

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 6535 ]  
May 4, 1970

AMENDMENTS TO REGULATIONS T AND U  
Arbitrage Credit

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

Following is the text of a statement issued May 1 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today amended the arbitrage provisions of its Regulations T and U dealing with securities credit. Regulation T applies to credit by brokers, dealers and members of national securities exchanges while Regulation U applies to credit by banks for the purpose of purchasing or carrying registered securities and securities on the Board's over-the-counter margin list.

Transactions in a special arbitrage account are exempt from margin requirements, which presently are 80 per cent on stocks and 60 per cent on convertible bonds. One condition for the exemption is that the security purchased must be exchangeable or convertible within 90 days into the security sold in creating the arbitrage. The amendment permits a 180-day exchange or conversion period when the security purchased is solely a due bill or other evidence of the right to receive the security that is sold, and the security sold is trading as a when-issued security.

Enclosed are copies of the amendments; additional copies will be furnished upon request.

ALFRED HAYES,  
*President.*

# CREDIT BY BROKERS AND DEALERS

## AMENDMENT TO REGULATION T

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective May 1, 1970, paragraph (d) of section 220.4 is amended to read as follows:

### § 220.4—SPECIAL ACCOUNTS

\* \* \*

(d) **Special arbitrage account.** In a special arbitrage account, a member of a national securities exchange may effect and finance for any customer *bona fide* arbitrage transactions in securities. For the purpose of this paragraph, the term "arbitrage" means (1) a purchase or sale of a security in one market together with an offsetting sale or purchase of the same security in a different market at as nearly the

same time as practicable, for the purpose of taking advantage of a difference in prices in the two markets, or (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days following the date of its purchase into a second security together with an offsetting sale at or about the same time of such second security for the purpose of taking advantage of a disparity in the prices of the two securities, except that when the security purchased is solely a due bill for, or other evidence of the right to receive, only the security that is sold, and the security that is sold is trading as a when-issued security, such period shall be 180 calendar days.

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# CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING MARGIN STOCKS

## AMENDMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective May 1, 1970, paragraph (j) of section 221.2 is amended to read as follows:

### § 221.2—EXCEPTIONS TO GENERAL RULE

\* \* \*

(j) Any credit extended to a member of a national securities exchange for the purpose of financing his or his customers' *bona fide* arbitrage transactions in securities. For the purposes of this paragraph, the term "arbitrage" means (1) a purchase or sale of a security in one market together with an offsetting sale or purchase of the same security in a different

market at as nearly the same time as practicable, for the purpose of taking advantage of a difference in prices in the two markets, or (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days following the date of its purchase into a second security together with an offsetting sale at or about the same time of such second security, for the purpose of taking advantage of a disparity in the prices of the two securities, except that when the security purchased is solely a due bill for, or other evidence of the right to receive, only the security that is sold, and the security that is sold is trading as a when-issued security, such period shall be 180 calendar days; and

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