

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 72-206
September 18, 1972

AMENDMENTS TO REGULATIONS G, T, AND U (Same-Day Substitution Rule And Short Sales of Stock)

To All Banks, Broker/Dealers, Regulation G Registrants and
Others Concerned in the Eleventh Federal Reserve District:

Effective September 18, 1972, the Board of Governors of the Federal Reserve System amended Regulations G, T, and U. The change will strengthen the equity position of low-margin accounts when offsetting sales and purchases of stock collateral are made on the same day.

The original proposal was transmitted to you under Circular No. 72-88 dated May 11, 1972.

Under the amendment, use of the "same-day substitution" rule will end in accounts where the debt--adjusted as defined in the regulation--is more than 60 percent of the market value of the stock collateral in the account.

Under the "same-day substitution" rule, customers are permitted to substitute one security for another in their accounts through off-setting purchases and sales made on the same day even if the account is below the initial margin requirement. Presently, no margin customer is required to put up additional equity unless he buys more securities than he sells on that day. This practice makes it possible for customers with undermargined accounts to continue trading for extended periods without putting up additional equity.

In addition, the Board adopted, also effective September 18, another technical amendment to Regulation T to permit short sales of stock into which bonds are convertible on the same terms as ordinary short sales of stock. Enclosed are copies of the amendments.

Yours very truly,

P. E. Coldwell,

President

Enclosures

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION G

Effective September 18, 1972*

SECTION 207.5 — SUPPLEMENT

(a) **Maximum loan value of margin securities.** For the purpose of § 207.1, the maximum loan value of any margin security, except convertible securities subject to § 207.1(d), shall be 45 per cent of its current market value, as determined by any reasonable method.

(b) **Maximum loan value of convertible debt securities subject to § 207.1(d).** For the purpose of § 207.1, the maximum loan value of any security against which credit is extended pursuant to § 207.1(d) shall be 50 per cent of its current market value, as determined by any reasonable method.

(c) **Retention requirement.** For the purpose of § 207.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the "retention requirement" of a margin security and of a security against which credit is extended pursuant to § 207.1(d) shall be 70 per cent of its current market value, as determined by any reasonable method.

(d) **Requirements for inclusion on list of OTC margin stock.** Except as provided in subparagraph (4) of § 207.2(f), such stock shall meet the requirements that:

(1) The stock is subject to registration under § 12(g) (1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g) (1)), or if issued by an insurance company subject to § 12(g) (2) (G) (15 U.S.C. 78l(g) (2) (G)) the issuer had at least \$1 million of capital and surplus,

(2) Five or more dealers stand willing to, and do in fact, make a market in such stock including making regularly published *bona fide* bids and offers for such stock for their own accounts, or the stock is registered on a securities exchange that is exempted by the Securities and Exchange Commission from registration as a national securities exchange pursuant to § 5 of the Securities Exchange Act of 1934 (15 U.S.C. 78e),

(3) There are 1,500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(4) The issuer is organized under the laws of the United States or a State⁹ and it, or a predecessor in interest, has been in existence for at least 3 years,

(5) The stock has been publicly traded for at least 6 months, and

(6) Daily quotations for both bid and asked prices for the stock are continuously available to the general public; and shall meet 3 of the 4 additional requirements that:

(7) There are 500,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(8) The shares described in subparagraph (7) of this paragraph have a market value in the aggregate of at least \$10 million,

(9) The minimum average bid price of such stock, as determined by the Board in the latest month, is at least \$10 per share, and

(10) The issuer had at least \$5 million of capital, surplus, and undivided profits.

(e) **Requirements for continued inclusion on list of OTC margin stocks.**

(1) The stock continues to be subject to registration under § 12(g) (1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g) (1)), or if issued by an insurance company such issuer continues to be subject to § 12(g) (2) (G) (15

⁹ As defined in 15 U.S.C. 78c(a) (16).

*Effective date of addition of Paragraph (e). There have been no changes in maximum loan values or retention requirement since December 6, 1971.

U.S.C. 78l(g) (2) (G)) and has at least \$1 million of capital and surplus.

