

**FEDERAL RESERVE BANK
OF DALLAS**

Dallas, Texas, March 13, 1941

REVISED EDITION OF REGULATION U

**To All Banking Institutions in the
Eleventh Federal Reserve District:**

There is enclosed a revised copy of Regulation U as amended to February 24, 1941, which has been reprinted by the Board of Governors of the Federal Reserve System for the purpose of incorporating therein the amendment forwarded to all banks in the district on January 17, 1941.

Member banks of the Federal Reserve System are requested to insert the revised regulation in their ring binders in lieu of the September 1, 1937, edition of Regulation U.

Yours very truly,

R. R. GILBERT

President

**BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM**

**LOANS BY BANKS FOR THE PURPOSE OF
PURCHASING OR CARRYING STOCKS
REGISTERED ON A NATIONAL
SECURITIES EXCHANGE**



REGULATION U

As amended to February 24, 1941



INQUIRIES REGARDING THIS REGULATION

**Any inquiry relating to this regulation should
be addressed to the Federal Reserve
Bank of the district in which
the inquiry arises.**

SUPPLEMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective February 24, 1941

For the purpose of section 1 of Regulation U, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 60 per cent of its current market value, as determined by any reasonable method.

Loans to brokers and dealers.—Notwithstanding the foregoing, a stock, if registered on a national securities exchange, shall have a special maximum loan value of 75 per cent of its current market value, as determined by any reasonable method, in the case of a loan to a broker or dealer from whom the bank (1) accepts in good faith a signed statement to the effect that he is subject to the provisions of Regulation T (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto), and (2) receives written notice, pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities by brokers or dealers (Rule X-8C-1 or Rule X-15C2-1), to the effect that the stock is a security carried for the account of a customer.

EXPLANATORY FOREWORD

(Not a part of the regulation)

This regulation is issued pursuant to the provisions of section 7 of the Securities Exchange Act of 1934.

The regulation does not prevent a bank from taking for any loan collateral in addition to that required by the regulation, nor does it require a bank to reduce any loan, to obtain additional collateral for any outstanding loan, or to call any outstanding loan because of insufficient collateral.

REGULATION U

As amended to February 24, 1941

LOANS BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING STOCKS REGISTERED ON A NATIONAL SECURITIES EXCHANGE

SECTION 1. GENERAL RULE

On and after May 1, 1936, no bank shall make any loan secured directly or indirectly by any stock *for the purpose of purchasing or carrying any stock registered on a national securities exchange* in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for stocks in the supplement to this regulation and as determined by the bank in good faith for any collateral other than stocks.

For the purpose of this regulation, the entire indebtedness of any borrower to any bank incurred on or after May 1, 1936, or at any previous time, for the purpose of purchasing or carrying stocks registered on a national securities exchange shall be considered a single loan,* and all the collateral securing such indebtedness shall be considered in determining whether or not the loan complies with this regulation.*

While a bank maintains any such loan, whenever made, the bank shall not at any time permit withdrawals or substitutions of collateral that would cause the maximum loan value of the collateral at such time to be less than the amount of the loan. In case such maximum loan value has become less than the amount of the loan, a bank shall not permit withdrawals or substitutions that would increase the deficiency; but the amount of the loan may be increased if there is provided additional collateral having maximum loan value at least equal to the amount of the increase.

SECTION 2. EXCEPTIONS TO GENERAL RULE

Notwithstanding the foregoing, a bank may make and may maintain any loan for the purpose specified above, without regard to the limitations prescribed above, if the loan comes within any of the following descriptions:

- (a) Any loan to a bank or to a foreign banking institution;
- (b) Any loan to any person whose total indebtedness to the

* In applying this provision, especially when the borrower is a broker or dealer in securities, see particularly sections 3(m), (n), and (o), which were added by amendment effective February 24, 1941.

bank at the date of and including such loan does not exceed \$1,000;

(c) Any loan to a dealer, or to two or more dealers, to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange;

(d) Any loan to a broker or dealer that is made in exceptional circumstances in good faith to meet his emergency needs;

(e) Any loan for the purpose of purchasing a stock from or through a person who is not a member of a national securities exchange and is not a broker or dealer who transacts a business in securities through the medium of any such member, or for the purpose of carrying a stock so purchased;

