FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. **9400**
November 16, 1982]

MARGIN REGULATION STUDY

Comment Requested by December 20

To All Persons Extending Securities Credit, and Others Concerned,
in the Second Federal Reserve District:

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

The Federal Reserve Board has announced that its staff is engaged in a special study of the effectiveness, scope and structure of Federal regulation of margin requirements (maximum loan permissible for purchasing or carrying securities).

The Board's staff is conducting the review in cooperation with the staffs of the Securities and Exchange Commission and the Commodities Futures Trading Commission.

The Board said that Federal margin authority needs reexamination because of changes that have occurred in the structure of financial markets since the inception of margin regulation in 1934. In addition, it cited the fact that some markets for financial futures and options, which have been introduced and grown rapidly in recent years, operate under a different regulatory framework than the cash markets on which they are based.

Printed on the following pages is the text of the Board's announcement. Comments on the questions contained therein should be submitted by December 20, 1982 and may be sent to our Regulations Division.

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

[Docket No. R-0427]

Announcement of Special Study of Margin Regulation

The staff of the Board of Governors of the Federal Reserve System has undertaken a study of the federal regulation and oversight of margins in financial markets. This review is being conducted with the cooperation of the staffs of the Securities and Exchange Commission and the Commodities Futures Trading Commission.

The need for a reexamination of federal margin authority at this time stems in part from changes in the structure of financial markets and their regulation since 1934 when federal authority for margin regulation in securities markets was first granted, and in part from the establishment and rapid growth of financial futures, options and other derivative markets in recent years. Some of these markets operate under a different regulatory framework than the cash markets on which they are based. The staff of the Board of Governors expects to suggest to the Board any legislative recommendations that seem appropriate in light of the results of the review.

As part of its review, the staff is soliciting views of interested persons on the following questions:

1. Federal regulation of initial margins in securities markets was established to dampen speculative price movements, protect unsophisticated investors and reduce the volume of credit diverted to speculative uses.

Maintenance margins established by securities and futures exchanges are presently aimed primarily at preventing losses to market participants caused by the defaults of other participants. These margins are subject to federal oversight in securities markets but not on futures exchanges.

(a) Has the existing system of margin regulation been effective in achieving its goals?

(b) What impact has the growth of new markets subject to different regulations had on this effectiveness?

2. In light of current market structure, practices and regulatory controls, what should be the present goals of federal margin regulation of financial markets, including futures and options markets, as well as underlying cash markets?

3. What should be the scope of federal margin regulations?

(a) Which markets or instruments should be covered? Should some or all aspects of the federal regulation of margins in securities markets be extended to commodity futures or other financial markets? What problems might be encountered in such an extension? What would be the effect of, or rationale for, continuing to afford dissimilar regulatory treatment to markets trading instruments that perform similar functions.

(b) Should margin regulation or oversight extend to both initial and maintenance margins?

(c) To what extent should regulation or oversight extend to transactions among market makers and other professionals as well as to transactions involving public customers? Is regulation of clearinghouse margin practices necessary?

4. What are the appropriate levels of initial and maintenance margins in various markets? Are there special problems or considerations involved in defining or allowing for hedges or other special situations in the various markets?

5. What, if any, assets in addition to cash should be used for margin?

6. How should margin regulations be administered? Should regulators set initial or maintenance margin levels themselves, or simply have veto authority over margin rules set by exchanges and other groups of market participants? Which agency or agencies should have authority, and if more than one agency is to be involved, how can effective coordination be ensured?

Interested persons are invited to submit their views on any of the above questions or on other related issues to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, not later than December 20, 1982. All such submissions should refer to Docket No. R - 0427. For further information regarding this matter, contact Frederick M. Struble, Assistant Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202) 452-3794.