

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 6049]
October 20, 1967]

Proposed Changes in Margin Regulations

*To All Banks, Members of National Securities Exchanges,
and Others Interested, in the Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System issued the following statement today:

The Board of Governors of the Federal Reserve System announced today a number of proposals to broaden the coverage of and, in most respects, to tighten its regulations governing the use of credit in stock market transactions.

In the main, the proposals, on which the Board invited comment from interested persons by November 20, would:

1. Impose the same margin requirements on loans made by banks for the purpose of purchasing or carrying convertible bonds or other securities convertible into registered stock as are now applied to registered stock. Loans by brokers and dealers on registered convertible securities are now, and would continue to be, subject to margin requirements, but the requirements would be removed from loans they make on non-convertible bonds. In consequence, banks, brokers, and dealers would be on substantially the same footing in these respects.

2. Require that non-convertible bonds and exempted securities (e.g., Government securities) that are pledged for a loan be segregated in an account separate from the ordinary margin account in which only stock and convertible bonds may be held. The purpose of requiring separate accounts would be to foreclose use of the "same-day-substitution" privilege to circumvent margin rules that require that a portion of the proceeds of a sale of a security held on margin be retained to reduce the debt on other securities remaining in the margin account.

3. Require that collateral in special subscription accounts—that is, securities acquired by the exercise of subscription rights on the preferential 25 per cent initial margins presently allowed for such acquisitions—be brought into fully margined status by payments in four equal quarterly instalments.

4. Extend the period in which the creditor must obtain the customer's deposit on a margin transaction by one day, to five full business days after the transaction. The purpose of this liberalizing proposal is to reduce the current pressures on bookkeeping departments of brokerage firms by insuring that a weekend will always be included in the period of time within which the deposit must be obtained.

The margin required is now 70 per cent, which means in effect that anyone buying a \$100 stock on credit must deposit in his margin account at least \$70 in cash, or securities with an equivalent loan value, within—presently—the next four full business days.

5. Introduce a new regulation (designated "Regulation G") to extend to other lenders margin requirements corresponding to those long applicable to brokers, dealers, and commercial banks on loans they make for the purpose of purchasing or carrying stocks.

The "other lenders" whose security loans would thus be put on a corresponding footing with those of banks and brokers would include the following: "factors" and others whose stock loans usually rise during periods when both margin requirements and stock market activity are high; tax-exempt foundations, partnerships and corporations, credit unions, savings banks, and savings and loan associations; and anyone acting as agent for a foreign lender in handling securities loans.

At the same time, lenders other than banks—including business enterprises with idle funds—would be forbidden to make loans to brokers and dealers except (1) on exempted securities or (2) to aid in the financing of sales of large blocks of securities off the exchanges.

If the proposals are adopted, securities loans made after today's date will have to be brought into conformity with their requirements by 30 days after the date of adoption.

Margin requirements were established initially in October 1934, under authority Congress granted the Federal Reserve Board in the Securities Exchange Act of 1934 "for the purpose of preventing the excessive use of credit for purchasing or carrying of securities."

Under present law, margin requirements can be applied only to loans for the purpose of purchasing or carrying securities registered on a national securities exchange. The Reserve Board has, however, submitted a legislative proposal to Congress that would provide authority to apply margin regulations to other securities actively traded over the counter.

The texts of the proposed amendments to the Board's margin Regulations T (relating to extension of credit by brokers) and U (loans by banks), and of the proposed new Regulation G (relating to securities credit extended by other lenders) are being filed for publication in the *Federal Register*. Upon such publication, we will print and send you excerpts therefrom.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.