(f) Any temporary advance to finance the purchase or sale of securities for prompt delivery which is to be repaid in the ordinary course of business upon completion of the transaction;

(g) Any loan against securities in transit, or surrendered for transfer, which is payable in the ordinary course of business upon arrival of the securities or upon completion of the transfer;

(h) Any loan which is to be repaid on the calendar day on which it is made;

(i) Any loan made outside the 48 States of the United States and the District of Columbia;

(j) Any loan to a member of a national securities exchange for the purpose of financing his or his customers' *bona fide* arbitrage transactions in securities;

(k) Any loan to a member of a national securities exchange for the purpose of financing such member's transactions as an odd-lot dealer in securities with respect to which he is registered on such national securities exchange as an odd-lot dealer.

SECTION 3. MISCELLANEOUS PROVISIONS

(a) In determining whether or not a loan is for the purpose specified in section 1 or for any of the purposes specified in section 2, a bank may rely upon a statement with respect thereto, accepted by the bank in good faith, signed by an officer of the bank or by the borrower.

(b) No loan, however it may be secured, need be treated as a loan for the purpose of "carrying" a stock registered on a national securities exchange unless the purpose of the loan is to enable the borrower to reduce or retire indebtedness which was originally incurred to purchase such a stock, or, if he be a broker or dealer, to carry such stocks for customers.

(c) In determining whether or not a security is a "stock registered on a national securities exchange," a bank may rely upon any reason-

ably current record of stocks so registered that is published or specified in a publication of the Board of Governors of the Federal Reserve System.

(d) The renewal or extension of maturity of a loan need not be treated as the making of a loan if the amount of the loan is not increased except by the addition of interest or service charges on the loan or of taxes on transactions in connection with the loan.

(e) A bank may accept the transfer of a loan from another bank, or permit the transfer of a loan between borrowers, without following the requirements of this regulation as to the making of a loan, provided the loan is not increased and the collateral for the loan is not changed; and, after such transfer, a bank may permit such withdrawals and substitutions of collateral as the bank might have permitted if it had been the original maker of the loan or had originally made the loan to the new borrower.

(f) A loan need not be treated as collateralized by securities which are held by the bank only in the capacity of custodian, depositary or trustee, or under similar circumstances, if the bank in good faith has not relied upon such securities as collateral in the making or maintenance of the particular loan.

(g) Nothing in this regulation shall be construed to prevent a bank from permitting withdrawals or substitutions of securities to enable a borrower to participate in a reorganization.

(h) No mistake made in good faith in connection with the making or maintenance of a loan shall be deemed to be a violation of this regulation.

(i) Nothing in this regulation shall be construed as preventing a bank from taking such action as it shall deem necessary in good faith for its own protection.

(j) Every bank shall make such reports as the Board of Governors of the Federal Reserve System may require to enable it to perform the functions conferred upon it by the Securities Exchange Act of 1934.

(k) Terms used in this regulation have the meanings assigned to them in such portions of section 3(a) of the Securities Exchange Act of 1934 as are printed in the appendix to this regulation, except that the term "bank" does not include a bank which is a member of a national securities exchange.

(l) The term "stock" includes any security commonly known as a stock, any voting trust certificate or other instrument representing such a security, and any warrant or right to subscribe to or purchase such a security.

* (m) Indebtedness "subject to section 1" is indebtedness which is secured directly or indirectly by any stock, is for the purpose of purchasing or carrying any stock registered on a national securities exchange, and is not excepted by section 2.

* (n) In the case of any loan subject to section 1 to a broker or dealer in securities, and in the case of any such loan to any other borrower whose indebtedness the bank elects to treat for the purposes of this subsection as if it were that of a broker or dealer, the bank shall identify all the collateral used to meet the collateral requirements of section 1 and shall not cancel the identification of any part thereof except in circumstances that would permit the withdrawal of that part. Such identification may be made by any reasonable method.

In any such case—

(1) Only the collateral so identified shall have loan value for purposes of section 1 or be subject to the restrictions therein specified with respect to withdrawals and substitutions; and

(2) For any indebtedness of the same borrower that is not subject to section 1 (other than a loan described in section 2(d), (f), (g), or (h)), the bank shall in good faith require as much collateral not so identified as the bank would require (if any) if it held neither the indebtedness subject to section 1 nor the identified collateral. This rule shall not be construed, however, to require the bank, after it has made any loan, to obtain any collateral therefor because of any decline in the value or quality of the collateral or in the credit rating of the borrower.