(2) Four or more dealers stand willing to, and do in fact, make a market in such stock including making regularly published *bona fide* bids and offers for such stock for their own accounts, or the stock is registered on a securities exchange that is exempted by the Securities and Exchange Commission from registration as a national securities exchange pursuant to § 5 of the Securities Exchange Act of 1934 (15 U.S.C. 78e),

(3) There continue to be 1,000 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(4) The issuer continues to be a **U. S. corporation**,

(5) Daily quotations for both bid and asked prices for the stock are continuously available to

the general public; and shall meet 3 of the 4 additional requirements that:

(6) 400,000 or more shares of such stock remain outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value in the aggregate of at least \$5 million,

(8) The minimum average bid price of such stock, as determined by the Board, is at least \$5 per share, and

(9) The issuer continues to have at least \$2.5 million of capital, surplus, and undivided profits.

(f) **Minimum equity ratio.** The minimum equity ratio of a credit subject to § 207.1 is 40 percent.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SECURITIES CREDIT BY PERSONS
OTHER THAN BANKS, BROKERS, OR DEALERS

AMENDMENTS TO REGULATION G †

Effective September 18, 1972, Section 207.1 (j) (2) is amended; paragraph (k) is added to Section 207.2; and paragraph (f) is added to Section 207.5 to read as follows:

SECTION 207.1 — GENERAL RULE

* * * * *

(j) **Withdrawals and substitutions of collateral.**

* * * * *

(2) **Same-day substitution of collateral.** Except as prohibited by § 207.4(a) (2), in the case of a credit in which the equity ratio is equal to or exceeds the minimum equity ratio as prescribed in § 207.5 (the supplement to the regulation) a lender may permit a substitution of margin securities effected by a purchase and sale on orders executed within the same day: *Provided*, That (i) if the proceeds of the sale exceed the total cost of the purchase, the credit is reduced by at least an amount equal to the retention requirement in re-

spect to the sale less the retention requirement in respect to the purchase, or (ii) if the total cost of the purchase exceeds the proceeds of the sale, the credit may be increased by an amount no greater than the maximum loan value of the securities purchased less the maximum loan value of the securities sold. If the maximum loan value of the collateral securing the credit has become less than the amount of the credit, the amount of the credit may nonetheless be increased if there is provided additional collateral having maximum loan value at least equal to the amount of increase, or the credit is extended pursuant to § 207.4(a).

SECTION 207.2 — DEFINITIONS

(k) The term "*equity ratio*" means the fraction stated as a percentage in which the denominator is the current market value of the collateral having loan value in respect of the credit and the numerator is such current market value minus the amount of the credit currently owing.

* * * * *

† For this Regulation to be complete as amended effective September 18, 1972, retain.

- 1) Printed Regulation pamphlet containing Regulations G, T, U, and X dated November 1971.
- 2) Supplement effective May 15, 1972.
- 3) Amendment effective May 15, 1972.
- 4) This slip sheet.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION T

Effective September 18, 1972*

SECTION 220.8 — SUPPLEMENT

(a) **Maximum loan value for general accounts.** The maximum loan value of securities in a general account subject to § 220.3 shall be:

(1) of a registered non-equity security held in the account on March 11, 1968, and continuously thereafter, and of a margin equity security (except as provided in § 220.3(c) and paragraphs (b) and (c) of this section), 45 per cent of the current market value of such securities.

(2) of an exempted security held in the account on March 11, 1968, and continuously thereafter, the maximum loan value of the security as determined by the creditor in good faith.

(b) **Maximum loan value for a special bond account.** The maximum loan value of an exempted security and of a registered non-equity security pursuant to § 220.4(i) shall be the maximum loan value of the security as determined by the creditor in good faith.

(c) **Maximum loan value for special convertible debt security account.** The maximum loan value of a margin security eligible for a special convertible security account pursuant to § 220.4(j) shall be 50 per cent of the current market value of the security.

(d) **Margin required for short sales.** The amount to be included in the adjusted debit balance of a general account, pursuant to § 220.3(d)(3), as margin required for short sales of securities (other than exempted securities) shall be 55 per cent of the current market value of each security.

