

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 3, 1937, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Davis

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Goldenweiser, Director of the Division of Research and Statistics  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Parry, Chief of the Division of Security Loans  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Leonard, Assistant Chief of the Division of Examinations  
Mr. Bradley, Assistant Chief of the Division of Security Loans  
Mr. Solomon, Assistant Counsel  
Mr. Dembitz, Research Assistant in the Division of Security Loans

Prior to this meeting there had been sent to each member of the Board a draft of a revision of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, which had been prepared by the Division of Security Loans with the cooperation of Counsel's Office following the receipt of suggestions of the Federal reserve banks, the Securities and Exchange Commission and national securities exchanges, and the suggestions made

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by the senior staff of the Board. At the request of Mr. Szymczak copies of the revised draft had been sent to the Securities and Exchange Commission, the Federal Reserve Bank of New York and the New York Stock Exchange and the changes which they had suggested to the extent to which it was felt by the Division of Security Loans and Counsel's Office that they should be adopted were incorporated in a second revised draft of the regulation which had been furnished to the members of the Board before this meeting.

Mr. Parry stated that the revised regulation had been prepared with a view to making it as simple and clear as possible and that the revision now proposed was less restrictive and more practicable than the regulation now in effect. He also stated that the Federal Reserve Bank of New York, the Securities Exchange Commission and the New York Stock Exchange were either in agreement with all important matters of substance in the proposed regulation or were reconciled thereto, with the possible exception of the question whether subsection 4(f)(1) of the regulation should provide that in a special miscellaneous account a creditor might, with the approval of any regularly constituted committee of a national securities exchange having jurisdiction over the conduct of its members, make and maintain loans only to meet the emergency needs of any creditor, or whether specific provision should also be made for loans for capital purposes to or for any partner of a firm which is a member of such exchange. In this connection, Mr. Parry outlined the matters which had been considered by the Division of Security Loans

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and Counsel's Office in reaching the conclusion that the subsection should authorize only loans to meet emergency needs of any creditor.

Mr. Parry then reviewed certain provisions which it was felt would liberalize substantially the requirements of the proposed regulation as compared with the regulation now in effect. He also explained provisions which would be regarded as more restrictive in certain respects than the existing regulation. During the course of Mr. Parry's statement the various provisions referred to by him were discussed.

At 1:00 p.m. the meeting recessed and reconvened at 2:40 p.m. with the same attendance as at the morning session except that Messrs. Smead and Goldenweiser were not present.

The discussion of the provisions of the proposed Regulation T was resumed. Toward the end of the discussion Chairman Eccles and Mr. Smead joined the meeting.

Upon motion by Mr. Szymczak, Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, including the supplement thereto, was approved and adopted by unanimous vote in the following form, to become effective on January 1, 1938. In taking this action it was understood that the regulation would be released by the Board for publication in the morning papers of Sunday, December 5, 1937, and that prior thereto the Federal reserve banks would be advised by wire of the Board's action which advice would contain a statement of the important changes in the regulation from the draft sent to the Federal reserve banks under date of July 27, 1937, for their comments and suggestions. It was

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also understood that copies of the revised regulation would be printed as soon as possible and a supply sent to the Federal reserve banks for distribution to interested parties:

"REGULATION T

Revised Effective January 1, 1938.

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

"SECTION 1. SCOPE OF REGULATION

"This regulation is issued by the Board of Governors of the Federal Reserve System (hereinafter called the 'Board') pursuant to the Securities Exchange Act of 1934 (hereinafter called the 'Act'), particularly sections 7 and 8(a) thereof, and applies to every member of a national securities exchange and to every broker or dealer who transacts a business in securities through the medium of any such member.

"SECTION 2. DEFINITIONS

"For the purposes of this regulation, unless the context otherwise requires:

(a) The terms 'person', 'member', 'broker', 'dealer', 'buy', 'purchase', 'sale', 'sell', 'security', and 'bank' have the meanings given them in section 3(a) of the Act, pertinent parts of which are 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 'customer' includes any person, or any group of persons acting jointly, (1) to or for whom a creditor is extending or maintaining any credit, or (2) who, in accordance with the ordinary usage of the trade, would be considered a customer of the creditor.

