



SEC

OFFICE of INVESTOR
EDUCATION and ADVOCACY



Margin Rules for Day Trading

The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to help educate investors regarding the margin rules that apply to day trading in a Regulation T margin account and to respond to a number of frequently asked questions we have received.

***Executing four or more day trades
within five business days = "pattern day trader"***

If a broker-dealer designates a customer as a "pattern day trader" Financial Industry Regulatory Authority (FINRA) margin rules require that broker-dealer to impose special margin requirements on the customer's day trading accounts.

What is a "pattern day trader"?

FINRA rules define a pattern day trader as any customer who executes four or more "day trades" within five business days, provided that the number of day trades represents more than six percent of the customer's total trades in the margin account for that same five business day period. Customers should note that this rule is a minimum requirement, and that some broker-dealers use a slightly broader definition in determining whether a customer qualifies as a "pattern day trader." We recommend that customers contact their brokerage firms to determine whether a broader definition applies to their trading activities.

A broker-dealer may also designate a customer as a pattern day trader if it "knows or has a reasonable basis to believe" that a customer will engage in pattern day trading. For example, if a customer's broker-dealer provided day trading training to such customer before opening the account, the broker-dealer could designate that customer as a pattern day trader.

What is a "day trade"?

FINRA rules define a day trade as:

The purchasing and selling or the selling and purchasing of the same security on the same day in a margin account.

This definition encompasses any security, including options. Also, the selling short and purchasing to cover of the same security on the same day is considered a day trade.

Exceptions to this definition include:

- a long security position held overnight and sold the next day prior to any new purchase of the same security; or
- a short security position held overnight and purchased the next day prior to any new sale of the same security.

What are the margin requirements for pattern day traders?

- *Minimum Equity Requirement:* The minimum equity requirement for a customer who is designated as a pattern day trader is \$25,000. This \$25,000 requirement must be deposited into the customer's account prior to any day trading activities and must be maintained at all times. A customer cannot fulfill this \$25,000 requirement by cross-guaranteeing separate accounts. Each day trading account is required to meet the \$25,000 requirement independently, using only the financial resources available in that account.

If a customer's account falls below the \$25,000 requirement, the customer will not be permitted to day trade until the customer deposits cash or securities into the account to restore the account to the \$25,000 minimum equity level.

- *Day Trading Buying Power:* A customer who is designated as a pattern day trader may trade up to four times the customer's maintenance margin excess as of the close of business of the previous day for equity securities. If a customer exceeds this day trading buying power limitation, the customer's broker-dealer will issue a day trading margin call. The customer has five business days to meet his or her margin call, during which the customer's day trading buying power is restricted to two times the customer's maintenance margin excess based on the customer's daily total trading commitment for equity securities. If the customer does not meet the margin call by the fifth business day, the day trading account will be restricted to trading only on a cash available basis for 90 days or until the call is met.

IMPORTANT NOTE: A broker-dealer may impose a higher minimum equity requirement and/or restrict day trading buying power to less than four times the day trader's maintenance margin excess. Customers should contact their brokerage firms to obtain more information on whether it imposes more stringent margin requirements.

Day Trading and Portfolio Margining: Please note that additional rules apply to customers who day trade in a portfolio margin account. For additional information regarding the rules for day trading in a portfolio margin account, please see the following FINRA bulletin:

[FINRA Portfolio Margin Frequently Asked Questions - Day Trading](#)

Related Information:

For additional educational information for investors, see the SEC's Office of Investor Education and Advocacy's [homepage](#). For additional information relating to day trading, also see:

[Day Trading](#)

[Brochure: Day Trading:Your Dollars at Risk](#)

Additional Resources:

[FINRA Rule 4210 and related materials](#)

[Day Trading Margin Requirements \(tips from FINRA\)](#)

[FINRA notices to Members 01-26 and 04-38](#)

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.