

# Policy & Requirement Guide/ Cash, Margin And Other Customer Transactions

This guide takes into consideration Federal Reserve Board Regulation T, SEC Rule 15c3-3 and NYSE Rule 431 as well as some of Southwest Securities’ policies concerning Cash, Margin and Option transactions. These policies will be periodically reviewed and republished.

Please contact the Cashiering Department for further information. We will be glad to assist you with any questions you may have.

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## ***Cut Off Times: Credit Department***

All cut off times are **Central Time**.

* MONEY MARKET PURCHASES AND LIQUIDATIONS	10:30 a.m.
* EXTENSION REQUEST	12:00 p.m.
* RECEIPTS	
Physical Checks	2:00 p.m.
Branch/Correspondent Deposits	3:00 p.m.
Fridays Only	1:00 p.m.
* DISBURSEMENTS	
Wire out of Funds	2:00 p.m.
Drafts Issued From SWS (Overnight Delivery)	3:30 p.m.
Regular Delivery	3:45 p.m.
Outgoing ACH (Direct Deposit To Customer Bank)	4:00 p.m.
OK's To Pay On Branch/Correspondent Drafts	4:00 p.m.

\*\* For deposit research, corrections, questions, please contact the Receipts Department (email: #Receipts & Disbursements)

## **Service Fees**

**WIRE FEES:** \$ 15.00 DOMESTIC  
\$ 35.00 FOREIGN

**FEDERAL EXPRESS FEES** \$ 16.50 PRIORITY BY 10:30 AM  
\$ 13.50 STANDARD BY 3:00 PM  
\$ 26.50 SATURDAY DELIVERY

**RESEARCH FEES** \$ 25.00 MINIMUM  
(\$25.00 EACH ADDITIONAL HOUR  
OR PORTION THEREOF)

**VOID CHECK FEE** \$ 10.00 PRIOR TO 10 BUSINESS DAYS FROM DATE ISSUED

**EXTENSION FEES NEW YORK** \$ 10.00  
**HOUSE / MAINT** \$ 10.00

**PREPAYMENT FEES** \$ 5.00 **minimum charge**  
(3 in a 12 month period)(interest is calculated at normal  
margin interest rate)

## Cash Accounts

### Purchases

Payment for purchases is due on settlement date, currently three (3) business days after trade date, but in any event no later than five (5) business days after trade date. Under Reg T if funds are not received by the fifth (5th) business day after trade date, one of two things must occur:

1) An extension of time of up to seven (7) **calendar** days is requested by your office by 12:00 p.m. Central time.

2) The position(s) is (are) liquidated in the open market, the **sixth (6th)** business day **whether or not** the funds are received that day.

**NOTE:** There is a **\$10.00 fee for each extension** requested. This fee includes house, and NYSE.

**NOTE:** No extension requests will be submitted for an initial trade in a new account on an amount in excess of \$25,000.00

**NOTE:** The NYSE allows five (5) extensions on money transactions in a twelve (12) month period for each social security number. This means extensions filed under a particular SS# from all sources.

**NOTE:** The NYSE monitors requests for extensions by firm. It is acceptable to them if your firm requests a number of extensions equal to or less than 3% of your trade count. If your firm exceeds this figure the NYSE can freeze **your firm** from requesting extensions for 90 days.

**NOTE:**

When an account is “finalized” for extensions by the exchange, we code it “Finalized for Extension”, which shows under your Restriction/Agreements tab in Comprehensive Account View; also, the short name will have \*5\* in the description as an indicator. This puts you on notice that the account is restricted from requesting any further extensions. The expiration date and details can be seen in the customer account on the Restriction/Agreements Tab.

Cashiering will notify you by email on the day before Reg T of any unpaid trades. This is a courtesy follow-up to your review of your Money Due in the Requirement Reporting module.

**NOTE:** If subsequent to a purchase that created a cash debit or Reg-t call, a sale is done to cover the amount due no extension will be granted for the purchase; the account will be noted for a liquidation.

