

TRANSFER

FEDERAL RESERVE BANK
OF ST. LOUIS

September 28, 1934.

REGULATION T

To members of National Securities Exchanges, to brokers and dealers who transact business in securities through such members, and to the member banks, in District No. 8:

There is printed on the following pages the Federal Reserve Board's Regulation T, relating to the extension and maintenance of credit by brokers, dealers and members of National Securities Exchanges.

In connection with the issuance of this regulation, the Federal Reserve Board released the following press statement:

"The Federal Reserve Board, acting in accordance with the requirements of the Securities Exchange Act of 1934, has prescribed the margins to be required by brokers and dealers from customers borrowing for the purpose of purchasing or carrying securities.

"The margin requirements which the Board has prescribed are those laid down as a standard in the Act, which gives the Board authority to impose lower or higher margins in accordance with prevailing conditions. Under the standard adopted, a broker or dealer may lend to a customer on many securities as much as 75 per cent of their current market value, while on other securities, in particular on those that have had a rapid rise in value since July 1, 1933, the percentage that may be lent is smaller, but in no case less than 55 per cent.

"Rules prescribed for margin requirements constitute a part of Regulation T issued by the Federal Reserve Board, which also deals with other matters relating to the extension or maintenance of credit by brokers, dealers and members of securities exchanges for the purpose of purchasing or carrying securities. Most of the rules in this regulation are for the purpose of preventing the circumvention of the margin requirements, and no restrictions are placed on loans for industrial, agricultural, or commercial purposes.

"The regulation becomes effective October 1, 1934. In order, however, that persons affected might have additional time to familiarize themselves with its provisions, the Securities and Exchange Commission, at the request of the Federal Reserve Board, has made broad use of its power to exempt securities from the pertinent sections of the Securities Exchange Act. The exemption granted is for the period from October 1 to October 15.

"Regulation T does not prescribe a specific margin that must be maintained after a loan has been granted, but imposes restrictions on the operations which the customer may carry on in his account if his margin falls below the standard prescribed for initial extension of credit.

"Under the law the Board has authority to prescribe regulations, including margin requirements, applicable to loans made by banks for the purpose of purchasing or carrying securities. This authority is additional to other statutes for credit supervision. The Board is studying the present statute in connection with these other statutes and in due time will issue the required regulation as to bank loans made to purchase or carry securities."

Respectfully,

JOHN S. WOOD,

Federal Reserve Agent.

Inquiries Regarding these Regulations



It is suggested that all inquiries as to these regulations be addressed first to the Securities Exchange of which the persons making the inquiries are members or the facilities of which are used for their transactions.

In the event the exchange officials desire information as to such questions, they should make inquiry of the Federal Reserve Agent at the Federal Reserve Bank of their district.

In turn, the Federal Reserve Agent may make inquiry of the Board as to any question that needs the Board's determination.

All answers made by the Board to such inquiries will be distributed to all exchanges through the Federal Reserve Agents.

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In order that persons affected by Regulation T of the Federal Reserve Board might have additional time after October 1, 1934, within which to familiarize themselves with this regulation, the Securities and Exchange Commission has exempted, until midnight of October 14, 1934, from the operation of sections 7(a), 7(c), 7(d), 8(a) and 12(a) of the Securities Exchange Act of 1934 and all regulations promulgated thereunder, all securities, whether registered or not, except securities as to which the Commission has refused to grant or has denied registration.

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REGULATION T, SERIES OF 1934

EXTENSION AND MAINTENANCE OF CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES

SECTION 1.

SCOPE AND EFFECTIVE DATE OF REGULATION

This regulation is issued pursuant to the requirements of sections 7 and 8(a) of the Securities Exchange Act of 1934 for the purpose of preventing the excessive use of credit for the purchasing or carrying of securities and applies to the extension and maintenance of credit by members of national securities exchanges and by brokers and dealers transacting a business in securities through the medium of such members.

This regulation shall not be construed as applying to the extension or maintenance of credit on registered securities for any purpose other than the purpose of purchasing or carrying securities or of evading or circumventing the provisions of this regulation.

This regulation shall become effective on October 1, 1934.

Such further regulations as the Board deems necessary or appropriate to carry out the provisions of section 7 and 8(a) of the Securities Exchange Act of 1934 will be issued from time to time.

SECTION 2. DEFINITIONS

For the purposes of this regulation —

(a) The terms "person", "member", "broker", "dealer", "buy", "purchase", "sale", "sell", "security", "equity security", and "bank" shall have the meanings given them in section 3(a) of the Securities Exchange Act of 1934, which is printed in the appendix to this regulation.

(b) The term "creditor" means 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.

(c) The term "account" means any account (whether a "combined account" or a "special account" or any other account) representing any financial relationship between any creditor and any customer or any group of customers acting jointly.

