

Merrill Edge[®] Margin Handbook



Bank of America Corporation

Margin Risk Disclosure Statement

In accordance with requirements of FINRA, Merrill Lynch is furnishing this Margin Risks Disclosure Statement. This document will provide some basic information about purchasing securities on margin and alert you to the risks involved with maintaining a margin account. Merrill Lynch refers to margin as the margin lending program. When you purchase securities, you may pay for the securities in full, or if your account has been established as a margin account with the margin lending program, you may borrow part of the purchase price from Merrill Lynch, thereby leveraging your investment. If you choose to borrow funds for your purchase, Merrill Lynch's collateral for the loan will be the securities purchased, other assets in your margin account and your assets in any other accounts at Merrill Lynch other than retirement accounts (such as IRAs). If the securities in your margin account decline in value, so does the value of the collateral supporting your loan, and, as a result, we can take action, such as to issue a margin call and/or sell securities in any of your accounts held with us, in order to maintain the required equity in your account. If your account has a Visa® card and/or checks, you may also create a margin debit if your withdrawals (by Visa card, checks, preauthorized debits, FTS or other transfers) exceed the sum of any available free credit balances plus available money account balances (such as bank deposit balances or money market funds). Please refer to your account documents for more information.

Also note that it may be more advantageous to pay cash than to use margin for smaller securities purchases. On smaller securities purchases, a higher percentage of the transaction cost goes to commissions and interest charges, which are generally higher on smaller balances. The commissions plus interest charges could equal or exceed any appreciation in your securities. Before opening a margin account, you should carefully review the terms governing margin loans. For Individual Investor Accounts, these terms are contained in the Margin Lending Program Client Agreement. For all other accounts, the terms are in your account agreement and disclosures. It is important that you fully understand the risks involved in using margin. These risks including the following:

- **You can lose more funds than you deposit in the margin account.** A decline in the value of securities that are purchased on margin may require you to provide additional funds to us to avoid the forced sale of those securities or other securities or assets in your account(s).
- **We can force the sale of securities or other assets in your account(s).** If the equity in your account falls below the maintenance margin requirements or Merrill Lynch's higher "house" requirements, we can sell the securities or other assets in any of your accounts held by us to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.
- **We can sell your securities or other assets without contacting you.** Some investors mistakenly believe that they must be contacted for a margin call to be valid, and that securities or other assets in their accounts cannot be liquidated to meet the call unless they are contacted first. This is not the case. We will attempt to notify you of margin calls, but we are not required to do so. Even if we have contacted you and provided a specific date by which you can meet a margin call, we can still take necessary steps to protect our financial interests, including immediately selling the securities or other assets without notice to you.
- **You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.** Because the securities or other assets are collateral for the margin loan, we have the right to decide which securities or other assets to sell in order to protect our interests.
- **We can increase our "house" maintenance margin requirements at any time and are not required to provide you advance written notice.** These changes in our policy may take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause us to liquidate or sell securities in your account(s).
- **You are not entitled to an extension of time on a margin call.** While an extension of time to meet margin requirements may be available to you under certain conditions, you do not have a right to the extension.

If you have any questions or concerns about margin and the margin lending program, please contact the Merrill Edge Self-Directed Investment Center.

Important Information

Please remember there's always the potential of losing money when investing in securities. The following information is intended for Merrill Edge self-directed clients to learn more about margin trading rules and requirements, especially for trades entered online through merrilledge.com. Merrill Edge self-directed clients may contact the Investment Center at 877.653.4732 with questions about the Merrill Edge Margin Handbook.

*This handbook contains information, terminology and requirements associated with margin trading at Merrill Lynch. As a Merrill Edge self-directed client, you will have access to your accounts and, if approved, be permitted to enter margin trades online. We believe you should have a basic understanding of margin prior to entering trades involving the extension of credit. **Please note that the examples contained in this handbook do not include commissions, margin interest, account fees or any other fees associated with your Merrill Edge self-directed account.***

Merrill Edge is available through Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S), and consists of the Merrill Edge Advisory Center™ (investment guidance) and self-directed online investing.

MLPF&S is a registered broker-dealer, Member SIPC and a wholly owned subsidiary of Bank of America Corporation.

Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
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What Is Margin?

A [margin account](#) is a loan account. Margin is an extension of credit by Merrill Lynch using marginable [securities](#) held as [collateral](#). You can use [margin](#) loans to purchase additional securities or withdraw funds for other purposes. Margin accounts can also be used for [short selling](#) securities. Merrill Lynch refers to margin as the Margin Lending Program.

[Margin interest](#) is charged on the amount of money you borrow based on how much time the loan is outstanding. Margin interest rates are based on your total loan amount and are subject to change. Current margin rates are available [online](#).

The amount of money that can be borrowed and the terms of the Margin Lending Program are governed by the Board of Governors of the Federal Reserve System, the [Securities and Exchange Commission](#) (SEC), the [Financial Industry Regulatory Authority](#) (FINRA) and Merrill Lynch.

To be considered for a margin account, you must apply at account opening or separately using the [Margin Lending Program Application and Agreement](#) and maintain at least \$2,000 in [equity](#) through the deposit of cash or marginable securities.

After you have met the minimum requirements, initial equity will be based on the [Regulation T](#) (Reg T) requirement, which is currently 50% of the purchase price of most securities. This means that if you wish to purchase \$15,000 of a marginable security, you could pay \$7,500 and borrow the remaining \$7,500 from Merrill Lynch. You will be charged margin interest on the amount you borrow.

After the initial requirements have been met, certain minimum maintenance equity requirements apply to margin accounts. Merrill Lynch generally applies a [maintenance requirement](#) equal to 30% of the current market value, in the case of fully marginable equity securities.

Requirements change based on the types of positions held in the account.

Please note that margin requirements are based on the market value of a security. Therefore, a decline in the price may result in a higher maintenance requirement for the position and may subsequently create a [maintenance call](#) in the account. Securities that fall below certain dollar thresholds are subject to higher maintenance margin requirements. **(See [Stock/ETF Margin Requirements](#))**

If the value of positions purchased on margin decreases and the equity of your account falls below certain minimum maintenance thresholds, you will be required to meet a margin call by either selling securities in your account or depositing cash or additional marginable securities.

Cash vs. Margin Accounts

Both cash and [margin accounts](#) allow you to purchase [securities](#), but they differ in how you can pay for securities and the types of trades allowed. Cash accounts require that purchases are paid in full, while margin accounts will allow you to borrow a portion of the total purchase cost.

Cash Account

- All trades in a cash account are paid in full by the settlement date.
- If full payment is not made by due date, Merrill Lynch is required to liquidate (sell) the security and your account may be subject to a trading violation and restriction. Please see [Trading Violations](#) for more information.
- Money market [mutual funds](#) held in the account will redeem on settlement date.
- Free riding is not permitted (buying and selling the same security and using the sale proceeds to pay for the transaction without otherwise having funds to pay for the trade).
- Sales in a cash account should not take place unless the security is paid in full.
- Short sales and extended settlements are not permitted.
- Withdrawals are limited to the amount of settled cash held in the account.