4) Once notified of the items up for extension or Reg T, it is **your office’s responsibility** to reply to Cashiering by **12:00 p.m. central time**. Please respond by email. **Cashiering will not file for an extension on any account without explicit instructions from you.** If instructions are not received from you by 1:00 p.m. (Dallas Time) on settlement date +2 or extension up date and if you have not taken action to sell, regulations require that Southwest will put in orders to sell the security at the opening of business the next business day.

**NOTE:** Your Requirement Reporting module clearly identifies trades that are subject to Reg T Procedures.

## Sales

Securities that have been sold must be received **in good delivery** by settlement date, normally three (3) business days after trade date, but in any event no later than ten (10) business days after settlement date. Under SEC Rule 15c3-3, if securities are not received by Southwest by the tenth (10<sup>th</sup>) business day after settlement date, one of two things must occur:

An extension is requested. It is imperative you request an extension by 12:00 p.m. (Central Time) to avoid a Buy In the next business day.

The Sold securities are repurchased in the open market.

**NOTE:** Extensions **cannot** be granted for certificates that are in the mail, or if you are contacting the customer.

**NOTE:** There is a **\$10.00 fee for each extension** filed. If you wish, you may advise your cashier to charge the fee to your customer at the time you request the extension.

**NOTE:** The NYSE allows a limited number of extensions on sales transactions in a twelve (12) month period for each social security number.

**NOTE:** Your customer is always subject to a street buy in at current prices in accounts where securities sold have not been received or are not in good delivery form.

**NOTE:** A customer account can be restricted for 90 days due to excessive buy in's.

**NOTE:** Only two 14 day extensions will be allowed for securities awaiting paperwork.

Your Requirement Reporting module will help you identify trades that are subject to Rule 15c3-3 procedures.

The table below shows the acceptable reasons for extensions. This will also tell you the amount of time that is granted for an extension.

<u>Reason</u>	<u>Code</u>	<u>Days</u>	<u>New York or House</u>
<b>MONEY</b>			
CIM Check in Mail	2	7	<b>NY</b> if Over \$1000 <b>House</b> if Under \$1000
TOA Transfer of Account	17	14	<b>NY</b> if over \$1000 <b>House</b> if Under \$1000
<b>Reason</b>			
<b>Stock</b>			
ESO Employee Stock Option	40	14	<b>NY</b>
DIVIDEND	43	14	<b>NY</b>
REORG	45	14	<b>House</b>
TOA Transfer of Account	47	14	<b>NY</b> <b>Must be Validated on the M Screen</b>
LEGAL TRANSFER			
01W	50	14	<b>House</b>
01L			
04L			
04W			
LOST CERTIFICATE	49	30	<b>NY</b> <b>Must have a copy of paper work showing proof of filing for replacement certificate.</b>

## Tefra Withholding

On domestic account transactions you are allowed a thirty day grace period from the date the account was opened before withholding begins on sales, dividends or interest due to the lack of receiving a completed and signed W-9 form. During this thirty day grace period Tefra amounts will be suspended and can only be paid upon receipt of a W-9. If the W-9 is not received by the end of the grace period, the amounts suspended will be sent to the IRS. Any remaining unsecured debit will be charged to the broker.

## Option Transactions

Option purchases in the cash account in excess of \$5,000.00 are **due on the second (2nd) business day after trade date**.

Option purchases that require less than \$5,000.00 to settle the transactions are **due on the third (3rd) business date after trade date**.

When you take action to liquidate, you may charge a commission. However when Southwest is forced to liquidate, no commission will be charged. Any debit remaining after liquidation will be charged off to the broker.

**NOTE:** Extensions **will not be granted** on option transactions.

**NOTE:** Only the purchase of options and the long sale of options are allowed in the cash account. **All other option strategies must be executed in the margin (type 2) account.**

## Returned Checks

All returned items must be settled **within twenty-four (24) hours**. There is a \$15.00 fee imposed for each returned item. You will be notified of return checks by The Cashiering Department.