(e) **Retention requirement.** In the case of an account which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, pursuant to § 220.3(b)(2):

(1) The "retention requirement" of an exempted security held in the general account on March 11, 1968, and continuously thereafter, shall be equal to its maximum loan value as determined by the creditor in good faith, and the "retention requirement" of a registered non-equity security held in such account on March 11, 1968, and continuously thereafter, and of a margin security, shall be 70 per cent of the current market value of the security.

(2) In the case of a special bond account subject to § 220.4(i), the retention requirement of an exempted security and of a registered nonequity security shall be equal to the maximum loan value of the security.

(3) In the case of a special convertible security account subject to § 220.4(j) which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, the retention requirement of a security having loan value in the account shall be 70 per cent of the current market value of the security.

(4) For the purpose of effecting a transfer from a general account to a special convertible security account subject to § 220.4(j), the retention requirement of a security described in § 220.4(j), shall be 70 per cent of its current market value.

(f) **Security having no loan value in general account.** No securities other than an exempted security or registered non-equity security held in the account on March 11, 1968, and continuously thereafter, and a margin security, shall have any loan value in a general account except that a margin security eligible for the special convertible security account pursuant to § 220.4(j) shall have loan value only if held in the account on March 11, 1968, and continuously thereafter.

(g) **Account subject to section 8(g).** For purposes of the computation described in § 220.3(b)(1)(ii),

(1) The maximum loan value of a registered non-equity security held in the account on March 11, 1968, and continuously thereafter, and of a margin equity security shall be 60 per cent of the current market value of such security, and the maximum loan value of an exempted security held in the account on March 11, 1968, and continuously thereafter shall be the maximum loan value of the security as determined by the creditor in good faith.

(2) The amount to be included in the adjusted debit balance of the account pursuant to § 220.3(d)(3) as margin required for short sales of securities (other than exempted securities) shall be 40 per cent of the current market value of each security.

*Effective date of addition of Paragraph (h). There have been no changes in maximum loan values or retention requirement since December 6, 1971.

(h) **Requirements for inclusion on list of OTC margin stock.** Except as provided in subparagraph (4) of § 220.2(e), OTC margin stock shall meet the requirements that:

(1) The stock is subject to registration under § 12(g) (1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g) (1)), or if issued by an insurance company subject to § 12(g) (2) (G) (15 U.S.C. 78l(g) (2) (G)), the issuer had at least \$1 million of capital and surplus.

(2) Five or more dealers stand willing to, and do in fact, make a market in such stock including making regularly published *bona fide* bids and offers for such stock for their own accounts, or the stock is registered on a securities exchange that is exempted by the Securities and Exchange Commission from registration as a national securities exchange pursuant to § 5 of the Act (15 U.S.C. 78e),

(3) There are 1,500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(4) The issuer is organized under the laws of the United States or a State⁶ and it, or a predecessor in interest, has been in existence for at least 3 years,

(5) The stock has been publicly traded for at least 6 months, and

(6) Daily quotations for both bid and asked prices for the stocks are continuously available to the general public; and shall meet 3 of the 4 additional requirements that:

(7) There are 500,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(8) The shares described in subparagraph (7) of this paragraph have a market value in the aggregate of at least \$10 million,

(9) The minimum average bid price of such

stock, as determined by the Board in the latest month, is at least \$10 per share, and

(10) The issuer had at least \$5 million of capital, surplus, and undivided profits.

(i) **Requirements for continued inclusion on list of OTC margin stock.**

(1) The stock continues to be subject to registration under § 12(g) (1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g) (1)), or if issued by an insurance company such issuer continues to be subject to § 12(g) (2) (G) (15 U.S.C. 78l(g) (2) (G)) and has at least \$1 million of capital and surplus.

(2) Four or more dealers stand willing to, and do in fact, make a market in such stock including making regularly published *bona fide* bids and offers for such stock for their own accounts, or the stock is registered on a securities exchange that is expected by the Securities and Exchange Commission from registration as a national securities exchange pursuant to § 5 of the Securities Exchange Act of 1934 (15 U.S.C. 78e),

(3) There continue to be 1,000 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(4) The issuer continues to be a U.S. corporation,

(5) Daily quotations for both bid and asked prices for the stock are continuously available to the general public; and shall meet 3 of the 4 additional requirements that:

(6) 400,000 or more shares of such stock remain outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value in the aggregate of at least \$5 million.