(d) The term "combined account" means the combination of all accounts (except "special accounts") between any creditor and any customer, or any group of customers acting jointly, to or for whom such creditor is extending or maintaining any credit, directly or indirectly, on registered securities (other than exempted securities) for the purpose of purchasing or carrying securities.

(e) The term "special account" means any account recorded separately in conformity with sections 3(b), 3(c), 3(d), 5(b), 6, or 7(a) of this regulation; and, when so recorded, such accounts shall be excluded, for the purposes of this regulation, from all calculations involving "combined accounts."

(f) The term "exempted security" or "exempted securities" shall include securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States; such securities issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury as

necessary or appropriate in the public interest or for the protection of investors; securities which are direct obligations of or obligations guaranteed as to principal or interest by a State or any political subdivision thereof or any agency or instrumentality of a State or any political subdivision thereof or any municipal corporate instrumentality of one or more States; and such other securities as the Securities and Exchange Commission may, by such rules and regulations as it deems necessary or appropriate in the public interest or for the protection of investors, either unconditionally or upon specified terms and conditions or for stated periods, exempt from the operation of any one or more provisions of section 7 and/or 8(a) of the Securities Exchange Act of 1934, which by their terms do not apply to an "exempted security" or to "exempted securities."

(g) The term "registered security" means any security which is registered on a national securities exchange, or which, in consequence of its having unlisted trading privileges on a national securities exchange, must, under the provisions of section 12(f) of the Securities Exchange Act of 1934, be considered a "security registered on a national securities exchange."

(h) The term "maximum loan value" of a security means the maximum amount of credit which, at any given time, may be extended by any creditor on such security, in conformity with section 3. The "maximum loan value" of the securities in an account, at any given time, is the sum of the maximum loan values at such time of the individual securities in such account, including securities bought for the account of the customer but not yet debited to his account, but excluding securities sold for the account of the customer for which payment has not yet been credited to his account and excluding contracts for the purchase or sale of unissued securities.

(i) The term "unrestricted account" means an account in which at any given time the adjusted debit balance equals or is less than the maximum loan value at such time of the securities in the account; and any account which is an unrestricted account at the beginning of business on any given day may for the purposes of this regulation be considered an unrestricted account throughout such day.

(j) The term "restricted account" means an account in which, at the beginning of business on any given day, the adjusted debit balance exceeds the maximum loan value at such time of the securities in the account: **Provided, however,** That, if during the course of a day, as a result of the deposit of cash and/or securities or the sale or substitution of securities by or on behalf of the customer the maximum loan value of the securities in the account becomes equal to or greater than the adjusted debit balance, such account may be deemed an unrestricted account throughout such day.

(k) The term "initial extension of credit" means any new extension of credit in an account or any increase in the amount of credit outstanding in an account.

(l) The term "net withdrawal" means any payment or delivery from an account of money and/or registered and/or exempted securities having an aggregate current market value exceeding that of any money and/or registered and/or exempted securities paid or delivered into the account on the same day.

(m) The term "customer" means any person to or for whom, or any group of persons to or for whose joint account, a creditor is extending or maintaining any credit and includes any partner in a firm to whom such firm is extending credit for the purpose of purchasing or carrying securities: **Provided, however,** That a partner shall not be deemed to be a customer of his firm within the meaning of this regulation with reference to his financial relations to the firm as reflected in his capital and ordinary drawing account.

SECTION 3. MARGIN REQUIREMENTS

(a) **General rule.**—No creditor shall make any initial extension of credit to any customer on any registered security (other than an exempted security) for the purpose of purchasing or carrying any security, in an amount which causes the total credit extended on such registered security to exceed the maximum loan value of such registered security. Except as specifically provided elsewhere in this section, the maximum loan value of any registered security (other than an exempted security) shall be whichever is the higher of:

(1) 55 percent of the current market value of the security; or

(2) 100 percent of the lowest market value of the security computed at the lowest market price therefor during the period of thirty-six calendar months immediately prior to the first day of the current month, but not more than 75 percent of the current market value: **Provided,** That until July 1, 1936, for the purpose of this regulation, the lowest price at which a security has sold on or after July 1, 1933, but prior to the first day of the current month, shall be considered as the lowest market price of such security during the preceding thirty-six calendar months; and **Provided,** That the lowest market price which could be used under the provisions of this regulation during any calendar month may be used during the first seven calendar days of the succeeding calendar month.

(b) **Extensions of credit to other members, brokers, and dealers.**—In a special account recorded separately, any creditor may extend credit on any registered security to any other member, broker, or dealer in an amount not greater than the maximum loan value of such security, which shall be (except in the case of an exempted security) 80 percent of the current market value of such security: **Provided,** That (1) such other member, broker, or dealer is subject to the provisions of this regulation or has places of business only in foreign countries, (2) such credit is extended or maintained solely for the purpose of enabling such member, broker, or dealer to carry accounts for his customers other than his partners, and (3) any credit extended or maintained by such creditor to or for such other member, broker, or dealer for the purpose of purchasing or carrying securities for his own account or for the account of his firm or any of his partners shall not be included in such special account and shall be subject to the other provisions of this section.