It includes, in case the creditor is a firm, any partner in the firm who would be considered a customer of the firm if he were not a partner, and includes any joint adventure in which a creditor participates and which would be considered a customer of the creditor if the creditor were not a participant.

(d) The term 'registered security' means any security which (1) is registered on a national securities exchange; or (2) in consequence of its having unlisted trading privileges on a national securities exchange is deemed, under

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"the provisions of section 12(f) of the Act, to be registered on a national securities exchange; or (3) is exempted by the Securities and Exchange Commission from the operation of section 7(c)(2) of the Act only to the extent necessary to render lawful any direct or indirect extension or maintenance of credit on such security or any direct or indirect arrangement therefor which would not have been unlawful if such security had been a security (other than an exempted security) registered on a national securities exchange.

(e) The term 'exempted security' has the meaning given it in section 3(a) of the Act except that the term does not include a security which is exempted by the Securities and Exchange Commission from the operation of section 7(c)(2) of the Act only to the extent described in subdivision (3) of section 2(d) of this regulation.

### "SECTION 3. GENERAL ACCOUNTS

"(a) Contents of general account. - All financial relations between a creditor and a customer, whether recorded in one record or in more than one record, shall be included in and be deemed to be parts of the customer's general account with the creditor, except that the relations which section 4 permits to be included in any special account provided for by that section may be included in the appropriate special account, and all transactions in commodities for or with any customer shall be included in the special commodity account provided for by sections 4(a) and 4(e).

"(b) General rule. - A creditor shall not effect for or with any customer in a general account any transaction which, in combination with the other transactions effected in the account on the same day, creates an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, or increases any such excess, unless in connection therewith the creditor obtains, as promptly as possible and in any event before the expiration of three full business days following the date of such transaction, the deposit into the account of cash or securities in such amount that the cash deposited plus the maximum loan value of the securities deposited equals or exceeds the excess so created or the increase so caused.

"A transaction consisting of a withdrawal of cash or registered or exempted securities from a general account shall be permissible only on condition that no cash or securities need be deposited in the account in connection with a transaction on a previous day and that, in addition, the

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"transactions (including such withdrawal) on the day of such withdrawal would not create an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account or increase any such excess.

"Rules for computing the maximum loan value of the securities in a general account and the adjusted debit balance of such an account are provided in sections 3(c) and 3(d), and certain modifications of and exceptions to the general rule stated above are provided in the subsequent subsections of this section and in section 6.

"(c) Maximum loan value and current market value. -

The maximum loan value of the securities in a general account is the sum of the maximum loan values of the individual securities in the account, including securities (other than unissued securities) bought for the account but not yet debited thereto, but excluding securities sold for the account whether or not payment has been credited thereto.

"Except as otherwise provided in this section 3(c), the maximum loan value of a registered security (other than an exempted security) in a general account shall be such maximum loan value as the Board shall prescribe for general accounts from time to time in the supplement to this regulation, and the maximum loan value of an exempted security shall be as determined by the creditor in good faith. No collateral other than registered securities or exempted securities shall have any loan value in a general account.

"A warrant or certificate which evidences only a right to subscribe to or otherwise acquire any security and which expires within ninety days of issuance shall have no loan value in a general account; but, if the account contains, in addition to such warrant or certificate, the security to the holder of which such warrant or certificate has been issued, the current market value of such security (if the security be a registered security) shall, for the purpose of calculating its maximum loan value, be increased by the current market value of such warrant or certificate.

"For the current market value of a security throughout the day of its purchase or sale, the creditor shall use its total cost or the net proceeds of its sale, as the case may be, and at any other time shall use the closing sale price of the security on the preceding business day as shown by any regularly published reporting or quotation service. In the absence of any such closing sale price, the creditor may use any reasonable estimate of the market value of such security as of the close of business on such preceding business day.