(8) The minimum average bid price of such stock, as determined by the Board, is at least \$5 per share, and

(9) The issuer continues to have at least \$2.5 million of capital, surplus, and undivided profits.

⁶ As defined in 15 U.S.C. 78c(a) (16).

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CREDIT BY BROKERS AND DEALERS

AMENDMENT TO REGULATION T †

Effective September 18, 1972, Sections 220.3 (a), (b) (1), (d) (3), and (g) are amended; Section 220.4(j) subparagraph (4) is amended; subparagraph (5) is added; and in Section 220.8 new paragraph (g) is added and paragraphs (g) and (h) are redesignated as paragraphs (h) and (i), respectively to read as follows:

SECTION 220.3 — GENERAL ACCOUNT

(a) **Contents of general account.** All financial relations between a creditor and a customer, whether recorded in one record or in more than one record, shall be included in and be deemed to be part of the customer's general account with the creditor, except that the relations which § 220.4 permits to be included in any special account provided for by that section may be included in the appropriate special account, and all transactions in commodities, and, except to the extent provided in paragraph (b) (2) of this section, all transactions in non-equity securities, exempted securities, and in other securities having no loan value in a general account under the provisions of paragraph (c) of this section and § 220.8 (the Supplement to Regulation T) (except unissued securities, short sales and securities positions to offset short sales other than those permitted in § 220.4(j) (5), purchases to cover short sales and contracts involving an endorsement or guarantee of any put, call, or other option), shall be included in the appropriate special account provided for by § 220.4. During any period when such § 220.8 specifies that margin equity securities shall have no loan value in a general account or special convertible debt security account (sometimes referred to herein as "special convertible security account") subject to § 220.4(j), any transaction consisting of a purchase of a security other than a purchase of a security to reduce or close out a short position shall be effected in the special cash account provided for by § 220.4(c) or in some other appropriate special account provided for by § 220.4.

(b) **General rule.** (1) (i) A creditor shall not effect for or with any customer in a general account, special bond account subject to § 220.4(i), or special convertible debt security account any transaction which, in combination with the other transactions effected in such account on the same day, creates an excess of the adjusted debit balance of such account over the maximum loan value of the securities in such account, or increases any such excess, unless in connection therewith the creditor obtains, as promptly as possible and in any event before the expiration of 5 full business days following the date of such transaction, the deposit into such account of cash or securities in such amount that the cash deposited plus the

loan value of the securities deposited equals or exceeds the excess so created or the increase so caused.

(ii) If the adjusted debit balance in a general account or special convertible debt security account, computed using the margin requirement for short sales specified in § 220.8(g) (2) of the supplement to Regulation T, exceeds the maximum loan value of the securities in such account specified in § 220.8(g) (1), the account is subject to § 220.8(g) (sometimes referred to herein as "account subject to section 8(g)"). If an account is subject to § 220.8(g) as of the close of business on the preceding business day, it shall be subject, in addition to all other requirements applying to the account, to the requirement that the creditor shall not effect any transaction in the account which creates an excess of the adjusted debit balance of such account, computed using the margin requirements for short sales specified in § 220.8 (d), over the maximum loan value of the securities in such account specified in § 220.8(a) and (c), or increases any such excess, unless in connection therewith the creditor obtains, as promptly as possible and in any event before the expiration of 5 full business days following the date of such transaction, the deposit into such account of cash or securities in such amount that the cash deposited plus the loan value of the securities deposited equals or exceeds the excess so created or the increase so caused. The required deposit may be reduced by the amount of cash or securities which otherwise could be withdrawn pursuant to the provisions of subparagraph (2) of this paragraph in connection with any other transactions in the account on the same day.

