

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-63

May 12, 1975

AMENDMENTS TO REGULATIONS G, T, AND U

(Suspension of Limitation of "Same-Day Substitution" Rule
Extended Until September 30, 1975)

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 has extended until September 30, 1975, a suspension of the rule that normally applies to the use of the same-day substitution privilege in stock margin accounts.

The extension will allow time for further consideration by the Board and consultation with interested parties of the impact of the rule on margin customers, brokerage firms, and the stock market itself.

Under the same-day substitution privilege, customers are permitted to substitute one security for another in their accounts through offsetting purchases and sales made on the same day, without applying additional margin for the purchase or using any of the proceeds of the sale to strengthen an account that is below the initial margin requirement.

The rule that was suspended for six months November 4, 1974, limited use of this privilege to margin accounts with an equity of 40 percent or more of the market value of the stock collateral in the account.

The additional suspension applies to extensions of credit by brokers and dealers (Regulation T) and loans by banks and other lenders (Regulations U and G, respectively) for the purpose of purchasing or carrying stocks registered on a national exchange or named on the Board's over-the-counter margin list.

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 proceeds from the securities sold must be used to reduce the credit. Until September 18, 1972, there was an exemption from that requirement when both the purchase and sale were executed on the same day. Effective September 18, 1972, the Board narrowed the same-day substitution exemption and limited it to accounts where the customer's equity was at least 40 percent (37 F.R. 13972).

The limitation imposed in 1972 was suspended for a six-month period from November 5, 1974, to May 5, 1975, while the Board reviewed its appropriateness (30 F.R. 39433). The Board has determined to extend the suspension until September 30, 1975, to allow time for further consideration and consultation with interested parties with respect to an analysis of the impact of the limitation of the "same-day substitution" rule. The result of the Board's action will be to allow same-day substitutions of collateral in all accounts without regard to the customer's equity in the collateral until September 30, 1975, on the same basis as existed prior to September 18, 1972.

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

The requirements of 5 U.S.C. Section 553 with respect to notice, public participation, and deferred effective date were not followed in connection with this additional 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 cause disruption in the procedures of lenders covered by the Board's securities credit regulations.

Enclosed is a copy of the amended Supplements to Regulations G, T, and U, which should be filed in your binder of Regulations. Additional copies will be furnished upon request to the Secretary's Office of this Bank.

Sincerely yours,

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 May 1, 1975, 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 September 30, 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 May 1, 1975, paragraph (3) of section 220.8(g) is amended to read as follows:

SECTION — 220.8 — SUPPLEMENT

* * * * *

(g) Account subject to section 8(g).

* * * * *

(3) For the period November 5, 1974, through September 30, 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 May 1, 1975, 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 September 30, 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.