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"(d) Adjusted debit balance. - For the purposes of this regulation, the adjusted debit balance of a general account shall be calculated by taking the sum of the following items:

- (1) the net debit balance, if any, of the account;
- (2) the total cost of any securities (other than unissued securities) bought for the account but not yet debited thereto;
- (3) the current market value of any securities (other than unissued securities) sold short in the account plus, for each such security (other than an exempted security), such amount as the Board shall prescribe from time to time in the supplement to this regulation as the margin required for such short sales, except that such amount so prescribed in the supplement need not be included when there are held in the account securities exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into such securities sold short;
- (4) the amount of margin specified by section 3(h) for every net commitment in the account in unissued securities, plus all unrealized losses on each commitment in unissued securities and minus all unrealized gains (not exceeding the required margin) on each commitment in unissued securities; and
- (5) the amount of any margin customarily required by the creditor in connection with his endorsement or guarantee of any put, call or other option;

and deducting therefrom the sum of the following items:

- (6) the net credit balance, if any, of the account; and
- (7) the net proceeds of sale of any securities (other than unissued securities) sold for the account but for which payment has not yet been credited thereto.

"In case the general account is the account of a partner of the creditor, the account of a joint adventure in which the creditor participates, a guaranteed account, or the account of a customer who has guaranteed the account of another customer, the adjusted debit balance shall be computed according to the foregoing rule and the supplementary rules prescribed in sections 6(a), 6(b), and 6(c).

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"(e) Liquidation in lieu of deposit.\* - In any case in which the deposit required by section 3(b), or any portion thereof, is not obtained by the creditor within the three-day period specified in that section, securities shall be sold or covering or other liquidating transactions shall be effected in the account, prior to the expiration of such three-day period, in such amount that the resulting decrease in the adjusted debit balance of the account exceeds, by an amount at least as great as such required deposit or the undeposited portion thereof, any resulting decrease in the maximum loan value of the securities in the account.

"(f) Extensions of time. - In exceptional cases, the three-day period specified in section 3(b) may, on application of the creditor, be extended for one or more limited periods commensurate with the circumstances by 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, provided such committee is satisfied that the creditor is acting in good faith in making the application and that the circumstances are in fact exceptional and warrant such action.

"(g) Transactions on given day. - For the purposes of section 3(b), the question of whether or not an excess of the adjusted debit balance of a general account over the maximum loan value of the securities in the account is created or increased on a given day shall be determined on the basis of all the transactions in the account on that day exclusive of any deposit of cash, deposit of securities, covering transaction or other liquidation that has been effected on the given day, pursuant to the requirements of section 3(b) or 3(e), in connection with a transaction on a previous day.

"(h) Unissued securities. - The amount to be included in the adjusted debit balance of a general account as the margin required for a net long commitment in unissued securities shall be the current market value of the net amount

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\* This requirement relates to the action to be taken when a customer fails to make the deposit required by section 3(b), and it is not intended to countenance on the part of customers the practice commonly known as 'free-riding' or 'three-day riding', to prevent which the principal national securities exchanges have adopted certain rules. See the rules of such exchanges and section 7(e) of this regulation.



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"of unissued securities long minus the maximum loan value which such net amount of securities would have if they were issued registered securities held in the account; and the amount to be so included as the margin required for a net short commitment in unissued securities shall be the amount which would be required as margin for the net amount of unissued securities short if such securities were issued securities and were sold short in the account: Provided, That no amount need be included as margin for a net short commitment in unissued securities when there are held in the account securities in respect of which the unissued securities are to be issued, nor for any net position in unissued securities that are exempted securities.