**Returned items that paid for a Reg-T call or maintenance call must be settled in one of the following manners:**

- 1) The check will be re-deposited upon verification with the payee bank that sufficient funds are available to ensure payment.
- 2) The customer must deliver a cashier's check or money order.
- 3) The customer must wire funds to Southwest.
- 4) The position(s) must be liquidated in the open market.

**Upon the expiration of the twenty-four (24) hour period, if the item is not settled, Cashiering will liquidate to cover the debit.** When you take action to liquidate, you may charge a commission, however, when Southwest is forced to liquidate, no commission will be charged. Any debit remaining after liquidation will be charged off to the broker.

## NYSE 90-Day Freeze

### Transactions that will freeze a cash account are:

- 1) Selling of the purchased security when **full** payment of the transaction has not been satisfied by Reg T date.

Liquidating any security to satisfy a Reg T transaction twice in a twelve month period.

### The effect of a NYSE 90 day freeze is as follows:

- 1) A client may continue to purchase securities in the account only if funds are deposited prior to the purchase. This condition exists for a period of 90 days following the violation.
- 2) Securities may be sold in the account only if they are received into the account prior to the sale and are in good delivery.

Any purchase or sell made in a restricted account without the funds or securities long and in good delivery in the account **prior** to the transaction being done, will be treated as follows:

The office will be called the next business day following the transaction. You will be required to close the same transaction that put the account in violation by 12:00 noon (CST). **You can not deposit funds or securities to cover the violation after the transaction has been executed.** If the account trades again without funds or securities prior to the transaction, it will be coded NMB (No More Business). At this point, only liquidating transactions will be permitted for 90 days. If the account complies with the 90 day trading restriction, the NMB will be removed from the account.

## No More Business (“NMB”)

**NOTE: Southwest Securities reserves the right to code any customer account, which we perceive as exposing Southwest Securities or our correspondents to monetary loss or regulatory compliance risk, as “No More Business - Account Closed.” Any customer account that Southwest Securities deems as having frequently and/or flagrantly violated rules, regulations or SWS Policies and procedures will be coded “No More Business - Account Closed - Liquidation Only.”**

Transactions that will cause a customer account to be coded NMB are:

- 1) The third liquidation of any security to satisfy a Reg T transaction during a twelve month period.
- 2) Two (2) returned checks.
- 3) At the broker’s request.
- 4) Any transaction, security position or debit that is (1) deemed questionable, (2) not in regulatory compliance or (3) puts Southwest Securities or our correspondents at risk.

The effect of a NMB is as follows:

**The system will not allow the input of trades. You must contact your cashier at Southwest Securities to remove the NMB restriction.**

Only liquidating trades will be allowed. .



Liquidation proceeds may be disbursed, with the Cashiering Department's approval, only after all debit balances are satisfied in the cash account.

## **When Issued Securities**

When Issued securities purchased in a cash account must have 30% of the amount of the transaction deposited in account immediately and must be paid for in full promptly after the date the security is made available by the issuer, and in any event within five (5) business day after the available date.

## **Underwritings**

An underwriting is subject to Reg T five (5) business days after closing regardless of settlement date of trade.

All underwritten shares must be paid for in full and are not marginable for thirty (30) days after the closing of the underwriting. However, it is acceptable to purchase on margin the same issue in the after market prior to the expiration of the 30 day period.

### **Best Efforts Underwritings**

All Best Efforts Underwritings are settled by the Cashiering department. You must supply cashiering with a copy of the preliminary prospectus (Red Herring) and a signed copy of your escrow agreement with the escrow agent. You must advise your cashier of the wiring instructions of the escrow agent and the symbol of the new security and cusip when you begin an underwriting. Only funds received from the customer will be forwarded for deposit to the escrow agent. You must notify your cashier and P&S of all trades and all trade corrections.

You must also notify your cashier and the Dealer department in advance the date of the closing and have all changes completed by 12:00 noon Dallas time on the date.

### **Firm Commitment Underwritings**

All firm commitments are settled with the syndicate manager by the dealer department. You must provide the Dealer department with settlement instructions prior to the settlement date of the underwriting.