Margin Account

- A margin account is a loan account where you can leverage your eligible investments.
- Trades in a margin account may be paid in full by the [settlement date](#), or an extension of credit by Merrill Lynch may be used to cover trade requirements, as long as sufficient [margin equity](#) is available in your account.
- Money market mutual funds held in the account will redeem on settlement date. If the account is in a [Maintenance call](#), the funds will be automatically redeemed to cover the incremental call on the due date (origin date +2).
- The extension of credit through the Margin Lending Program permits you to make partial payment toward your opening trade and borrow the remainder from Merrill Lynch.
- Market fluctuations may create situations where you are required to bring in additional funds or marginable securities to cover a [margin call](#).
- If required payment is not made by due date, Merrill Lynch must liquidate (sell) securities and your account may be subject to a trading violation and restriction. Please see [Trading Violations](#) for more information.
- Short sales, extended settlement trades and other trades that require margin are permitted.
- Withdrawals are limited to the amount of settled cash held in your account plus the available [loan value](#) of marginable securities.

Advantages and Risks of Using Margin

Advantage: A [margin account](#) can increase your profit potential by leveraging your marginable [securities](#). You can also earn more profits/dividends by purchasing additional securities on credit.

Example of a profitable trade in a cash and margin account:

Let's assume that you wish to invest \$5,000 in ABC Corporation, which is currently trading at \$50 per share.

In a Cash Account

- Buy 100 shares of ABC @ \$50 for \$5,000
- Minimum deposit: \$5,000

In a Margin Account

- Buy 200 shares of ABC @ \$50 for \$10,000
- Minimum deposit: \$5,000
- Borrow from Merrill Lynch: \$5,000

Now let's assume the price of ABC Corporation rises by 20% to \$60 per share.

In a Cash Account

- Your investment of 100 shares of ABC is worth \$6,000
- Profit: \$1,000 *less any commissions*

- \$5,000 Debit	Purchase Costs
+ \$6,000 Credit	Sale Proceeds
\$1,000 Profit	

In a Margin Account

- Your investment of 200 shares of ABC is worth \$12,000
- Profit: \$2,000 *less any commissions and interest*

- \$10,000 Debit	Purchase Costs
+ \$12,000 Credit	Sale Proceeds
\$2,000 Profit	

Advantages and Risks of Using Margin (continued)

Risk: Potential losses are significantly greater due to leverage if there is adverse market movement.

Example of potential losses in declining markets:

Let's assume that you wish to invest \$5,000 in ABC Corporation, which is currently trading at \$50 per share.

In a Cash Account

- Buy 100 shares of ABC @ \$50 for \$5,000
- Minimum deposit: \$5,000

In a Margin Account

- Buy 200 shares of ABC @ \$50 for \$10,000
- Minimum deposit: \$5,000
- Borrow from Merrill Lynch: \$5,000

Now let's assume the price of ABC Corporation falls by 20% the following [business day](#) to \$40 per share.

In a Cash Account

- Your investment of 100 shares of ABC is worth \$4,000
- Loss: \$1,000 *less any commissions*

- \$5,000 Debit	Purchase Costs
+ \$4,000 Credit	Sale Proceeds
\$1,000 Loss	

In a Margin Account

- Your investment of 200 shares of ABC is worth \$8,000
- Loss: \$2,000 *less any commissions and interest*

- \$10,000 Debit	Purchase Costs
+ \$8,000 Credit	Sale Proceeds
\$2,000 Loss	

Short Selling

Short selling is the practice of borrowing a security from Merrill Lynch and selling in anticipation that its market value will decline. You are only permitted to short sell in a [margin account](#). Merrill Lynch must locate shares to borrow in order to facilitate short selling, and in some cases an order cannot be accepted because shares in a particular company may not be available to borrow.

Advantage: You can realize a profit if the security sold decreases in value and you buy it back at a lower price.

Example of a profitable short sale in a margin account:

Let's assume that you think the price of ABC Corporation will fall, and it is currently trading at \$50 per share.

Day 1

- Sell short 100 shares of ABC @ \$50 for \$5,000

The following business day the price of ABC Corporation falls by 20% to \$40 per share.

Day 2

- Buy 100 shares of ABC @ \$40 for \$4,000 to cover the short position
- Profit: \$1,000 *less any commissions and interest*

\$5,000 Credit	Short Sale Proceeds
- \$4,000 Debit	Buy to Cover Costs
\$1,000 Profit	

Advantages and Risks of Using Margin (continued)

Risk: Potential loss on a [short sale](#) is unlimited because there is no upward limit on the price of [stock](#).

Example of potential losses in rising markets:

Let's assume that you think the price of ABC Corporation will fall and it is currently trading at \$50 per share.

Day 1

- Sell short 100 shares of ABC @ \$50 for \$5,000

After you short the stock, the price of ABC Corporation rises to \$70 per share the next [business day](#).

Day 2

- Buy 100 shares of ABC @ \$70 for \$7,000 to cover the short position
- Loss: \$2,000 less *any commissions and interest*

\$5,000 Credit	Short Sale Proceeds
– \$7,000 Debit	Buy to Cover Costs
\$2,000 Loss	

Risk: Because selling a security short requires you to borrow the security, it may become hard to borrow and you may be required to cover the [short position](#).

You may also be subject to hard-to-borrow fees.

Important Notice Regarding Short Selling Securities

Please note: Merrill Lynch cannot guarantee that we will be able to continue to lend the [securities](#) that were sold short for more than the day on which the short sale is made. If Merrill Lynch cannot continue to lend the securities to you, we must require that you cover the short sale. This may occur at an inopportune time, requiring you to buy shares at an unfavorable price and creating a loss.

If the issuer of the securities that are sold short declares a dividend, issues warrants or rights, or engages in a merger or other transaction that results in the issuer's shareholders receiving cash or other securities, your account as the short seller will be charged accordingly. You will be required to repay all cash and to return all securities so distributed.

Securities Eligible for Margin

Equities: Stocks or other [securities](#) representing an ownership interest that meet certain eligibility criteria (including price per share, exchange and market capitalization requirements).

Exchange-Traded Funds (ETFs): Investments that are built like [mutual funds](#) but trade like individual [stocks](#), with the objective of achieving the same return as a particular market index.

U.S. Government Securities:

- **Treasury Bills:** Short-term debt obligations backed by the U.S. government with a maturity of less than one year. T-bills commonly have maturities of one month (four weeks), three months (13 weeks) or six months (26 weeks).
- **Treasury Notes:** Marketable U.S. government debt securities with a fixed interest rate and a maturity between one and 10 years.
- **Treasury Bonds:** Marketable, fixed-interest U.S. government debt securities with a maturity of more than 10 years. Treasury bonds make interest payments semiannually, and the income that holders receive is only taxed at the federal level.

