

PORTFOLIO MARGIN RISK DISCLOSURE STATEMENT

WHAT IS A PORTFOLIO MARGIN?

Portfolio margining is a margin methodology that sets margin requirements for an account using a “risk-based” pricing model that calculates the largest potential loss of all positions in a product class or group across a range of underlying prices and volatilities.

The goal of portfolio margining is to set levels of margin that more precisely reflect actual net risk. The customer may benefit from portfolio margining in that margin requirements that are calculated based on net risk are generally lower than alternative “position” or “strategy” based methodologies for determining margin requirements.

Lower margin requirements allow the customer more leverage in an account.

This model, known as the Theoretical Intermarket Margining System (“TIMS”) is applied each night to U.S. stocks, OCC stock and index options by the federally-chartered Options Clearing Corporation (OCC) and is disseminated by the OCC to participating brokerage firms each night. Fenix Securities, LLC evaluates margin compliance throughout the trading day based on the current positions in the account and current market prices, but the margin calculations are based on TIMS parameters received the prior evening.

ELIGIBLE PARTICIPANTS FOR PORTFOLIO MARGIN ACCOUNTS

To qualify for portfolio margining, non-broker-dealer customers must be eligible and receive approval for writing uncovered options. For non-broker-dealer customers intending to engage in trading unlisted derivatives, they must maintain minimum account equity of five million dollars across all accounts under the same ownership at the carrying broker-dealer and/or its US-regulated affiliated broker.

Carrying broker-dealers may also impose their own minimum equity requirement and potentially additional eligibility criteria beyond those outlined by the self-regulatory organization rule.

ELIGIBLE PRODUCTS FOR PORTFOLIO MARGIN ACCOUNTS

Eligible products in the portfolio margin account include all margin equity securities as defined in Section 220.2 of Regulation T by the Board of Governors of the Federal Reserve System, warrants on margin equity securities or eligible indices of equity securities, and listed options based on equity or equity indices. Fixed income assets may be held in the Portfolio Margin account but are subject to strategy-based considerations. Margin equity securities include foreign equity securities and options on foreign equity securities. Equity-based mutual funds and other products like UITs and ETFs qualify for portfolio margin if they meet the margin eligibility criteria under Regulation T.

Furthermore, customers with an equity account of at least five million dollars can establish and maintain positions in unlisted derivatives on a margin equity security or an eligible index of equity securities, provided they can be priced by a theoretical pricing model approved by the Securities and Exchange Commission (SEC).

Non-margin equity securities are not eligible in the portfolio margin account, thus any options or derivatives based on such securities are disallowed. Real Estate Investment Trusts (REITs) are not eligible due to their typical backing by real estate holdings, among other factors.

RISK ASSOCIATED WITH PORTFOLIO MARGIN ACCOUNTS

- Portfolio margining typically allows for increased leverage in an account, which, in turn, heightens potential losses in the face of adverse market movements.
- The shortened maximum time frame for rectifying a margin deficiency in a portfolio margin account increases the risk of involuntary liquidation, potentially resulting in losses for the customer.
- Because portfolio margin requirements rely on complex mathematical calculations and theoretical values derived from market data, predicting future margin deficiencies in such accounts may prove challenging for customers, especially those lacking access to specialized software or periodic theoretical values provided by approved vendors.

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- Customers should thoroughly understand the risk disclosure materials applicable to these products, including booklets titled “Characteristics and Risks of Standardized Options”. Given that **this disclosure statement does not cover all risks associated with trading options**, customers should carefully review additional materials before engaging in such trades within a portfolio margin account.
- Customers should seek advice from their tax advisors to ensure familiarity with the tax implications of transactions involving margin equity securities, warrants on margin equity securities or eligible indices of equity securities, listed options, unlisted derivatives on margin equity securities or eligible indices of equity securities, including the tax consequences of various trading strategies involving option contracts.
- The eligibility requirements and minimum equity and margin requirements for portfolio margin accounts outlined in this disclosure statement represent the minimum standards mandated by self-regulatory organization rules. Maximum time frames for addressing margin and equity deficiencies are also regulated by self-regulatory organization rules. Broker-dealers may impose stricter requirements.
- Customers should be aware that discrepancies in cash flow characteristics may persist when certain options are combined within a portfolio margin account. Similarly, discrepancies in cash flow characteristics may exist for certain unlisted derivatives in such accounts. While options contracts are typically marked to market at least once daily, there may be inconsistencies in the frequency and timing of these marks.

KEY GUIDELINES FOR PORTFOLIO MARGIN

- Portfolio margin accounts can either operate as standalone entities or as sub-accounts within a customer's standard margin account. In the case of a sub-account, the equity in the standard account can be utilized to meet margin requirements in the portfolio margin sub-account without requiring a transfer.
- Each listed option, unlisted derivative product held in a portfolio margin account or sub-account, whether long or short, is subject to a minimum margin requirement of \$0.375 multiplied by the contract's or instrument's multiplier. Other eligible products do not carry a minimum margin requirement.
- Any margin deficiency in the portfolio margin account or sub-account, whether resulting from new commitments or adverse market movements, must be addressed within three business days. **Failure to rectify a margin deficiency by the end of the third business day will lead to a restriction on entering new orders, except for those reducing the margin requirement.** Additionally, failure to meet a deficiency by the end of the third business day will result in the immediate liquidation of positions on the fourth business day to eliminate the shortfall.

FURTHER INFORMATION

For further information regarding the Portfolio Margin and the governing rules:

<https://www.nyse.com/regulation/rules>

<https://www.finra.org/#/>