## **Margin Accounts**

### **Requirements**

Every margin transaction must have equity at least equal to the NYSE minimum requirement of \$2000.00 except that payment in full for any security purchased will satisfy the requirement. Each customer account, including those instances where more than one margin account is permitted under Reg T, is subject to the \$2,000.00 minimum equity requirement. \$2,000.00 is needed upon assignment or exercise of an option unless liquidated the same day.

Every short sale, regardless of the amount involved, is subject to the \$2,000.00 minimum equity requirement.

If the equity in an account falls below \$2,000.00 because of a decline in the market value of the security(ies) and no new commitments are made, no deposit or liquidation is necessary. For the purpose of this rule, a same-day substitution constitutes a new commitment. No withdrawal may be made from an account that would leave less than \$2,000.00 equity after the withdrawal.

### **Securities Priced under \$2.00 in Margin**

Once a marginable security falls below \$2.00 in price it is immediately considered non-marginable. The following is our policy on the handling of the security in terms of reclassifying it as marginable.

When a security price has fallen below \$2.00, the stock becomes non-marginable and will be removed from margin and placed in the cash account. Before this security can become eligible to margin again, **it must maintain a price above \$2.00 for 10 consecutive business days**. When the security has stabilized above the \$2.00 mark, please notify your cashier of your desire to move the security back to margin. Your request will be evaluated by cashiering management or the SWS credit committee.

Similar rules apply regarding new securities to be placed in margin. The security must have maintained a price above \$2.00 for the prior 10 consecutive business days in order for it to be considered marginable; as well as meet all other margin requirements.

Please note our maintenance call rules remain the same with this policy. If moving stock from margin to cash causes the margin account to fall below minimum maintenance requirement, a maintenance call will be issued on the account to bring the account back to the house requirement. Market appreciation will be considered only on the marginable securities. If the \$2.00 stock is the only security supporting the debit, this means the full debit will be called.

### **Covered Leaps Requirements**

#### *Initial Requirement:*

Sales proceeds from the sale of covered LEAPS calls cannot be used to satisfy Reg-T Requirements. If an account purchases stock and sells short covered LEAPS calls, the account will be required to meet the 50% Initial Requirement on the long stock.

#### *Maintenance Requirement:*

The Maintenance Requirement for accounts with Short Covered LEAPS will be 30% of the net market value. The net market value is the sum of all positions in the margin account including options. The value of the long stock will be valued at the price of the stock or the strike price of the option, whichever is lower.

If the net market value minus the debit is less than 30% of the net market value, a Maintenance Call will be issued for the difference.

**Initial And Maintenance Requirements****(EQUITIES AND BONDS)**

<b>SECURITY</b>	<b>INITIAL</b>	<b>MAINTENANCE</b>	<b>CALLED BACK TO</b>
Equities	50%	30%	35% (40%) (2)
Municipal Bonds	25% (1)	15% (1)	25%
Junk Bonds Ba/BB or lower (3) Defaulted Bonds (4)	50%	40%	50%
CMO's	25%	20%	25%
IO's, PO's & inverse Floaters	40%	30%	40%
U.S. Gov't Obligations *****See Schedule A Below*****			
Corp Non-Convertible	25% (1)	20% (1)	25%
Corp Convertible	50%	30%	35% (40%) (2)

- (1) Municipal and Corporate non-convertible bonds are subject to a 7% of principal minimum.
- (2) See Concentrated Margin Accounts (page 22).
- (3) The system identifies junk bonds (Ba/BB or lower) by using # # # before the bond description.
- (4) The system identifies defaulted bonds by using \* \* \* before the bond description.
- (5) IO's require prior approval for margin from the Cashiering department.

**SCHEDULE A****(MARGIN FOR U.S. GOVERNMENT ISSUES)**

<b>MATURITY</b>	<b>INITIAL</b>	<b>MAINTENANCE</b>	<b>CALLED TO</b>
0 years to less than 1 year	4%	2%	4%
1 year to less than 3 years	5%	3%	5%
3 years to less than 5 years	6%	4%	6%
5 years to less than 10 years	8%	5%	8%
10 years to less than 20 years	9%	6%	9%
20 years or more	10%	7%	10%

\*U.S. Gov't Issues with five or more years to maturity are subject to a 3% of principal minimum.

