***Margin requirements***

* The initial margin is paid made when you first enter into a futures contract.
* The maintenance margin is the minimum amount that you must have in your margin account to avoid a ‘margin call’.

The margin funds are still yours, but the futures broker and exchange keep them for you. If you lose money on your futures contract, they’ll withdraw the funds from your margin account and deposit it into your counterparty’s account.

The margin account helps protect the broker and the exchange against your credit risk.

Last modified 7.7.17 KW

If you don’t lose any money, then whole initial margin will be refunded to you at maturity.

The initial margin payment (at t=0) is not to be confused with the locked-in futures price ($K\_{T}$) which is paid at maturity, or the initial value of the futures contract which is always zero when it’s first agreed to.

***Marking-to-market***

At the end of every day, sometimes more often, your broker or the exchange will value or ‘mark-to market’ your futures position. If you’ve:

* **lost** money, it will be subtracted from your margin account and deposited into your counterparty’s margin account.
* **won** money, it will be added to your margin account and withdrawn from your counterparty’s margin account.

***Margin calls***

A margin call is where your broker contacts you to demand that you deposit more funds into your margin account, or else he will close out your position.

Margin calls are made when a trader’s margin account balance falls below the maintenance margin. Margin calls require the deposit of enough funds to bring the margin account back up to the initial margin.

If you fail to satisfy the margin call, your broker will ‘close out’ your contracts. If this happens and there are sufficient funds in your margin account to pay for any losses, then any excess money will be refunded to you. If not, the broker will demand repayment and take legal action.

***Futures Price Quotes used for Marking-to-market***

Futures price quotes ($F\_{T}$), not underlying asset prices ($S\_{0}$), are normally used to mark-to-market futures contracts.

This can be confusing because the futures price of the agreed-upon futures contract has a locked-in futures price ($K\_{T}$) which cannot change, it’s written in the contract.

But other futures contracts on the same underlying asset with the same maturity date are still trading. Their futures price quotes ($F\_{T}$) are used to ‘mark-to-market’ (value) the futures contract to calculate payments from the loser’s to the winner’s margin account and for making margin calls to the loser.