

# Overview of Pattern Day Trading ("PDT") Rules



FINRA and the NYSE have instituted regulations intended to limit the amount of trading that can be done in accounts with small amounts of capital, specifically accounts with less than 25,000 USD Net Liquidation Value. Pattern Day Trading rules will not apply to [Portfolio Margin](#) accounts.

- *Day Trade*: any trade pair wherein a position in a US security (Stocks, Stock and Index Options, Warrants, T-Bills, Bonds, or Single Stock Futures) is increased ("opened") and thereafter decreased ("closed") within the same trading session.
  - *Pattern Day Trader*: someone who effects 4 or more Day Trades within a 5 business day period. A trader who executes 4 or more day trades in this time is deemed to be exhibiting a 'pattern' of day trading and is thereafter subject to the PDT restrictions.
    - In order to day trade, the account must have at least 25,000 USD in Net Liquidation Value, where *Net Liquidation Value* includes cash, stocks, options, and futures P+L.
    - The NYSE regulations state that if an account with less than 25,000 USD is flagged as a day trading account, the account must be frozen to prevent additional trades for a period of 90 days. We have created algorithms to prevent small accounts from being flagged as day trading accounts, to avoid triggering the 90 day freeze. We implement this by prohibiting the 4<sup>th</sup> opening transaction within 5 days if the account has less than 25,000 USD in equity.
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# Adjustments to Previous Day's Equity and First Day Trading

The previous day's equity is recorded at the close of the previous day (4:15 PM ET). Previous day's equity must be at least 25,000 USD. However, net deposits and withdrawals that brought the previous day's equity up to or greater than the required 25,000 USD after 4:15 PM ET on the previous trading day are handled as adjustments to the previous day's equity, so that on the next trading day, the customer is able to trade.

For example, suppose a new customer's deposit of 50,000 USD is received after the close of the trading day. Even though his previous day's equity was 0 at the close of the previous day, we handle the previous day's late deposit as an adjustment, and this customer's previous day equity is adjusted to 50,000 USD and he is able to trade on the first trading day. Without this adjustment, the customer's trades would be rejected on the first trading day based on the previous day's equity recorded at the close.

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## Special Cases

- Accounts that at one time had more than 25,000 USD, were identified as accounts with day trading activity, and thereafter the Net Liquidation Value in the account dropped below 25,000 USD, may find themselves subject to the 90 day trading restriction. The restrictions can be lifted by increasing the equity in the account or following the release procedure located in the Day Trading FAQ section.
- The proceeds of an option exercise or assignment will count towards day trading activity as if the underlying had been traded directly. Deliveries from single stock futures or lapse of options are not considered part of a day trading activity. Additional details relating to PDT regulations and our implementation of these rules can be found in the FAQ section.

### Disclosures

- Pattern Day Trading rules do not apply to Japan accounts.