WAC 460-20C-170 Excessive trading. (1) The phrase "employ any device, scheme, or artifice to defraud" as used in RCW 21.20.010(1) includes any act of any broker-dealer or salesperson designed to effect with or for any customer's account with respect to which such broker-dealer or salesperson is vested with any discretionary power, or with respect to which the broker-dealer or salesperson is able by reason of the customer's trust and confidence to influence the volume and frequency of the trades, any transactions of purchase or sale which are excessive in size or frequency in view of the financial resources and character of such customer or account.

(2) For the purposes of subsection (1) of this section, RCW 21.20.035, WAC 460-20C-210(2), and 460-20C-220(6), the director may determine that trades are excessive in size or frequency in view of the financial resources and character of the account based on consideration of the following:

(a) **The cost-to-equity ratio.** The cost-to-equity ratio calculates the rate of return the account has to earn during a given period to cover account costs. The cost-to-equity ratio is calculated by dividing the total commissions and costs for the security purchases in an account in a given period of time by the average net equity of the account during that period; and

(b) **The turnover ratio.** The turnover ratio is calculated by dividing the total dollar amount of securities purchased in a given period by the average net equity of the account during that period.

The above is not intended to be all inclusive, and thus the director may determine whether trades are excessive by other reasonable means.

[Statutory Authority: RCW 21.20.070 and 21.20.450. WSR 24-19-055, s 460-20C-170, filed 9/12/24, effective 10/13/24.]