* (o) This subsection applies to any case in which indebtedness of a broker or dealer that is subject to section 1 is secured by any securities which, according to written notice received by the bank from the broker or dealer pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities (Rule X-8C-1 or Rule X-15C2-1), are *securities carried for the account of one or more customers*. For the purposes of this regulation—

(1) All such securities and all such indebtedness shall be considered separately from other collateral and indebtedness of the borrower;

(2) Only such securities shall have loan value for any such indebtedness; and

(3) All such indebtedness shall be considered a single loan and all such securities shall be considered in connection therewith, except that specified indebtedness, together with the securities treated by the bank as having loan value therefor, may be treated separately if such securities secure only such specified indebtedness and the borrower states in writing that they are carried for the account of a single customer.

* Added by amendment effective February 24, 1941.

APPENDIX

There are printed below certain provisions of the Securities Exchange Act of 1934:

Sec. 3.(a) * * *

(3) The term "member" when used with respect to an exchange means any person who is permitted either to effect transactions on the exchange without the services of another person acting as broker, or to make use of the facilities of an exchange for transactions thereon without payment of a commission or fee or with the payment of a commission or fee which is less than that charged the general public, and includes any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm.

(4) The term "broker" means any person engaged in the business of effecting transactions in securities for the account of others, but does not include a bank.

(5) The term "dealer" means any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise, but does not include a bank, or any person insofar as he buys or sells securities for his own account, either individually or in some fiduciary capacity, but not as a part of a regular business.

(6) The term "bank" means (A) a banking institution organized under the laws of the United States, (B) a member bank of the Federal Reserve System, (C) any other banking institution, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under section 11(k) of the Federal Reserve Act, as amended, and which is supervised and examined by State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of this title, and (D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B), or (C) of this paragraph.

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(9) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a business trust, or an unincorporated organization.

(10) The term "security" means any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit, for a security, or in general, any instrument commonly known as a "security"; or any certificate of interest or participation in, temporary or

interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

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Sec. 7.(a) For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Board of Governors of the Federal Reserve System shall, prior to the effective date of this section and from time to time thereafter, prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange. For the initial extension of credit, such rules and regulations shall be based upon the following standard: An amount not greater than whichever is the higher of—

- (1) 55 per centum of the current market price of the security,
- or
- (2) 100 per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than 75 per centum of the current market price.

Such rules and regulations may make appropriate provision with respect to the carrying of undermargined accounts for limited periods and under specified conditions; the withdrawal of funds or securities; the substitution or additional purchases of securities; the transfer of accounts from one lender to another; special or different margin requirements for delayed deliveries, short sales, arbitrage transactions, and securities to which paragraph (2) of this subsection does not apply; the bases and the methods to be used in calculating loans, and margins and market prices; and similar administrative adjustments and details. For the purposes of paragraph (2) of this subsection, until July 1, 1936, the lowest price at which a security has sold on or after July 1, 1933, shall be considered as the lowest price at which such security has sold during the preceding thirty-six calendar months.

(b) Notwithstanding the provisions of subsection (a) of this section, the Board of Governors of the Federal Reserve System, may, from time to time, with respect to all or specified securities or transactions, or classes of securities, or classes of transactions, by such rules and regulations (1) prescribe such lower margin requirements for the initial extension or maintenance of credit as it deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the general credit situation of the country, and (2) prescribe such higher margin requirements for the initial extension or maintenance of credit as it may deem necessary or appropriate to prevent the excessive use of credit to finance transactions in securities.

(c) It shall be unlawful for any member of a national securities exchange or any broker or dealer who transacts a business in

securities through the medium of any such member, directly or indirectly to extend or maintain credit or arrange for the extension or maintenance of credit to or for any customer—

(1) On any security (other than an exempted security) registered on a national securities exchange, in contravention of the rules and regulations which the Board of Governors of the Federal Reserve System shall prescribe under subsections (a) and (b) of this section.