## Short Account (Type 3) - Initial And Maintenance Requirements

SECURITY	PRICE	INITIAL	MAINTENANCE
Equities	below \$5.00	\$2.50 / share or 100% of market value whichever is greater	same
Equities and above	\$5.00	\$5.00 / share or 50% of market value, whichever is greater	\$5.00 / share or 30% of market value, whichever is greater
Corp Non Convertible Bond	N/A	25% or 7% of principal, whichever is greater	7% of principal amount or 20% of market value, whichever is greater
Corp Convertible Bond	N/A	50%	5% of principal amount or 30% of market value, whichever is greater

The requirement for boxed positions (short against the box) is 10% of the long side market value.

Every short sale is subject to the NYSE \$2,000.00 minimum equity requirement

**ALL SHORT SALES MUST BE APPROVED BY THE STOCK LOAN DEPARTMENT PRIOR TO BEING EXECUTED.**

## Option Transactions

Option purchases in the margin account that create a Fed (initial) calls are processed utilizing the same procedures as in the Cash Account Section "Option Transactions."

**NOTE: Initial and maintenance margin requirements on short options are 30% of the current market value of the underlying equity or index group plus 100% of the current market value of the short option. These requirements may be reduced by any "out-of-the-money" amount, however, the requirement shall not be less than 15% of the current market value of the underlying issue plus 100% of the current market value of the option.**

## **Initial And Maintenance Requirements For Short Options**

<b>Security Or Index</b>	<b>Initial and /or Maintenance Margin Required</b>	<b>Margin Underlying Required</b>	<b>Component Value</b>
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Stock	30% 15%	The equivalent number of shares at current market price	
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Industry Index Stock Group	30% 15% group value	The product of the current index group value	
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Broad Index Stock Group	30% 15% group value	The product of the current index group value	
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Exercise/Assignment	50%	Of trade amount	
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**NOTE: Exercise and assignments are issued as FED calls unless the resultant position is marketed on the same date as the exercise or assignment.**

**NOTE: If you write naked options or any spread positions the week the option (s) expire the full amount of the margin requirement must be in the account as SMA and maintenance excess prior to the execution of the trade.**

### **FED (Initial) Call Procedures**

All available funds and/or free marginable securities will be used to meet or partially meet any requirements prior to a call being issued.

Purchases in the margin account that create a Fed (initial) call will cause a Fed call letter to be issued to the customer for the amount due.

### **Maintenance Call Procedures**

All available funds and/or free marginable securities will be used to meet or partially meet any requirements prior to a call letter being issued. A maintenance letter may not be issued if the call, due to market conditions, requires immediate attention.

A maintenance call will be issued for the following reasons:

- 1) A margin agreement (margin and short account customer agreement) is not on file for an account that has initiated a margin transaction.
- 2) A margined security's price falls below our minimum price requirements.
- 3) An account's margin percentage drops below our minimum maintenance requirement and must be brought back to 35% for equities. For accounts that are concentrated, a call will be issued when the account drops below our minimum maintenance requirements and must be brought back to 40%. See requirements on page 17 for other types of securities.
- 4) Southwest Securities Credit Committee makes the security have a higher maintenance requirement or makes a security non-marginable, due to price, volume, firm concentration or other considerations.

A maintenance call must be met within five (5) business days of issuance or sooner if deemed necessary by market conditions or SWST Risk Management conditions. A NYSE maintenance call (25% and under) must be met immediately or within 48 hours. Under NYSE Rule 431, a maintenance call can be

met by receipts of money, receipt of marginable securities, liquidation of securities, market appreciation, or any combination of these four methods. On the fifth (5) business day, if the maintenance call has not been met, you must take action to satisfy the outstanding call. At 12:00 p.m. on the 6th business day Central time, Cashiering will review the outstanding items and liquidate enough securities to bring the account back to the 35% (40%) level. If an additional call has been issued, securities may be liquidated by the due date of the original call to bring the account to the 35% (40%) level even if we must liquidate more securities than the original call required. In other words, **all outstanding calls** will be met at this time if we have to liquidate. This may be done without further notice to the customer. Any deficit remaining after liquidation will be charged off to the broker.