Corporate Bonds: Debt securities issued by corporations and sold to investors. The backing for a [bond](#) is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company's physical assets may be used as [collateral](#) for bonds. [Corporate bonds](#) are considered higher risk than government bonds. As a result, interest rates are almost always higher, even for top-flight credit-quality companies.

Convertible securities: Securities — usually bonds or [preferred stock](#) — that can be converted into a different security, typically shares of the company's [common stock](#).

Options: Financial derivatives that represent a contract sold by one party (option writer) to another party (option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date).

- **Call options** give the option to buy a certain security at certain price, so the buyer would want the value of the security to go up.
- **Put options** give the option to sell a certain security at a certain price, so the buyer would want the value of the security to go down.

Municipal Bonds: [Municipal bonds](#), often referred to as "munis," are debt securities issued by states, cities, counties and other governmental entities. Must be investment grade, which means they are receiving a rating by Standard & Poor's of BBB– or better or a rating from Moody's Investors Services of Baa3 or better.

Open-end Mutual Funds: Must initially be paid for in full in accordance with federal securities regulations. Note: Merrill Lynch will extend [margin loan value](#) on certain open-ended mutual funds 30 days after [settlement date](#) of the purchase.

Securities Not Eligible for Margin at Merrill Lynch:

Certain security types are not margin-eligible, including the following:

- Structured Products
- Annuities
- Cash Management Bill
- Private Label CMO
- Alternative Investments
- Qualified Retirement Plan
- Derivative CMO Structures

The list of non-marginable securities above is not all inclusive and is subject to change.

Securities Eligible for Margin (continued)

Accounts Not Eligible for Margin at Merrill Lynch:

The following ownership and account features are “ineligible” for [margin](#) trading:

- All retirement accounts IRA (Individual Retirement Account), IRRA (Individual Retirement Rollover Account), SEP (Simplified Employee Pension), SIMPLE (Savings Incentive Plan for Employees), BASIC (Small Business Retirement Account), RCMA (Retirement CMA), SDB (Self-Direct Brokerage), LIIA/IIA (for the AwardChoice Platform, etc).
- 529 accounts-College Investing Account
- Loan Management Account (LMA)
- EMA-Endowment Management Account
- Custodial (UTMA/UGMA) accounts
- Estate/Conservatorship/Guardianship accounts
- Pledge Collateral accounts
- Both the BBA and Host account in a BBA relationship
- Consults
- MAS/MSG- Managed Solutions Group
- MFA/Selects-Mutual Fund Advisor
- PIA-Personal Investment Advisory
- SPA-Strategic Portfolio Advisor
- UMA-Unified Management Account
- Merrill One
- Firm Manager discretionary Accounts

Equity Margin Values

Long Market Value (LMV)

Long Market Value (LMV) is the combined total positions held long in your account multiplied by the current market prices.

How to Calculate Long Market Value

- $LMV = \text{Number of Shares Held Long} \times \text{Current Market Price}$
- If you are long 100 shares of ABC Corporation and its current market price is \$40 per share, you would calculate the Long Market Value as follows:

$$100 (\text{Number of Shares Held Long}) \times \$40 (\text{Current Market Price}) = \$4,000 (\text{Long Market Value})$$

Short Market Value (SMV)

Short Market Value (SMV) is the combined total short positions in your account multiplied by the current market prices.

How to Calculate Short Market Value

- $SMV = \text{Number of Shares Short} \times \text{Current Market Price}$
- If you are short 500 shares of ABC Corporation and its current market price is \$35 per share, you would calculate the Short Market Value as follows:

$$500 (\text{Number of Shares Short}) \times \$35 (\text{Current Market Price}) = \$17,500 (\text{Short Market Value})$$

Debit Balance (DR)

Debit Balance (DR) is the amount of funds that you owe for trades placed on margin and for any withdrawals where you borrow from the marginable securities in your account.

How to Calculate Your Debit Balance

- **Example 1:** Let's assume that your margin account has \$2,000 in cash and you purchase 100 shares of ABC Corporation at \$32.50 per share. You would calculate your debit balance as follows:

- $\text{Debit Balance (DR)} = \text{Cost of Purchase} - \text{Cash Balance}$

\$2,000 Cash Balance	$100 (\text{Number of Shares}) \times \32.50 <i>(Price of Security)</i>
- \$3,250 Cost of Purchase	
\$1,250 Debit Balance (DR)	

- **Example 2:** Let's assume that your margin account has \$10,000 in marginable securities, no cash balance and you withdraw \$5,000 from your account. You would calculate your debit balance as follows:

- $\text{Debit Balance (DR)} = \text{Withdrawal Amount} - \text{Cash Balance}$

\$5,000 Withdrawal (Note: withdrawals from your margin account cannot exceed certain amounts)	
- \$0 Cash Balance (based on the available loan value and margin requirements of the securities held)	
\$5,000 Debit Balance (DR)	

Equity Margin Values (continued)

Credit Balance (CR)

Credit Balance (CR) is the amount of money held in your [margin account](#) after all trading commitments and other financial obligations have been paid in full.

How to Calculate Your Credit Balance

- Example 1:** Let's assume that your margin account has no cash balance and you sell 100 shares of ABC Corporation that you held long at \$20 per share. You would calculate your credit balance as follows:
 - Credit Balance (CR) = Proceeds from Sale + Cash Balance
- Example 2:** Let's assume that your margin account has \$10,000 in marginable [securities](#), no cash balance and you sell short 100 shares of XYZ at \$40 per share. You would calculate your credit balance as follows:
 - Credit Balance (CR) = Proceeds from Sale + Cash Balance

\$2,000	Proceeds from Sale	100 (Number of Shares) x \$20 (Price of Security)
+	\$0	Cash Balance
\$2,000	Credit Balance (CR)	

\$4,000	Proceeds from Sale	100 (Number of Shares) x \$40 (Price of Security)
+	\$0	Cash Balance
\$4,000	Credit Balance (CR)	

Margin Equity (EQ)

Margin Equity (EQ) is the net value of your portfolio in a [margin](#) account. It is derived by taking your [Long Market Value \(LMV\)](#) minus any [Short Market Value \(SMV\)](#), and adding any [Credit Balance \(CR\)](#) or subtracting any [Debit Balance \(DR\)](#). Margin Equity can also be thought of as the value of your account if you fully liquidated all positions.