(c) **Extension of credit to distributors, syndicates, etc.**—In a special account recorded separately, any creditor may extend credit on any registered security in an amount not greater than the maximum loan value thereof, which shall be (except in the case of an exempted security) 80 percent of the current market value of such security: (1) to any dealer, for the purpose of financing the distribution of an issue of securities at wholesale or retail; or (2) to any group, joint account or syndicate for the purpose of underwriting or distributing an issue of securities.

(d) **Arbitrage accounts.**—If such transactions are recorded separately in a special account and are not used for the purpose of evading or circumventing the provisions of this regulation, any bona fide arbitrage transactions in securities and any credit extended or maintained to or for a customer for the purpose of financing such transactions shall be exempt from the other provisions of this regulation: **Provided,** That the customer shall maintain a margin equal to 2 percent of any net debit balance in such account, unless the account contains no securities except exempted securities.

(e) **Exempted securities.**—In an account which contains both exempted securities and registered non-exempted securities, the maximum loan value of an exempted security shall be regarded as not more than the current market value of such security: **Provided, however,** That nothing in this regulation shall be construed as preventing any exchange or any creditor from requiring margin on, or assigning lower loan values to, exempted securities.

(f) **Adjusted debit balance.**—For the purpose of this regulation, the adjusted debit balance of an account shall be calculated by taking the sum of the following items:

(1) The net debit balance, if any, of the account;

(2) Any amount to be paid for securities (other than unissued securities) bought for the account of the customer but not yet debited to his account;

(3) The current market value of any securities sold short in the account (other than unissued securities) plus the margin customarily required by the creditor on such short commitments;

(4) The amount of any margin customarily required by the creditor on every future commitment in unissued securities, in commodities, or in foreign exchange, and/or in connection with the creditor's endorsement or guaranty of any put, call or other option, plus any unrealized loss on each such commitment and/or minus any unrealized gain on each such commitment not exceeding the margin thereon; and

(5) In the case of a guarantor's account, the aggregate of the amounts required to make each account guaranteed by such guarantor an unrestricted account: **Provided,** That in the case of no such guaranteed account shall the amount exceed that to which the guaranty is limited;

and deducting therefrom the sum of the following items:

(6) The net credit balance, if any, of the account;

(7) Any amount to be received for securities (other than unissued securities) sold for the account of the customer but for which payment has not yet been credited to his account; and

(8) Any amount needed but not yet received by the creditor to provide any margin required by this regulation: **Provided,** That (1) a demand for such margin shall have been made in, or confirmed by, a letter or telegram which the creditor shall have sent to the customer at his last known address and (2) the time within which the creditor is required by this regulation to obtain such margin has not expired.

For the purposes of this regulation, the adjusted debit balance of every account in which any credit is extended or maintained for the purpose of purchasing or carrying securities shall be computed in accordance with the above rules, regardless of whether it be combined account or a special account. In case a customer has more than one account (other than special accounts) with a creditor, his adjusted debit balance and the maximum loan value of the securities in his account shall be calculated, for the purposes of this regulation, on the basis of his combined account, taking into consideration all accounts between such customer and such creditor except special accounts. In computing the adjusted debit balance of each special account, there shall be taken into consideration only the items involved in that particular account.

(g) **Current market value.**—For the purpose of ascertaining the current market value of a security at the time of and in connection with a purchase or sale of such security, the price at which such security is purchased or sold (whether or not as part of a substitution of securities or other transaction), shall be used in computing the current market value of such security within the meaning of this regulation.

For the purpose of ascertaining the current market value of any security in an account, at any time other than the time of its purchase or sale, the creditor shall have the option of using as the price of such security either the closing sale or the closing bid price for such security on the preceding business day, as shown by any regularly published reporting or quotation service used by

such creditor (except that such bid price shall not be deemed to be the current market value of a security sold short). In the absence of any such closing sale price, the creditor shall have the option of using either any such bid price on such preceding business day (except that such bid price shall not be deemed to be the current market price of a security sold short), or the price at which the last sale was recorded, if such sale occurred during the current or preceding calendar month, as shown by any regularly published reporting or quotation service used by such creditor. In the event that none of the prices above described is available, the creditor may use any reasonable estimate of the market price of such security.

(h) **Lowest market price.**—The lowest market price of a registered security during a specified time means the lowest price at which such security has sold during such time on the national securities exchanges on which it is or has been registered (including such exchanges during that part of the specified time which preceded their respective registrations as national securities exchanges under the Securities Exchange Act of 1934): **Provided**, That, if such security is a stock upon which there has been any stock dividend amounting to more than 10 percent in any one calendar year, or any reduction or increase in the number of shares by calling in the outstanding shares and issuing in substitution therefor a smaller or larger number of shares, any prices established before such dividend or change in number of shares shall be adjusted therefor. A creditor using a figure published as such lowest market price in any record published or approved by any national securities exchange may rely on such figure for the purposes of this regulation.

