



# MARGIN GUIDE

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# WHAT IS A MARGIN ACCOUNT?

The plainest definition of a margin account is an account that allows you to access **leverage** by borrowing funds from your brokerage firm to buy, sell (short), and hold **marginable securities** and other eligible assets. Funds are lent to you against your account equity as collateral. When your account is borrowing cash, it is commonly referred to as “**being on margin**.”

Margin accounts also allow you to trade other assets such as **derivatives**. In some respects, a margin account is required if you plan on trading specific options strategies and futures.

## HOW MARGIN WORKS

Before we dive into how a margin account works, let’s briefly cover how placing trades in a cash account works to highlight the differences. When you open a position in a cash account, the capital requirement for the trade, which is the cash set aside to execute the order, is the full value of the order. In other words, you must pay for the total cost of the trade upfront.

For example, if you have a \$10,000 cash account and purchase 100 shares of XYZ at \$100 per share, you would need \$10,000 (100 shares x \$100) in your cash account to place this trade. If you would like to purchase more XYZ shares or the stock of a different underlying, you would need to deposit additional funds to cover the entire trade cost.

However, in a margin account, the capital requirement for a stock trade differs from a cash account due to using leverage. When placing an order on a marginable security, like stock or ETF shares, you only need to have a certain percentage of the total value to place the trade. The amount required to put down to place a trade is called margin requirement.

Let’s apply the same stock purchase example above in a margin account. For the same \$10,000 deposit, your margin account stock buying power is \$20,000. You are only required to initially set aside 50% of the trade value to open the XYZ stock position. Customers eligible for margin privileges typically get 2:1 leverage on stock buying power.

Leverage is why margin can be appealing to some investors as it provides increased flexibility to trade. This can lead to accelerated gains but also accelerated losses including losing more than your account’s principal. When you are borrowing, you will be charged margin interest. We will discuss more on this in the [Reg T section of the guide](#). However, you can also find more information on margin interest on the tastytrade website under Help Center → Trading, Buying Power, & Margin → Margin → [margin interest](#).



### Trader Talk

**Securities** refer to assets that hold value and can be bought, sold, or traded such as stock, ETFs, stock and ETF options, and bonds. Equity and ETF options are considered derivative securities. The terms equities and securities can be interchangeable.

**Derivatives** refers to options contracts and futures contracts. You are not trading the actual asset when you trade options or futures. Instead, you are trading an instrument derived from an **underlying** asset such as stock or a commodity such as oil or corn.

**Being on margin** refers to borrowing cash to open and maintain positions.

**Leverage** allows investors to own a specific stock or asset class by only requiring investors to post a portion of the asset’s value.

**Marginable securities** refer to assets that can be traded using leverage and serve as collateral.

**Non-marginable equity securities** refer to assets that cannot be traded using leverage nor serve as collateral.

**Underlying** Describes the asset a derivative contract tracks and is delivered when exercised or assigned. For example, an options contract tracks the price of a specific stock or ETF, which can convert to long or short shares of that stock when exercised or assigned.

Before you send an order to the market, you will see the estimated buying power effect in the order ticket. Please compare the same trade's buying power effect in both cash account and margin account.

Order will be placed in...		Stock Buying Power	Option Buying Power
<b>INDIVIDUAL</b> ...34	CHANGE ACCOUNT ▾	\$100,000.00	\$100,000.00
Confirm Order	100 XYZ BUY STOCK SHARES 100 BTO	Type TIF	Limit @ 145.00 Day
		Est. Trade Cost	14,500.00 db
		Comm. 0.00 Est. Fees 0.08 db Est. Total	14,500.08 db
		Est. BP Effect	Reduced by \$14,500.08
<a href="#">CLEAR ORDER</a>		<a href="#">EDIT ORDER</a>	<a href="#">SEND ORDER &gt;</a>

Example of a stock order in a cash account requiring the full value of the stock order.

Order will be placed in...		Stock Buying Power	Option Buying Power
<b>INDIVIDUAL</b> ...45	CHANGE ACCOUNT ▾	\$200,000.00	\$100,000.00
Confirm Order	100 XYZ BUY STOCK SHARES 100 BTO	Type TIF	Limit @ 145.00 Day
		Est. Trade Cost	14,500.00 db
		Comm. 0.00 Est. Fees 0.08 db Est. Total	14,500.08 db
		Est. BP Effect	Reduced by \$7,250.08
<a href="#">CLEAR ORDER</a>		<a href="#">EDIT ORDER</a>	<a href="#">SEND ORDER &gt;</a>

Example of a stock order in a margin account requiring only 50% initially.<sup>1</sup> For illustrative purposes only.

### ✓ Platform Tip

In addition to stock buying power (SBP), you'll see option buying power (OBP) when using the platform. The difference between OBP and SBP is the leverage. SBP is calculated based on OBP and shows how much you can borrow to purchase other marginable securities in real time. We'll discuss this in detail in the ["Brief Intro to Reg T \(Reg T\)"](#) section.

ACCOUNTS (1/6)	NetLiq	P/L Day	P/L YTD	Option BP	Stock BP
● Individual 45  Bal	\$100,000.00			\$100,000.00	\$200,000.00

Options buying power is your account's **non-marginable equity** and is integral when opening and maintaining a position as it ties up your account equity. Conversely, when trading in a cash account, options buying power and stock buying power will be the same since there is no access to margin.

<sup>1</sup> Buying power based on the Required Maintenance to hold stock (covered in the Brief Intro to Reg T section).

## MARGINABLE PRODUCTS AND ASSETS

Do you anticipate using margin as part of your trading strategy? If so, you will want to be aware of what products are marginable and what products are not marginable.

As briefly introduced in the “How Margin Works” section, marginable securities allow investors to use their positions as collateral so investors can borrow funds against them to establish other holdings. Conversely, non-marginable securities and assets do not allow investors to borrow against their holdings since it requires investors to fully pay for their positions when establishing.



### Reminder

tastytrade only supports trading in US Exchange-listed securities. We do not support trading in OTCBB stocks (also known as “penny stocks”), opening orders for mutual funds, foreign securities, or unlisted securities.

#### MARGINABLE SECURITIES<sup>1</sup>

- US Exchange Listed Stocks
- US Exchange Listed ETFs
- Leveraged ETFs and ETNs
- Commodity-based ETFs and ETNs
- US Treasuries<sup>2</sup>

#### NON-MARGINABLE SECURITIES AND ASSETS

- Stocks below \$3
- OTCBB/Unlisted “penny stocks”
- Long & short options
- Futures
- Options on Futures
- Cryptocurrencies
- Volatility-based ETFs and ETNs

<sup>1</sup> Due to market conditions, margin requirements are subject to change at any time.

<sup>2</sup> US Treasury Bills in a margin account are margined 94%. Please visit the [tastytrade Help Center](#) for more information.

# BRIEF INTRO TO REG T (REG T)

Reg T is the rule that binds all standard margin accounts. It is also commonly referred to as “Reg T.” In a nutshell, Reg T is an industry-standard rules-based methodology for determining the margin requirements when establishing or maintaining a marginable security position in a margin account and plays a fundamental part in how margin accounts have access to leverage.

## EXAMPLE OF A STOCK PURCHASE USING MARGIN UNDER REG T

Let’s see Reg T in action with a \$10,000 stock purchase in a margin account funded with \$5,000. Under Reg T, there are two components an investor must satisfy to establish the position:

1. Initial margin requirement
2. Maintenance requirement

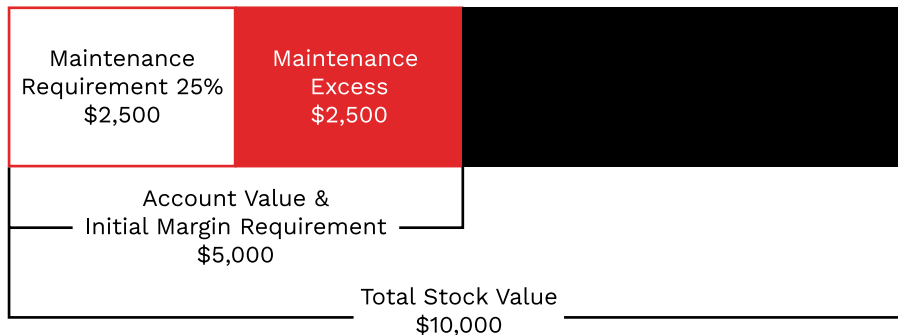
In the illustrated example below, let’s see a margin account in action and the buying power requirement to buy 100 shares of XYZ for \$100/share (\$10,000 stock value) in a margin account funded with \$5,000. A standard Reg T margin account would have the following:

- Net Liq: \$5,000
- Options Buying Power: \$5,000
- Stock Buying Power: \$10,000

Although the account value is \$5,000 and is buying \$10,000 worth of stock, Reg T allows investors to establish the position since it can satisfy the initial margin requirement and has enough account equity to maintain the stock position.

Since XYZ is a marginable security, investors can borrow against their position, or collateralize up to a specific percentage value, to establish other holdings. Maintenance excess refers to the collateralized value available to open other positions and also equals your account’s options buying power. After opening XYZ and assuming all else equal, the margin account would have the following account values:

- Net Liq: \$5,000
- Options Buying Power: \$2,500
- Stock Buying Power: \$5,000



Example of a Reg T margin account purchasing stock and the requirements needed to establish the position.



## Trader Talk

**Initial margin requirement<sup>1</sup>** refers to the amount of buying power *required* to open a position. Initial requirements affect opening orders on stocks and ETF shares and are typically 50% of the position’s value.

**Maintenance excess** is a margin account’s margin equity less the maintenance requirement of all open positions.

**Maintenance requirement<sup>1</sup>** refers to the amount of account equity that must be maintained in the account to hold a position. In most cases, it is 25% of the position’s value when holding long shares in a margin account. When trading options, the maintenance requirement will be the initial requirement and vary by options strategy.

<sup>1</sup> In some cases, the initial margin and maintenance requirements may be higher for some underlyings.

## ! Reminder

With margin, your portfolio can experience accelerated gains. **However, holding positions on margin also accelerates losses with the potential of losing more than the account's value**, as illustrated in the table below.

When holding stock on margin, you will accrue margin interest daily from trade settlement to trade settlement (opening trade and closing trade) and be charged the applicable rate based on how much you borrow. You can see how much you are borrowing by referring to your settled cash balance. Your account is borrowing when your settled cash balance is negative.

Let's look at a \$5,000 margin account that purchases 100 shares of XYZ @ \$100/share on margin, resulting in \$10,000 worth of stock. Below, we illustrate what a portfolio would experience based on different price levels of XYZ.

