

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-297
November 7, 1974

AMENDMENTS TO REGULATIONS G, T, and U (Suspension of restrictions on same-day substitution for a period of six months)

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

The Board of Governors of the Federal Reserve System suspended for six months the restrictions that apply to use of the same-day substitution privilege in stock margin accounts. The suspension will permit use of the same-day substitution privilege in all margin accounts. The purpose of the suspension is to enable the Board to study the impact of the rule on margin customers, brokerage firms and the stock market itself.

In submitting the amendments for publication in the Federal Register, the Board of Governors made the following statement:

The Board's securities credit regulations, parts 207, 220, and 221 (Regulations G, T, and U), generally require that in the case of purchase-and-sale substitutions of securities in an undermargined account a specified portion of the sale proceeds must be used to strengthen the account; but until September 18, 1972, there was an exemption from that requirement when both the purchase and sale were executed on the same day. By amendments published in the Federal Register at 37 Fed. Reg. 13972, effective September 18, 1972, the Board narrowed the same-day exemption and limited it to accounts where the customer's equity was at least 40 percent.

The limitation in the September 18, 1972, amendments is now being suspended for a six-month period, from November 5, 1974, through May 5, 1975, while the Board reviews the appropriateness or inappropriateness in present circumstances of maintaining the 40 percent requirement with respect to the exemption of same-day substitutions.

The result of the Board's action in suspending the limitation will be to reinstate for a six-month period the rules which were in effect before September 18, 1972, permitting the substitution of collateral in all undermargined accounts, without using a portion of the sale proceeds to strengthen the account, when the substitution is

effected by a purchase and sale executed on the same day.

These amendments are issued pursuant to the authority of section 7 of the Securities Exchange Act of 1934 (15 U.S.C. §78g).

The requirements of 5 U.S.C. §553 with respect to notice, public participation and deferred effective date were not followed in connection with this suspension since it temporarily relieves a restriction and the Board found that to follow the requirements of section 553 would be impractical, unnecessary, and contrary to the public interest inasmuch as they would needlessly delay both observation of results of the suspension and appraisal of the appropriateness or inappropriateness of maintaining the restriction.

Enclosed is a copy of the amendments to Regulations G, T, and U; additional copies will be furnished upon request.

Yours very truly,

T. W. Plant,

First Vice President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SECURITIES CREDIT TRANSACTIONS

AMENDMENTS TO REGULATIONS G, T, AND U

1. Effective November 5, 1974, paragraph (f) of section 207.5 is amended to read as follows:

SECTION — 207.5 — SUPPLEMENT

* * * * *

(f) Minimum equity ratio. The minimum equity ratio of a credit subject to section 207.1 is 40 percent. For the period November 5, 1974, through May 5, 1975, all same-day substitutions of collateral permitted by section 207.1(j)(2) for credits in which the equity ratio equals or exceeds the minimum equity ratio shall also be permitted for all credits in which the equity ratio is less than the minimum equity ratio.

2. Effective November 5, 1974, section 220.8(g) is amended by adding a new subparagraph (3) to read as follows:

SECTION — 220.8 — SUPPLEMENT

* * * * *

(3) For the period November 5, 1974, through May 5, 1975, all transactions permitted by sections 220.3(b)(1) and 220.3(g) for accounts not subject to section 8(g) shall also be permitted in accounts subject to section 8(g).

3. Effective November 5, 1974, paragraph (f) of section 221.4 is amended to read as follows:

SECTION — 221.4 — SUPPLEMENT

* * * * *

(f) Minimum equity ratio. The minimum equity ratio of a credit subject to section 221.1 is 40 percent. For the period November 5, 1974, through May 5, 1975, all same-day transactions permitted by section 221.1(c) for credits in which the equity ratio is equal to or exceeds the minimum equity ratio shall also be permitted for those credits in which the equity ratio is less than the minimum equity ratio.