SECTION 4.

EXTENSION AND MAINTENANCE OF CREDIT

(a) **Statutory provision.**—Under the provisions of subsection (c) of section 7 of the Securities Exchange Act of 1934, it is 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 on any registered security (other than an exempted security) in contravention of the regulations of the Federal Reserve Board.

(b) **General rule.**—A creditor may permit credit to be maintained in any account in accordance with the provisions of this section, regardless of reductions in the customer's equity resulting from changes in market prices and/or from charges to the account of the customer permitted under section 8(b) of this regulation.

(c) **Transactions in unrestricted accounts.**—A creditor shall not permit any customer to make in an unrestricted account any transaction or combination of transactions which would cause such account to become a restricted account, unless he demands, in accordance with subsection 4(e) of this regulation, additional margin in an amount sufficient to make such account an unrestricted account.

(d) **Transactions in restricted accounts.**—A creditor shall not permit a customer to make in a restricted account any transaction which, in combination with any other transactions made on the same day and together with demands for additional margin in connection therewith, results in any increase of the excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, or results in any net withdrawal of cash and/or securities: **Provided, however**, That a creditor may permit a customer to make any transaction or combination of transactions which causes the account to become an unrestricted account: **and Provided**, That any substitution of securities consisting of a sale of securities in the account and the purchase of other securities, if completed within a period of two

successive business days, may be considered for the purposes of this section as a single transaction occurring on the day on which the purchase occurs.

(e) **Time when margin must be obtained.**—Whenever the creditor is required to demand additional margin in order to comply with this regulation, he shall demand the required amount of margin as promptly as possible and shall obtain such margin as promptly as possible in view of the established usages of the trade and the circumstances of the case and in all events before the expiration of three full business days (exclusive of Saturdays, Sundays and holidays) from the date of the purchase or other transaction on account of which such margin is required, unless, within such time such account is brought into conformity with this regulation by some other method: **Provided**, That, in exceptional cases, any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which his transactions are effected, may grant a further extension of time, not exceeding ten days, on application of the creditor, if such committee is satisfied that the creditor is acting in good faith and that the circumstances warrant such action: **Provided, however**, That, if the account be a restricted account, (1) in the case of a withdrawal of cash, the necessary amount of securities must be deposited on the same day; (2) in the case of a withdrawal of securities, the necessary amount of cash must be deposited on the same day; and (3) in the case of a substitution of securities (not involving a sale of securities in the account and the purchase of other securities), the securities substituted must be deposited on the same day that the securities for which they are substituted are withdrawn.

(f) **Time when payment or margin is deemed to be received.**—For the purposes of this regulation, any creditor who shall in good faith accept any check or draft drawn on a bank which in the ordinary course of business is payable on presentation or any order on a savings account with passbook attached, shall be deemed to have received payment of the amount of such check, draft, or order within the meaning of this regulation at the time such check, draft, or order is received; and any creditor who shall in good faith ship securities with sight draft attached shall be deemed to have received payment of the amount of such sight draft at the time of the shipment of the securities to which such sight draft is attached: **Provided**, That, if such check, draft, order, or sight draft is not paid on the day of presentation, the creditor shall, before the expiration of three full business days from the receipt of notice of such nonpayment, obtain actual payment, cancel the sale, resell the securities for the account of the customer, or obtain the deposit of additional securities having a loan value sufficient to provide the margin needed.

Any member, broker, or dealer who shall receive payment of any amount in any foreign currency capable of being converted without restriction into United States currency, shall be deemed, for the purposes of this regulation, to have received payment of an amount equal to the value of the foreign currency so paid, computed at the buying rate for cable transfers of such foreign currency on the preceding business day as determined and certified by the Federal Reserve Bank of New York and published by the Secretary of the Treasury pursuant to the provisions of Section 522 of Title 4 of the Tariff Act of 1930. Any person who shall deposit with a creditor any such foreign currency may, for the purpose of determining the adjusted debit balance in an account of such person, be credited with the value of such foreign currency computed as hereinabove prescribed.

In the case of any special account which grows out of regular correspondent relationships between a creditor and a customer who is not located in the same city and who is a member, broker, or dealer, securities which are in transit from such customer to the creditor for the purpose of increasing the customer's margin may, for the purposes of this regulation, be deemed to have been received by the creditor at the time he receives and accepts in good faith a telegram or letter from the customer stating that such securities have been shipped to the creditor.

SECTION 5.