**NOTE:** Our policy is that on due date we look at the previous night's close to determine the amount now due on the call. If the account is above 35 or 40%, depending on concentration, the call should be removed. If you are liquidating to cover the call, you need to bring the account up to the appropriate percentage on that day. If an extension is requested, market appreciation may no longer be applied and calls should not be reduced.

## Returned Checks

All returned items must be settled within twenty-four (24) hours. There is a \$15.00 fee imposed for each returned item. After the twenty-four hours any remaining unsecured debit will be charged off the next day. You will be notified of return checks by your cashier.

Returned items that were previously deposited to satisfy a Fed (initial) Call will cause the account to be restricted for 90 days. In addition, the returned item must be met in one of the following ways:

- 1) The check will be re-deposited upon verification with the payee bank that sufficient funds are available to ensure payment.
- 2) The customer must deliver a cashier's check or money order.
- 3) The customer must wire funds to Southwest.
- 4) The positions must be liquidated in the open market. If liquidated for other than to meet a maintenance call, the account will be frozen for 90 days.

Upon the expiration of the twenty-four (24) hour period, if the item is not settled, cashiering will liquidate to cover the debit. When you take action to liquidate, you may charge a commission. However, when Southwest is forced to liquidate, no commission will be charged. Any debit remaining after liquidation will be charged off to the broker. A pattern of returned checks will cause an account to be marked **No More Business**.

## 90-Day Freeze

Returned items that were previously deposited to satisfy a Fed Call (initial) will cause the account to be restricted for 90 days. Two liquidations of any security in a twelve month period in order to satisfy a Reg T call will cause the account to be frozen.

The effect of a 90 day freeze is as follows:

A client may continue to purchase securities in cash or margin only if funds are deposited prior to the purchase or the account has sufficient Free Cash. This condition exists for a period of 90 days following the violation.

Any purchase or short sell made in a restricted account without the funds in the account **prior** to the transaction being done, will be treated as follows:

The office will be called the next business day following the transaction. You will be required to close the **same** transaction that put the account in violation by 12:00 noon (Central Time). **You can not deposit funds or securities to cover the violation after the transaction is done. The restriction is then updated for an additional 90 days.**

If the account trades again without sufficient funds, it will be marked NMB (No More Business). Only liquidating transactions will be allowed for 90 days. Loan amounts may not be increased by withdrawal of funds during this period. As long as the account complies with the 90 day trading restriction, the NMB will be removed after 90 days. **If the account trades through the restriction, it will be closed permanently.**

## **Margin Loans On Rule 144/Control Securities**

Southwest Securities has a limited amount of capital available to loan on Rule 144 or control securities. All requests for such loans should be directed to the Cashiering Department and must be accompanied by the proper Rule 144 documentation. All requests will be considered by the Credit Committee based on the securities' volume, financial condition and the amount of capital available.

## **Underwritings**

All initial underwritten shares must be paid for in full and are not marginable for thirty (30) days after the closing of the underwriting. However, it is acceptable to purchase on margin the same issue in the aftermarket prior to the expiration of the 30 day period.

See the Cash Account Section "Underwritings" for additional information.

## **Concentrated Margin Accounts**

Accounts are considered concentrated when the market value of the largest position exceeds the total remaining equity in the account. Trading volume and market considerations may also cause an account to be considered as concentrated. If an account is concentrated, the minimum equity required is **40%**. A higher minimum equity may be required for illiquid securities.

## **Margin Concentration By Issue**

NYSE Rule 431 has also defined a concentration as it relates to the total margin position of any one security held by Southwest.

A concentration exists whenever the aggregate position of any one issue held by Southwest Securities exceeds:

- 1) 100% of the average weekly volume during the preceding three month period or
- 2) 10% of the outstanding shares.

