

FEDERAL RESERVE BANK OF DALLAS  
DALLAS, TEXAS 75222

Circular No. 81-142  
July 15, 1981

AMENDMENT TO REGULATION T

TO ALL MEMBER BANKS, OTHER CREDITORS,  
AND OTHERS CONCERNED IN THE  
ELEVENTH FEDERAL RESERVE DISTRICT:

Enclosed is a copy of an amendment to Regulation T as amended effective July 13, 1981. The amendment is in slip-sheet form and should be filed in your Regulations Binder.

In order for Regulation T to be complete, you should retain:

- Regulation T, as amended effective June 1, 1977, printed in the pamphlet "Securities Credit Transactions."
- The Supplement to Regulation T (Section 220.8) dated October 1978, effective October 30, 1978.
- This slip-sheet. (Destroy slip-sheets dated August 1980 and September 1980.)

Additional copies of the amendment will be furnished upon request to the Department of Communications, Financial and Community Affairs of this Bank, Extension 6289.

Sincerely yours,



William H. Wallace  
First Vice President

Enclosure

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Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**CREDIT BY BROKERS AND DEALERS**  
**AMENDMENTS TO REGULATION T †**

1. Effective July 12, 1978, section 220.4 is amended to read as follows:

**SECTION 220.4—SPECIAL ACCOUNTS**

\* \* \* \* \*

(f) **Special miscellaneous account.** In a special miscellaneous account, a creditor may:

\* \* \* \* \*

(2) \* \* \*

(ii)—Extend and maintain a subordinated loan to another creditor for capital purposes: *Provided*. That

(a) Either the lender or the borrower is a firm or corporation which is a member of a national securities exchange or national securities association, the other party to the credit is an affiliated corporation of such firm or corporation, the credit is not in contravention of any rule of the exchange or association and the credit has the approval of appropriate committees of the exchange or association, or

(b) The lender as well as the borrower is a creditor as defined in section 220.2(b), the subordinated loan agreement has the approval of the appropriate Examining Authority as defined in Securities and Exchange Commission Rule 15c3-1 (c)(12) (12 CFR 240.15c3-1(c)(12)) and such Examining Authority is satisfied, in the case of a borrower who would be considered a customer of the lender apart from the subordinated loan, that the loan will not be used to increase the amount of dealing in securities for the account of the borrower, his firm or corporation or an affiliated corporation of such firm or corporation.

2. Effective October 30, 1978, sections 220.2 and 220.4 are amended to read as follows:

**SECTION 220.2—DEFINITIONS**

\* \* \* \* \*

(f) The term margin security means any regis-

tered security, OTC margin stock or OTC margin bond.

\* \* \* \* \*

(i) The term "OTC margin bond" means a debt security not traded on a national securities exchange which meets all of the following requirements:

(1) At the time of the extension of credit, a principal amount of not less than \$25,000,000 of the issue is outstanding.

(2) The issue was registered under section 5 of the Securities Act of 1933 and the issuer either files periodic reports pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 or is an insurance company which meets all of the conditions specified in section 12 (g)(2)(G) of the Act.

(3) At the time of the extension of credit, the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments.

**SECTION 220.4—SPECIAL ACCOUNTS**

\* \* \* \* \*

(i) **Special bond account.**

In a special bond account a creditor may extend and maintain credit on any exempted security, registered non-equity security or OTC margin bond. The maximum loan value of securities held in this account shall be as prescribed from time to time in § 220.8 (the Supplement to Regulation T). Call options may be issued, endorsed or guaranteed in this account on any underlying equity security which is held in this account because it is an exempted security.

\* \* \* \* \*

† The complete Regulation comprises:

- 1) Regulation T, as amended effective June 1, 1977, printed in the pamphlet "Securities Credit Transactions."
- 2) The Supplement to Regulation T (section 220.8) dated October 1978, effective October 30, 1978.
- 3) This slip sheet. (Destroy slip sheets dated August 1980 and September 1980).

