

| Description of offset  | Security underlying the security future          | Initial margin requirement   | Maintenance margin requirement  |
|--|--|--|---|
| (17) Long (short) a basket of security futures that together tracks a narrow-based index and short (long) a narrow-based index future. | Individual stock or narrow-based security index. | Threator of: (1) 5 percent of the current market value of the long security future(s); or (2) 5 percent of the current market value of the short security future(s). | The greater of: (1) 5 percent of the current market value of the long security future(s); or (2) 5 percent of the current market value of the short security future(s). |

(C) *Definitions.* For the purposes of paragraph (f)(11) of this rule and the offset table noted above, with respect to the term “security futures contracts,” the following terms shall have the meanings specified below:

(i) The term “security futures contract” means a “security future” as defined in section 3(a)(55) of the Act.

(ii) The term “current market value” has the same meaning as defined in rule 401(a)(4) under the Act and rule 41.43(a)(4) under the CEA.

(iii) The term “underlying security” means, in the case of physically settled security futures contracts, the security that is delivered upon expiration of the contract, and, in the case of cash settled security futures contracts, the security or securities index the price or level of which determines the final settlement price for the security futures contract upon its expiration.

(iv) The term “underlying basket” means, in the case of a securities index, a group of security futures contracts where the underlying securities as defined in subparagraph (iii) above include each of the component securities of the applicable index and that meets the following conditions: (1) The quantity of each underlying security is proportional to its representation in the index, (2) the total market value of the underlying securities is equal to the aggregate value of the applicable index, (3) the basket cannot be used to offset more than the number of contracts or warrants represented by its total market value, and (4) the security futures contracts shall be unavailable to support any other contract or warrant transaction in the account.

(v) The term “underlying stock basket” means a group of securities that includes each of the component securities of the applicable index and that meets the following conditions: (1) The quantity of each stock in the basket is proportional to its representation in the index, (2) the total market value of the basket is equal to the underlying

index value of the index options or warrants to be covered, (3) the securities in the basket cannot be used to cover more than the number of index options or warrants represented by that value, and (4) the securities in the basket shall be unavailable to support any other option or warrant transaction in the account.

(vi) The term “variation settlement” has the same meaning as defined in rule 401(a) under the Act and rule 41.43(a)(32) under the CEA.

#### (D) Security Futures Dealers' Accounts

(i) Notwithstanding the other provisions of this paragraph (f)(11), a member may carry and clear the market maker permitted offset positions (as defined below) of one or more security futures dealers in an account that is limited to market maker transactions, upon a “Good Faith” margin basis that is satisfactory to the concerned parties, provided the “Good Faith” margin requirement is not less than the Net Capital haircut deduction of the member carrying the transaction pursuant to rule 15c3-1 under the Act. In lieu of collecting the “Good Faith” margin requirement, a carrying member may elect to deduct in computing its Net Capital the amount of any deficiency between the equity maintained in the account and the “Good Faith” margin required.

For the purpose of this paragraph (f)(11)(D), the term “security futures dealer” means (1) a member or member organization of a national securities exchange or a national securities association registered pursuant to section 15A(a) of the Act; (2) is registered with such exchange or association as a security futures dealer pursuant to rules that are effective in accordance with section 19(b)(2) of the Act and, as applicable section 5c(c) of the CEA, that: (a) Requires such member or member organization to be registered as a floor trader or a floor broker with the CFTC under section 4f(a)(1) of the CEA, or as a dealer with the Commission under section 15(b) of the Act; (b) requires such member or member organization to maintain records sufficient to prove compliance with the rules of the exchange or

association of which it is a member; (c) requires such member or member organization to hold itself out as being willing to buy and sell security futures for its own account on a regular and continuous basis; and (d) provides for disciplinary action, including revocation of such member's or member organization's registration as a security futures dealer, for such member's or member organization's failure to comply with rule 400 through 406 of the Act and rules 41.42 through 41.49 of the CEA or the rules of the exchange or association of which the security futures dealer is a member or member organization.

(ii) For purposes of this paragraph (f)(11)(D), a permitted offset position means in the case of a security futures contract in which a security futures dealer makes a market, a position in the underlying asset or other related assets, or positions in options overlying the asset or related assets. Accordingly, a security futures dealer may establish a long or short position in the assets underlying the security futures contracts in which the security futures dealer makes a market, and may purchase or write options overlying those assets if the account holds the following permitted offset positions:

a. A long position in the security futures contract or underlying asset offset by a short option position that is “in or at the money;”

b. A short position in the security futures contract or underlying asset offset by a long option position that is “in or at the money;”

c. A position in the underlying asset resulting from the assignment of a market-maker short option position or making delivery in respect of a short security futures contract;

d. A position in the underlying asset resulting from the assignment of a market-maker long option position or taking delivery in respect of a long security futures contract;

e. A net long position in a security futures contract in which a security futures dealer makes a market or the underlying asset;

f. A net short position in a security futures contract in which a security futures dealer makes a market or the underlying asset; or

<sup>9</sup>Two security futures contracts will be considered “identical” for this purpose if they are issued by the same clearing agency or cleared and guaranteed by the same derivatives clearing organization, have identical specifications, and would offset each other at the clearing level.