



American Revolution Bicentennial

## FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-144  
September 29, 1975

### AMENDMENTS TO REGULATIONS G, T, AND U

#### "Same-Day Substitution" Limitation to Be Reinstated at 30-Percent Level on November 3, 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 announced that effective November 3, 1975, it will reinstate a rule that limits the use of the same-day substitution privilege in stock margin accounts.

Under the reinstated rule, use of the same-day substitution privilege will be limited to accounts with an equity of 30 percent or more of the market value of the stock collateral in the account. This ratio had been set at 40 percent prior to suspension of the privilege last November 4.

The rule was suspended to permit the Board to consider the impact of the rule on margin customers, brokerage firms, and the stock market. The suspension expires on September 30, 1975, but the Board extended it through November 2, 1975, to allow brokerage firms time to make the necessary operating and computer changes prior to reinstatement.

In announcing the reinstatement, the Board said the benefits of the rule--which is designed to improve the quality of margin credit--outweigh any potential adverse effects.

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 reinstatement 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 sale proceeds must be used to strengthen the account. Until September 18, 1972, there was an exemption from that requirement for all accounts 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 in which the customer's equity was at least 40 percent.

The limitation in the September 18, 1972, amendments was suspended twice, with the existing suspension scheduled for expiration on September 30, 1975, while the Board reviewed the appropriateness or inappropriateness of maintaining the 40 percent equity requirement with respect to the exemption for same-day substitutions.

The Board has determined that the limitation should apply, under present circumstances, to accounts in which the customer's equity is less than 30 percent rather than 40 percent. The suspension from the limitation will be extended through November 2, 1975, to allow the industry time to make necessary adjustments.

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

The requirements of 5 U.S.C. Sec. 553 with respect to notice, public participation, and deferred effective date were not followed in connection with these amendments since they relieve restrictions and the Board found that to follow the requirements of section 553 would be impractical, unnecessary, and contrary to the public interest.

Enclosed is a copy of the amended Supplements to Regulations G, T, and U, which should be filed in your Regulations binder. 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

Effective September 30, 1975

PART 207 — SECURITIES CREDIT BY  
PERSONS OTHER THAN BANKS,  
BROKERS, OR DEALERS

1. Part 207 (Reg. G), paragraph (f) of § 207.5 (the Supplement to Regulation G) is amended by lowering the minimum equity ratio from 40 percent to 30 percent and changing the final date of the suspension period from September 30, 1975, to November 2, 1975. The amended section reads as follows:

SECTION 207.5 — SUPPLEMENT

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(f) **Minimum equity ratio.** The minimum equity ratio of a credit subject to § 207.1 is 30 percent. For the period November 5, 1974, through November 2, 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.

PART 220 — CREDIT BY BROKERS  
AND DEALERS

2. Part 220 (Reg. T), paragraph (g) of § 220.8 (the Supplement to Regulation T) is amended by changing the figures to be used in the computation which appear in subparagraphs (1) and (2) and by changing the expiration date of the suspension in subparagraph (3) to November 2, 1975.

The amended section reads as follows:

SECTION 220.8 — SUPPLEMENT

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(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 70 percent 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 30 percent of the current market value of each security.

(3) For the period November 5, 1974, through November 2, 1975, all transactions permitted by §§ 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).

PART 221 — CREDIT BY BANKS FOR THE  
PURPOSE OF PURCHASING OR  
CARRYING MARGIN STOCK

3. Part 221 (Reg. U), paragraph (f) of § 221.4 (the Supplement to Regulation U) is amended by changing the minimum equity ratio from 40 percent to 30 percent and by changing the expiration date of the suspension period from September 30, 1975, to November 2, 1975. The amended section reads as follows:

SECTION 221.4 — SUPPLEMENT

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(f) **Minimum equity ratio.** The minimum equity ratio of a credit subject to § 221.1 is 30 percent. For the period November 5, 1974, through November 2, 1975, all same-day transactions permitted by 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.