

**FEDERAL RESERVE BANK  
OF DALLAS**

Dallas, Texas, November 13, 1946

**AMENDMENT TO REGULATION U**

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

The Board of Governors of the Federal Reserve System has adopted Amendment No. 7 to Regulation U relating to the use of credit for purchasing securities, effective December 1, 1946.

The amendment will permit stockholders of any corporation who receive rights to subscribe to new issues to obtain credit for the purpose of exercising these rights. The permission extends also to cases in which a public utility holding company, when simplifying its corporate structure as required by the Public Utility Holding Company Act of 1935, issues to its stockholders rights to subscribe to its holdings of outstanding securities of operating companies.

Under this amendment, if the stockholder needs to borrow in order to take up the rights issued directly to him by the company in which he owns stock, he may do so by pledging securities which, for this purpose, shall have a loan value of fifty per cent. Otherwise the prevailing one hundred per cent margin requirements remain in effect. The Board decided that this change in the regulation would be appropriate as a matter of equity and that it could be made without stimulating speculation or encouraging to any material extent the growth of stock market credit.

The text of the amendment is printed on the reverse side of this letter.

Yours very truly,

**R. R. GILBERT**

President

## AMENDMENT NO. 7 TO REGULATION U

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### ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Effective December 1, 1946, Regulation U is hereby amended by adding the following new subsection at the end of section 3 thereof:

(p) In connection with the making of a loan the sole purpose of which is to enable the borrower to acquire stock in a corporation by exercising a warrant or certificate evidencing a right to acquire such stock, which right expires within 90 days of issuance and was issued to him as a stockholder of such corporation or as a stockholder of a company distributing the stock in order to effectuate the provisions of section 11 of the Public Utility Holding Company Act of 1935, a bank may treat any stock received as collateral in connection with the making of such loan as having a maximum loan value of 50 per cent of its current market value as determined by any reasonable method. After the loan has been made, the stock so received shall have only the maximum loan value, if any, prescribed in the supplement to this regulation. The right shall be deemed to have been issued to the borrower as a stockholder if he actually owned the stock giving rise to the right when such right accrued, even though such stock was not registered in his name; and in determining such fact the bank may rely upon a signed statement of the borrower which the bank accepts in good faith.