

CHAIRMAN OF THE BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C. 20551

January 18, 1977

The Honorable Robert J. Lagomarsino  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Lagomarsino:

I am pleased to respond to your letter of January 5, 1977, enclosing a Mailgram from your constituent, Mr. John P. Thorndike, who is concerned about "day trades" in the securities markets. Mr. Thorndike is correct in his observation that "day trades" have not been defined in the regulations of the Board or in those of the Securities and Exchange Commission ("SEC"). However, in the glossary of a 1936 report to Congress by the SEC on "The Feasibility and Advisability of the Complete Segregation of the Functions of Dealer and Broker," the term "Daylight Trading" was defined as follows:

Transactions for the purchase of a security balanced by transactions for the sale of such security within the course of a single trading session; or short sales effected and covered on the same day.

Problems relating to "day trades" have been considered by the SEC and the Board since at least 1934. Early communications between the SEC and the Board related to each agency's respective jurisdiction under the Securities Exchange Act of 1934 to issue regulations affecting day trades by exchange specialists and floor traders. The SEC eventually assumed jurisdiction under this Act. In 1937 the New York Stock Exchange ("NYSE") adopted a rule regarding the meeting of margin requirements by liquidation. A copy of the current NYSE Rules on this subject is enclosed for your convenient reference with the applicable language underlined.

I am also enclosing a Board press release dated July 13, 1972, announcing the adoption of an amendment to Regulation T (12 CFR 220) that restricts "day trading" as well as "same-day substitution" (the sale of a dollar amount of one security and the purchase of the same dollar amount of another security) in accounts with low equity. The amendment is designed to deny to low equity accounts a daily netting out of all sales and purchases when computing margin and to require or release margin in connection with each sale and purchase as if no other transactions occurred in the account on that day.

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I hope this information will be useful to you. Please let me know if I can be of further assistance.

Sincerely yours,

Arthur F. Burns

Enclosures