holding Side (puts)	=	$1,500
Total Requirement		**$20,950**

Index Options

A "stock index" is a method of reflecting—in a single number—the relative market values of many different stocks in comparison to themselves over time. Stock indices are compiled and published by various sources, including securities exchanges. An index may be designed to be representative of the stock market as a whole, a broad market sector (such as industrials), or a particular narrow industry (such as electronics). An index may be based on the prices of all—or only a sample—of the stocks whose value it is intended to represent. Like a cost-of-living index, a stock index is ordinarily expressed in relation to a base established when the index originated.

Exchange-traded options on stock indices—index options—are based on the same principles as listed stock options and may be used for similar purposes. They settle on a cash basis, and the multiplier per contract is normally $100. The main difference, from the investment standpoint, is that index options are designed to permit investors to profit from—or protect against—price movements in the stock market in general (or in particular market segments) rather than in individual stocks. By providing a means of hedging against the risk of adverse developments in the stock market as a whole, or in particular market segments, index options offer investors an enhanced opportunity to "fine tune" the risk-reward characteristics of their portfolios.

These differences, and others such as the high strike prices, the cash deliverable, the volatility of the index, the exercise style of the options contracts, and the complexities of options strategies, create an inherently risky investment vehicle. Index options should be traded only by the most experienced and knowledgeable investors who are prepared to closely monitor market conditions, and who are financially prepared to assume potentially substantial losses. Investors should read completely and understand the options disclosure document, titled "Characteristics and Risks of Standardized Options" before incorporating trading index options into their investment strategy.

Margin requirements on index options

There are two classes of index options. An index within a particular industry is an **industry index** (narrow-based), while a **market index** (broad-based) covers a series of industries.

A minimum equity of $5,000 is required to maintain a short index straddle or an uncovered index options position.[28] To purchase an options position, either the cash or the equity requirement must be in the account at the time the order is placed.

Buying long index options

The buyer of a long index option must pay 100% of the purchase price of the options contract. Regulation T and maintenance requirements are both 100%.

Index spreads and straddles

The margin requirements to create spreads and straddles are computed in the same manner as those for equity options.[29]

For detailed information, please refer to the "Equity Spreads" and "Equity Straddles" discussions, which begin on Page 12 of this handbook.

Uncovered index options

For index options, whether calls or puts, broad-based or narrow-based, carried as short uncovered positions in the account, the maintenance requirements are calculated using the same formula as used for uncovered equity options.[29] The initial deposit and maintenance requirements must equal 20% of the current index value minus the out-of-the-money amount, if any, plus the premium amount received. This amount must meet or exceed a minimum amount equal to 10% of the current index value times the index multiplier, plus the option's market value.

For example:

Action: Write 10 uncovered broad-based index call options
Index Multiplier: 100
Index Value: $257.14
Strike Price: $260
Premium: $4.25

20% Calculation		
Percentage of Index Value: 20% x ($257.14 x 1,000)	=	$51,428
Out-of-the-Money Amount: ($257.14 – $260) x 1,000	=	-$2,860
Contract Value: ($4.25 x 1,000)	=	$4,250
Total Requirement		**$52,818**

10% Calculation		
Minimum Percentage of Index Value: 10% x ($257.14 x 1,000)	=	$25,714
Contract Value: ($4.25 x 1,000)	=	$4,250
Total Tentative Requirement		**$29,964**

An example of deep out-of-the-money index options:

Action: Write 20 uncovered broad-based index put options
Index Multiplier: 100
Index Value: $321.30
Strike Price: $280
Premium: $1

20% Calculation		
Percentage of Index Exercise Value: ($321.30 x 2,000) x 20%	=	$128,520
Out-of-the-Money Amount: ($321.30 – $280) x 2,000	=	-$82,600
Contract Value: ($1 x 2,000)	=	$2,000
Total Tentative Requirement		**$47,920**

28. Short index straddle transactions require a minimum of $5,000 equity.

29. Please see "Uncovered equity options" on Page 11. Remember, uncovered index options transactions require a minimum of $5,000 equity.