Quantity	XYZ Price	Account Value/Net L1q	Position Value	Settled Cash Balance	Maintenance Requirement	Maintenance Excess	Profit/Loss
100	\$150	\$10,000	\$15,000	(\$5,000)	\$3,750.00	\$6,250.00	\$5,000
100	\$140	\$9,000	\$14,000	(\$5,000)	\$3,500.00	\$5,500.00	\$4,000
100	\$130	\$8,000	\$13,000	(\$5,000)	\$3,250.00	\$4,750.00	\$3,000
100	\$120	\$7,000	\$12,000	(\$5,000)	\$3,000.00	\$4,000.00	\$2,000
100	\$110	\$6,000	\$11,000	(\$5,000)	\$2,750.00	\$3,250.00	\$1,000
100	\$100	\$5,000	\$10,000	(\$5,000)	\$2,500.00	\$2,500.00	0
100	\$90	\$4,000	\$9,000	(\$5,000)	\$2,250.00	\$1,750.00	(\$1,000)
100	\$80	\$3,000	\$8,000	(\$5,000)	\$2,000.00	\$1,000.00	(\$2,000)
100	\$70	\$2,000	\$7,000	(\$5,000)	\$1,750.00	\$250.00	(\$3,000)
100	\$60	\$1,000	\$6,000	(\$5,000)	\$1,500.00	(\$500.00) <sup>1</sup>	(\$4,000)
100	\$50	\$0	\$5,000	(\$5,000)	\$1,250.00	(\$1,250.00)	(\$5,000)
100	\$40	(\$1,000)	\$4,000	(\$5,000)	\$1,000.00	(\$2,000.00)	(\$6,000)
100	\$30	(\$2,000)	\$3,000	(\$5,000)	\$750.00	(\$2,750.00)	(\$7,000)
100	\$20	(\$3,000)	\$2,000	(\$5,000)	\$500.00	(\$3,500.00)	(\$8,000)

<sup>1</sup> Required maintenance call issued when maintenance excess closes below \$0. Please refer to Account Equity Related Margin Calls section for more information.

# MARGIN ACCOUNT FUNDING REQUIREMENTS

There is no minimum funding requirement to open a margin account at tastytrade. However, margin privileges are only extended to margin accounts with \$2,000 in margin equity. Simply having an account with a net liquidation value of \$2,000 or more may not automatically enable margin privileges. See the examples below.

## MARGIN PRIVILEGES EXAMPLES

For example, if you have a margin account of \$3,000 net liq from holding \$2,000 in long options and \$1,000 in cash, your account would not be eligible for margin privileges since options are non-marginable and cannot apply towards margin eligibility. As a result, this account does not meet the \$2,000 minimum margin equity requirement. However, a margin account with a net liq of \$3,000 from holding \$2,000 in marginable stocks and \$1,000 in cash would be eligible for margin privileges.

## WHEN AM I BORROWING CASH?

A common misconception about a margin account is that you're constantly borrowing cash to hold your position(s). In theory, that is possible, but that is not always the case. In short, if you keep your cash balance positive<sup>1</sup>, you are not borrowing cash to hold your positions.



## Trader Talk

**Margin privileges** refer to whether you are eligible to borrow cash to open or maintain marginable positions. While there is no minimum to open a margin account, a margin account under \$2,000 in margin equity will not be eligible for margin privileges.

**Margin equity** refers to the amount of money and marginable securities in an account.

**Net liquidation value**, or "Net Liq," is your total account value that includes your account's cash balance and the mark value of your positions (marginable and non-marginable positions). It is displayed on all trading platforms. Please visit our [Help Center](#) to view an illustrated example.



## Platform Tip

You can quickly check if you are borrowing cash by referring to your settled cash balance on any tastytrade platform. When your settled cash balance is shown in parenthesis<sup>1</sup>, it means your settled cash balance is negative and you're borrowing. Your account will accrue margin interest daily and be assessed monthly based on how much cash you borrow. [Any interest accrued will list in Pending Margin Interest.](#)

ACCOUNTS	NetLiq	P/L Day	P/L YTD	Option BP	Stock BP	Day T... Coun...
Individual	Bal					
FILTERS						
POSITIONS	STOCKS	OPTIONS	FUTURES			
	<input checked="" type="checkbox"/> Symbol					
TRADE	Current Balance	Value		Δβ-WEIGHT		
	Cash	(\$142,535.06)		SPY <input type="checkbox"/>		
	Settled Cash Balance	(\$142,535.06)		βΔ		
	Pending Margin Interest	(\$297.76)		0.00 Δβ 0.00		
	Effective Crypto Buying Power	\$95,052.19		29.76 Δβ 200.00		
VITY	Starting Day Trade Buying Power	\$95,052.19		38.61 Δβ 449.55		
	Maintenance Excess	\$108,172.62		130.87 Δβ 2,889.86		
				8.59 Δβ 100.00		
				1.361... Δβ 300.00		

Screenshot of the balances menu on the desktop platform

<sup>1</sup> Proceeds from unrealized short stock positions and unrealized options on futures positions will reflect within your account's cash balance but will not offset a margin debit cash balance.



## MARGIN REQUIREMENT EXAMPLES

The margin/buying power (BP) requirements of some commonly traded products and strategies are listed below. It's important to note that buying power requirements can change at any time and may vary based on the underlying's price. Please visit the [tastytrade Help Center](#) for a complete list of buying power requirements based on strategies.

Product and Strategy	Margin/BP Requirement	Marginable? (yes/no)	Max Profit	Max Loss
Long stock or ETF shares	50% initial requirement and 25% maintenance of the underlying value <sup>1</sup> .	Yes	Unlimited	Amount paid for shares <sup>2</sup>
Short stock or ETF shares	50% initial requirement and 30% maintenance of the underlying value <sup>1</sup> .	Yes	Short sale price minus \$0 per share	Unlimited
Long options	Cost of the options (debit paid)	No	Calls: Unlimited Puts: (Strike Price x 100) minus debit paid	Debit paid
Long options spreads <sup>3</sup>	Cost of the spread (debit paid)	No	(Spread width x 100) minus Debit paid	Debit paid for options spread <sup>6</sup>
Uncovered/Naked calls	The greatest of the following: • 20% of the underlying price minus the out-of-the-money amount plus the option premium • 10% of the <b>underlying</b> price plus the option premium • \$250 (\$2.50 x 100 shares)	No	Credit received	Unlimited
Uncovered/Naked puts	The greatest of the following: • 20% of the underlying price minus the out-of-the-money amount plus the option premium • 10% of the <b>strike price</b> plus the option premium • \$250 (\$2.50 x 100 shares)	No	Credit received	Total credit received minus (Strike price x 100)
Short options vertical spreads <sup>3</sup>	Credit received minus spread width.	No	Credit received	(Spread width x 100) minus total credit received <sup>6</sup>
Futures	Overnight requirement <sup>4</sup>	No	Long: Unlimited Short: Unlimited <sup>5</sup>	Long: Unlimited Short: Unlimited <sup>5</sup>

<sup>1</sup> Margin requirements are subject to change and may vary by the stock/ETF price.

<sup>2</sup> May lose more than the account value when purchasing stock on margin.

<sup>3</sup> Spreads refer to multi-leg options strategies that consist of a long leg and short leg, such as verticals, iron condors, diagonals, etc.

<sup>4</sup> Overnight requirements refer to the amount of capital you must post to establish an outright futures position. Customers must satisfy the overnight even if you do not intend on holding the contract over multiple trading sessions. The requirement varies by product (CME Futures).

<sup>5</sup> Infinite due to the potential of negative pricing.

<sup>6</sup> Max loss may be greater due to pin risk assignment on expiration day ([refer to the Expiration Risk section on page 29](#))

## IS A MARGIN ACCOUNT NECESSARY?

Depending on your objective, some products and options strategies require a margin account if you plan on trading them. The decision to apply for a margin account is up to you. Do you understand how margin works? Does it fit your investing risk profile? What do you plan on trading?

If you plan on trading **multi-leg options strategies** or futures, a margin account with the applicable trading level is mandatory. A common question we get is, “Why do I need a margin account if I don’t intend on borrowing?” The short answer is that a margin account provides a line of credit. For example, if you are assigned on any short options positions or auto-exercised on a long option at expiration, having access to margin can be helpful if you wish to hold the resulting position as you only need to satisfy the margin requirement to hold it.

Whenever you are short an equity options contract, you are at the mercy of the long options holder’s right to exercise the option. These types of options are known as American-style options. As a result, any short equity option(s) faces the risk of assignment at any time up to the expiration.

When your account has enough equity but not enough cash due to the resulting position, then your account will be on margin and borrowing money. When you are on margin your account will incur margin interest charges. However, if your account does not have enough account equity, your account will be issued the applicable margin call. We will go over margin calls in a later section.

It’s worth noting that all share **assignments** or **auto-exercises** do not mean you will be borrowing cash or receiving a margin call by default. After an assignment or auto-exercise, accounts with sufficient cash and account equity will neither be on margin nor receive a margin call.



## Trading 101: Options Assignment vs. Exercise & Long vs. Short

Assignment refers to when a short option converts to its resulting position. You are obligated to the long option holder’s exercise decision when you are short.

Exercise refers to when a long option converts to its resulting position. When you are long, you have a right to exercise or not. The decision to exercise long options rests with the long options holder, which they can typically do any time up until expiration day. At expiration, long equity options auto-exercise when they expire in-the-money by \$0.01 or more.

Think of riding in a car when considering the differences between long or short options contracts. When you’re short an option, you’re at the mercy of what the long holder decides, like being a passenger in a car.



Seller of the option (Short)

Buyer of the option (Long)



## Trading 101: Options Anatomy

### Moneyiness

Moneyiness refers to whether an option has intrinsic value or not. An options contract can be in-the-money (ITM), out-of-the-money (OTM), or at-the-money (ATM) based on the price of the underlying it tracks. Only in-the-money options have intrinsic value.

	Strike > Spot Price	Strike < Spot Price	Strike = Spot Price
Calls	OTM	ITM	ATM
Puts	ITM	OTM	ATM

### What happens after an Options Exercise or Assignment

Are you long, or are you short? Are you trading calls or puts? The resulting position after the exercise or assignment of an option will determine the resulting position in your portfolio.

(per contract)	Calls	Puts
Exercise (Long)	+100 shares	-100 shares
Assignment (Short)	- 100 shares	+100 shares

### American-Style vs. European-Style Options

Didn't know there was more than one style of option? Well, each option style's name has nothing to do with geography. Instead, it concerns how the counterparty (the holder of the long option) can exercise their option.