How to Calculate Margin Equity

- Margin Equity (EQ) = Long Market Value (LMV) - Short Market Value (SMV) + Credit Balance (CR) - Debit Balance (DR)
- Let's assume that your portfolio contains the following security positions and balances:
 - 100 shares of ABC Corporation with Current Market Price of \$26.00 per share
 - 25 shares of XYZ Corporation held short with Current Market Price of \$15.00 per share
 - Credit Balance of \$5,000
 - Debit Balance of \$2,000

\$2,600	Long Market Value (LMV)	100 (Number of Shares) x \$26 (Price of Security)
-	\$375	Short Market Value (SMV) 25 (Number of Shares) x \$15 (Price of Security)
+	\$5,000	Credit Balance (CR)
-	\$2,000	Debit Balance (DR)
\$5,225	Margin Equity (EQ)	

Equity Margin Values (continued)

Regulation T (Reg T)

Regulation T (Reg T) is a federal regulation issued by the [Federal Reserve Board](#) of Governors that regulates broker-dealers and the extension of credit in the [securities](#) market. According to Reg T, a certain percentage of [margin](#) must be deposited into your account when making any new trade commitments on credit. This is also referred to as the initial requirement. The initial requirement varies based on different types of securities (see [Reg T Requirements](#)). Currently, the Reg T requirement for [equity](#) securities is 50% of the total cost.

Reg T Requirements

Security Type	Reg-T Requirement
Long Equity/Stock	50%
Short Equity/Stock	50%
New Equity Issues on Underwriting	100%*
When Issues on Margin	50%
Mutual Funds	50%
Mutual Funds on Underwriting	100%*
Unit Investment Trusts	50%
Open End Investment Companies	100%*
Foreign Bonds	30%
Corporate Bonds & Nonconvertible Bonds	30%
Convertible Bonds	50%
Municipal Bonds	20%
US Treasury Bill	5%
US Treasury Note	5%
US Treasury Bond	8%
US Treasury Strip	8%
FHLB, FNMA, FLB, FIC Notes, GNMA, Category C Bonds	10%
TVA, REFCOR, FHLMC, SBA, GNMA and FNMA Pools, SLMA, NPC, Category D Bonds	15%
Securities at 3% of Face Value (FV)	3%
Securities at 7% of Face Value (FV)	7%

* On Underwriting for 30 days from settlement date (excluding IPOs and Secondary Offerings).

Equity Margin Values (continued)

Reg T Call (TCL)

A Reg T call (TCL) is the need for additional [equity](#) (funds or [securities](#)) in your account to eliminate or reduce a [margin](#) deficiency. You must cover a TCL no later than five business days from [trade date](#).

Example of a Reg T call:

- Let's assume that the opening trade of your new margin account is a purchase of 1,000 shares of ABC stock at \$60 for \$60,000. Let's also assume that there is only \$20,000 cash in the account at the time of the trade.

Reg T Requirement = Purchase Cost × 50%
 Reg T Requirement = \$60,000 × 50%
 Reg T Requirement = \$30,000

TCL = Reg T Requirement – Equity (\$30,000 – \$20,000)
 TCL = \$10,000

Note: Your “Balances” Screen will inform you of the status of all Funds Due in your account, such as Reg T calls.

Special Memorandum Account (SMA)

A [Special Memorandum Account \(SMA\)](#) is a [line of credit](#). According to [Regulation T](#), SMA is used to record the excess margin in your account. It is sometimes referred to as “margin excess.” This “margin excess” should not be confused with [Firm Maintenance Excess](#) (described later). Activities that increase SMA include market value appreciation, sales proceeds and deposits of cash/margin-eligible securities. Activities that reduce SMA include opening trades and withdraws of cash/margin-eligible securities; SMA is never debited for adverse market movement in your account.

An example of SMA:

- Let's assume you deposited 1,000 shares of XYZ at \$20 in a new account. The Reg T requirement is \$10,000 (50% of the LMV) and there is equity of \$20,000.

SMA = EQ-Reg T Requirement
 SMA = \$20,000 – \$10,000
 SMA = \$10,000

Firm Maintenance Excess (FME)

Firm Maintenance Excess (FME) occurs when the equity in your margin account exceeds the [Maintenance Requirement](#).

Example of FME:

- Assume your account status is as follows:
 - LMV = \$20,000
 - Debit Balance = \$12,000

Equity = LMV – DR (\$20,000 – \$12,000)
 Equity = \$8,000
 Maintenance Requirement = LMV × 30% (\$20,000 × 30%)
 Maintenance Requirement = \$6,000
 FME = Equity – Maintenance Requirement (\$8,000 – \$6,000)
 FME = \$2,000

Buying Power

[Buying Power](#) represents the dollar amount of marginable equity securities priced above \$10.00 per share that the client could buy without going into a [Regulation T Call](#) or a [Maintenance Call](#) (if nothing else changes in the account).

Example of Buying Power:

- Let's assume your SMA and FME values from the examples noted above:

Buying Power = The lower of SMA divided by .5
 or FMA divided by .3
 SMA = \$10,000
 FME = \$2,000
 BP = The lower of (\$10,000/.5 = \$20,000)
 or (\$2,000/.3 = \$6,666.67)

In this example, the Buying Power would be \$6,666.67.

Initial Minimum Equity Requirement

\$2,000 minimum equity is required by FINRA for [margin accounts](#). If you have insufficient equity, a minimum equity call will be issued.

Note: Minimum Equity Requirements vary based on investments. Some investment strategies require maintaining a higher equity level.

Stock/ETF Margin Requirements

Long Equity Positions:

Long Stock	Position Initial (Reg T) Requirement	Maintenance Requirement
\$10.00 or over	50%	30%
\$3.00 to \$10.00	50%	\$3.00/share
Under \$3.00	50%	100% of LMV

Short Equity Positions:

Short Stock	Position Initial (Reg T) Requirement	Maintenance Requirement
\$16.667 or over	50%	30%
\$5.00 to \$16.6666	50%	\$5.00/share
\$2.50 to \$5.00	50%	\$2.50/share or 100%, whichever is greater
Under \$2.50	50%	\$2.50/share

Concentrated Stock/ETF Requirements

Your account may hold a concentrated position that involves a large block of [securities](#). Higher [maintenance requirements](#) apply on positions in excess of 25,000 shares if the concentrated position represents at least 25% of the account's [equity long market value](#) or [short market value](#). The following concentrated requirements may apply if they meet the following criteria for Long or Short Concentrated positions:

Long Concentrated Positions are subject to the following requirements:

Number of Shares	Requirements
0–25,000	30% of the long market value, to a minimum of \$3 per share
25,001–50,000	40% of the long market value, to a minimum of \$3 per share
50,001–75,000	50% of the long market value, to a minimum of \$3 per share
75,001–100,000	75% of the long market value, to a minimum of \$3 per share
Over 100,000	100% of the long market value

Note: The concentration requirements apply only when the concentration position represents at least 25% of the account's equity long market value.

Short Concentrated Positions are subject to the following requirements:

Number of Shares	Requirements
0–25,000	30% of the short market value, to a minimum of \$5 per share
25,001–50,000	40% of the short market value, to a minimum of \$5 per share
50,001–75,000	50% of the short market value, to a minimum of \$5 per share
75,001–100,000	75% of the short market value, to a minimum of \$5 per share
Over 100,000	100% of the short market value

Note: The concentration requirements apply only when the concentration position represents at least 25% of the account's equity short market value.