EXTENSION OR MAINTENANCE OF CREDIT WITHOUT COLLATERAL OR ON COLLATERAL OTHER THAN EXEMPTED OR REGISTERED SECURITIES

(a) **General rule.**—Under the provisions of subsection (c) of section 7 of the Securities Exchange Act of 1934, it is 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 without collateral or on any collateral other than exempted and/or registered securities except as expressly permitted by this regulation.

(b) **Credit not for purchasing or carrying securities.**—In a special account recorded separately, a creditor may, notwithstanding any other provision of this regulation, extend credit to any customer, without collateral or on any collateral other than non-exempted registered securities, for any *bona fide* commercial, industrial, or other purpose except the purpose of purchasing or carrying securities or of evading or circumventing the provisions of this regulation.

(c) **Additional collateral for maintenance of existing credits.**—As security for the maintenance of credits initially extended prior to October 1, 1934, or extended in conformity with this regulation, for the purpose of purchasing or carrying securities, a creditor may until July 1, 1937, accept or retain as collateral, in addition to exempted securities and registered securities, any collateral whatsoever: **Provided, That** collateral other than exempted or registered securities (1) shall not be the basis of any additional extension of credit, and (2) shall be given no value in determining the maximum loan value of the securities in the account.

SECTION 6. CASH TRANSACTIONS

Notwithstanding any other provision of this regulation, a creditor may, subject to the conditions specified in this section, make extensions of credit for limited periods not exceeding seven days and effect other transactions which are incidental to bona fide cash transactions.

A bona fide cash transaction is one in which a creditor sells a security to a customer or purchases a security for a customer upon an agreement made in good faith, and not to evade or circumvent the provisions of this regulation, that the customer will promptly make full cash payment for the security so sold or purchased.

Every creditor shall record separately in a special account all such bona fide cash transactions in connection with which he extends credit and shall record the full details of each such cash transaction, including the name and address of the customer, a description of the security involved, and the terms and date of sale and the date and manner of payment. No extension of credit which is incidental to any such bona fide cash transaction shall constitute a violation of this regulation, (1) if payment for such securities is actually received, or the creditor is deemed to have received payment for the purpose of this regulation, at or within the time specified above, or (2) if the creditor cancels the sale or resells the securities for the account of the customer within two days after the time when payment should have been received under this subsection: **Provided, however, That, in exceptional cases, any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which his transactions are effected, may, on application of the creditor, grant a further extension of time not exceeding thirty-five days or authorize the creditor to extend credit on such security subject to the provisions of this regulation, if such committee is satisfied that the creditor is acting in good faith and that the circumstances warrant such action.**

SECTION 7.

ACCOUNTS EXISTING ON OCTOBER 1, 1934

(a) **Old accounts.**—A creditor may designate any account maintained by him at the opening of business on October 1, 1934, as an old account by making an appropriate entry in the record of such account prior to November 15, 1934, and such creditor may carry such account separately as a special account and maintain credit and permit transactions therein: **Provided, That, in order to prevent the circumvention of this regulation, such transactions and the maintenance of such credit shall be subject to the provisions of section 4 of this regulation: Provided, That the creditor shall not at any time permit the customer to make any transaction or combination of transactions in such old account which would increase the adjusted debit balance of such account above the amount existing at the time such transaction or combination of transactions is instituted: Provided, however, That, if such account is an unrestricted account on October 15, 1934, the creditor, at any time prior to November 15, 1934, may permit the customer to withdraw therefrom such amount of money and/or securities as will not make such account a restricted account. Any account not so designated as an old account prior to November 15, 1934, should be subject to all the provisions of this regulation.**

(b) **New accounts.**—Notwithstanding any other provision of this regulation, a creditor may at any time permit a customer having an old account, recorded separately as above provided, to establish and maintain one or more new accounts which new accounts shall be subject to all the applicable provisions of this regulation, except that they shall not be affected by the status of, or transactions in, the old account.

(c) **Consolidation of old accounts with new accounts.**—At any time prior to July 1, 1937, a creditor may permit or require any customer to consolidate his old account with any of his new accounts and thereafter the consolidated account shall be considered a new account within the meaning of this regulation: **Provided, That all such accounts shall be consolidated, liquidated, or otherwise disposed of on or before July 1, 1937.**

SECTION 8.

ADMINISTRATIVE ADJUSTMENTS AND DETAILS

(a) **Borrowing and lending securities.**—Neither the bona fide deposit of cash, in order to borrow securities for the purpose of making delivery of such securities in the case of short sales, delayed deliveries, and other similar transactions, nor the bona fide lending of securities for such purposes shall be considered an extension or maintenance of credit within the meaning of this regulation.