Since the option is well out-of-the-money, the 10% minimum must be tested:

10% Calculation		
Minimum Percentage of Index Exercise Value: 10% x ($280 x 2,000)	=	$56,000
Contract Value: ($1 x 2,000)	=	$2,000
Total Tentative Requirement		**$58,000**

The margin requirement for this naked options position will be $58,000, the greater of the 10% and 20% calculations.

Special Statement for Writing Uncovered Options

There are special risks associated with writing uncovered options which expose the investor to a potentially serious risk of loss. Therefore, this type of strategy may not be suitable for all investors who have options privileges in their account.

1. The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price.
2. The risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.
3. Uncovered options writing may be suitable for only the most knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against the writer's uncovered options position, the investor's brokerage firm may request significant additional margin payments. If the investor does not make such margin payments, the brokerage firm may forcibly liquidate stock or options positions in the investor's account, with or without prior notice, in accordance with the investor's margin agreement.
4. For straddle and strangle writing, where the investor writes both a put and a call on the same underlying instrument, the potential for loss is unlimited.
5. If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an options writer would remain obligated until expiration or assignment.
6. The writer of American-style options is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to assignment only during the exercise period, normally the expiration date.

It is expected that you will read the booklet, "Characteristics and Risks of Standardized Options," available from your Credit Risk analyst.[30] In particular, your attention is directed to the chapter titled, "Principal Risks of Options Positions." This statement is not intended to enumerate all of the risks entailed in writing uncovered options. You should also read your Client Agreement.

Options Exercise and Assignment

To exercise options or to decline the exercise of options, you must notify TD Ameritrade, Inc. of such exercise instructions by 4 p.m. ET on the last trading day for the options contracts. Any "Do Not Exercise" or "Exercise requests" submitted 30 to 60 minutes after market close on normal trading days will be accepted on a reasonable efforts basis. On early market close days, any "Do Not Exercise" or "Exercise requests" submitted 60 minutes or more after market close will be processed on a reasonable efforts basis. Expiration and expiration processing will be moved to the preceding market/business day if on an exchange holiday.

TD Ameritrade, Inc. has no obligation to exercise any option absent specific instructions from you, in accordance with the prior paragraph. In the absence of such instructions, TD Ameritrade, Inc., in its sole discretion and without prior notice to you, may exercise any in-the-money options that remain in the account on their expiration day, as long as they are in-the-money by $0.01 or greater. You are responsible for understanding the impact that corporate actions may have on the value of an option, and whether you would be better off not exercising an option. In the event that you fail to provide proper and timely exercise instructions, you agree to waive and to release TD Ameritrade, Inc., its current and former parent companies, subsidiaries, affiliates, shareholders, directors, officers, employees, representatives, agents, successors, and assigns, from any and all claims of damage or loss, then or at a later time sustained, as a result of the exercise or non-exercise of an option contract.

It is your responsibility to have sufficient buying power in your account to exercise a long call options contract, and to have the stock in the account to exercise long put options. TD Ameritrade, Inc. reserves the right to close out options positions that pose risk if exercised or assigned. If you do not have sufficient buying power to cover any possible exercises or assignments, you must deposit funds or close out your position before the close of market prior to expiration. You should contact a broker or refer to the account's position page to confirm options assignments for your account.

TD Ameritrade, Inc. receives assignment instructions from the Options Clearing Corporation (OCC) and uses a lottery system to randomly assign individual brokerage accounts that are short the options position. A more detailed description of the random allocation procedure is available on request or online in the Help Center.

Substitute Payments

In May 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 was signed into law. The new act includes a reduced tax rate on "qualified dividends" paid by corporate issuers. Qualified dividend income will be taxed at the long-term capital gains rate (generally 20%) rather than the ordinary rate (37% maximum) as long as you satisfy a 60-day holding period.