"Whenever a creditor, pursuant to a purchase of an unissued security for a customer, receives an issued security which is not a registered or exempted security, the creditor shall treat any payment by him for such issued security as a transaction (other than a withdrawal) which increases the adjusted debit balance of the account by the amount of the payment minus the amount required to be included in the adjusted debit balance of the account, at the time of and in connection with the purchase of the unissued security, as the margin required for such purchase.

#### "SECTION 4. SPECIAL ACCOUNTS

"(a) General rule. - Pursuant to this section 4, a creditor may establish for any customer one or more special accounts.

"Each such special account shall be recorded separately and shall be confined to the transactions and relations specifically authorized for such account by the appropriate subsection of this section and to transactions and relations incidental to those specifically authorized. An adequate record shall be maintained showing for each such account the full details of all transactions in the account.

"A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation. If a customer has with a creditor both a general account and one or more such special accounts, the creditor shall treat each such special account as if the customer had with the creditor no general account.

"The only other conditions to which transactions in such special accounts shall be subject under the provisions of this regulation shall be such conditions as are specified in the appropriate subsection of this section and in sections 2, 6 and 7.

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"(b) Special omnibus account. - In a special omnibus account, a member of a national securities exchange may effect for a customer transactions which are effected in reliance upon a signed statement which the member has accepted from the customer in good faith, and a duplicate original of which has been filed by the member with the secretary of a national securities exchange of which he is a member, that the customer is a broker or dealer who is subject to the provisions of this regulation or has places of business only in foreign countries; and such a special omnibus account shall be subject to all the conditions to which it would be subject if it were a general account except that --

(1) In such a special omnibus account, no securities shall have loan value and no short sales of securities shall be carried, except securities and short sales as to which the member shall have accepted in good faith a signed statement of the customer that he is in turn carrying such securities and such short sales for the account of his customers other than his partners;

(2) The maximum loan value of a registered security (other than an exempted security) having loan value in such a special omnibus account shall be such special maximum loan value, and the amount to be included in the adjusted debit balance of such an account as the margin required for short sales shall be such special amount, as the Board shall prescribe from time to time for special omnibus accounts in the supplement to this regulation; and

(3) If the maximum loan value of the securities in the account shall have equalled or exceeded the adjusted debit balance of the account after all the transactions in the account on any day within the period specified in section 3(b), the liquidating or covering transactions required by section 3(e) need not be effected.

"(c) Special cash account. - In a special cash account, a creditor may effect for or with any customer bona fide cash transactions in securities in which the creditor may --

(1) purchase any security for, or sell any security to, any customer, provided funds sufficient for the purpose are already held in the account or the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the customer will promptly make full cash payment for such security; or

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"(2) sell any security for, or purchase any security from, any customer, provided the security is held in the account or the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the security is to be promptly deposited in the account.

"Except as otherwise provided in this section 4(c), in case a customer does not make full cash payment for a security purchased by him in the account, or does not deposit in the account a security sold by him in the account, within seven days after the date on which the security was purchased or sold, the creditor shall promptly cancel, cover, or otherwise liquidate, the transaction or the unsettled portion thereof.

"If the security was purchased for the customer subject to a customary 'seller's option' as to the time of delivery, or if the security was purchased for, or sold to, the customer and the creditor 'failed to receive' the security at the usual time of delivery, the period referred to in the preceding paragraph shall be five days from the day on which the creditor acting in good faith was able to obtain the security. If the security was sold for the customer subject to a customary 'seller's option' as to the time of delivery, such period shall end with the day on which the option expires. If the security when purchased or sold was an unissued security, such period shall be seven days from the day on which the security was made available by the issuer for delivery to purchasers of the security.

"If 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, is satisfied that the creditor is acting in good faith in making the application, that the application relates to a bona fide cash transaction, and that exceptional circumstances warrant such action, such committee, on application of the creditor, may (A) extend any period specified in the two preceding paragraphs for one or more limited periods commensurate with the circumstances, or (B) in the case of the purchase of a registered or exempted security which has been effected by the customer in the account, authorize the transfer of the transaction to a general account or special omnibus account and the completion of the transaction pursuant to the provisions of this regulation relating to such accounts.