(2) Without collateral or on any collateral other than exempted securities and/or securities registered upon a national securities exchange, except in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe (A) to permit under specified conditions and for a limited period any such member, broker, or dealer to maintain a credit initially extended in conformity with the rules and regulations of the Board of Governors of the Federal Reserve System, and (B) to permit the extension or maintenance of credit in cases where the extension or maintenance of credit is not for the purpose of purchasing or carrying securities or of evading or circumventing the provisions of paragraph (1) of this subsection.

(d) It shall be unlawful for any person not subject to subsection (c) to extend or maintain credit or to arrange for the extension or maintenance of credit for the purpose of purchasing or carrying any security registered on a national securities exchange, in contravention of such rules and regulations as the Board of Governors of the Federal Reserve System shall prescribe to prevent the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions of this section. Such rules and regulations may impose upon all loans made for the purpose of purchasing or carrying securities registered on national securities exchanges limitations similar to those imposed upon members, brokers, or dealers by subsection (c) of this section and the rules and regulations thereunder. This subsection and the rules and regulations thereunder shall not apply (A) to a loan made by a person not in the ordinary course of his business, (B) to a loan on an exempted security, (C) to a loan to a dealer to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange, (D) to a loan by a bank on a security other than an equity security, or (E) to such other loans as the Board of Governors of the Federal Reserve System shall, by such rules and regulations as it may deem necessary or appropriate in the public interest or for the protection of investors, exempt, either unconditionally or upon specified terms and conditions or for stated periods, from the operation of this subsection and the rules and regulations thereunder.

(e) The provisions of this section or the rules and regulations thereunder shall not apply on or before July 1, 1937, to any loan or extension of credit made prior to the enactment of this title or to the maintenance, renewal, or extension of any such loan or

credit, except to the extent that the Board of Governors of the Federal Reserve System may by rules and regulations prescribe as necessary to prevent the circumvention of the provisions of this section or the rules and regulations thereunder by means of withdrawals of funds or securities, substitutions of securities, or additional purchases or by any other device.

Sec. 29.(a) Any condition, stipulation, or provision binding any person to waive compliance with any provision of this title or of any rule or regulation thereunder, or of any rule of an exchange required thereby shall be void.

(b) Every contract made in violation of any provision of this title or of any rule or regulation thereunder, and every contract (including any contract for listing a security on an exchange) heretofore or hereafter made the performance of which involves the violation of, or the continuance of any relationship or practice in violation of, any provision of this title or any rule or regulation thereunder, shall be void (1) as regards the rights of any person who, in violation of any such provision, rule, or regulation, shall have made or engaged in the performance of any such contract, and (2) as regards the rights of any person who, not being a party to such contract, shall have acquired any right thereunder with actual knowledge of the facts by reason of which the making or performance of such contract was in violation of any such provision, rule or regulation. * * *

(c) Nothing in this title shall be construed (1) to affect the validity of any loan or extension of credit (or any extension or renewal thereof) made or of any lien created prior or subsequent to the enactment of this title, unless at the time of the making of such loan or extension of credit (or extension or renewal thereof) or the creating of such lien, the person making such loan or extension of credit (or extension or renewal thereof) or acquiring such lien shall have actual knowledge of facts by reason of which the making of such loan or extension of credit (or extension or renewal thereof) or the acquisition of such lien is a violation of the provisions of this title or any rule or regulation thereunder, or (2) to afford a defense to the collection of any debt or obligation or the enforcement of any lien by any person who shall have acquired such debt, obligation, or lien in good faith for value and without actual knowledge of the violation of any provision of this title or any rule or regulation thereunder affecting the legality of such debt, obligation, or lien.

Sec. 32(a) Any person who willfully violates any provision of this title, or any rule or regulation thereunder the violation of which is made unlawful or the observance of which is required under the terms of this title, or any person who willfully and knowingly makes, or causes to be made, any statement in any application, report, or document required to be filed under this title or any rule or regulation thereunder or any undertaking contained in a registration statement as provided in subsection (d) of section 15 of this title, which statement was false or misleading with respect to any material fact, shall upon conviction be fined not

more than \$10,000, or imprisoned not more than two years, or both, except that when such person is an exchange, a fine not exceeding \$500,000 may be imposed; but no person shall be subject to imprisonment under this section for the violation of any rule or regulation if he proves that he had no knowledge of such rule or regulation.

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