On February 19, 2004, the IRS announced the acceptance of the Technical Corrections Bill. To qualify for the lower tax rates, the taxpayer must now hold the dividend-paying stock for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date—the first date the buyer will not be entitled to receive that dividend.

There are also situations where investors receive "payments in lieu" of dividends, for example on securities a broker has borrowed as part of its securities lending practices or in connection with a trade or securities loan in the process of settling, that do not qualify for the reduced rate. As these situations do not occur in the ordinary course of business, you may receive a payment in lieu of dividend instead of a qualifying dividend. Should this occur, TD Ameritrade, Inc. may, at its discretion, compensate your account the difference

30. To obtain a copy of the options disclosure document, call a Client Services representative or request one by mail at 200 S 108th Ave, Omaha, NE 68154-2631

between the long-term capital gains rate of 20% and the maximum 37% ordinary rate, and the additional tax due on the difference (or a “gross-up”). The gross-up is calculated as the difference between the 37% ordinary rate and the 20% capital gains rate divided by 63%—resulting in a premium payment of 26.9841% on the “payment in lieu.”

Since individual tax situations may differ, TD Ameritrade, Inc. cannot precisely calculate the additional tax costs you may incur. Therefore, this payment may not be an exact reimbursement of your potential tax liabilities incurred as a result of the “payment in lieu.”

As your account is self-directed, we’re not allowed to give you tax advice. Please contact your tax advisor with any questions about the effects this tax law change may have on your account.

Our firm reserves the right to change these requirements in total, or with respect to specific securities, without prior notice. (In all cases, the firm’s requirements will equal or exceed requirements mandated by the regulatory bodies.) Please see the Client Agreement for more information.

Margin Impact on Voting Rights

You should be aware that when you buy shares on margin or borrow against your margin account, there is a possibility, under certain circumstances, that you may lose proxy voting rights for securities held in your margin account. There is also a possibility that you may lose certain tax benefits for dividends paid on those securities.

Pursuant to your margin agreement with us, when you have a debit balance in your margin account (whether it is as the result of margin purchases or through a loan for other purposes), TD Ameritrade, Inc. may lend your shares to other clients or other broker/dealers, subject to certain limitations. We may also hypothecate, which means we can pledge shares in your account as collateral for a loan at a bank. TD Ameritrade, Inc. reserves the right to determine which of your shares may be lent or pledged.

When your shares are lent, the right to vote those shares goes with them. Therefore, if a corporate vote in a company in which you own shares takes place while those shares are on loan, you may be unable to vote on them.

In addition, when your shares are lent past the ex-dividend date (the time between the announcement of the next dividend and the payment of it), you may be at risk of receiving "payments in lieu" of dividends. This means that the person borrowing the shares receives the dividend, and you receive a cash payment from TD Ameritrade, Inc. in an amount identical to the dividend. However, this cash payment to you is not considered a dividend for tax purposes. We must report it on your year-end statement as ordinary income, which may cause you to lose the benefit of the preferential tax rates on dividends.

Repaying the outstanding margin balance prior to a scheduled vote or payment of a dividend may resolve the problem.

If you have questions about this, please contact a Client Services representative.

Glossary

Available Funds—the maximum amount of money that could be withdrawn from a margin account without putting the margin account below minimum equity.

Bond—(1) a debt instrument; a security that represents the debt of a corporation, a municipality, the federal government, or any other entity. A bond is usually long term in nature (10 to 30 years) and is to be repaid to the investor on a specified date; (2) an investment in a government or corporation that is structured very much like a loan, except that the payment is to individual bondholders rather than to a lending institution. Most bonds offer a regular, scheduled income, making them attractive to retirees and others living on an investment income.

Broker—(1) an individual who buys or sells securities for clients (a stockbroker); (2) on an exchange, one who executes public orders on an agency basis (a floor broker or commission-house broker); (3) as a slang term, a firm that executes orders for others (a brokerage firm).

Brokerage Firm—a partnership or corporation that is in business to provide securities services for a general marketplace.

Business Day—a day on which the exchanges are open for business.