An example of average weekly volume is:

Assuming that an issue trades 100,000 shares a day for three months, the average weekly volume would be 500,000 shares.

$$\begin{array}{rcl} & 100,000 \text{ shares} & \\ \times & \underline{60 \text{ trade days in 3 months}} & \\ = & 6,000,000 \text{ shares} & \\ \div & \underline{12 \text{ weeks in 3 months}} & \\ = & 500,000 \text{ shares} & \end{array}$$

Southwest Securities' concentration applies collectively to margin accounts that hold securities of an issue where the market value of that issue exceeds the other equity in the account. All such accounts with this concentration will be aggregated to determine the firm's total exposure in that issue. When this limit is reached, no further margin purchases in that security will be allowed. This means the security can only be purchased in margin accounts that are diversified such that the value of the concentrated security is less than the other equity in the account.

## Exercise Of Employee Stock Options

Southwest Securities can finance the purchase of stock directly from the company for Employee Stock Options. If your customer intends to hold the stock and the exercise price is more than 50% of the current market price, your customer must provide the difference in cash. For your customers who intend to immediately liquidate the purchased securities, SWS can finance 100% of the exercise price and the underlying security need not be marginable.

All stocks held to be used as collateral to finance exercises must be marginable. All non-marginable stocks received from exercises must be transferred to the cash account. Any deficit created as a result of the transfer must be satisfied utilizing the same procedures as in Section IV. Maintenance Call Procedures.

These transactions are processed through the Reorganization Department. In order to exercise the options, you will need to have your customer provide Southwest with the following:

- 1) A letter (or copy of a letter) to the company instructing them to issue the purchased shares to Southwest Securities, Inc., registered in our name, upon receipt of payment by our firm.
- 2) The original fully endorsed stock option agreement.
- 3) A signed stock power.
- 4) All necessary account forms such as New Account Agreement, Margin Agreement, etc., unless they are already on file.

When we have received the above mentioned documents we will orally confirm, with the company, that they will honor the above instructions. When we have received their response and all other requirements have been satisfied, the Reorg Department will contact you to determine the amount of commission to be charged. We will then enter a ticket showing the purchase of the stock at the exercise price in the margin account. You will be charged a clearing charge for these option exercises. Your customer will be able to sell the shares immediately after exercising the option, however, we will not be able to release the proceeds until the stock is received from the issuer.

**NOTE: We will not exercise an ESO that returns 144 or control shares. All shares purchased using this method must be freely saleable and transferable.**



## Exercising Warrants And Rights On Margin

Southwest Securities can finance the purchase of stocks through the exercise of warrants and rights. If your customer intends to hold the stock and the exercise price is more than 50% of the current market price, your customer must provide the difference in cash. For your customers who intend to immediately liquidate the purchased securities, we can finance 100% of the exercise price and the underlying security need not be marginable provided that sale proceeds are greater than the exercise amount.

All stocks held to be used as collateral to finance exercises must be marginable. All non-marginable stocks received from exercises must be transferred to the cash account. Any deficit created as a result of the transfer must be satisfied utilizing the same procedures as the Section IV. Maintenance Call Procedures.

## Automated Customer Account Transfer (ACAT)

This falls under Rule 412 of the NYSE. The dealer department contacts cashiering for approval with accounts that have debits over \$50.00. It is then determined if we can allow the account to be received. If a margin account is below maintenance we will reject the transfer. There could be securities that the delivering firm considered marginable that we do not, in this case we will take that security out of the margin market value and recalculate the account. We must be notified in advance of any security coming over that is 144 stock or if the person on the account is a control person. If the debit is supporting mutual fund shares the Dealer Dept. will contact your office to ask if your firm will take responsibility for the debit should the mutual fund company, **for any reason**, not deliver the shares.

## ***Inventory Maintenance***

You must be a bonafide market maker for all securities traded in inventory accounts. Calls will be issued when the equity in an inventory falls below the maintenance level to bring the inventory back into compliance with maintenance requirements. All calls issued must be met as described in Section IV. Maintenance Call Procedures.