Leveraged ETF Requirements:

Higher maintenance requirements apply on Leveraged ETFs.

Long Leveraged ETF Concentration Requirements

Number of Shares	2x Leverage ETF Requirements	3x Leverage ETF Requirements
0–25,000	60% of the long market value, to a minimum of \$3 per share	90% of the long market value, to a minimum of \$3 per share
25,001–50,000	80% of the long market value, to a minimum of \$3 per share	100% of the long market value, to a minimum of \$3 per share
Above 50,000	100% of the long market value, to a minimum of \$3 per share	100% of the long market value, to a minimum of \$3 per share

Short Leveraged ETF Concentration Requirements

Number of Shares	2x Leverage ETF Requirements	3x Leverage ETF Requirements
0–25,000	60% of the short market value, to a minimum of \$5 per share if priced over \$5.00, or a minimum of 100% if priced from \$2.50 to \$5.00, or a minimum of \$2.50 per share if priced under \$2.50	90% of the short market value, to a minimum of \$5 per share if priced over \$5.00, or a minimum of 100% if priced from \$2.50 to \$5.00, or a minimum of \$2.50 per share if priced under \$2.50
25,001–50,000	80% of the short market value, to a minimum of \$5 per share if priced over \$5.00, or a minimum of 100% if priced from \$2.50 to \$5.00, or a minimum of \$2.50 per share if priced under \$2.50	100% of the short market value, to a minimum of \$2.50 per share if priced under \$2.50
Above 50,000	100% of the short market value, to a minimum of \$2.50 per share if priced under \$2.50	100% of the short market value, to a minimum of \$2.50 per share if priced under \$2.50

Fixed Income Margin Requirements

U.S. Government, Agency and Guaranteed Debt Securities:

Requirements differ by security category. Please review the lists below to determine which [bonds](#) fall into which category.

Category	Initial (Reg T) Requirement	Maint. Requirement
Category 1	5%	5%
Category 2	8%	6%
Category 3	10%	6%
Category 4	15%	10%

Category 1 U.S. Treasury Bills and Notes	Federal National Mortgage Association	Category 4 Asian Development Bank	National Power Corp – Bonds
Category 2 U.S. Treasury Bonds and Strips	Federal National Mortgage Association – Disc Note	Farmers Home Administration	New Communities Acts Debentures
Category 3 Bank of Cooperatives	FHLMC, FNMA and Participation Certificates	Federal Home Loan Mortgage Corp	Private Export Funding Corp – Note Resolution Funding
Export-Import Bank of U.S.	Government National Mortgage Association	Federal Home Loan Mortgage – Participation Note	Small Business Administration
Farm Credit Bank-Con Sys Bonds	Public Housing Authority	Federal Housing Authority Debentures	Student Loan Marketing Association
Farm Credit Bank-Discount Note	Public Housing Authority – Project Notes	General Services Administration	Tennessee Valley Authority
Federal Home Loan Bank	Federal Home Loan	GNMA Modified Pass Thru Gov Trust Certs	Title XI Ship Financing Bonds
Fed Home Loan Bank Disc Note		Inter-American Development Bank	U.S. Postal Service
Federal Intermediate Credit Bank		International Bank for Reconstruction and Develop (World Bank)	Washington Metro Area Transit Authority
Federal Land Bank			Federal Agric Mortgage Association

Margin Calls

Margin accounts are required to meet certain minimum initial and [maintenance requirements](#). You must take action to meet [margin calls](#) in order to avoid mandatory action by the firm, which could include [liquidation](#) of positions to satisfy the margin call, violations related to the firm action and restriction of accounts due to violations.

Regulation T Call—Occurs when the margin requirement under [Regulation T](#) exceeds the available [equity](#) in the [margin account](#).

Maintenance Call—Occurs when the value of your margin-eligible [securities](#) minus your margin [debit balance](#) falls below the account maintenance requirement. This requirement is usually 30% for fully marginable equities, but can be higher due to higher margin requirements (e.g., concentrated positions, low value securities, low market cap securities).

Minimum Equity Call—Occurs when an account attempts to utilize margin [loan value](#), and total account equity is below \$2,000. Margin is not available for accounts below \$2,000, and any call amount is due promptly.

Satisfying Margin Calls

Margin calls must be satisfied immediately, but no later than the displayed due date. You may meet a margin call by transferring or depositing funds and/or marginable securities into your Merrill Edge account. Please contact a Merrill Edge Investment Center associate to review methods of satisfying margin calls by the appropriate due dates.

Firm Practices: As disclosed in the Margin Risk Disclosure Statement hereto, a decline in the value of securities that are purchased on margin may require you to provide additional funds to us to avoid the forced sale of those securities or other securities or assets in your account(s). If the equity in your account falls below the maintenance margin requirements or Merrill Lynch's higher "house" requirements, the firm can sell the securities or other assets in any of your accounts held by us to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.

Securities or other assets may be sold without contacting you. The firm may increase our "house" maintenance margin requirements at any time and is not required to provide you advance written notice. These changes in our policy may take effect immediately and may result in the issuance of a maintenance margin call. You are not entitled to an extension of time in the event of a margin call. Your failure to satisfy the call may cause us to liquidate or sell securities in your account(s). For more information, please see the FINRA Margin Disclosure Statement at <http://www.finra.org/sites/default/files/InvestorDocument/p005895.pdf>.

What Is Day Trading?

Day trading occurs when you buy and sell, or sell and buy, the same security in a [margin account](#) on the same day. The following examples would be considered day trading in a margin account:

- Buying a security long and selling on 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 on the same trading day.
- Shorting a security and buying the same position long on the same trading day.

Trades that are not considered day trading:

- Selling a security that was held long overnight prior to executing a new purchase of the same security.
- Buying to close a short security that was held overnight prior to executing a new [short sale](#) of the same security.

You will be recognized as a pattern day trader (PDT) if you execute four or more day trades within five business days provided that number of day trades represents at least 6% of the total trading activity during the same five business day period.

If you are considered a pattern day trader, you are required to maintain a minimum [equity](#) of \$25,000. This minimum equity is separate and distinct from the equity requirement for regular margin accounts and accounts that maintain options.

Day Trading Requirements

Maintenance excess plays an important role in FINRA's day trading rules, rather than a focus on the SMA value in the account. Under these rules, you are required to have sufficient [Firm Maintenance Excess \(FME\)](#) on the maximum day-traded position held during the day and liquidated at any time during the same day.

As explained above, when an account is labeled "pattern day trader account," the minimum day-trading equity of \$25,000 must be maintained or day trading is prohibited.

Max Open Day-Traded Position: Any trade that has been established, or entered, that has yet to be closed with an opposing trade. An open position can exist following a buy (long) position, or a sell (short) position. In either case, the position will remain open until an opposing trade has taken place.