[We cover the differences later on page 30.](#)

## TRADING LEVELS

At tastytrade, there are three trading levels for margin accounts and only one level for cash accounts. The allowable trading strategies in a margin account will vary based on the trading level granted, with “The Works” as our highest and most flexible trading level. **It is important to note that increased flexibility comes with an increased risk, including losing more than your account’s value.**

Strategy	MARGIN ACCOUNTS		CASH & MARGIN ACCOUNTS
	The Works	Basic	Limited
Long Stock	✓	✓	✓ <sup>1</sup>
Short Stock	✓	✗	✗
Long Options	✓	✓	✓
Covered Calls <sup>2</sup>	✓	✓	✓
Defined-Risk Spreads	✓	✓	✗
Uncovered/Naked Calls <sup>3</sup>	✓	✗	✗
Uncovered/Naked Puts	✓	✓	✗
Cash-secured Puts <sup>4</sup>	✗	✗	✓
Futures <sup>5</sup>	✓	✗	✗
Cryptocurrencies	✓	✓	✓

<sup>1</sup> Margin account with the minimum account value of \$2,000 may purchase stock on margin. Long stock positions must be fully paid for in a cash account.  
<sup>2</sup> Short calls against long round-lots (quantities of 100 shares) of stock or ETFs.  
<sup>3</sup> Uncovered/naked options are subject to the Reg T requirement in a margin account (mentioned later).  
<sup>4</sup> Cash-secured puts are fully secured with cash.  
<sup>5</sup> Customers must enable futures in Customer Account Management



## Reminder

Remember, if you have a cash account, you cannot upgrade it as there are no additional trading levels. Furthermore, cash accounts cannot be converted to margin accounts. Using your existing user credentials, you can [quickly apply for a margin account](#) if you mistakenly opened a cash account or vice-versa.

## MARGIN ACCOUNTS VERSUS CASH ACCOUNTS

Does all this talk about “being on margin” get you a little skittish? A cash account may be a more suitable account type for you. Below, we’ll lay out the general differences of both account types.

	MARGIN ACCOUNT	CASH ACCOUNT
Ability to borrow/leverage?	✓	✗
Derivative trading allowed?	Flexible <sup>1</sup>	Limited
Futures	✓ <sup>2</sup>	✗
Cryptocurrencies <sup>3</sup>	✓	✓
Subject to pattern day trader rules <sup>4</sup>	✓	✗
Subject to GFVs (Good Faith Violations) <sup>5</sup>	✗	✓

<sup>1</sup> Options trading strategies allowed based on trading level.

<sup>2</sup> Requires “The Works.”

<sup>3</sup> Only long cryptocurrency positions allowed.

<sup>4</sup> Please refer to the [Pattern Day Trader section on page 19 for more information.](#)

<sup>5</sup> Please refer to the [Good Faith Violation section on page 25 for more information.](#)

## BRIEF INTRODUCTION TO PORTFOLIO MARGIN (PM)

You can think of Portfolio Margin (PM) as Reg T’s “older brother.” What separates PM from Reg T is that it uses a risk-based approach instead of a rules-based approach to determine buying power requirements. Instead of the Reg T rules that bind a standard margin account, PM is subject to Theoretical Intermarket Margining System (TIMS) methodology. As a result, PM accounts at tastytrade allow for ≈6.7:1 of leverage versus 2:1 and require less buying power<sup>1</sup> when establishing or maintaining open securities positions. Although PM allows greater margin flexibility, increased levels of leverage can result in accelerated gains or losses, including losing more than the account’s value.

As a result of the increased amount of leverage, there is a minimum funding requirement to apply and an account equity requirement to maintain a PM account.

- Must have a margin account with “The Works” to apply.
- Initial Account Balance Requirement: \$175,000
- Maintenance Account Balance Requirement: \$150,000
- Futures and crypto positions do not count towards the initial or maintenance account requirement.
- Customers that close under the PM maintenance requirement will be subject to the [Reg T downgrading process](#).

Please visit the [tastytrade Help Center](#) to learn more about PM and how to apply for PM.

<sup>1</sup> Some underlyings may be subject to elevated margin requirements.

# ACCOUNT EQUITY RELATED MARGIN CALLS

Usually, margin calls are one of the initial concerns for any new investor or someone new to a margin account. In this section, we'll discuss some account equity-related margin calls so that you don't have to go down a rabbit hole of endless internet searches because of what you've seen in the movies or read on a random message board.

Typically, margin calls are issued by email at least one hour before the market opens. Equity markets open on weekdays at 8:30 AM CST (Chicago time). Margin calls are generally not issued intraday.

## REQUIRED MAINTENANCE CALL (RM)

**A Required Maintenance call, or RM call, is when a margin account does not have enough account equity to maintain its open positions.** You can get a general idea as to whether you are running out of account equity by referring to your maintenance excess on the platform ([please refer to the Brief Intro to Reg T \(Reg T\) section earlier for more information on maintenance excess](#)). When your Maintenance Excess closes negative at the end of the trading session, it will indicate that your account does not have sufficient account equity. As a result, your account may receive a margin call before the market opens on the following trading day.

Keep in mind that margin requirements are subject to change. There are times when our **clearing firm** may elevate margin/buying power requirements on specific symbols due to recent volatility. A clear indication that the margin requirement for an underlying may have increased is if you see your buying power reduced or negative before the market opens on the following trading day.

When a margin account receives an RM call, a deposit for the call amount or greater will satisfy it. Additionally, closing positions to free up margin requirements or market appreciation can satisfy the call. When the account's options buying power returns positive, that will indicate the call is met. Any unsatisfied RM calls that become past due will be subject to position liquidation by the Margin and Risk Team.

Please visit the [tastytrade Help Center](#) to learn more about RM calls.



### Trading 101: What is a Clearing Firm?

Imagine a world where you sold something, but didn't get paid. Well, that can't happen in the markets. Just imagine having a profitable trade and when you closed your position you didn't get paid. Since this is a regulated industry, clearing firms help ensure that all trades get processed and settled. Furthermore, in the world of tastytrade, our clearing firm is also the custodian of all your securities assets and cash. You can check out the [Apex Customer Information Brochure](#) to learn more about their role with your tastytrade account.

ACCOUNTS		NetLiq	P/L Day	P/L YTD	Option BP	Stock BP	Day ...	Tod ...	Delta	Theta	Vega	Gam ...	Ext	P/L Open
Individual	Bal	11,414.95			(\$1,460.07)	(\$2,920.13)	0	5	223 Δβ	0 θ	0 v	0 Γ	0	
FILTERS		GROUP BY		Δβ-WEIGHT		COLUMNS		DETAILS / CONFIG						
STOCKS		OPTIONS		WORKING		CLOSED		Symbol	SPY					
POSITIONS	Symbol	Last	Trd Prc	Mrk	IVR	βΔ	Δ	Γ	θ	v	P/L Open	P/L YTD	P/L Day	
		-1.06	32.94	-65.53	32.94	81.4	222.98 Δβ	776.00 Δ	0.00 Γ	0.000 θ	0.00 v	-25,289.84	-34,510.83	-1,001.93
TRADE	SHARES			-65.53	32.94	81.4	222.98 Δβ	776.00 Δ	0.00 Γ	0.000 θ	0.00 v	-25,289.84	--	-1,001.93

Example of an account with an RM call issued with negative buying power

## ✓ Platform Tip

How close is your account to a Required Maintenance call? You can locate your margin account's maintenance excess by navigating to the Balances menu (labeled as "Bal") to the right of your account number. Your account is in good standing if it remains positive and closes positively. Moreover, your Maintenance Excess also equals your account's option buying power.

ACCOUNTS		NetLiq	P/L Day	P/L YTD	Option BP	Stock BP	Da	Co
Margin	Bal	488,432.59			\$99,722.59	\$199,445.18		
POSITIONS	FILTERS		Current Balance	Value	β-WEIGHT			
	STOCKS	OPTIONS	FUTURES	Cash	\$159,256.59	SPY		
TRADE	<input checked="" type="checkbox"/> Symbol		Settled Cash Balance	\$146,742.97	Ask	βΔ		
	BA	ITM	Starting Day Trade Buying Power	\$143,393.23	200.80	2,284.72	Δβ	
	BMY		Maintenance Excess	\$99,722.59	50	153.22	Δβ	
	GILD	ITM	SMA	\$1,328,082.56	75	38.82	Δβ	
	MMM				92.13	355.07	Δβ	
TY	RIVN	ITM			11.03	11.04	567.79	Δβ

Location of Maintenance Excess in the Balances menu on the desktop trading platform

## REG T CALL (RT)

A Reg T call, short for Reg T, will be issued when an account does not have enough equity to satisfy the initial margin requirement. The most common reason for a Reg T call is an early assignment on a short equity/ETF option or auto-exercised on a long option at expiration, as illustrated in the screenshots below. An account can also receive a Required Maintenance call if there is not enough account equity to satisfy the maintenance requirement of the assigned position.

Like an RM call, an RT call can be met by initiating a deposit for the call amount or greater. When the account's options buying power returns positive, that will indicate that the call is met.

Additionally, closing positions to free up account equity can meet the RT call, but the account may accrue a liquidation strike. Five or more liquidation strikes in a rolling 12-month period will result in a 90-calendar day closing-only restriction. However, liquidations that occur on the day following an exercise/assignment will not be issued a liquidation strike. Any unsatisfied RT calls due to an assignment that becomes past due will be subject to position liquidation by the Margin and Risk Team.

It's also worth mentioning that any short options spread that experiences an early assignment is still defined-risk because of the long options contract. If your account experiences a margin call because of an early options assignment, then one way to satisfy the call is by performing a covered stock order when the long option is also in the money.

Please visit the [tastytrade Help Center](#) to learn more about covered stock orders and how to set one up if you are early assigned on options spread position.



## Trader Talk

A **covered stock order** is when you close an assigned stock/ETF share position and the long option in one order. Covered stock orders are usually performed when only the short leg of an options vertical spread position experiences an early assignment.