Buying Power—in a margin account, the maximum dollar amount of marginable securities that the client can purchase or sell short without having to deposit additional funds.

Call (Option)—an options contract that gives the holder of the option the right (but not the obligation) to purchase, and obligates the writer to sell, a specified number of shares of the underlying asset at the given strike price on or before the expiration date of the contract.

Call Spread—the simultaneous buy and sell of a call-options contract on the same underlying security, but with different expiration dates, different exercise prices or both. The short option must expire before or on same date as the long option to be matched up as a spread.

Cash Account—an account in which all securities purchased must be paid for in full.

Cash-Secured Put—a put options position in which the options writer holds cash equal to the amount of money that would be needed to satisfy the obligation should the option(s) be assigned.

Cash Transaction—a settlement on the same day as the trade date.

Class—options of the same type—all calls or all puts—on the same security.

Class group—comprised of all products with the same underlying instrument. One hundred percent of a position’s gain at any one valuation point is allowed to offset another position’s loss at the same valuation point.

Closing Transaction—the transaction executed to close an options contract. The holder would sell to close, while the writer would buy to close.

Collateral—assets pledged to guarantee a loan, and which may be collected in case of default. Homes and cars are common examples of assets that can serve as collateral.

Common Stock—a security, issued in shares, that represents ownership of a corporation. Common stock owners may vote and receive dividends (after all other obligations of the corporation are satisfied).

Concentration Portfolio Margin—A concentrated position exists when that position’s PNR is within that security's EPR.

Covered Call—a short call-options position in which the writer owns the number of shares of the underlying stock represented by the options contract.

Covered Put—a put-options position in which the options writer is also short in the corresponding stock.

Credit Balance—(1) the funds available to a client in a cash account; (2) the positive cash balance in a margin account; (3) the client’s liability in a short account.

Day Trade—the purchasing and selling, or the short-selling and purchasing, to cover the same security in the same trading day within a margin account.

Debit Balance—the amount of loan in a margin account.

Deliverable—the predetermined quantity of a security or asset which is the subject of an options contract.

Equity—the portion in an account that reflects the client’s ownership interest.

Excess Equity—equity in a margin account above that which is required by Regulation T.

Exercise Price—the price per share that the holder of a call option would pay to buy the stock from the writer; or the price the holder would receive should he sell the stock to the writer when exercising an option. See also "Strike Price."

Expected Price Range (EPR)—The EPR represents the Firm's current best estimate of the volatility of a given security over a one-day period. We estimate a security's EPR based on historical returns and current market developments (implied volatility, upcoming announcements, etc…)

Expiration—the day on which an options contract becomes void.

Expiration Month—the month in which an options or futures contract ceases to exist (expires).

Federal Reserve Board—the government agency that regulates credit.

Federal Reserve System—the nation's central monetary authority, and the Treasury Department's agent for selling new issues of Treasury bills, notes, and bonds.

Government Bond—debt security issued by the U.S. government.

Hedge—to reduce the risk in one security by taking an offsetting position in a related security.

Holder—the buyer of an options contract when opening a new options position.

Hypothecation—a brokerage firm's pledging of margin securities at a bank to secure the funds necessary to carry an account's debit balance.

In-the-Money—a term used to describe options that the holder would profit from exercising. A "call" option is in-the-money if the strike price is less than the market price of the underlying security. A "put" option is in-the-money if the strike price is greater than the market price of the underlying security. For example, an XYZ "call" option with a strike price of $52 is in-the-money when XYZ trades at $52.01 or higher. An XYZ "put" option with a strike price of $52 is in-the-money when XYZ is trading at $51.99 or lower.

Index Options—a way designed to permit investors to profit from—or protect against—price movements in the stock market in general, or in particular market segments, rather than in individual stocks.

IRA (Individual Retirement Account)—a retirement savings plan whereby individuals with earned income may contribute a specified amount per year, based on their age and the IRA limits for that particular year. Contributions may be tax-deductible.