(b) **Interest, commissions, etc.**—Interest on credit maintained in an account, commissions on transactions in an account, sale or transfer taxes on transactions in an account, premiums on securities borrowed in connection with short sales or to effect delivery, dividends, interest, rights or other distributions due on borrowed securities, and any service charges which the creditor may impose, may be debited to such account in accordance with the usual practice and shall be taken into consideration in calculating the net balance of such account; but the debiting of any such item to an account shall not be considered a violation of this regulation, whether or not such account is a restricted account and whether or not the debiting of such item causes an unrestricted account to become a restricted account.

(c) **Declaration as to purpose of loan.**—Every extension of credit on a registered security (other than an exempted security) shall be deemed for the purposes of this regulation to be for the purpose of purchasing or carrying securities, unless the customer shall file with the creditor a written declaration signed by the customer which shall state the use to be made of such credit and which shall state specifically that such credit is not for the purpose of purchasing or carrying securities or of evading or circumventing the provisions of this regulation. In any case in which a creditor is required to comply with the provisions of this regulation if an extension of credit is for the purpose of

purchasing or carrying securities, he may rely upon a written declaration of the customer such as that required above, unless he knows the statement to be false or has information which would put a prudent man upon inquiry and if investigated with reasonable diligence would lead to the discovery of the falsity of the statement.

(d) **Guaranteed accounts.**—Notwithstanding the definitions of the terms "unrestricted account" and "restricted account," a creditor may regard as an unrestricted account any account which is guaranteed in writing for an amount sufficient to make such account an unrestricted account by a person who has an account with such creditor containing securities of sufficient loan value to make such guaranteed account an unrestricted account in addition to providing the margin required by this regulation on the guarantor's account.

(e) **Transfer of accounts.**—In the event of the transfer of an account from one creditor to another, such account may be treated for the purposes of this regulation as if it had been maintained by the transferee from the date of its origin.

(f) **Credit for clearance of securities.**—The extension or maintenance of any credit which is maintained for only a fraction of a day (that is, for only a part of the time between the beginning of business and midnight on the same day) shall be disregarded for the purposes of this regulation, if it is incidental to the clearance of transactions in securities directly between members or through an agency, organized or employed by the members of a national securities exchange for the purpose of effecting such clearances.

(g) **Innocent mistakes.**—If any failure to comply with this regulation results from an innocent mistake made in good faith in executing a transaction, recording, determining, or calculating any loan, balance, market price, loan value, or other administrative adjustment or detail, the creditor shall not be deemed guilty of a violation of this regulation: **Provided,** That (1) the mistake is corrected promptly, (2) any additional margin required is obtained within the time allowed by this regulation from the date of the discovery of the mistake.

(h) **Transactions outside United States.**—In view of the provisions of Section 30(b) of the Securities Exchange Act of 1934, nothing in this regulation shall apply to any creditor insofar as he transacts a business in securities without the jurisdiction of the United States, unless he transacts such business in contravention of such rules and regulations as the Securities and Exchange Commission may prescribe as necessary or appropriate to prevent the evasion of the Securities Exchange Act of 1934.

SECTION 9. REPORTS

Every member of a national securities exchange and every broker or dealer who transacts a business in securities through the medium of any such member, shall, in the manner and form to be prescribed by the Federal Reserve Board, make such periodic, special, and/or other reports as the Federal Reserve Board may require from time to time.

SECTION 10. BORROWINGS BY MEMBERS, BROKERS, AND DEALERS

(a) **General rule.**—Under the provisions of section 8 of the Securities Exchange Act of 1934 it is 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 borrow in the ordinary course of business as a broker or dealer on any registered security (other than an exempted security) except:

(1) From or through a member bank of the Federal Reserve System; or

(2) From any nonmember bank which shall have filed with the Federal Reserve Board an agreement which is still in force and which is in the form prescribed by this regulation; or

(3) To the extent to which, under the provisions of this regulation, the Federal Reserve Board permits loans between such members and/or brokers and/or dealers, or to meet emergency needs.

(b) **Borrowing from nonmember banks.**—Each nonmember bank which has filed an agreement in the form prescribed by this regulation will be given a certificate evidencing that fact. Interested persons may obtain from the Federal Reserve Agent at any Federal Reserve Bank the names of banks which have filed such agreements and information as to whether in each case the agreement is still in force.

(c) **Borrowing from other members, brokers, and dealers.**—A creditor may borrow from another creditor in the ordinary course of business as a broker or dealer on any registered security to the extent and subject to the terms upon which the latter may extend credit to him in accordance with the provisions of this regulation and subject to such rules and regulations as the Securities and Exchange Commission may prescribe under the provisions of section 8(c) of the Securities Exchange Act of 1934.