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"The days specified in this section 4(c) are calendar days, but if the last day of any period specified herein is a Saturday, Sunday, or holiday, such period shall be considered to end on the next full business day. For the purposes of this section 4(c), a creditor may, at his option, disregard any sum due by the customer not exceeding \$50.

"(d) Special arbitrage account. - In a special arbitrage account, a member of a national securities exchange may effect and finance for any customer bona fide arbitrage transactions in securities. For the purposes of this subsection, the term 'arbitrage' means (1) a purchase or sale of a security in one market together with an offsetting sale or purchase of the same security in a different market at as nearly the same time as practicable, for the purpose of taking advantage of a difference in prices in the two markets, or (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within a reasonable time into a second security together with an offsetting sale at or about the same time of such second security, for the purpose of taking advantage of a disparity in the prices of the two securities.

"(e) Special commodity account.-In a special commodity account, a creditor may effect and carry for any customer transactions in commodities.

"(f) Special miscellaneous account. - In a special miscellaneous account, a creditor may --

(1) With the approval of any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, make and maintain loans to meet the emergency needs of any creditor;

(2) Effect and finance, for any joint adventure in which the sole participants are the creditor and one or more members of a national securities exchange who are registered on such exchange as odd-lot dealers and acting as such, any transactions in securities with respect to which all participants, or all participants other than the creditor, are so registered and so act;

(3) Effect transactions for and finance any joint adventure or group in which the creditor participates and in which all participants are dealers (whether such participants be acting jointly or severally), or any member thereof or participant therein, for the purpose of facilitating the underwriting or distributing of all or part of an issue

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"of securities (A) not through the medium of a national securities exchange, or (B) the distribution of which has been approved by the appropriate committee of a national securities exchange;

(4) Effect for any customer the collection or exchange (other than by sale or purchase) of securities deposited by the customer specifically for such purposes, and (subject to any other applicable provisions of law) receive from or for any customer, and pay out or deliver to or for any customer, any money or securities;

(5) Effect and carry for any customer transactions in foreign exchange; and

(6) Extend and maintain credit to or for any customer without collateral or on any collateral whatever for any purpose other than purchasing or carrying or trading in securities.

"SECTION 5. BORROWINGS BY MEMBERS, BROKERS, AND DEALERS

"(a) General rule. - It is unlawful for any creditor, 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 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, loans are permitted between members of a national securities exchange and/or brokers and/or dealers, or loans are permitted to meet emergency needs.

"(b) Agreements of nonmember banks. - An agreement filed pursuant to section 8(a) of the Act by a bank not a member of the Federal Reserve System shall be substantially in the form contained in Form F.R. T-2 if the bank has its principal place of business in a territory or insular possession of the United States, or if it has an office or agency in the United States and its principal place of business outside the United States. The agreement filed by any other nonmember bank shall be in substantially the form contained in Form F.R. T-1. Any nonmember bank which has executed any such agreement may terminate the agreement if it obtains the written consent of the Board. Blank forms of such agree-

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ments, information regarding their filing or termination, and information regarding the names of nonmember banks for which such agreements are in force, may be obtained from any Federal Reserve bank.

"(c) Borrowing from other creditors. - 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 any other applicable provisions of law.

#### "SECTION 6. CERTAIN TECHNICAL DETAILS

"(a) Accounts of partners. - In case a general account is the account of a partner of the creditor, the creditor, in calculating the adjusted debit balance of such account and the maximum loan value of the securities therein, shall disregard the partner's financial relations with the firm as reflected in his capital and ordinary drawing accounts.

"(b) Contribution to joint adventure. - In case a general account is the account of a joint adventure in which the creditor participates, the adjusted debit balance of the account shall include, in addition to the items specified in section 3(d), any amount by which the creditor's contribution to the joint adventure exceeds the contribution which he would have made if he had contributed merely in proportion to his right to share in the profits of the joint adventure.