Let's assume your account appears as follows:

Account has \$25,000 Equity and \$2,000 FME

Buy 200 shares ABC @ \$40 = \$8,000

Buy 200 shares DEF @ \$30 = \$6,000

Sell 200 shares ABC @ \$41 = \$8,200

Sell 200 shares DEF @ \$30.5 = \$6,100

Calculation of Day Trade Call:

Day Trade Call = $30\% \times \text{maximum day-traded position} - (\text{FME} + \text{Cash/cash equivalent})$

Day Trade Call = $30\% \times \$14,000 - \$2,000$

Day Trade Call = $\$4200 - \$2,000$

Day Trade Call = \$2200

Day Trading Requirements (continued)

How Is the Maintenance Requirement Calculated?

The [maintenance requirement](#) is calculated based on the type of position that is being traded.

Note: See Margin Requirements section for additional information.

How Are Day Trades Calculated?

If the account holds sufficient FME and/or cash to cover the requirement, then the account will not be assessed a [day trade](#) call.

Day Trade Call = Maintenance Margin requirement x Max day-traded position - (Firm Maintenance Excess - Maintenance Call +/- Cash + Intraday money movement - Short Market Value on Cash - Short Put Value on Cash)

Day Trade Buying Power: The funds available in your [pattern day trading margin account](#) to place day trades. [Day Trade Buying Power](#) is based on the maintenance requirement of the security being traded and varies by product type and price per share. In addition to standard [margin](#) rules, day trade buying power is calculated and monitored for Pattern Day Trader accounts.

Note: Requirement may be higher based on the number of shares being traded. Additional information can be found in the Concentrated Equity Requirements section.

Day Trade Call

For unrestricted accounts:

Any amount by which the current [maintenance requirement](#) on the [Open Day-Traded positions](#) with the highest maintenance requirements exceeds the maintenance excess in the account (based on the previous [business day's](#) closing prices) is termed a [day trade call](#). If an account has two or more day trades occur on the same day in the same account, the [margin](#) required will be computed utilizing the highest (dollar amount) open position during that day. This must be deposited within five [business days](#).

The formula used to determine the amount of a day trade call is:

Day Trade Call = Maintenance Margin requirement x Max day-traded position - (Firm Maintenance Excess - Maintenance Call +/- Cash + Intraday money movement - Short Market Value on Cash - Short Put Value on Cash)

Example of a Day Trade Call for a Non-Pattern Day Trader:

Let's assume your account appears as follows:

Account has \$1,000 FME from the previous day:

Buy	100 shares ABC @ \$50 = \$5,000
Sell	100 shares ABC @ \$52 = \$5,200
Buy	200 shares DEF @ \$30 = \$6,000
Sell	200 shares DEF @ \$31 = \$6,200

Calculation of Day Trade Call:

Day Trade Call = 30% x max open day-traded position - (FME + Cash/cash equivalent)
Day Trade Call = 30% x \$6,000 - \$1,000
Day Trade Call = \$1,800 - \$1,000
Day Trade Call = \$800

The above example illustrates two day trades that occurred the same day. Since the ABC and DEF positions were not open at the same time during the day, the purchase of the DEF shares is considered the max day-traded position because it has a high total cost. Since the purchase of DEF shares has a higher total cost, we utilize this amount to determine the day trade call.

Example of a Day Trade Call for a Pattern Day Trader (Unrestricted) with \$25,000 or more in equity:

Let's assume your account appears as follows:

Account has \$25,000 Equity and \$2,000 FME

Buy	200 shares ABC @ \$40 = \$8,000
Sell	200 shares ABC @ \$41 = \$8,200
Buy	200 shares DEF @ \$30 = \$6,000
Sell	200 shares DEF @ \$30.5 = \$6,100

Calculation of Day Trade Call:

Day Trade Call = 30% x maximum day traded position - (FME + Cash/cash equivalent)
Day Trade Call = 30% x \$8,000 - \$2,000
Day Trade Call = \$2,400 - \$2,000
Day Trade Call = \$400

Accounts below \$25,000 minimum day trade equity:

A pattern day trader account that begins the day with [margin equity](#) below \$25,000 is issued a day trade minimum equity call and is prohibited from day trading.

Any day trades while below minimum equity are considered trade-through violations and require trade bust.

Restricted accounts:

Pattern day trader accounts that incur a day trade call have five business days to cover the call.

During the Day Trade Call time frame, [day trade buying power](#) will be reduced to 2 times Firm Maintenance Excess (FME) without the benefit of [time & tick](#).

If the Day Trade Call is not met within the five business days, subsequent trading will be permitted only on a 'cash available' basis for 90 days or until the call is met. Any day trading in excess of cash available is prohibited. Cash available is equivalent to 1 times Firm Maintenance Excess (FME) without the availability of time & tick.

Allowable methods to cover a Day Trade Call:

- Deposit a check
- Wire in funds
- Transfer in funds
- Deposit marginable stock
- Journal cash or securities from other Bank of America or Merrill Lynch accounts

Note: Funds must be held in the account for two business days following the close of business on the day of the deposit.

Violations — Overview

A violation occurs when a transaction takes place in a [securities](#) account contrary to the rules established by various regulatory agencies such as the [Federal Reserve Board](#) and the [Financial Industry Regulatory Authority \(FINRA\)](#).

Freeriding Violation — Cash Accounts

A [freeriding violation](#) occurs when you do not pay for a purchase in full and subsequently liquidate the same security. This is prohibited by FINRA. One freeriding violation will restrict the account to “funds-on-hand” for 90 calendar days. (See [Restrictions](#).)

If unsettled sale proceeds from fully paid securities are used to cover a new purchase, the security purchased cannot be sold until the proceeds from the sale are settled. If a security paid for in this manner is sold prior to settlement of the fully paid-for sale, a [90-day restriction](#) will be assessed. If a deposit is made within five days of the purchase date, the restriction will be waived. However, a practice of meeting a new purchase with a late cash deposit is discouraged. A third such occurrence without extenuating circumstances within a six-month period will restrict the account to “funds-on-hand” for 90 calendar days. If your account is on a 90-day restriction, you must have funds on hand (i.e., settled cash or money market funds) in the account prior to entering a new opening purchase commitment.

Examples of a 90-day Restriction in a Cash Account:

Let's assume the following:

Starting Balance: Account has no cash available.

Day 1 – You bought 100 shares of XYZ at \$10,000

Day 2 – You sold 100 shares of XYZ for \$10,000

Result: A 90-day restriction will be placed on your account.

Let's assume the following:

Day 1 – You deposited funds for \$10,000

Day 1 – You bought and sold 100 shares XYZ for \$10,000

Day 2 – You bought and sold 100 shares ABC for \$10,000

Result: A 90-day restriction is created.