ACCOUNTS		NetLiq	P/L Day	P/L YTD	Option BP	Stock BP	Day T... Coun...	Today's Trades	Delta	Theta	Vega				
Bal		63,152.78			(\$7,674.73)	(\$7,674.73)	0	0	142 Δβ	-11 θ	1 v				
POSITIONS	FILTERS		GROUP BY		Δβ-WEIGHT		COLUMNS		DETAILS / CONFIG						
	STOCKS	OPTIONS	FUTURES	BONDS	WORKING	CLOSED	Symbol	SPY							
TRADE	Symbol	Last	Trd Prc	Mrk	IVR	βΔ	Δ	Γ	θ	v	P/L Open				
		0.63	9.66	-97.80	9.66	18.4	14.18 Δβ	200.00 Δ	0.00 Γ	0.000 θ	0.00 v	-17,627.60			
		0.27	7.94	-27.50	7.94	27.3	10.02 Δβ	200.00 Δ	0.00 Γ	0.000 θ	0.00 v	-3,912.00			
		0.02	3.49	-9.82	3.49	17.8	2.62 Δβ	200.00 Δ	0.00 Γ	0.000 θ	0.00 v	-1,264.66			
	ITM	4.28	104.24	-117.24	110.06	13.5	2.23 Δβ	8.62 Δ	3.89 Γ	-12.110 θ	1.39 v	-717.92			
	SHARES		100	-115.00	104.24	13.5	25.85 Δβ	100.00 Δ	0.00 Γ	0.000 θ	0.00 v	-1,075.92			
	ITM	1	Dec 30	1d	110	P	-2.24	5.82	13.5	-23.62 Δβ	-91.38 Δ	3.89 Γ	-12.110 θ	1.39 v	358.00

Example of an early assignment of +100 shares from a short put vertical spread and the account not having sufficient equity to satisfy the initial and maintenance requirement

ACCOUNTS		NetLiq	P/L Day	P/L YTD	Option BP	Stock BP	Day T... Coun...	Today's Trades	Delta	Theta	Vega					
Bal		63,166.78			(\$7,674.73)	(\$7,674.73)	0	0	142 Δβ	-11 θ	1 v					
POSITIONS	transactions		year to date		ACCOUNT FILTER		SYMBOL FILTER		TYPE FILTER		DATE FILTER		START DATE		END DATE	
TOTALS	Showing 2 of 2 rows										0.00	-5.00	-11,500.00			
TRADE	Time	Symbol	Type	Description	Commi...	Fees	Amount									
	Dec 28, 2022 5:00p	..PUT	Receive Deliver	Removal of option due to assignment	--	0.00	0.00									
	Dec 28, 2022 5:00p		Receive Deliver	Buy to Open 100 @ 115.00	--	-5.00	-11,500.00									

History tab illustrating the early assignment of +100 long shares

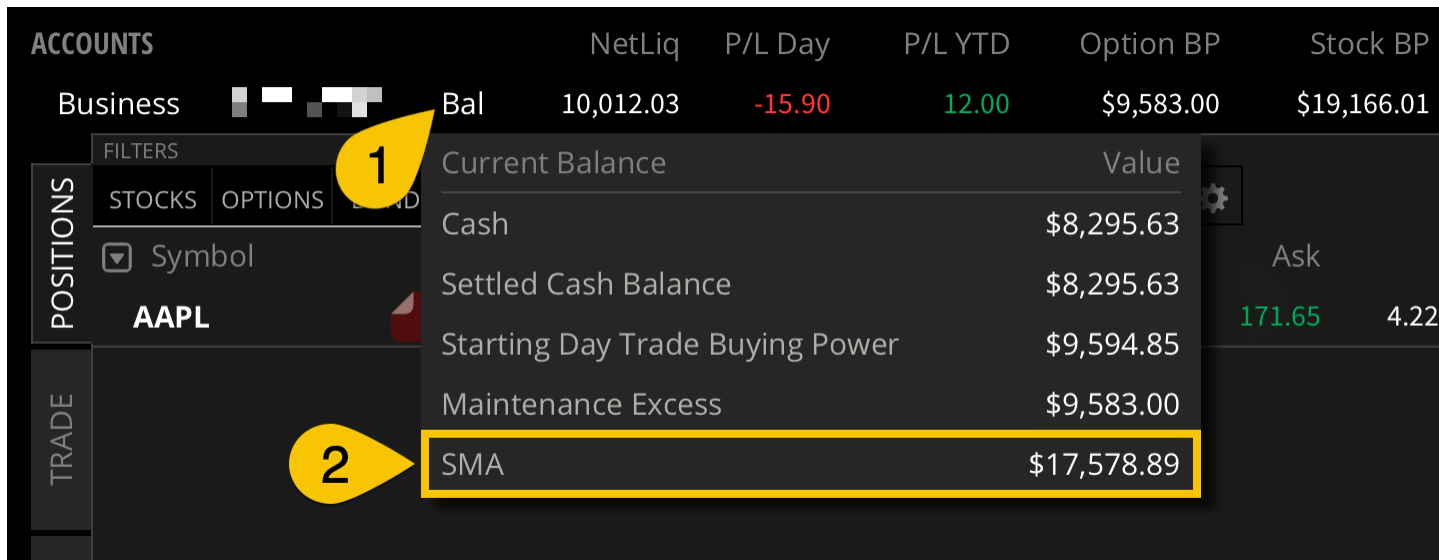


## REGULATION T AND SMA ACCOUNTS

An SMA (Special Memorandum Account) is a critical component of margin accounts governed by Reg-T. It is an additional reserve that margin account holders can use to purchase marginable securities without depositing more cash or transferring in marginable securities based on the amount of excess equity (maintenance excess) in their account. Understanding how an SMA account works can provide insight into Regulation T calls and how to manage them when issued.

As mentioned (on [page 6](#)), Regulation T requires that investors post an initial margin requirement of at least 50% of the purchase price for long stock in a margin account. SMA comes into play when the value of the securities in the margin account changes, affecting the amount of equity above the Regulation T requirement.

When trading at tastytrade, a margin account's Options Buying Power will reflect the lower of your Maintenance Excess vs. SMA.



ACCOUNTS	NetLiq	P/L Day	P/L YTD	Option BP	Stock BP	
Business	Bal	10,012.03	-15.90	12.00	\$9,583.00	\$19,166.01
FILTERS		Value				
STOCKS	Cash	\$8,295.63				Ask
OPTIONS	Settled Cash Balance	\$8,295.63				171.65
LEND	Starting Day Trade Buying Power	\$9,594.85				4.22
POSITIONS	Maintenance Excess	\$9,583.00				
TRADE	SMA	\$17,578.89				

## HOW SMA CAN INFORM TRADERS ABOUT REG T CALLS

While margin account holders can monitor how close their current holdings are to a Required Maintenance (RM) call by referring to their Maintenance Excess, traders can refer to their SMA balance to see their potential Reg T call amount when faced with any long share assignment.

For example, a margin account with an SMA balance of \$5,000 and a maintenance excess of \$1,000 facing an early put assignment of 100 long shares of XYZ at \$100 (\$10,000 total share value) would not receive a Reg T call since the initial margin requirement, per Reg-T, is \$5,000 or 50% of the stock assignment which SMA satisfies.

## HOW DOES SMA INCREASE?

The two most common ways SMA could increase is through market appreciation or selling to close shares.

**Market Appreciation:** When the market value of long stock in a margin account increases, the equity within the account also rises to reflect the increased market value of the stock holdings. When the equity of a margin account exceeds the initial margin requirements of the long shares, the excess is credited to the SMA, increasing its value.

SMA is unique because it will display the highest watermark of a margin account's long stock positions, so if your long stock positions continue to rise, then SMA, in theory, will increase, too. However, if the value of the stock starts to fall, then SMA will not decrease.

**Selling to Close Shares:** When a margin account holder closes their long share position, SMA will increase by 50% for non-elevated shares.<sup>1</sup> For example, if you sold to close 100 shares of XYZ at \$100 for \$10,000, SMA will increase by \$5,000. If you recall, the 50% refers to the initial margin requirement when establishing shares in a margin account.

<sup>1</sup> The Margin requirements for shares can change anytime without notice and can affect SMA.

## HOW DOES SMA DECREASE?

The two common scenarios in which SMA can decrease are when a margin account holder buys to open shares or withdraws funds.

**Buying to Open Stock:** When a margin account holder purchases stock, the SMA decreases by 50% for non-elevated shares. For example, if you buy to open 100 shares of ZYX at \$50 for \$5,000, SMA will decrease by \$2,500. Again, the 50% decrease is due to the Reg T initial margin requirement when establishing shares in a margin account.

**Cash Withdrawals:** When you withdraw cash or transfer out any marginable securities from a margin account, SMA will decrease by the amount withdrawn.

## HOW SMA IS AFFECTED BY ASSIGNMENT

As mentioned, SMA is affected whenever a margin account holder either buys to open stock or sells to close stock. That said, SMA is also affected when an options position results in buying to open long shares or selling to close long shares.

**Short Puts:** When writing any short put option, whether naked or part of a long or short vertical spread, the account holder has an obligation to buy 100 long shares per contract when assigned. As a result, any short put assignments will decrease SMA.

**Covered Calls:** When you own shares and sell covered calls, you are obligated to sell the shares at the call option's strike when assigned. As a result, any shares called away in a margin account will increase SMA.

In summary, monitoring a margin account's SMA can offer valuable insights into the relationship between account equity, margin requirements, and the potential for Regulation-T calls. By understanding the dynamics of SMA, investors can better manage their margin accounts to minimize the risk of margin calls because of Regulation T.

# DAY TRADING RELATED MARGIN CALLS

Do you plan on actively trading in your margin account by performing day trades? If so, there are some rules you'll want to familiarize yourself with that can trigger margin calls due to **day trading**.

## EQUITY MAINTENANCE CALL (EM) & PATTERN DAY TRADER (PDT)

Before we dive into what an EM call is, let's clear the air and go over the basics of day trading. A basic example of a day trade is buying 100 shares of XYZ after the **market opens** and then closing the position before the market closes. Whether the trade was profitable or not, closing the position within the same trading day, including the extended hour session, is a day trade.

So, what does day trading have to do with the pattern day trader status? A pattern day trader or PDT is a FINRA classification for margin accounts that place more than three day trades in a **rolling five-business-day period**.

To be eligible to maintain a PDT status and remain unrestricted, your margin (securities) account must have a start-of-day value of \$25,000 or more.

When a margin account gets flagged as a PDT and has enough account equity in its securities account to maintain the status, nothing will change, and can continue as-is. However, a margin account with less than \$25,000 in their securities account(s) will be issued an Equity Maintenance (EM) call before the market opens the following trading day.

After an account receives an EM call, a closing-only restriction will apply to the margin account(s) as a precautionary measure. Performing a day trade while in an EM call will also trigger a Day Trade call, resulting in compounded margin calls and a potential closing-only restriction. We cover Day Trade calls on [page 26](#).



### Trading 101: What is day trading?

A day trade occurs when you open and close a position within the same trading day. It is important to note that day trading rules only pertain to stocks/ETF shares, equity options, and cash-settled index options.

It is important to note that trades during the pre-market or after-hours trading session are included as part of the trading day when day trading. You can view a complete list of market trading hours by visiting the [tastytrade Help Center](#).



### Trading 101: When are the markets open for trading?

Futures are open for trading nearly 24/5. However, the regular equity and equity options trading sessions are open from 8:30 AM to 3:00 PM Central Time (Chicago time). tastytrade also offers extended hours stock trading. Please visit the [tastytrade Help Center](#) to learn how to enter an extended hours stock trade and for current extended hours trading session hours.



### Trader Talk

**Closing-only** is an account restriction that only allows you to close positions and disallows you from opening any new securities positions, including rolling orders.



