

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

January 26, 1981

The Honorable Charles H. Percy
United States Senate
Washington, D.C. 20510

Re: File No. 0358011024

Dear Senator Percy:

Thank you for your letter of December 19 requesting comment on the enclosed mailgram you received from Mr. John Prince Thorndike concerning the difference between the Board's initial margin rules and the "day-trading" rule of the New York Stock Exchange (NYSE).

The Board's margin rules, in general, permit a daily netting out of all transactions in the account before the amount of a margin call is calculated. This procedure was authorized in the earliest years of Regulation T in order to simplify the broker's operations, especially for accounts with many transactions on a given day. This does permit, under Federal Reserve rules, a day trade (or purchase and sale of the same security on the same day) with the required Regulation T margin call limited to the net increase in the customer's adjusted debit balance over the value of the collateral in the account. This daily netting out of transactions, however, is not available for accounts in which the customer's equity is less than 30 percent; for those accounts, each transaction must be separately margined.

The NYSE, under its authority as a self-regulator, does require a special initial margin deposit from a customer whose trading shows a pattern of purchasing and selling the same security on the same day (NYSE Rule 431 (d) (8) (02)).

Section 220.7(e) of Regulation T permits the NYSE to utilize such a rule in the following language:

(e) Additional requirements by exchanges and creditors. Nothing in this part shall (1) prevent any exchange or national securities association from adopting and enforcing any rule or regulation further restricting the time or manner in which its members must obtain initial or additional margin in customer's accounts because of transactions effected in such accounts, or requiring such members to secure or maintain higher margins, or further restricting the amount of credit which may be extended or maintained by them, or

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(2) modify or restrict the right of any creditor to require additional security for the maintenance of any credit, to refuse to extend credit, or to sell any securities or property held as collateral for any loan or credit extended by him.

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

Sincerely,

Donald J. Winn
Assistant to the Board

Enclosure