(d) **Emergency loans.**—Notwithstanding any other provision of this regulation, any member of a national securities exchange, or any group of such members, may, with the approval of any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of such members, make loans to meet the emergency needs of any other such member or of a broker or dealer transacting business through the medium of any such member; and all such loans, whether made prior or subsequent to the effective date of this regulation, may be maintained, renewed, and/or extended until the Federal Reserve Board shall determine that the emergency justifying such loan has ceased to exist: **Provided,** That any such committee approving the making, renewal, or extension of any such loan, made after the effective date of this regulation, shall, within 10 days, make a written report of all facts relative thereto to the Federal Reserve Agent of the district in which such exchange is located. Any member of a national securities exchange and any broker or dealer who transacts a business in securities through the medium of any such member may borrow in accordance with the provisions of this section for the purpose of meeting his emergency needs.

SECTION 11.

QUALIFICATION OF NONMEMBER BANKS TO LEND TO MEMBERS, BROKERS, AND DEALERS

(a) **Form of agreement.**—In order to qualify, pursuant to the provisions of subsection (a) of section 8 of the Securities Exchange Act of 1934, as a bank from which it is lawful 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, to borrow, in the ordinary course of business as a broker or dealer, on registered securities (other than exempted securities), a bank which is not a member of the Federal Reserve System and which is not included in the classes of banks referred to in subsection (b) of this section, shall file, in the manner hereinafter prescribed, an agreement on F. R. B. Form T-1, which form is hereby made a part of this regulation. The execution of such agreement shall be authorized by the adoption by the Board of Directors or other governing body of the bank of a resolution in the form contained in F. R. B. Form T-1 and the agreement when filed shall be accompanied by a copy of such resolution certified by the Secretary or other duly authorized officer of the bank in the manner provided for in F. R. B. Form T-1.

(b) **Banks in territories or insular possessions; branches of foreign banks.**—In order to qualify, pursuant to the provisions of subsection (a) of section 8 of the Securities Exchange Act of 1934, a bank which is not a member of the Federal Reserve System and which has its principal place of business in a territory or insular possession of the United States (including the Philippine Islands and the Canal Zone) or which is not a member of

the Federal Reserve System and which has its principal place of business in a foreign country and has a branch or agency in the United States, shall file in lieu of the agreement on F. R. B. Form T-1 an agreement on F. R. B. Form T-2, which form is hereby made a part of this regulation. Such agreement when filed shall be accompanied by proof of the authorization of its execution in the manner provided on F. R. B. Form T-2.

(c) **Method and evidence of filing.**—Duplicate originals of F. R. B. Form T-1, when properly executed, shall be delivered to the Federal Reserve Agent at the Federal Reserve Bank of the district in which is situated the qualifying bank's principal place of business and such delivery shall constitute filing with the Federal Reserve Board. A certificate evidencing such filing will thereupon be delivered to the qualifying bank by the Federal Reserve Agent.

Duplicate originals of F. R. B. Form T-2, when properly executed, shall be delivered to the Federal Reserve Agent at the Federal Reserve Bank of New York or the Federal Reserve Agent at the Federal Reserve Bank of San Francisco and delivery to either such Federal Reserve Agent shall constitute filing with the Federal Reserve Board. The Federal Reserve Agent to whom such delivery is made shall thereupon send a certificate evidencing such filing to the qualifying bank and to each branch or agency of the qualifying bank which is listed in F. R. B. Form T-2 and shall at the same time send appropriate notice of such filing to the Federal Reserve Agent at the Federal Reserve Bank in each Federal Reserve District in which is situated one or more of such branches or agencies.

(d) **Termination of agreements.**—Any agreement on F. R. B. Form T-1 or F. R. B. Form T-2 filed with the Federal Reserve

Board shall be subject to termination at any time by order of the Board, after appropriate notice and opportunity for hearing, because of any failure by the bank filing such agreement to comply with the provisions thereof or with the provisions of the Securities Exchange Act of 1934, the Federal Reserve Act, as amended, or the Banking Act of 1933, which are applicable to member banks and which relate to the use of credit to finance transactions in securities, or with such rules and regulations as may be prescribed pursuant to such provisions of law or for the purpose of preventing evasions thereof. For any willful violation of such agreement, the offending bank will be subject to the penalties prescribed by the Securities Exchange Act of 1934 for violations of rules and regulations prescribed thereunder.

(e) **Forms available.**—Copies of F. R. B. Form T-1 and F. R. B. Form T-2 may be obtained from the Federal Reserve Agents at the Federal Reserve Banks.

SECTION 12. ADDITIONAL REQUIREMENTS BY EXCHANGES AND CREDITORS

Nothing in this regulation shall be construed as preventing an exchange from adopting and enforcing any rule or regulation requiring its members to secure or maintain higher margins or otherwise restricting the amount of credit which may be extended by such members.

Nothing in this regulation shall be construed as modifying the right of any creditor to require additional security for the maintenance of any credit or as restricting the right of any creditor to refuse to extend credit or to sell any securities or property held as collateral for any loan or credit extended by him.

APPENDIX

There are printed below certain provisions of the Securities Exchange Act of 1934 which are pertinent to the subject matter of this regulation.

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.

(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.