## Trading 101: What do you mean by a rolling five-business-day period?

A rolling five-business-day period is often thought of as a five-business-day week that resets with a new week, but that is a common misconception. Five rolling business days are always counting five trading days continuously from when you made the first day trade during that period. Saturday, Sunday, and market holidays do not count because the stock market is closed.

Let's look at a two-week scenario below to see how day trades accumulate and deduct from a margin account.

<b>Sunday</b> March 1	<b>Monday</b> March 2	<b>Tuesday</b> March 3	<b>Wednesday</b> March 4	<b>Thursday</b> March 5	<b>Friday</b> March 6	<b>Saturday</b> March 7
	Activity: None Day Trade Counter: 0	Activity: 1 Day Trade Day Trade Counter: 1	Activity: 1 Day Trade Day Trade Counter: 2	Activity: 1 Day Trade Day Trade Counter: 3	Activity: None Day Trade Counter: 3	
<b>Sunday</b> March 8	<b>Monday</b> March 9	<b>Tuesday</b> March 10	<b>Wednesday</b> March 11	<b>Thursday</b> March 12	<b>Friday</b> March 13	<b>Saturday</b> March 14
	Activity: None Day Trade Counter: 3	Activity: None Day Trade Counter: 2	Activity: None Day Trade Counter: 1	Activity: None Day Trade Counter: 0	Activity: None Day Trade Counter: 0	

The rolling five business day period starts from the first day trade executed. In the example above, the first day trade performed was Tuesday, March 3rd. As a result, the rolling business days are March 3rd, 4th, 5th, 6th, and 9th. During this period, the Day Trade Counter will accrue any additional day trades, as illustrated with the day trades executed on the 4th and 5th. Day trades will deduct from the counter after the five business days elapse from the first day trade, as illustrated on March 10th, 11th, and 12th.

**Accounts with less than \$25,000 of account equity in their securities account must not exceed 3 day trades in a rolling five-business day period to prevent receiving a PDT flag and getting issued an EM call the next trading day.**

Accounts with \$25,000 or more in their securities account are not subject to this limitation. However, do you also plan on trading futures or holding cryptocurrencies in your margin account? If so, they are subject to cash sweeps that can cause your securities account value to drop below \$25,000. Please be mindful that trading or holding futures or cryptocurrencies can generate an EM call for a margin account previously flagged and eligible to maintain a PDT designation (covered on [page 32](#)).

Please refer to the Products Subject to Day Trading Rules section on [page 24](#) to see what products are subject to PDT rules.



## Platform Tip

You can see how many day trades you've placed within a rolling 5 business day period by referring to your day trade counter in all trading platforms. The counter will reset on a rolling 5 business day period. If you are not eligible to maintain a PDT status by holding \$25,000 in your securities account, then you must limit your day trade counter at 3 or less. Any day trade made on futures or crypto positions will not add to the day trade counter.

ACCOUNTS (2/7)	NetLiq	P/L Day	P/L YTD	Option BP	Stock BP	Today's Trades	Day Trade Counter
Individual	Bal					1	2
Individual	Bal					7	11

Location of the day trade counter on the desktop trading platform



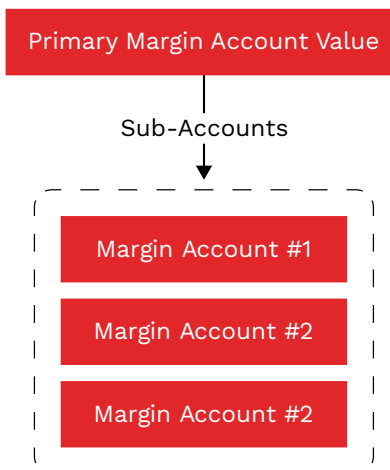
## Trading 101: What is a securities account?

What does all this talk about securities accounts have to do with Pattern Day Trading and EM calls? When you open an account at tastytrade, you are opening a securities account, which holds your stock, ETFs, equity options, and cash-settled index options positions. When you trade other asset classes like futures or cryptocurrencies, a separate account holds those position types, which may impact your ability to maintain a PDT status despite having a total account value above \$25,000. Please refer to [page 32](#) to learn more about cash sweeps and cryptocurrency trading accounts and how they can affect your account at tastytrade.

### CALCULATING THE TOTAL EQUITY FOR MULTIPLE MARGIN ACCOUNTS

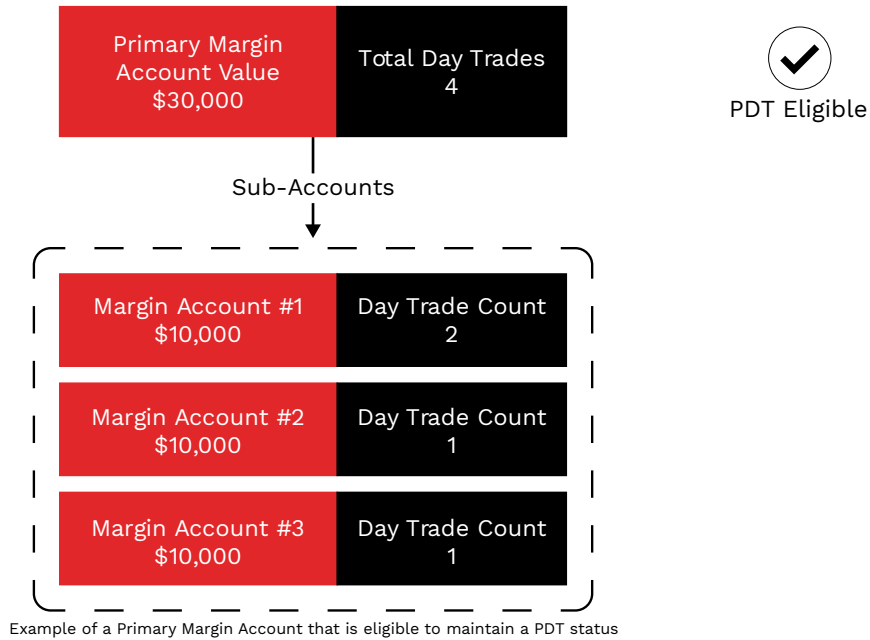
Do you have more than one margin account? If so, knowing all your margin accounts' total securities account value is essential if you plan on day trading stocks, options, or cash-settled index options. Futures and cryptocurrencies are not subject to pattern day trader rules but can affect your ability to maintain a PDT status due to cash sweeps (please refer to [page 32](#) to learn more about cash sweeps).

At tastytrade, when you have multiple margin accounts, they are structured on a primary and sub-account or "primary-sub" basis. That means the value of all your margin accounts combines into the primary margin account, which determines your eligibility to maintain a PDT status. It is worth noting that the "primary" margin account value only acts as an identifier to Apex, our clearing firm, for all the margin accounts you own. Margin accounts you own are associated with the Tax ID for US-based accounts or a government-issued ID number for international customers. Any margin accounts on which you have a Limited Trading Authority (LTA) will not count towards the total primary margin account value. Additionally, the primary-sub structure only applies to margin accounts and does not apply to cash accounts. The number of margin accounts you own determines the number of sub-accounts.

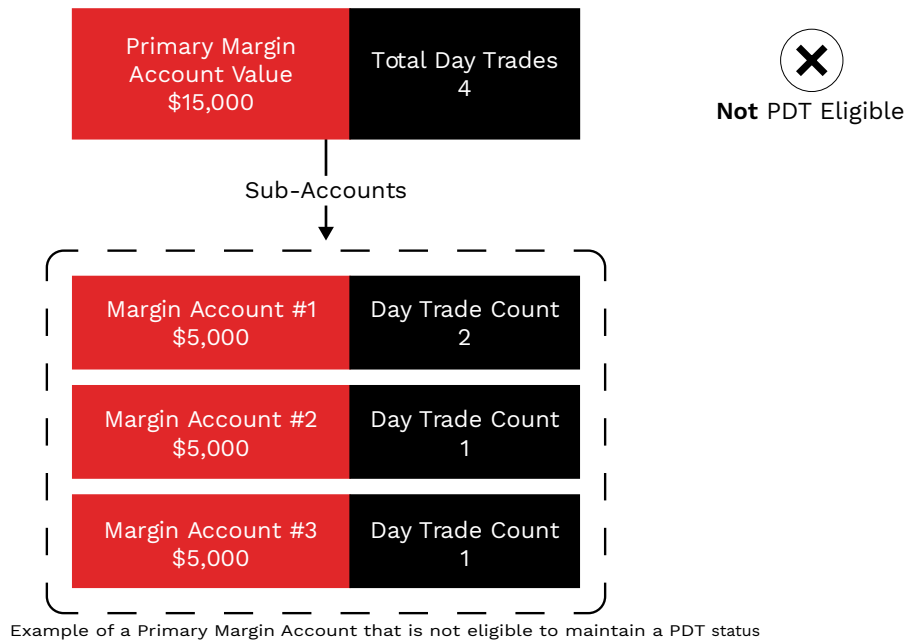


Example of the Primary-Sub structure for margin accounts

As long as the total securities account value in the primary remains above \$25,000, the account can maintain the PDT status. The example below shows a primary margin account over \$25,000, which can maintain a PDT designation if the total day trade count exceeds three in a rolling five-business-day period.



On the contrary, when the primary has less than \$25,000 and the cumulative total of all day trades placed in all sub-accounts exceeds three in a rolling five business day period, your primary account would be flagged as a PDT and receive an EM call the next trading day. As a result of the EM call, all sub-accounts are set to closing only until the call is met or by submitting a one-time-only PDT reset. The following section covers how to meet an EM call.



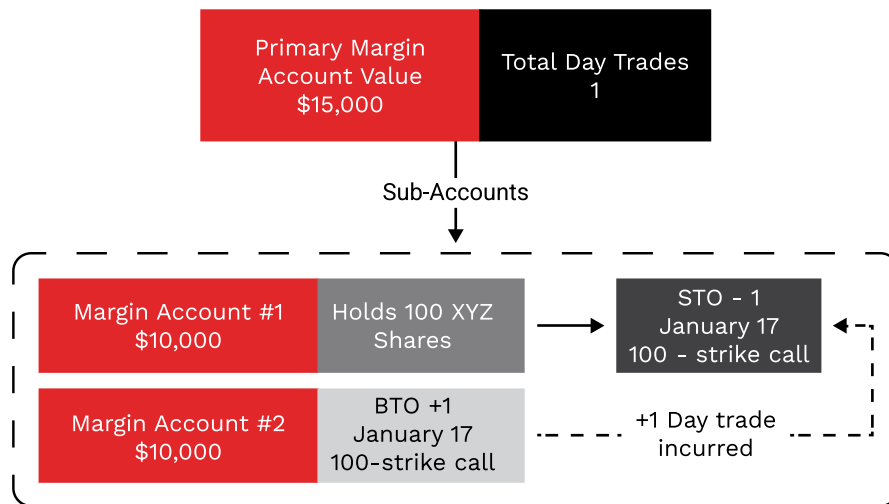


## Trading 101: Counting Day Trades for Securities

What counts as a day trade? Think of it as a “change in direction” within a trading session. A change in direction refers to how you close a position. When going long, you buy to open (BTO) and sell to close (STC). Conversely, when going short, you sell to open (STO) and buy to close (BTC). The closing trade in both examples is a change in direction. All tastytrade platforms will keep a running five trading day count of your securities day trades performed ([refer to page 20](#)). However, if you’re wondering whether your next closing trade may count as a day trade, check out the [tastytrade Help Center](#) for additional details.