LEAPS® (Long-Term Equity AnticiPation Securities)—long-term stock or index options with expiration dates up to three years in the future.

Liquidation—(1) closing out a position; (2) an action taken by the Margin Department when a client hasn't paid for a purchase.

Liquidity—(1) the degree of ease with which an investor can convert an asset into cash; (2) the characteristic of a market that enables investors to buy and sell securities easily.

Listed Options—an option that trades on a national options exchange.

Listed Securities—securities that trade on a national exchange.

Listed Stock—stock that has qualified for trading on an exchange.

Loan Value—the amount of money, expressed as a percentage of market value, that the client may borrow from the firm.

Long Market Value—the value of securities in a client's account.

Long Position—occurs when an individual owns securities. An owner of 100 shares of stock is said to be "long the stock."

Long-Term Bonds—bonds that mature in more than 10 years.

Maintenance Call—demand from the brokerage firm to the client for additional funds because the equity in the margin account has fallen below the minimum amount allowed by the firm.

Maintenance Requirement—the minimum amount of equity a brokerage firm requires margin clients to maintain in the account.

Margin—purchasing Treasury and agency securities with money borrowed from a bank or brokerage firm.

Marginable Securities—securities able to be purchased on margin or used as collateral for a margin account.

Margin Account (Stocks)—a leveraged account where the brokerage firm lends the account owner a portion of the purchase price for certain securities. The loan in the margin account is collateralized by the stock; and if the value of the stock drops, the owner will be asked to either put in more cash or sell a portion of the stock.

Margin Call—a demand upon a client to deposit money or securities with the brokerage firm when the value of the securities purchased on margin falls below the allowable level.

Margin Department—the department of a clearing brokerage firm that computes the balance that clients must maintain to avoid maintenance and margin calls.

Margin Requirement—the percentage of equity that must be deposited or maintained to purchase or hold a position on margin.

Minimum Maintenance—established by the exchange's margin rules, the level to which the equity in an account may fall before the client must deposit additional equity. It is expressed as a percentage relationship between market value and equity.

Municipal Bond—a long-term debt instrument issued by a state or local government. It usually carries a fixed rate of interest, which is paid semiannually.

Mutual Fund—a pooling of many investors' money for specific investment purposes. A management company manages the fund, and is responsible for adhering to the purpose of the fund.

Naked Call—occurs when an investor sells a call(s) without owning the underlying securities and is not selling to close out a position.

NASDAQ (National Association of Securities Dealers Automated Quotations (System))—a communication network used to store and access quotations for qualified over-the-counter securities.

New York Stock Exchange (NYSE)—a primary market for buying and selling securities.

Opening Transaction—refers to a client either buying or selling an options contract to open a new position.

Option—a contract that entitles the holder to buy (call) or sell (put) a predetermined quantity of an underlying security for a specific period of time at a pre-established price.

Options Class—the group of options, put or call, with the same underlying security.

Options Series—the group of options having the same strike price, expiration date, and unit of trading on the same underlying stock.

Options Clearing Corporation (OCC)—a clearing corporation owned jointly by the exchanges dealing in listed options. OCC is the central or main clearing corporation for listed options. Options traded on any SEC-regulated exchange can be settled through OCC.

Out-of-the-Money—a "call" option is out-of-the-money if the strike price is greater than the market price of the underlying security. A "put" option is out-of-the-money if the strike price is less than the market price of the underlying security.

Point of No Return (PNR)—the percentage change in an underlying security where the theoretical loss of that position equals the liquidation value of the account.

Portfolio—(1) an individual's or institution's combined investment holdings, including cash, stocks, bonds, mutual funds, and real estate; (2) a group of investments held by a single person or entity. Portfolios may include any number of types of investments, from real-estate holdings to high-tech stocks.

Product group—comprised of the class groups of closely related broad-based indices and sector indices.

Put (Option)—an options contract that gives the holder the right to sell (or "put"), and places upon the writer the obligation to purchase a specified number of shares of the underlying security at the given strike price on or before the expiration date of the contract.