"(c) Guaranteed accounts. - In case a general account maintained by a creditor for one customer is guaranteed in writing by another customer for whom the creditor maintains a general account, the adjusted debit balance of the guaranteed account may, at the option of the creditor, be computed by deducting from the sum of the items specified in section 3(d) an amount not greater than the excess of the maximum loan value of the securities in the guarantor's general account over the adjusted debit balance of such guarantor's account calculated without the addition thereto prescribed by the following paragraph, provided (1) the guarantor is not a creditor, (2) a duplicate original of the guarantee has been filed with the secretary of a national securities exchange of which the creditor is a member or through which his transactions are effected, and (3) the guarantee permits the creditor to use funds and securities in the guarantor's account to carry the guaranteed account without

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"restriction, except that the guarantee may be limited to a specified amount and in that event the deduction shall not exceed such amount.

"In case a guarantee has served to permit in the guaranteed account any transaction which could not otherwise have been effected in accordance with this regulation: (A) the adjusted debit balance of the guarantor's account shall be computed by adding to the sum of the items specified in section 3(d) an amount equal to the deduction made pursuant to the preceding paragraph; (B) the creditor shall not subsequently decrease the amount of such deduction, or the amount of the consequent addition to the adjusted debit balance of the guarantor's account, unless the adjusted debit balance of the guaranteed account, after such decrease and after all transactions in such guaranteed account on the date of such decrease, does not exceed the maximum loan value of the securities in such guaranteed account; and (C) if the guarantee is terminated or the amount thereof reduced, the creditor shall require that, after all the transactions (including such termination or reduction) on the date of such termination or reduction, the adjusted debit balance of the guaranteed account shall not exceed the maximum loan value of the securities in the account.

"(d) Transfer of accounts. - In the event of the transfer of a general 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: Provided, That the transferee accepts in good faith the signed statement of the transferor that no cash or securities need be deposited in the account in connection with any transaction that has been effected in the account or, in case he finds that it is not practicable to obtain such a statement from the transferor, accepts in good faith such a signed statement from the customer.

"In the event of the transfer of a general account from one customer to another, such account may be treated by the creditor for the purposes of this regulation as if it had been maintained for the transferee from the date of its origin.

"(e) Reorganizations. - A creditor may, without regard to the other provisions of this regulation, effect for a customer the exchange of any registered or exempted security in a general account for the purpose of participating in a reorganization or recapitalization in which the security is involved: Provided, That if an unregistered non-exempted security is acquired in exchange, the creditor shall not, for a period of sixty days following such acquisition, permit

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"the withdrawal of such security or the proceeds of its sale from the customer's account except to the extent that such security or proceeds could be withdrawn if the security were a registered security.

"(f) Time of receipt of funds or securities. - For the purposes of this regulation, a creditor may, at his option (1) treat the receipt in good faith of 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 bank with passbook attached which is so payable, as receipt of payment of the amount of such check, draft or order; (2) treat the shipment of securities in good faith with sight draft attached as receipt of payment of the amount of such sight draft; and (3) in the case of the receipt in good faith of written or telegraphic notice in connection with a special omnibus account of a customer not located in the same city that a specified security or a check or draft has been dispatched to the creditor, treat the receipt of such notice as receipt of such security, check or draft: Provided, however, That if the creditor receives notice that such check, draft, order, or sight draft described in clause (1), (2) or (3) is not paid on the day of presentation, or if such security, check or draft described in clause (3) is not received by the creditor within a reasonable time, the creditor shall promptly take such action as he would have been required to take by the appropriate provisions of this regulation if the provisions of this subsection had not been utilized.

"(g) Interest, service charges, etc. - Interest on credit maintained in a general account, communication charges with respect to transactions in the account, shipping charges, premiums on securities borrowed in connection with short sales or to effect delivery, dividends or other distributions due on borrowed securities, and any service charges (other than commissions) which the creditor may impose, may be debited to the account in accordance with the usual practice and without regard to the other provisions of this regulation, but such items so debited shall be taken into consideration in calculating the net credit or net debit balance of the account.