Understanding a change in direction is especially vital if you plan on trading in multiple margin accounts, as any direction change in a sub-account can incur as a day trade due to position straddling. Straddling describes the act of establishing an opposite position in a different sub-account.

For example, let’s say you have 100 shares of XYZ in margin sub-account #1 and want to sell one January 17 100-strike call against it to establish a covered call position. Afterward, you buy the same call in any capacity in margin sub-account #2 within the same trading session. Consequently, the primary account would incur day trade since the opening trade in #2 would straddle the position established in sub-account #1, as illustrated (primary-sub straddle).



However, establishing the long call position the next day in sub-account #2 would not incur a day trade on a primary account level because the straddled position occurred in a different trading session.

In short, traders who need to keep track of their day trade count must be extra aware when establishing a straddled position in a different margin sub-account.

## HOW TO MEET AN EM CALL

Margin account holders that receive an EM call can meet the call one of two ways:

1. Initiate a deposit that will bring your securities account (or primary account total) to \$25,000 or more. The EM call is satisfied after the account reflects the deposit in its Net Liq.
2. Request a one-time PDT reset. PDT Resets submitted before 3:00 PM Central Time on days when the markets are open will be processed overnight and restore the account. Same-day PDT resets are not possible. **Margin account holders only get one PDT reset for the life of the account (primary account), with no exceptions.**



### Do PDT rules apply to me?

Regardless of where you call home, as a participant in US markets, everyone is subject to the rules set by the industry. A common question from non-US-based customers is, “Do these PDT rules apply to me even though I’m not from the US?” The short answer is yes.



### Account Tip

You can request a one-time PDT reset by logging in to Customer Account Management ([my.tastytrade.com](https://my.tastytrade.com)) > Manage > My Account > Risk Monitoring.

#### Reset Pattern Day Trader (PDT) Status

This account is classified as a **Pattern Day Trader (PDT)**. This means you have made more than 3 day trades in a rolling 5 business day period at some point in your margin account(s). Special requirements pertain to accounts with pattern day trader status under FINRA's Margin Requirement Rule. We understand it is possible that you did not intend to pattern day trade or that you will monitor your trades to avoid pattern day trading in your margin account(s) in the future. As such, each customer can request 1 PDT status reset over the lifetime of their margin account(s). You can request a PDT status reset here.

Reset PDT Status

**Please Note:** Each customer can request 1 PDT status reset over the lifetime of their margin account(s). PDT rules do not apply to futures or cryptocurrency trading.

Please visit the [tastytrade Help Center](#) to learn more about pattern day trading and EM calls, including how to submit a PDT reset after receiving an EM call.

## PRODUCTS SUBJECT TO DAY TRADING RULES IN A MARGIN ACCOUNT

It’s important to note that **pattern day trader rules only apply to securities**. That means you are limited to the number of day trades you can perform when trading stocks/ETF shares, equity options, and cash-settled index options unless you are able to maintain the PDT designation. Futures, options on futures, and cryptocurrencies are not subject to PDT rules.

ASSET CLASS	Stock/ETF shares	Equity/ETF options, including spreads	Cash-settled index options	Futures (outright contracts)	Options on Futures	Cryptocurrencies
SUBJECT TO PATTERN DAY TRADING RULES? (YES/NO)	Yes	Yes	Yes	No	No	No



## TRADING IN A CASH ACCOUNT

When customers hear about the day trade limit in a margin account, the common follow-up question is, “What about day trading in a cash account?” **Although cash accounts do not have the same day trading rules as a margin account, you are limited to the number of trades based on the amount of settled cash in your account. Additionally, cash accounts are not structured on a “primary-sub” basis like margin accounts.**

Instead of an EM call, cash accounts are subject to Good Faith Violations (GFV). Cash accounts that receive more than four GFVs in a rolling 12-month period will be restricted and have a closing-only restriction for 90 calendar days. **Unlike EM calls from PDT designations, there is no way to meet a GFV if you receive one or submit a “reset” after your account becomes restricted.**

Please visit the [tastytrade Help Center](#) to learn more about day trading in a cash account and Good Faith Violation.



### Trading 101: What is settlement?

We may live in a world where you can watch any movie on-demand and send or receive money instantly using a digital wallet app on your phone. However, in the world of trading, cash doesn't move in an instant. In a nutshell, settlement refers to when a trade finalizes via a clearing firm, and cash/position is delivered.

As of late May 2024, settlement times for stock/ETF shares changed from T+2 to T+1.

#### SETTLEMENT TIMES (IN BUSINESS DAYS)

Stock/ETF shares	Trade date +1 day
Equity/ETF options	Trade date +1 day
Cash-settled index options	Trade date +1 day

## DAY TRADE CALL (DT)

Of all the margin calls issued, the day trade call is arguably the most misunderstood and easily mistaken with an EM call due to the pattern day trader (PDT) rules. That said, margin account holders can trigger a DT call if they day trade while on an EM call, which will only occur after opting in to remove the closing-only restriction.

## MAINTENANCE EXCESS & STARTING DAY TRADE BUYING POWER

Before we dive into the details, you need a basic understanding of the composition of a margin account, namely **maintenance excess and starting day trade buying power**.

### ✓ Platform Tip

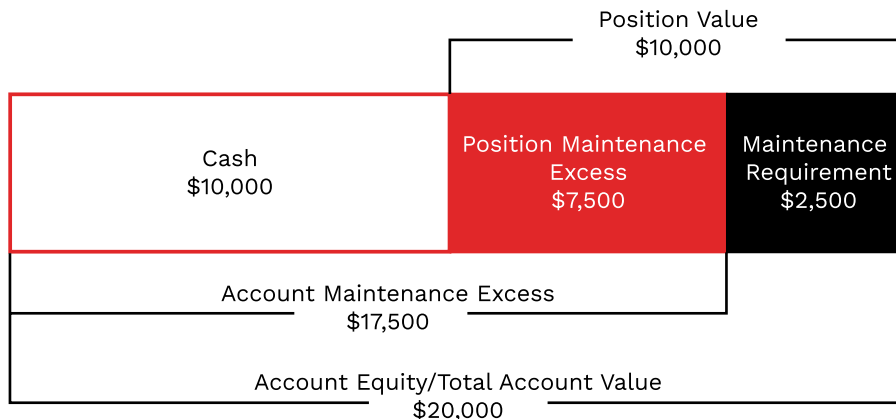
As mentioned earlier, maintenance excess is the amount of excess cash and equity outside of your position's maintenance requirement. **Maintenance excess is a real-time figure that will change based on your position's market value.** Meanwhile, **starting day trade buying power is a static figure and is the account's maintenance excess at the start of the day.**

ACCOUNTS	NetLiq	P/L Day	P/L YTD	Option BP	Stock BP	Da	Co
Margin	Bal 488,432.59			\$99,722.59	\$199,445.18		
POSITIONS	Current Balance			Value			
	Cash			\$159,256.59			
	Settled Cash Balance			\$146,742.97			
	Starting Day Trade Buying Power			\$143,393.23			
	Maintenance Excess			\$99,722.59			
TRADE	SMA			\$1,328,082.56			
		-0.04	92.28				
TY	0.00	11.14	0.89	-0.93	11.03	11.04	567.79 Δβ

Starting day trade buying power listed in the balances menu

Let's use a \$20,000 margin account that has purchased \$10,000 worth of stock as an example. Under Reg T, stocks are subject to a 25% maintenance requirement and play an integral role in allowing leverage within a margin account.

Using the illustration below, you will notice that due to the Reg T maintenance requirement (25%) of the stock position, the position has \$7,500 in position maintenance excess. As a result, the total account maintenance excess is \$17,500 (\$20,000 - \$2,500). By virtue, the more invested an account is, the less maintenance excess an account has.



In the example above, the account would have the following at the beginning of the next trading day:

- Starting Day Trade Buying Power (SDTBP): \$17,500 (static)
- Maintenance Excess: \$17,500 (real-time)

### WHAT TRIGGERS A DT CALL?

So, how does a day trade call come into play then? Great question! **By definition, a DT call gets issued when the high watermark of the day traded positions is greater than the starting day trade buying power in their margin account.**

The most common way a DT call gets generated is when an account experiences a profit during the trading day due to a pre-market or intraday move, closes the position(s), and then day trades using the profits. Since profits are not factored into the SDTBP figure, any day trades exceeding SDTBP will generate the DT call. Conversely, opening a new position using profits, but NOT day trading it, will not cause a DT call. Continuing the example above let's break down how a DT call triggers by referring to SDTBP and Maintenance Excess **displayed at the beginning of each day before the market opens.**



#### Trading 101: What is a high water mark?

Regarding a day trade call, a high water mark refers to the total value of positions opened at one-time that is day traded. The high water mark is important as it determines the day trade call amount when issued.



#### Trading 101: Day trading while in an EM Call

When a margin account does not have sufficient equity to maintain a PDT status, all margin accounts are set to closing-only as a precautionary measure. However, margin account holders that voluntarily remove the closing-only restriction the same day after submitting a PDT reset must be extra careful not to day trade that day until the PDT reset processes overnight or can meet the EM call by closing above \$25,000 in their primary margin account. Any day trades performed, intentional or unintentional, including any risk-reducing closing trades by our risk team while on an EM call with the closing-only restriction voluntarily removed, will generate a DT call by default. The margin account holder must satisfy the DT call to continue trading while on an EM call.

**Day 1:** Funded the account with \$20,000 and had the following at the start of the day:

- Net Liq: \$20,000
- Starting Day Trade Buying Power (SDTBP): \$20,000
- Maintenance Excess/Options Buying Power: \$20,000

**Trade #1:** An hour after the market opens, the investor buys 100 shares of JXC @ \$100 totaling \$10,000. The share price remains unchanged at the close. The JXC share position affects the margin account's maintenance excess and will become the SDTBP for Day 2.