Quotation—the current bid price and the current ask price of a security.

Regulation T Call—a federal margin call for the deposit of the initial equity required under Regulation T promulgated by the Federal Reserve Board.

Regulation T Excess—in a margin account, the amount by which the equity exceeds the current initial margin requirements of the positions held.

Regulation T (Reg T)—a Federal Reserve Board regulation that governs the lending of money by brokerage firms to clients.

Restricted Account—as defined by Regulation T, a margin account in which the debit balance exceeds the loan value. TD Ameritrade, Inc. may restrict an account for 90 days when a Regulation T call has not been satisfied by the due date.

Risk Array—a set of stress testing price points for an underlying security that is used to determine the theoretical max loss which will be used as the maintenance requirement for that position. Typically the stressed price points are equidistant.

Securities—a general term used to describe any kind of investment product, though it can also refer specifically to stocks and bonds.

Securities and Exchange Commission (SEC)—the federal agency responsible for the enforcement of laws governing the securities industry.

Sell/Write—an advanced options order that combines the short selling of an equity and the selling of a put option on the same underlying stock.

Series—all options contracts of the same class that also have the same unit of trade, expiration date, and exercise price.

Short Account—account in which the client has short sold securities. Before a client may sell short, a margin account must be opened.

Short Position—a position in a client's account in which the client either owes securities to the firm or has some other obligation to meet.

Short Sale—the sale of securities that are not owned or that are not intended for delivery. The short seller "borrows" the stock to make delivery, with the intent to buy it back at a later date at a lower price.

SMA (Special Memorandum Account)—SMA is a separate margin account maintained by the brokerage firm. The SMA is the most misunderstood account in the brokerage industry. The main purpose of the SMA is to preserve the client's buying power. When the equity in an account exceeds the required 50% (for Regulation T), excess equity is created. This excess equity is known as SMA. When excess equity exists in a margin account, an entry is made to SMA. Once this entry is credited to the SMA, it remains there until used. It does not disappear even if the account loses the excess equity that created the SMA in the first place. Stocks held in a margin account that go up in price create SMA, but a later decrease in the price of the same stocks doesn't decrease the SMA.

Spread—the difference between the bid and offer sides of a quote.

Spread Order—an advanced options order that combines the purchase and sale of either puts or calls on the same underlying security.

Stock—(1) a share in the ownership of a company; (2) an investment product that represents part ownership in a corporation.

Straddle—simultaneous long or short positions of puts and calls having the same underlying security and same strike price.

Strangle—an options strategy that refers to writing a call and a put, with different strike prices, on the same underlying security.

Strike (Exercise) Price—the stated price per share for which the underlying asset may be purchased (in the case of a call) or sold (in the case of a put) upon exercise of an options contract.

Trade Date—the day a trade occurs. Trades generally settle (are paid for) one to five business days after the trade date.

Treasury Bills—obligations issued by the Department of the Treasury maturing in 13, 26, or 52 weeks.

Treasury Bond—long-term (10 to 30 years), fixed-interest government debt security.

Treasury Note—medium-term (one to 10 years), fixed-interest government debt security.

Uncovered Call—a short call-options position in which the writer does not own shares of the underlying stock represented by his options contracts. Also called a "naked" call, it is much riskier for the writer than a covered call, where the writer owns the underlying stock. If the holder of this call option exercises the option to call, the writer would be forced to buy the stock at market price. The nature of uncovered call options means that the writer's risk is unlimited.

Uncovered Put—a short put-options position in which the writer either does not have a corresponding short stock position or has not deposited cash or cash equivalents equal to the exercise value of the put. Also called "naked" puts, the writer has pledged to buy the stock at a certain price if the holder of the option chooses to exercise it. The risk of writing uncovered put options is substantial.

Volatility—relative measure of a security's price movement during a specific time. It is measured mathematically by the annual standard deviation of daily stock-price changes.

Writer—the seller of an options contract when opening a new options position.with the brokerage firm when the value of the securities purchased on margin falls below the allowable level.