### **Inventory Maintenance Requirements**

	<b><u>Long</u></b>	<b><u>Short</u></b>
Corp Non-Convertible Bonds	20% (*)	20% (*)
Corp Convertible Bonds	30%	30%
CMO's		
U.S. Agency Collateralized	10%	10%
All Other Collateralized	20%	20%
Inverse Floaters	30%	30%
IO's & PO's	***	***
Equities (marginable)	30%	See Schedule B
Equities (non-marginable)	100%	See Schedule B
Municipal Bonds & Municipal High Yield	15% (*)	15% (*)
High Yield Bonds (###)	40% (*)	40% (*)
Defaulted Bonds (***)	40% (*)	40% (*)
Open-ended Mutual Funds	30%	No shorts
Unit Trust	30%	30%
Foreign Debt Securities or guaranteed by foreign country	25%	25%
U.S. Gov't Obligations	See Schedule A page 17	
Zeros and Treasury Receipts	See Schedule A page 17	
Government Repo Accounts	15%	15%
Rights	30%	See Schedule B
Warrants	30%	See Schedule B

\*Municipal and Corporate non-convertible bonds are subject to a 7% of principal minimum.

\*\*\*IO's & PO's must have prior approval.

### **SCHEDULE B INVENTORY MAINTENANCE FOR SHORT EQUITIES**

	<b><u>Price</u></b>	<b><u>Maintenance</u></b>
Short Equities	Below \$5.00	\$2.50/share or 100% of mkt val, whichever is greater
Short Equities	\$5.00 and above	\$5.00/share or 30% of mkt val, whichever is greater

## ***Guidelines For Marginability***

**NOTE: Southwest Securities minimum price requirement for marginable stock is \$2.00 per share.**

**NOTE: While a security may meet these marginability requirements, the price, the quantity versus the trading volume, concentration and financials will also be considered and may affect Southwest's decision to margin it.**

**NOTE: Due to the extreme volatility of internet related stocks, new issues of these securities will not be considered for margin until 2 weeks after the offering. It will then be considered by the Credit Committee.**

The issues listed below are **MARGINABLE**.

**C.M.O.'S** All, government backed issues.

(Collateralized Only the private issues that meet the following requirements:

Mortgage

Obligations) 1) \$25,000,000 principal amount was outstanding at the time of issue.

2) The issue is registered under the Securities Act of 1933 and if filing appropriate periodic reports pursuant to the Act.

3) Not in default on interest or principal on any of their outstanding securities.

**Convertible Bonds** Only Listed Bonds or OTC Bonds that meet the OTC Corp. Bond Criteria below.

**Listed Corp Bonds** All, except defaulted issues.

**Listed Stocks** All.

**Municipal Bonds** All, except defaulted issues.

**Mutual Funds (Open End)** All, but can not be purchased on margin. They must be owned for 30 days before being eligible for margin.

**OTC Corp Bonds** Only the bonds that meet the following requirements;

1) \$25,000,000 principal amount was outstanding at the time of issue.

2) The issue is registered under the Securities Act of 1933 and is filing appropriate periodic reports pursuant to the Act.

3) Not in default on interest or principal on any of their outstanding securities.

**Unit Trusts & Mutual Funds** All, but can not be purchased on margin. They must be owned for 30 days before margining.

**U.S. Treasuries** All

**Foreign Bonds** 1) If a General Obligation of the foreign government, it must be rated in one of the two highest ratings categories of a recognized rating agency as to one of the following:

- a) The issue
- b) The issuer or guarantor
- c) Other outstanding unsecured long term debt securities by the same government or entity.

2) If not a General Obligation of a foreign government it must meet ALL of the following

- a) The issue must originally have been at least \$100,000,000
- b) Not in default as to principal or interest
- c) Rated in one of the top two categories

The issues listed below are some issues that are **NOT MARGINABLE**.

**C.D.'s** (Certificates of Deposit)

**Options**

**Rights**

Please direct any questions you may have regarding marginability to one of the Cashiering Department Supervisors.