- Maintenance Excess: \$17,500 [at the close]

**Day 2:** SDTBP for Day 2 will be \$17,500, reflecting the maintenance excess at the close on Day 1. For the sake of simplicity, the price of JXC shares remains at \$100 throughout Day 2.

- Net Liq: \$20,000
- Starting Day Trade Buying Power (SDTBP): \$17,500

**Trade #1:** At the start of the trading day, the investor purchased 100 XYZ call options @ \$1.00, totaling \$10,000.

**Trade #2:** Shortly after buying the calls, XYZ rallies, and the investor closes the 100 XYZ call options @ \$1.50, leading to a \$5,000 profit. As a result, the investor's net liq increases to \$25,000 and has a Maintenance Excess/Options Buying Power of \$22,500, but SDTBP remains the same.

**Trade #3:** After closing the XYZ calls, the investor purchases 100 ZYX put options @ \$2.25, totaling \$22,500, and closes the puts before the market close.

Although the investor profited from the 100 XYZ calls, the profits realized would not reflect in Day 2's SDTBP. The sale and profit from the XYZ calls would reflect in the investor's buying power after closing it, allowing the investor to establish new positions. However, the investor would receive a DT call the next trading day (on day 3) because of day trading with profits exceeding SDTBP.

Since the investor purchased \$22,500 (high watermark) of ZYX puts and day traded it, the investor would receive a DT call for \$5,000 since the investor exceeded its SDTBP and day traded with profits. The difference between the high watermark and Day 2's SDTBP (\$22,500 - \$17,500) determines the DT call amount. Whether the ZYX puts the investor day traded realized a gain or loss does not matter; the investor would receive a DT call for the same amount.

## HOW TO MEET A DT CALL

There two ways to meet a DT Call

1. Deposit (most common)
2. Liquidating positions and accruing a liquidation strike

Typically, DT calls are met with a deposit. You can satisfy a day trade call by depositing new funds into the account in the amount of the DT call or higher. The funds must remain in the account for at least two full business days to meet the DT Call.

The second method is by liquidating positions to meet the call. Only the positions that were opened before the DT Call was generated are eligible for liquidation and the value of the liquidated position must meet or surpass the DT call amount to satisfy the call. However, one thing to note about liquidating positions to meet a DT call is that only the maintenance (margin) requirement will apply to a DT call, not the position's total value. Maintenance requirements can vary by underlying and instrument. [You can refer to your Capital Requirement Report, or CAP REQ, on the platform to view the maintenance amount of your open position\(s\).](#) When liquidating to meet a DT call, you will accrue a liquidation strike. Margin account holders are only allowed 3 liquidation strikes in a rolling 12-month period.

Unmet DT calls will remain outstanding, and customers must not generate an additional DT call for at least 90 calendar days. Otherwise, the original DT call will compound with the newly issued DT call. Two or more unmet DT Calls will result in a closing-only restriction for 90 calendar days or until the calls are met. Any unmet DT calls will fall off the account after 90 calendar days.

In our example earlier, the unmet \$5,000 DT call would fall off the account after 90 calendar days. However, if the account triggered another DT call within 90 calendar days, it would compound and possibly face another 90-day closing-only restriction.

Please visit the [tastytrade Help Center](#) to learn more about Day Trade calls, including how they are calculated.

# ADDITIONAL RISKS TO CONSIDER

Additional risks exist when trading options. We'll review some of the most common risks margin accounts may encounter when trading options.

## EXPIRATION RISK FOR EQUITY AND ETF OPTIONS

Equity options are unique because there is a time component and the additional risks involved with holding options on the day of expiration. The notional value of an options contract can exceed an account's equity since options contracts enable you to gain exposure to 100 long or short shares of the underlying per standard equity contract.

All option strategies are subject to expiration risk, including long options, naked short options, and multi-leg option spreads. As a result, when an account holds any equity option positions on the day of expiration, it may be closed by the tastytrade Risk Team during the last trading hour **since the notional value of the stock from an automatic exercise or assignment at expiration determines the potential excessive risk at expiration**. Accounts with insufficient equity to sustain the resulting position have a higher risk of closure due to expiration risk. Regardless, customers are still responsible for any resulting position due to pin risk on expiration day.

Please visit the [tastytrade Help Center](#) to learn more about Expiration Risk, including how to notify our Risk Team that you are [monitoring your positions](#) to allow additional time.



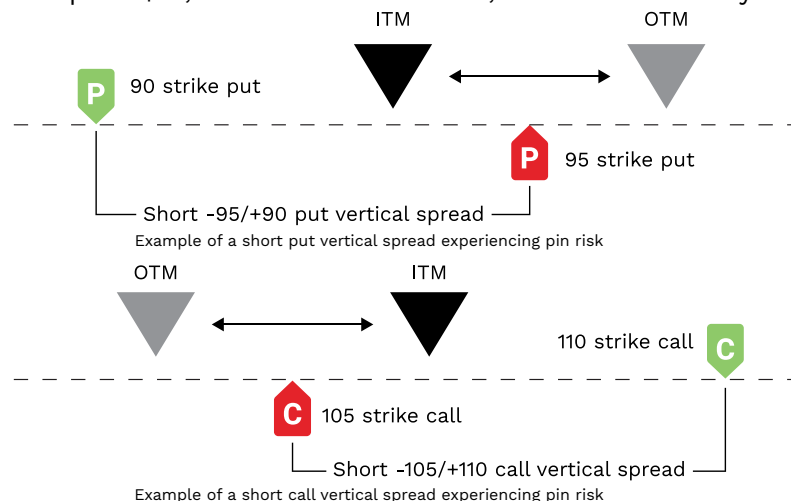
## Trading 101: Aren't defined-risk spreads always safe?

At face value, a defined-risk options spread may appear safe, but all bets are off on expiration day. Yes, a defined risk option spread helps limit your risk in the case of early assignment or if the entire spread expires deep in the money.

However, the risk lies with **pin risk**. Pin risk exists when there's the risk of the underlying expiring near your short strike or between the strikes of your spread and the account does not have enough account equity to sustain the resulting position from assignment on short options or auto-exercise from long options.

Long equity options that close in-the-money by \$0.01 or more are auto-exercised by the OCC, and in-the-money short equity options would get assigned. That means an underlying that expires between an option spread is no longer a defined-risk position. In a short vertical example, the short leg would get assigned, and the long leg would expire worthless for being out-of-the-money.

In the one-lot illustrations below, despite only posing \$500 worth of upside or downside risk when establishing, at expiration, pin risk may expose an account to additional risk. For the short put vertical example below, if the underlying at expiration closed between \$90-\$95, it would pose \$9,500 of long stock risk. Moreover, for the short call vertical example below, if the underlying at expiration closed between \$105-\$110, it would pose \$10,500 of short stock risk, which theoretically has unlimited risk.



## EXPIRATION RISK FOR CASH-SETTLED INDEX OPTIONS

Unlike equity options, cash-settled index options do not pose the same level of expiration risk since there are no underlying shares delivered due to an exercise or assignment. Instead, cash-settled index options settle using cash, as their name states. Some examples of index options that settle to cash are SPX, NDX, VIX, etc. Furthermore, cash-settled index options are European-style so they cannot be exercised early or result in early assignment. However, calendar spreads in cash-settled index options pose expiration risk if the longer-dated, long option's value is greater than the account's equity.

Please visit the [tastytrade Help Center](#) to learn more about cash-settled index options and their settlement method at expiration.

## EQUITY OPTIONS EXERCISE AND ASSIGNMENTS

Equity options traded on US-listed markets are American-style options. The American-style moniker has nothing to do with the fact that they trade on exchanges in the US. Instead, it refers to the fact that the long holder of the options can exercise it any time until it expires.

So, what's the big deal? Suppose you're a long holder with enough account equity to take on the position. In that case, you can exercise your option anytime until the expiration day.

On the flip side, if you are short an options contract, you are at the mercy of the long holder and can be assigned long or short shares any time up until expiration. It's also worth noting that there is no way to "request" an assignment since the decision to exercise rests with the counterparty [the holder of the long option].

Accounts with sufficient account equity that experience an options assignment or auto-exercise at expiration may maintain the position. Also, options that convert to their notional value (long or short shares) do not necessarily mean an account will receive a margin call. Margin calls after an exercise or assignment will only occur when an account does not have sufficient account equity.

Finally, it's worth noting that you should not panic if you are assigned early on a naked option or a short option in a spread position. When the next trading session opens, you can manage the assigned stock position by closing it to meet or offset a margin call. This doesn't mean that a loss may not occur, but you are not stuck with the assigned stock or ETF position in your account. Moreover, if you were assigned early on an option spread, it's important to remember that your risk remains the same as long as you still have your long options leg and perform a covered stock order ([mentioned earlier in the Reg T \(RT\) Call section on page 6](#)).



### Trading 101: When standard equity options convert to shares

Do you get calls and puts mixed up, especially if you are long or short when they convert to shares?

Action	Calls	Puts
Short assignment	-100 shares/ contract	+100 shares/ contract
Long exercise	+100 shares/ contract	-100 shares/ contract

## DIVIDEND RISK

Do you plan on trading short calls or call spreads? If so and the underlying pays a dividend, your position may be subject to dividend risk.

What's dividend risk? Dividend risk is when a short call position has a high potential of getting assigned short stock. Aside from having to take on 100 short shares [per contract] because of the assignment, you will also be on the hook to pay the dividend to the holder of the long option that exercises the call!

To gauge any upcoming dividend risk, you'll need to do your due diligence to determine whether the underlying pays a dividend and the dynamics behind what entitles a shareholder to a dividend payment. There are a few dates you want to be aware of when considering dividend risk:

1. The last day to buy shares or exercise a long call
2. Ex-Dividend Date (ex-div)
3. Record Date
4. Payable date

Since stocks settle T+1 (as of 5/28/2024), investors with short call option positions must understand the significance of the Ex-Div date. Ex-div date is the day stock trades without dividends. Investors who would like to receive dividends must purchase the stock the day before this date including exercising long call. As a result, investors with any open short call(s) positions subject to dividend risk can be assigned short shares on the day before the ex-div date. If assigned short shares, the investor will owe the dividend on the payable date, typically paid weeks from the record date. The table below illustrates this timeline. Note that Ex-Div date and Record Date are the same due to the new T+1 settlement period. But please note that nothing has changed on investor's end having to purchase stock or exercise long call before ex-div date to receive dividends.

MONDAY March 1	TUESDAY March 2	WEDNESDAY March 3	THURSDAY March 4	FRIDAY March 5
	<b>Last day to buy shares or exercise long call(s)</b> to be eligible for the dividend.	<b>Ex-div and record date</b> When stock trades without the dividend and owners of the shares are recorded and are entitled to the dividend.		
	Buy Shares	1 <sup>st</sup> day of settlement		

Please visit the [tastytrade Help Center](#) to learn more about dividend risk, including one way to determine if you are potentially subject to dividend risk.

