

Table 2-4. A Margin Call and Capital Withdrawal

	Settlement price per bushel	Cumulative profits	Capital	Equity in account
Example 1				
Day 1	\$2.75	\$ 0	\$2,000	\$2,000
Day 2	2.76	+ 50	2,000	2,050
Day 3	2.73	-100	2,000	1,900
Day 4	2.68	-350	2,000	1,650
Margin call of \$350		-350	2,350	2,000
Example 2				
Day 1	2.75	0	2,000	2,000
Day 2	2.85	+500	2,000	2,500
Capital withdrawal of \$500		+500	1,500	2,000

RULES AND PROCEDURES

Regulators and exchanges are very concerned about the financial integrity of futures markets, so they audit customer accounts carefully and frequently. Brokerage houses must maintain customer funds in a segregated account, and the house cannot use these funds for investment in securities or other futures contracts. They can, however, take this accumulated cash, called the float, and earn interest on it overnight with their bank at the repo rate. This produces a sizeable income for a house. If an individual customer's account is large enough, the customer can request the house purchase a Treasury bill and post it as initial margin. However, Treasury bills cannot meet margin calls.

Finally, the clearinghouse becomes involved as the intermediary if delivery occurs. Delivery is at the option of the seller, who must notify the clearinghouse of delivery intentions. The clearinghouse then passes the notice to the oldest long. For many contracts, there are provisions for retendering. That is, the long may go to the trading pit, sell a new contract and retender the notice. This may happen rapidly, so one notice retendered several times may satisfy many open contracts. Eventually, the contract lodges with someone who desires delivery. For some contracts, demand notices exist so that buyers and sellers interested in delivery at a specific location can match more rapidly. For those financial instruments where termination of trading and delivery coincide, retendering is not an issue.

The clearinghouse, as a party to all trades, is a part of the delivery process. It receives and makes payments, passes delivery notices, transfers title, insures the commodity