Let's assume the following:

Day 1 – Account is long 100 shares XYZ valued at \$10,000 (fully paid)

Day 1 – You sold 100 shares XYZ for \$10,000

Day 1 – You bought 100 shares ABC for \$10,000

Day 2 – You sold 100 shares ABC for \$10,000

Result: A 90-day restriction is created.

Technical Violation — Cash Accounts

A [technical violation](#) occurs when you liquidate a fully-paid-for security to cover a previous purchase. If three such violations occur in a cash account within a 12-month period, your account will be placed on a [90-day restriction](#) (see [Restrictions](#)) to funds-on-hand.

Example of a Technical Violation in a Cash Account:

Day 1: Account is long 100 ABC at \$50 per share (fully paid for)

Day 1: You bought 100 XYZ at \$50 per share

Day 2: You sold 100 ABC at \$50 per share and made no subsequent deposit on [settlement date](#) to pay for the purchase on day 1

Result: Technical violation was created.

Technical (Liquidation) Violation — Margin Accounts

A technical violation also occurs when you liquidate [securities](#) to satisfy a Reg T call and had an existing [maintenance call](#) at the close of business the day before the [liquidation](#) takes place.

Three technical violations will result in a 90-day restriction. The first 90-day restriction will place the account on a funds-on-hand basis. In a [margin account](#), funds-on-hand means having sufficient cash/money market funds and/or sufficient [margin loan value](#) (i.e., the lower of the SMA or FME) prior to any opening commitment (i.e., purchase or [short sale](#)).

Example of a Technical Violation in a Margin Account:

Let's assume the status of your account is as follows:

Day 1: Opening trade executed in excess of SMA

Day 2: Reg T call is issued

Days 2–5: If no cash or marginable securities are deposited to satisfy Reg T call and account is in a simultaneous maintenance call, any liquidating trades to satisfy calls will result in a Technical (Liquidation) violation

Result: Technical violation was created.

Sale-Not-Long Violation — Cash Accounts

A sale-not-long occurs when you sell a security that you did not hold long in your cash account. If you do not deliver the security by the due date ([trade date](#) +4), Merrill Lynch may buy-in the security on the following [business day](#) (trade date +5). A sale-not-long, or a sale-related short security dividend charge, resulting from a failure to receive the [securities](#) by due date constitutes a sale-not-long violation. Three such occurrences within a 12-month period will result in a 90-calendar-day securities-on-hand restriction, commencing with the trade date of the buy-in. Consequently, for a period of 90 calendar days, securities that you wish to sell must be held in your account prior to the execution of the sell order. Sales-not-long executed during the trading restriction period without the securities being long in the account will be canceled.

Note: Sale-not-long transactions may occur when you provide instructions to sell a security that you do not hold in your account but plan to transfer the security into Merrill Lynch prior to due date.

Example of a Sale-Not-Long in a Cash Account:

Let's assume the following:

Day 1: You sold 100 shares of XYZ at \$50 per share that are not held in your account.

Trade date + 4 business days: Securities are not deposited into your account. Merrill Lynch may buy-in the security the following business day.

Result: [Sale Not Long violation](#) was created.

Unmet Day Trade Call (Day Trade Violation)

A [Day Trade](#) Violation occurs when you fail to deliver funds and/or margin-eligible securities within five business days after the inception of a day trade call.

For Pattern Day Trader Accounts, if the Day Trade Call is not met within the five business days, subsequent trading will be permitted only on a 'cash available' basis for 90 days or until the call is met. Any day trading in excess of cash available is prohibited. Cash available is equivalent to 1 times [Firm Maintenance Excess](#) (FME) without the availability of time & tick.

For Non-Pattern Day Trader Accounts, if the Day Trade Call is not met within the five business days, the account will incur a [90-day restriction](#).

Restrictions

90-Day Restriction: Account is restricted to a cash-on-hand basis for entering trades. Your account will be blocked from trading if sufficient funds are not available at point of entry.

Trade Through Violation: Once an account is on a 90-day restriction, any trades that violate the cash-on-hand requirement is subject to being canceled.

FAQs

When must the loan be paid?

Your loan, or [debit balance](#), is an open-ended collateralized loan. You may keep the loan open for as long as you choose, provided you comply with the terms of the account and Merrill Lynch is satisfied with the conditions of your [margin account](#).

When is interest charged in a short account?

Whenever the [short market value](#) (settled) exceeds the [credit balance](#) (settled), interest is charged on the difference. In a mixed account (long and short) with a debit balance (settled), interest is charged on the debit balance (settled) plus the short market value (settled).

What methods may I use to reduce or pay off my debit balance (loan)?

You may reduce or pay off your debit balance by depositing cash into your account or liquidating [securities](#). The proceeds from the [liquidation](#) will be applied to your debit balance.

I sold a stock short, and now I am being charged whenever the company pays a dividend. Why is that?

The shorted [stock](#) was borrowed in order to be sold in the open market, so the dividends are being paid to the current holder who purchased the shares. Since the dividend income is being paid to the new holder, the short seller has the obligation to make up that lost revenue that is also due to the original owner. A short seller is obligated to cover dividends and any corporate reorganizations that occur in the shorted security.

When can I begin to trade using Margin?

[Margin](#) trading may begin once the account is fully approved and the system is updated to reflect margin [buying power](#).

Important Margin Definitions

Bond: An interest-bearing security that obligates the issuer to pay the bondholder a specified amount of money, usually at a specified period of time, and to repay the principal amount of the loan at maturity.

Business Day: A day in which the exchanges are open for business in the U.S.

Buying Power: Buying power represents the dollar amount of marginable equity securities priced above \$10.00 per share that the client could buy without going into a Regulation T call or a Maintenance call (if nothing else in the account changes).

Buying Power = The lower of SMA /5 or FME/3

Collateral: Assets pledged to guarantee a loan. Forced liquidation of assets can be completed to cover the open loan if necessary.

Common Stock: A security issued in shares that represents ownership of a corporation. Shares are sold to raise money for the company. In some cases, owners may vote and receive dividends.

Convertible Security: A security—usually a bond or preferred stock—that can be converted into a different security, typically shares of the company's common stock.

Corporate Bond: A debt security issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds. Corporate bonds are considered higher risk than government bonds. As a result, interest rates are almost always higher, even for companies with top-flight credit.

Credit Balance: 1) Positive cash balance in a margin account. 2) If the account holds short positions, an amount held to cover the client's liability.

Day Trade: Day trading occurs when you buy and sell, or sell and buy, the same security in a margin account on the same day. The following examples would also be considered day trading:

- Buying a security long and selling on 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 on the same trading day.
- Shorting a security and buying the same position long on the same trading day.

Day Trade Buying Power: The funds available in your pattern day trading margin account to place day trades. Day trade buying power is based on the maintenance requirement of the security being traded and varies by product type and price per share.

In addition to standard margin rules, day trade buying power is calculated and monitored, and the minimum equity threshold for day trading is increased to \$25,000.