## CASH SWEEPS FOR FUTURES AND CRYPTOCURRENCY TRADING

Do you plan on trading futures or crypto in your margin account? If so, you'll want to familiarize yourself with cash sweeps, which is the term used when cash moves from your margin account to your futures or cryptocurrency account. You'll want to be aware of some unique characteristics when holding different asset classes in your tastytrade margin account.

### BROKERAGE OPERATIONS 101: CASH SWEEPS CRASH COURSE

Ready for a quick lesson on brokerage operations? When you open a margin account and want to trade futures or crypto, you'll need to apply for futures or crypto trading with your margin account.

When you apply for futures or crypto trading, you are technically opening another account with our futures or cryptocurrency custodian. Although it may look like one account on the platform, separate accounts exist to hold your futures or crypto positions.

When you open an outright futures or futures options position and hold it from one trading session to another, the overnight requirement or SPAN margin requirement for your futures position will sweep from your tastytrade securities account to your futures account overnight. Also, futures positions mark-to-market each day and the profit or loss based on the closing mark will be swept accordingly from your futures account to your margin account or your margin account to futures account, respectively.

Similarly, the cost of your crypto purchase will sweep from your tastytrade securities account to your cryptocurrency account after establishing a long crypto position.



### Trading 101: What is SPAN?

SPAN is short for the CME's **Standard Portfolio Analysis of Risk**. SPAN is the CME's methodology for determining the overnight requirements to open and maintain any futures and options on futures position(s). SPAN is real-time and determined by the CME.



### Trading 101: What is Mark-to-Market?

One unique characteristic of trading futures and holding them over multiple trading sessions is that they are mark-to-market daily. Mark-to-market refers to the profit or loss of a futures position within a single trading session.

When you open your futures position, your profit or loss will be determined by mark-to-market based on the entry price of your position. Afterward, your profit or loss each day will be based on the closing mark determined by the futures exchange. The profit or loss each day will determine how much cash sweeps between your futures account and your securities account, or vice-versa.

Although you may have not closed your futures positions, they are marked-to-market at the end of each trading session and when you close your position, the overall profit or loss will be determined from the original opening price.

	Monday	Tuesday	Wednesday	Thursday	Friday	Total P/L
Position & Mark	Buy +1 /MES <sup>1</sup> @ 3,000	+1 /MES @ 3,025	+1 /MES @ 3,040	+1 /MES @ 3,000	+1 /MES @ 3,005	
Closing Mark	3,025	3,040	3,000	3,005	Sell -1 /MES @ 3,015	
P/L & Cash Sweep Amount	+\$125 <sup>2</sup> (3,025 - 3,000 = 25 x \$5)	+\$75 (3,040 - 3,025 = 15 x \$5)	-\$200 (3,000 - 3,040 = -40 x \$5)	+\$25 (3,005 - 3,000 = 5 x \$5)	+\$50 (3,015 - 3,005 = 10 x \$5)	+\$75 <sup>3</sup>

<sup>1</sup> Each point value for /MES (Micro E-mini S&P Futures Contract) equals \$5.

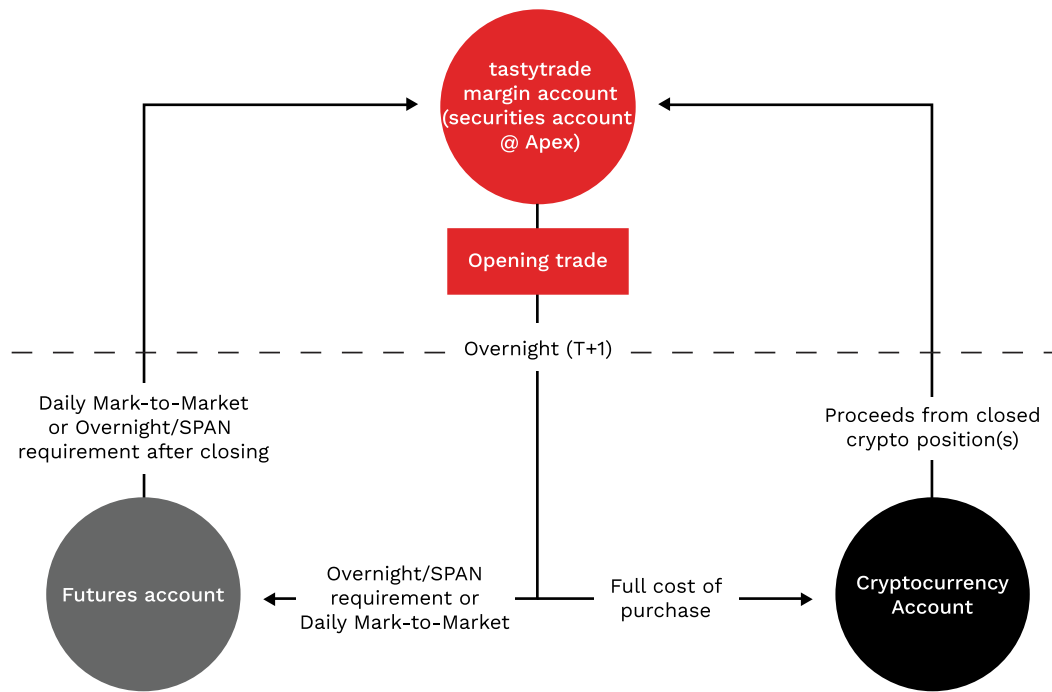
<sup>2</sup> The overnight requirement for /MES will also sweep from the securities account to the futures account when opening the position and vice-versa when closing.

<sup>3</sup> Total P/L is gross and does not consider commissions and fees when opening or closing. The gross P/L is calculated by taking the sum of each day's P/L & Cash Sweep Amount (\$125 + \$75 + -\$200 + \$25 + \$50 = \$75).



## CASH SWEEP DIAGRAM

The diagram below illustrates the cash sweep process when you open a futures or crypto position and hold it overnight from one trading day to another.



Cash sweep process from a securities account to a futures or crypto account

### HOW CAN CASH SWEEPS EFFECT MY ACCOUNT?

So, what's the deal about cash sweeps? Cash sweeps can **cause your securities account to go on margin**.

Since a margin account uses the marginable securities and cash in the account as collateral to extend buying power, it can cause your account to go on margin after a cash sweep. Going on margin occurs when the securities account does not have enough available cash to satisfy the sweep. It is important to note that going on margin does not generate a margin call if you have enough account equity.

It is essential to keep an eye out on your cash balance to know when you are borrowing cash as you will incur margin interest charges ([refer to the platform tip on page 8](#)).

Please visit the [tastytrade Help Center](#) to learn more about the separation of trading accounts.



### How is this allowed?

Do you remember the tidbit about Reg T earlier? As a refresher, Reg T enables customers access to leverage since an account does not need to post the entire value of a position as long as maintenance requirements are satisfied. Due to the cash sweep from your securities account, any margin account with a PDT designation could potentially receive an EM call if the account's equity falls below \$25,000.

# GLOSSARY

## SECURITIES

assets that hold value and can be bought, sold, or traded such as stock, ETFs, stock and ETF options, and bonds. Equity and ETF options are considered derivative securities. The terms equities and securities can be interchangeable.

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## DERIVATIVES

refers to options contracts and futures contracts. You are not trading the actual asset when you trade options or futures. Instead, you are trading an instrument derived from an underlying asset such as stock or a commodity such as oil or corn.

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## BEING ON MARGIN

refers to borrowing cash to open and maintain positions.

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## LEVERAGE

allows investors to own exposure to a specific stock or asset class by only requiring investors to post a portion of the asset's value.

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## MARGINABLE SECURITIES

assets that can be traded using leverage and serve as collateral.

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## NON-MARGINABLE EQUITY SECURITIES

assets that cannot be traded using leverage nor serve as collateral.

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## UNDERLYING

describes the asset a derivative contract tracks and is delivered when exercised or assigned. For example, an options contract tracks the price of a specific stock or ETF, which can convert to long or short shares of that stock when exercised or assigned.

**INITIAL MARGIN REQUIREMENT**

the amount of buying power required to open a position. Initial requirements affect opening orders on stocks and ETF shares and are typically 50% of the position's value.

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**MAINTENANCE EXCESS**

a margin account's margin equity less the maintenance requirement of all open positions.

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**MAINTENANCE REQUIREMENT**

the amount of account equity that must be maintained in the account to hold a position. In most cases, it is 25% of the position's value when holding long shares in a margin account. When trading options, the maintenance requirement will be the initial requirement and vary by options strategy.

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**MARGIN PRIVILEGES**

whether you are eligible to borrow cash to open or maintain marginable positions. While there is no minimum to open a margin account, a margin account under \$2,000 in margin equity will not be eligible for margin privileges.

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**MARGIN EQUITY**

the amount of money and marginable securities in an account.

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**NET LIQUIDATION VALUE**

total account value that includes your account's cash balance and the mark value of your positions (marginable and non-marginable positions). It is displayed on all trading platforms.

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**COVERED STOCK ORDER**

when you close an assigned stock/ETF share position and the long option in one order. Covered stock orders are usually performed when only the short leg of an options vertical spread position experiences an early assignment.

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**CLOSING-ONLY**

account restriction that only allows you to close positions and disallows you from opening any new securities positions, including rolling orders.

# YOUR JOURNEY BEGINS!

Unfortunately, they don't teach you about opening brokerage accounts in school when it comes to starting your investing journey. We hope with this guide that you have enough under your belt to know the basics of your margin account.

At first glance, understanding a margin account may seem complicated, but we're here to help. There are also a lot of resources at your fingertips in the [tastytrade Help Center](#).

However, if you can't find what you're looking for, don't hesitate to contact us at [support@tastytrade.com](mailto:support@tastytrade.com).

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Options involve risk and are not suitable for all investors as the special risks inherent to options trading may expose investors to potentially significant losses. Please read [Characteristics and Risks of Standardized Options](#) before deciding to invest in options.

Futures accounts are not protected by the Securities Investor Protection Corporation (SIPC). All customer futures accounts' positions and cash balances are segregated by Apex Clearing Corporation. Futures and futures options trading is speculative and is not suitable for all investors. Please read the [Futures & Exchange-Traded Options Risk Disclosure Statement](#) prior to trading futures products.

Trading on margin can result in significant losses in the event of adverse market movement.

Portfolio margin account is not suitable for all investors. Trading in a Portfolio Margin account can substantially increase leverage. However, such increased leverage can significantly increase the risk of loss.

All investments involve risk of loss. Please carefully consider the risks associated with your investments and if such trading is suitable for you before deciding to trade certain products or strategies. You are solely responsible for making your investment and trading decisions and for evaluating the risks associated with your investments.

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