3. Effective August 11, 1980, section 220.4(g) is amended to read as follows:

#### SECTION 220.4—SPECIAL ACCOUNTS

\* \* \* \* \*

(g) **Specialist's Account.** (1) *Applicability.* In a specialist's account, a creditor may clear and finance for a specialist who is a member of a national securities exchange the member's specialist transactions or transactions of any joint account in which all participants, or all participants other than the creditor, are registered and act as specialists. The provisions of this subsection are available to a specialist who is a member of a national securities exchange which submits to the Board of Governors of the Federal Reserve System reports suitable for supplying current information regarding the use of specialist credit.

(2) *Definitions.* For the purpose of this subsection:

(i) "Joint account" means an account in which the creditor may participate and which by written agreement permits the commingling of the security positions of the participants and provides for a sharing of profits and losses from the account on some predetermined ratio;

(ii) "Underlying security" means the security which will be delivered upon exercise of the option and does not include a security convertible into the underlying security;

(iii) "Overlying option" means (A) a put option purchased or a call option written against an existing long position in a specialist's or market-maker's account, or (B) a call option purchased or a put option written against a short position in a specialist's or market-maker's account.

(iv) "In or at the money," with respect to a call option, indicates that the current market price of the underlying security is not more than one standard exercise interval below the exercise price of the option, and, with respect to a put option, that the current market price of the underlying security is not more than one standard exercise interval above the exercise price of the option.

(v) "In the money," with respect to a call option, indicates that the current market price of the underlying security is not below the exercise price of the option and, with respect to a put option, that the current market price of the underlying security is not above the exercise price of the option.

(3) *Permitted offset positions.* A specialist in options is permitted to establish in this account on a share-for-share basis a long or short position in the securities underlying the options in which the spe-

cialist makes a market, and a specialist in securities other than options is permitted to purchase or write options overlying the securities in which the specialist makes a market, only under one or more of the following conditions (such positions are referred to in this paragraph as "permitted offset positions"):

(i) The account holds a short option position which is "in or at the money" and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money";

(ii) The account holds a long option position which is "in or at the money" and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money";

(iii) The account held a short option position against which an exercise notice was tendered;

(iv) The account held a long option position which was exercised;

(v) The account holds a net long position in a security (other than an option) in which the specialist makes a market; or,

(vi) The account holds a net short position in a security (other than an option) in which the specialist makes a market.

(4) *Maximum loan value.* The maximum loan value of securities which may be used as collateral in the account shall be:

(i) No more than 100 per cent of the current market value of any long position in a security in which the specialist makes a market or a wholly-owned margin security;

(ii) 75 per cent of the current market value of any underlying security or overlying option purchased and held in the account as a permitted offset position;

(iii) The maximum loan value prescribed by the Board in section 220.8 (the Supplement to Regulation T) when a security purchased and held in the account does not qualify as a specialist or permitted offset position.

(5) *Adjusted debit balance.* The amount to be included in the adjusted debit balance of the account shall be:

(i) Not less than 100 per cent of the current market value of either a security sold short or an option written where such position qualifies as a specialist transaction;

(ii) 125 per cent of the current market value of any security sold short or option written and held in the account as a permitted offset Position;

(iii) The amount prescribed by the Board in section 220.8 (the Supplement to Regulation T) when a security sold short in the account does not qualify as

a specialist or permitted offset position plus, for a short position in a security other than an option, the current market value of the security sold short.

(6) *Additional margin; "free-riding."* Except as required by paragraph (g)(8), on any day when additional margin is required as a result of transactions in the account, the creditor shall issue a call for a deposit of cash or securities having loan value and may allow the specialist a maximum of five full business days to make a deposit sufficient to meet the call. To prevent "free-riding" in the account, a creditor who has not obtained this deposit (and is therefore required to liquidate sufficient securities to meet the call) is prohibited for a 15 day period from extending any further credit in the account to finance transactions in securities in which the specialist is not registered to make a market. The acquisition or liquidation of a permitted offset position shall not be subject to this "free-riding" penalty. The restriction on "free-riding" shall not apply to any national securities exchange adopting a "free-riding" rule applicable to specialists which has been approved by the Securities and Exchange Commission.

(7) *Withdrawals.* On any day when a specialist requests a withdrawal of cash or securities from the account, the creditor shall compute the status of the account for non-specialist securities positions in accordance with the provisions of section 220.8 (the Supplement to Regulation T), permitted offset positions in accordance with the provisions of paragraphs (g)(4)(ii) and (g)(5)(ii), and specialist positions on a "good faith" basis. Withdrawals shall be permitted to the extent that the adjusted debit balance in the account does not exceed the maximum loan value of all of the collateral held in the account after the withdrawal has been made.

