Regulatory Notice

11-30

Margin Requirements

FINRA Revises the Treatment of Non-Margin Eligible Equity Securities and Delays the Effective Date

New Effective Date: October 3, 2011

Executive Summary

To accommodate systems-related concerns, FINRA is deferring the effective date announced in *Regulatory Notice 11-16* for the treatment of non-margin eligible equity securities to October 3, 2011.[1] In addition, FINRA is revising a provision regarding the day trading of non-margin eligible equity securities.

Questions concerning this *Notice* should be directed to:

▶ Rudolph R. Verra, Managing Director, Risk Oversight and Operational Regulation, at (646) 315-8811;

▶ Glen Garofalo, Director, Credit Regulation, at (646) 315-8464; or

▶ Steve Yannolo, Project Manager, Credit Regulation, at (646) 315-8621.

Background & Discussion

In April 2011, FINRA issued *Regulatory Notice 11-16*, which clarified margin requirements for both long and short non-margin eligible equity securities in Regulation T and portfolio margin accounts. The *Notice* also stated that FINRA would permit firms to extend maintenance loan value on non-margin eligible equity securities when used to collateralize non-purpose loans in good faith accounts.

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With respect to day trading non-margin eligible equity securities, the *Notice* also clarified that customers may day trade a non-margin eligible equity security, provided the special maintenance margin requirement of 100 percent did not exceed one times the regulatory maintenance excess (equity in the account after the maintenance margin requirement is met). The *Notice* further provided that a firm must issue a day-trade call if a customer day traded in excess of this limit; if the resulting day-trade call was not satisfied within five business days, a firm would be required to cancel any day-trade transactions of such securities.

FINRA understands that the requirement to cancel the day-trade transactions may cause operational issues. Therefore, FINRA is revising the cancellation requirement to require that for customers who fail to meet a day-trade call that is issued as a result of the day trading of a non-margin eligible equity security, either as one day trade or as part of several day trades, firms will be required to restrict all day-trading activity for such customers to one times the regulatory maintenance excess for a period of 90 calendar days. Firms must have adequate procedures in place to ensure that customers do not continue to day trade without sufficient funds in their account in violation of such restriction. Firms should also be aware of customers who exhibit day-trading patterns that could potentially be viewed as circumventing the rules governing free riding in the cash account.[2]

To allow firms additional time to meet the requirements specified in *Regulatory Notice 11-16* and this *Notice*, FINRA is deferring the effective date to October 3, 2011.

Endnotes

1.	*See Regulatory Notice 11-16* (Treatment of Non-Margin Eligible Equity Securities) (April 2011). *See also* Regulation T section 220.2 for the definitions of margin equity security and margin security.

2.	*See* FINRA Rule 4210(f)(9).