Debit Balance: The actual loan amount in a margin account.

Equity: A stock or any other security representing the client's ownership interest.

Exchange-Traded Fund (ETF): Investment that's built like a mutual fund but trades like an individual stock, with the objective of achieving the same return as a particular market index.

Federal Deposit Insurance Corporation (FDIC): An independent agency that provides deposit insurance to guarantee the safety of depositors' accounts.

Federal Reserve Board: The Federal Reserve System is the central bank of the United States.

Financial Industry Regulatory Authority (FINRA): A regulatory body created after the merger of the National Association of Securities Dealers and the New York Stock Exchange's regulation committee. FINRA is responsible for governing business between brokers, dealers and the investing public.

Firm Maintenance Excess (FME): FME is the equity in your account in excess of the current maintenance requirement, based on the closing value of your portfolio. Firm Maintenance Excess is one of the values that could factor into how much you can trade and withdraw.

Forced Liquidation: Selling of assets completed by Merrill Lynch to cover an open loan if necessary.

Freeriding Violation: A violation incurred by buying and selling a position without fully settled funds.

Interest Charge: Margin interest is charged for the current month.
[(Average Debit Balance x # of days x Margin Interest Rate)/360 days]

IRA: Individual Retirement Account

Line of Credit: An open line of credit that may be used as a short-term loan to support individual needs.

Liquidation: Selling a position

Liquidation Violations: A margin technical violation also occurs when you liquidate securities to satisfy a Reg T call and had an existing maintenance call at the close of business the day before the liquidation takes place.

Loan Value: The percentage of current market value assigned to specified types of collateral. This controls the amount of money that a brokerage firm can lend to a client.

Long Market Value: The combined total positions held long in your account multiplied by the current market prices. This value does not include cash positions.

Maintenance Call: Occurs when the value of your margin-eligible securities, minus your margin debit balance, falls below the account maintenance requirement. This requirement is usually 30% for fully marginable equities, but can be higher due to higher margin requirements (e.g., concentrated positions, low value securities, low market cap securities).

Maintenance Requirement: The minimum amount of equity that the firm requires to support the various types of positions held in the account. This applies to long and short positions.

Margin: An extension of credit by Merrill Lynch using marginable securities that are held as collateral.

Margin Account: A loan account that can be used to purchase additional securities or to withdraw funds for other purposes. Interest is charged on all loans based on the value of the loan, the time the loan is open and the daily interest rate.

Important Margin Definitions (continued)

Margin Equity: The net value of your portfolio in a margin account available for margin. It is derived by taking your long market value (LMV) minus any short market value (SMV) and adding any margin credit balance (CR) or subtracting any margin debit balance (DR). However, options are included in the margin/option equity calculation. Money account balances are not included in this calculation.

Margin Interest: This is charged based on the amount of money borrowed and the length of time the loan is outstanding. The Margin Interest rate is based on your total loan amount and are subject to change.

Max Open Day-Traded Position: Any trade that has been established, or entered, that has yet to be closed with an opposing trade. An open position can exist following a buy (long) position, or a sell (short) position. In either case, the position will remain open until an opposing trade has taken place.

Minimum Margin Equity: For margin accounts that do not maintain short option positions, the FINRA requirement is \$2,000. The requirement for pattern day traders is \$25,000.

Municipal Bonds: Debt securities issued by states, cities, counties and other governmental entities.

Mutual Fund: An investment vehicle made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Open Day-Traded Positions: A position being traded as an opening transaction and a second position being traded as an opening transaction prior to the first position being closed.

Note: If an account has two or more day trades occur on the same day in the same account, the margin required will be computed utilizing the highest (dollar amount) open position during that day.

Pattern Day Trading: Accounts in which four or more day trades occur within five consecutive business days are classified as pattern day trader accounts. Financial Industry Regulatory Authority (FINRA) rules require firms to monitor client accounts engaged in day trading.

Pattern day trading accounts are subject to a set of special margin rules that relate specifically to that practice. In addition to standard margin rules, day trade buying power is calculated and monitored, and the minimum equity threshold for day trading is increased to \$25,000. Day trade buying power is based on the maintenance requirement of the security being traded and varies by product type and price per share.

Preferred Stock: Preferred stock generally does not have voting rights, but has a higher claim on assets and earnings than the common shares.

Regulation T: Regulation T is a Federal Reserve Board regulation that governs customer cash accounts and the amount of margin brokerage firms may extend to customers to purchase securities.

Regulation T Call: Occurs when required margin under Regulations T exceeds the equity in the margin account.

Regulation T Excess: The amount in which the equity exceeds the current initial margin requirements of the positions held in the margin account.

Restricted Account: An account that has lost trading privileges or is working with reduced availability (e.g., restricted to cash-on-hand for 90 days).

Sale Not Long Violation: A sale-not-long occurs when you sell a security that you did not hold long in your cash account.

Securities: Financial instruments that represent an ownership position in a publicly traded corporation (stock), a creditor relationship with governmental body or a corporation (bond), or rights to ownership as represented by an option. A security is a fungible, negotiable financial instrument that represents some type of financial value. The company or entity that issues the security is known as the issuer.

Securities and Exchange Commission (SEC): The federal agency responsible for enforcing the laws governing the securities industry.

Settlement Date: The date by which an executed security trade must be settled. That is, the date by which a buyer must pay for the securities delivered by the seller.

Short Market Value: The combined total short positions in your account multiplied by the current market prices. This value is not available to trade on margin.

Short Position: Shares sold short in an account. This must be done as a short sale in a margin account.

Short Sale: A market transaction in which an investor sells borrowed securities in anticipation of a price decline and is required to return an equal number of shares at some point in the future.

Special Memorandum Account: Special Memorandum Account (SMA) reflects any excess equity in your margin account that is above the required amount, which is generally 50% of marginable securities.

Stock: A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.

Technical Violation: A technical violation occurs when you liquidate a fully paid security to cover a previous purchase.

Time & Tick: Calculating day trade requirement using each trade in the sequence that it is executed, using the highest open position during the day.

Trade Date: The day on which a trade occurs.

Trade Through Violation: Any trade that exceeds the cash-on-hand requirement is subject to being canceled as it violates the initial restriction.

Treasury Bills: A short-term debt obligation backed by the U.S. government with a maturity of less than one year. T-bills commonly have maturities of one month (four weeks), three months (13 weeks) or six months (26 weeks).

Treasury Bonds: Marketable, fixed-interest U.S. government debt securities with a maturity of more than 10 years. Treasury bonds make interest payments semiannually, and the income that holders receive is only taxed at the federal level.

Treasury Notes: Marketable U.S. government debt securities with a fixed interest rate and a maturity between one and 10 years. Treasury notes can be bought either directly from the U.S. government or through a bank.

90-Day Restriction: Account is restricted to a cash-on-hand basis for entering trades. Your account will be blocked from trading if insufficient funds are available at point of entry.