(8) *Deficit accounts.* On any day when the account would liquidate to a deficit, the creditor shall not extend any further credit in the account, and shall issue a call for additional cash or collateral, which shall be met by noon of the following business day. In the event sufficient cash or collateral is not deposited the creditor shall liquidate existing positions in the account.

Effective November 3, 1980, section 220.2 is amended to read as follows:

## SECTION 220.2—DEFINITIONS

\* \* \* \* \*

(f) The term "margin security" means any registered security, OTC margin stock, OTC margin

bond, or any security issued by an open-end investment company or unit investment trust registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

Effective June 2, 1980, sections 220.3 and 220.4 are amended as follows:

1. Sections 220.3(b)(1)(i) and (ii) are amended by deleting the words "5 full business days" and substituting therefor the words "7 full business days":

2. Section 220.3(e) is amended by deleting the words "5-day period" and substituting therefor for words "7-day period":

3. Section 220.3(f) is revised to read as follows:

## SECTION 220.3—GENERAL ACCOUNTS

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(f) **Extensions of time.** If an appropriate committee of a national securities exchange or a national securities association is satisfied that the creditor is acting in good faith in making the application, and that exceptional circumstances warrant such action, such committee may extend the 7-day period specified in paragraph (b) of this section for one or more limited periods commensurate with the circumstances. Applications should be filed and acted upon prior to the end of the 7-day period or the expiration of any subsequent extension. However, an application may be accepted as timely filed from firms having no direct electronic access to the exchange or association if it is postmarked no later than midnight of the last day of the 7-day period or any subsequent extension.

4. Section 220.3(g)(3) is amended by deleting the figure "\$100" and substituting therefor the figure "\$500";

5. Section 220.4(c)(6) is revised to read as follows:

## SECTION 220.4—SPECIAL ACCOUNTS

\* \* \* \* \*

(c) **Special cash account.**

\* \* \* \* \*

(6) If an appropriate committee of a national securities exchange or a national securities association is satisfied that the creditor is acting in good faith in making the application, that the application relates to a *bona fide* cash transaction, and that exceptional circumstances warrant such action, such committee (i) may extend any period specified in subparagraphs (2), (3), (4), or (5) of this paragraph for one or more limited periods commensurate with the circumstances, or (ii), in case a security purchased by the customer in the special cash account is a margin or exempted security, may authorize the transfer of the transactions to a general account, special bond account, special convertible security account, or special omnibus account, and the completion of such transaction pursuant to the provisions of this part relating to such an account. Applications under (i) above should be filed and acted upon prior to the end of the 7-day period or the expiration of any subsequent extension. However, an application may be accepted as timely filed from firms having no direct electronic access to the exchange or association if it is postmarked no later than midnight of the last day of the 7-day period or any subsequent extension.

\* \* \* \* \*

6. Section 220.4(c)(7) is amended by deleting the figure "\$100" and substituting therefor the figure "\$500".

7. Section 220.4(h)(2) is amended by deleting the

words "5 full business days" and substituting therefor the words "7 full business days".

Effective July 13, 1981, section 220.6 is amended by deleting paragraph (j) in its entirety, and redesignating paragraphs (k) and (l) as paragraphs (j) and (k) respectively.

#### SECTION 220.6—CERTAIN TECHNICAL DETAILS

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(j) **Innocent mistakes.** If any failure to comply with this part results from a mechanical mistake made in good faith in executing a transaction, recording, determining, or calculating any loan, balance market price or loan value, or other similar mechanical mistake, the creditor shall not be deemed guilty of a violation of this part if promptly after the discovery of such mistake he takes whatever action may be practicable in the circumstances to remedy such mistake.

(k) **Credit related to portion of a security.** Credit for the purpose of purchasing or carrying any part of an investment contract security (for example, but not limited to, the cattle ownership portion of a program to own and feed cattle, or the condominium ownership part of a program to own and rent a unit through a rental pool or otherwise) shall be deemed to be credit on the entire security.