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(d) **Adjusted debit balance.** For the purpose of this part, the adjusted debit balance of a general account, special bond account, or special convertible debt security account shall be calculated by taking the sum of the following items: * * *

(3) the current market value of any securities (other than unissued securities) sold short in the general account plus, for each security (other than an exempted security), such amount as the Board shall prescribe from time to time § 220.8(d) (the Supplement to Regulation T) as the margin required for such short sales, except that such amount so prescribed in such § 220.8(d) need not be included when there are held in the general account or special convertible debt security account the same securities or securities exchangeable or convertible within 90 calendar days, with-

out restriction other than the payment of money, into such securities sold short;

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(g) **Transactions on given day.** (1) For the purpose of paragraph (b)(1) of this section, except in the case of an account subject to section 8(g), the question of whether or not an excess of the adjusted debit balance of a general account, special bond account, or special convertible debt security account over the maximum loan value of the securities in such account is created or increased on a given day shall be determined on the basis of all the transactions in the account on such day exclusive of any deposit of cash, deposit of securities, covering transactions, or other liquidation that has been effected on such day, pursuant to the requirements of paragraph (b) or (e) of this section, in connection with a transaction on a previous day.

(2) In the case of an account subject to section 8(g), the required deposit, under paragraph (b)(1)(ii) of this section in connection with transactions on a given day, shall be equal to the amount by which the retention requirement of any securities sold for such account on such day exceeds the maximum loan value of any securities purchased in such account on such day. Such computation may be made at the close of trading on such day and shall be made exclusive of any deposit of cash, deposit of securities, covering transactions or other liquidation that has been effected on such day, pursuant to the requirements of paragraph (b) or (e) of this section, in connection with a transaction on a previous day.

(3) In any case in which an excess so created, or increase so caused, by transactions on a given day does not exceed \$100, the creditor need not obtain the deposit specified therefor in paragraph (b)(1) of this section.

(4) Any transaction which serves to meet the requirements of paragraph (e) of this section or otherwise serves to permit any offsetting trans-

action in an account shall, to that extent, be unavailable to permit any other transaction in such account.

(5) For the purposes of this part (Regulation T), if a security has maximum loan value under paragraph (c)(1) of this section in a general account, or under § 220.4(j) in a special convertible debt security account, a sale of the same security (even though not the same certificate) in such account shall be deemed to be a long sale and shall not be deemed to be or treated as a short sale.

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SECTION 220.4 — SPECIAL ACCOUNTS

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(j) **Special convertible debt security account.**

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(4) In the event any convertible debt security held in this account is to be converted to a stock, such security shall upon conversion be transferred to the customer's general account against a deposit of cash or margin securities eligible for an extension of credit in this account (counted at their maximum loan value) equal to at least the maximum loan value of the security so transferred without regard to the retention requirement of § 220.3(b)(2).

(5) In a special convertible debt security account the amount of margin equity securities into which a margin debt security held in the account is convertible may be sold short without regard to the margin required for short sales in §220.8(d) (Supplement to Regulation T), and such short position may be carried in the special convertible debt security account in conformity with the exception provided in § 220.3(d) (3).

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† For this Regulation to be complete as amended effective September 18, 1972, retain.

1) Printed Regulation pamphlet containing Regulations G, T, U, and X dated November 1971.

2) Supplement effective May 15, 1972.

3) Amendment effective May 15, 1972.

4) This slip sheet.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION U

Effective September 18, 1972*

SECTION 221.4 — SUPPLEMENT

(a) **Maximum loan value of stocks.** For the purpose of § 221.1, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 45 per cent of its current market value, as determined by any reasonable method.

(b) **Maximum loan value of convertible debt securities subject to § 221.3(t).** For the purpose of § 221.3(t), the maximum loan value of any security against which credit is extended pursuant to § 221.3(t) shall be 50 per cent of its current market value, as determined by any reasonable method.

(c) **Retention requirement.** For the purpose of § 221.1, in the case of a credit which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the "retention requirement" of a stock, whether or not registered on a national securities exchange, and of a convertible debt security subject to § 221.3(t), shall be 70 per cent of its current market value, as determined by any reasonable method.