(11) The term "equity security" means any stock or similar security; or any security convertible, with or without consideration, into such a security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security which the Commission shall deem to be of similar nature and consider necessary or appropriate, by such rules and regulations as it may prescribe in the public interest or for the protection of investors, to treat as an equity security.

(13) The terms "buy" and "purchase" each include any contract to buy, purchase, or otherwise acquire.

(14) The terms "sale" and "sell" each include any contract to sell or otherwise dispose of.

(b) The Commission and the Federal Reserve Board, as to matters within their respective jurisdictions, shall have power by rules and regulations to define technical, trade, and accounting terms used in this title insofar as such definitions are not inconsistent with the provisions of this title.

Sec. 6(b). No registration shall be granted or remain in force unless the rules of the exchange include provision for the expulsion, suspension, or disciplining of a member for conduct or proceeding inconsistent with just and equitable principles of trade, and declare that the willful violation of any provisions of this title or any rule or regulation thereunder shall be considered conduct or proceeding inconsistent with just and equitable principles of trade.

(c). Nothing in this title shall be construed to prevent any exchange from adopting and enforcing any rule not inconsistent with this title and the rules and regulations thereunder and the applicable laws of the State in which it is located.

MARGIN REQUIREMENTS

Sec. 7(a). For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Federal Reserve Board 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 Federal Reserve Board, 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 Federal Reserve Board 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 Federal Reserve Board 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 Federal Reserve Board, 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 Federal Reserve Board 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 Federal Reserve Board 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 Federal Reserve Board 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.

RESTRICTIONS ON BORROWING BY MEMBERS, BROKERS, AND DEALERS

Sec. 8. 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—

(a) To borrow in the ordinary course of business as a broker or dealer on any security (other than an exempted security) registered on a national securities exchange except (1) from or through a member bank of the Federal Reserve System, (2) from any nonmember bank which shall have filed with the Federal Reserve Board an agreement, which is still in force and which is in the form prescribed by the Board, undertaking to comply with all provisions of this Act, the Federal Reserve Act, as amended, and the Banking Act of 1933, which are applicable to member banks and which relate to the use of credit to finance transactions in securities, and with such rules and regulations as may be prescribed pursuant to such provisions of law or for the purpose of preventing evasions thereof, or (3) in accordance with such rules and regulations as the Federal Reserve Board may prescribe to permit loans between such members and/or brokers and/or dealers, or to permit loans to meet emergency needs. Any such agreement filed with the Federal Reserve Board shall be subject to termination at any time by order of the Board, after appropriate notice and opportunity for hearing, because of any failure by such bank to comply with the provisions thereof or with such provisions of law or rules or regulations; and, for any willful violation of such agreement, such bank shall be subject to the penalties provided for violations of rules and regulations prescribed under this title. The provisions of sections 21 and 25 of this title shall apply in the case of any such proceeding or order of the Federal Reserve Board in the same manner as such provisions apply in the case of proceedings and orders of the Commission.

(b) To permit in the ordinary course of business as a broker his aggregate indebtedness to all other persons, including customers' credit balances (but excluding indebtedness secured by exempted securities), to exceed such percentage of the net capital (exclusive of fixed assets and value of exchange membership) employed in the business, but not exceeding in any case 2,000 per centum, as the Commission may by rules and regulations prescribe as necessary or appropriate in the public interest or for the protection of investors.

(c) In contravention of such rules and regulations as the Commission shall prescribe for the protection of investors to hypothecate or arrange for the hypothecation of any securities carried for the account of any customer under circumstances (1) that will permit the commingling of his securities without his written consent with the securities of any other customer, (2) that will permit such securities to be commingled with the securities of any person other than a bona fide customer, or (3) that will permit such securities to be hypothecated, or subjected to any lien or claim of the pledgee, for a sum in excess of the aggregate indebtedness of such customers in respect of such securities.

(d) To lend or arrange for the lending of any securities carried for the account of any customer without the written consent of such customer.

Sec. 17(b). Any broker, dealer, or other person extending credit who is subject to the rules and regulations prescribed by the Federal Reserve Board pursuant to this title shall make such reports to the Board as it may require as necessary or appropriate to enable it to perform the functions conferred upon it by this title. If any such broker, dealer, or other person shall fail to make any such report or fail to furnish full information therein,

or, if in the judgment of the Board it is otherwise necessary, such broker, dealer, or other person shall permit such inspections to be made by the Board with respect to the business operations of such broker, dealer, or other person as the Board may deem necessary to enable it to obtain the required information.

Sec. 23(a). The Commission and the Federal Reserve Board shall each have power to make such rules and regulations as may be necessary for the execution of the functions vested in them by this title, and may for such purpose classify issuers, securities, exchanges, and other persons or matters within their respective jurisdictions.

VALIDITY OF CONTRACTS

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.

PENALTIES

Sec. 32. 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, 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.