

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7715]
[September 22, 1975]

MARGIN REGULATIONS

Reinstatement of "Same-Day Substitution" Restrictions on November 3

To All Persons Extending Securities Credit
in the Second Federal Reserve District:

The following is the text of a statement issued September 16 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today that effective November 3 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 per cent or more of the market value of the stock collateral in the account. This ratio had been set at 40 per cent 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 but the Board extended it through November 2 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.

Enclosed is a copy of amendments, effective September 30, 1975, to the Board of Governors' margin Regulations G, T, and U, reflecting the reinstatement of the rule. In submitting the amendments for publication in the *Federal Register*, the Board made the following additional 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 per cent.

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 per cent 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 per cent rather than 40 per cent. The suspension from the limitation will be extended through November 2, 1975, to allow the industry time to make necessary adjustments.

Any inquiries regarding these amendments may be directed to the Securities Regulations Division of the Bank Regulations Department of this Bank. Additional copies of the enclosure will be furnished upon request.

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System
AMENDMENTS TO REGULATIONS G, T, AND U

Effective September 30, 1975

AMENDMENT TO REGULATION G —
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 per cent to 30 per cent 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

* * *

(f) **Minimum equity ratio.** The minimum equity ratio of a credit subject to § 207.1 is 30 per cent. 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.

AMENDMENT TO REGULATION T —
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

* * *

(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 there-

after, and of a margin equity security shall be 70 per cent 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 per cent 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).

AMENDMENT TO REGULATION U —
CREDIT BY BANKS FOR THE
PURPOSE OF PURCHASING OR
CARRYING MARGIN STOCKS

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 per cent to 30 per cent 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

* * *

(f) **Minimum equity ratio.** The minimum equity ratio of a credit subject to § 221.1 is 30 per cent. 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.