(d) **Requirements for inclusion on list of OTC margin stock.** Except as provided in subparagraph (4) of § 221.3(d), OTC margin stock shall meet the requirements that:

(1) The stock is subject to registration under § 12(g) (1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g) (1)), or if issued by an insurance company subject to § 12(g) (2) (G) (15 U.S.C. 78l(g) (2) (G)) the issuer had at least \$1 million of capital and surplus,

(2) Five or more dealers stand willing to, and do in fact, make a market in such stock including making regularly published *bona fide* bids and offers for such stock for their own accounts, or the stock is registered on a securities exchange that is exempted by the Securities and Exchange Commission from registration as a national securities exchange pursuant to § 5 of the Act (15 U.S.C. 78e),

(3) There are 1,500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(4) The issuer is organized under the laws of the United States or a State⁹ and it, or a predecessor in interest, has been in existence for at least 3 years,

(5) The stock has been publicly traded for at least 6 months, and

(6) Daily quotations for both bid and asked prices for the stock are continuously available to the general public; and shall meet 3 of the 4 additional requirements that:

(7) There are 500,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock.

(8) The shares described in subparagraph (7) of this paragraph have a market value in the aggregate of at least \$10 million.

(9) The minimum average bid price of such stock, as determined by the Board in the latest month, is at least \$10 per share, and

(10) The issuer had at least \$5 million of capital, surplus, and undivided profits.

(e) **Requirements for continued inclusion on list of OTC margin stock.**

(1) The stock continues to be subject to registration under § 12(g) (1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g) (1)), or if issued by an insurance company such issuer continues to be subject to § 12(g) (2) (G) (15 U.S.C. 78l(g) (2) (G)) and has at least \$1 million of capital and surplus.

(2) Four or more dealers stand willing to, and do in fact, make a market in such stock including making regularly published *bona fide* bids and offers for such stock for their own accounts, or the

*Effective date of addition of Paragraph (e). There have been no changes in maximum loan values or retention requirement since December 6, 1971.

⁹As defined in 15 U.S.C. 78c(a) (16).

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stock is registered on a securities exchange that is exempted by the Securities and Exchange Commission from registration as a national securities exchange pursuant to § 5 of the Securities Exchange Act of 1934 (15 U.S.C. 78e),

(3) There continue to be 1,000 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(4) The issuer continues to be a U.S. corporation,

(5) Daily quotations for both bid and asked prices for the stock are continuously available to the general public; and shall meet 3 of the 4 additional requirements that:

(6) 400,000 or more shares of such stock remain outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value in the aggregate of at least \$5 million,

(8) The minimum average bid price of such stock, as determined by the Board, is at least \$5 per share, and

(9) The issuer continues to have at least \$2.5 million of capital, surplus, and undivided profits.

(f) **Minimum equity ratio.** The minimum equity ratio of a credit subject to § 221.1 is 40 percent.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR
CARRYING MARGIN STOCKS

AMENDMENT TO REGULATION U †

Effective September 18, 1972, Section 221.1 (c) is amended and paragraph (f) is added to Section 221.4 to read as follows:

SECTION 221.1—GENERAL RULE

* * * * *

(c) **Same-day transactions.** (1) Except as provided in § 221.3(r)(1), a bank may in the case of a credit in which the equity ratio is equal to or exceeds the minimum equity ratio as prescribed in § 221.4 (the supplement to the regulation) permit a substitution of stock whether margin or non-margin, effected by a purchase and sale on orders executed within the same day: *Provided*, That (i) if the proceeds of the sale exceed the total cost of the purchase, the credit is reduced by at least an amount equal to the "retention requirement" with respect to the sale less the "retention requirement"

with respect to the purchase, or (ii) if the total cost of the purchase exceeds the proceeds of the sale, the credit may be increased by an amount no greater than the maximum loan value of the stock purchased less the maximum loan value of the stock sold. If the maximum loan value of the collateral securing the credit has become less than the amount of the credit, the amount of the credit may nonetheless be increased if there is provided additional collateral having maximum loan value at least equal to the amount of the increase.

(2) For the purpose of this paragraph, the term "equity ratio" means the fraction (stated as a percentage) in which the denominator is the current market value of the collateral having loan value in respect of the credit and the numerator is such current market value minus the amount of the credit currently owing.

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