"A creditor may, without regard to the other provisions of this regulation, pay to or for a customer from a general account interest or cash dividends collected by the creditor for such account, if such payment is made within 35 days after the day on which, in accordance with the creditor's



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"usual practice, such interest or dividends are credited to the account, and if the crediting thereof has not served in the meantime to permit in the account any purchase of securities or other transactions which could not otherwise have been effected in accordance with this regulation.

"(h) Borrowing and lending securities. - Without regard to the other provisions of this regulation, a creditor (1) may make a bona fide deposit of cash in order to borrow securities (whether registered or unregistered) for the purpose of making delivery of such securities in the case of short sales, failure to receive securities he is required to deliver, or other similar cases, and (2) may lend securities for such purpose against such a deposit.

"(i) 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 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 clearance.

"(j) Foreign currency. - If foreign currency is capable of being converted without restriction into United States currency, a creditor acting in good faith may treat any such foreign currency in an account as a credit to the account in an amount determined in accordance with customary practice.

"(k) Innocent mistakes. - If any failure to comply with this regulation results from a mistake made in good faith in executing a transaction, recording, determining, or calculating any loan, balance, market price or loan value, or other similar matter, the creditor shall not be deemed guilty of a violation of this regulation if promptly after the discovery of the mistake he takes whatever action may be practicable in the circumstances to remedy the mistake.

#### "SECTION 7. MISCELLANEOUS PROVISIONS

"(a) Arranging for loans by others. - A creditor may arrange for the extension or maintenance of credit to or for any customer of such creditor by any person upon the same terms and conditions as those upon which the creditor, under the provisions of this regulation, may himself extend or maintain such credit to such customer, but only upon such terms and conditions, except that this limitation shall not

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"apply with respect to the arranging by a creditor for a bank subject to Regulation U to extend or maintain credit on registered securities or exempted securities.

"(b) Maintenance of credit. - Except as otherwise specifically forbidden by this regulation, any credit initially extended without violation of this regulation may be maintained regardless of (1) reductions in the customer's equity resulting from changes in market prices, (2) the fact that any security in an account ceases to be registered or exempted, and (3) any change in the maximum loan values or margin requirements prescribed by the Board under this regulation. In maintaining any such credit, the creditor may accept or retain for his own protection additional collateral of any description, including unregistered securities.

"(c) Declaration as to purpose of loan. - Every extension of credit on a registered security (other than an exempted security) shall be deemed to be for the purpose of purchasing or carrying or trading in 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 neither for the purpose of purchasing or carrying or trading in securities nor for the purpose of evading or circumventing the provisions of this regulation. In connection with any extension of credit, a creditor may rely upon such a written declaration 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) Reports. - Every creditor shall make such reports as the Board may require to enable the Board to perform the functions conferred upon it by the Act.

"(e) Additional requirements by exchanges and creditors. - Nothing in this regulation shall (1) prevent any exchange from adopting and enforcing any rule or regulation further restricting the time or manner in which its members must obtain initial or additional margin in customers' accounts because of transactions effected in such accounts, or requiring such members to secure or maintain higher margins, or further restricting the amount of credit which may be extended or maintained by them, or (2) modify or restrict the right of any creditor to require additional security for the maintenance of any credit, to refuse to extend credit, or to sell any securities or property held as collateral for any loan or credit extended by him."

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"SUPPLEMENT TO REGULATION T

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

Effective January 1, 1938.

"Maximum loan value for general accounts. - The maximum loan value of a registered security (other than an exempted security) in a general account, subject to section 3 of Regulation T, shall be 60 percent of its current market value.

"Maximum loan value for special omnibus accounts. - The maximum loan value of a registered security (other than an exempted security) in a special omnibus account, subject to section 4 of Regulation T, shall be 75 percent of its current market value.

"Margin required for short sales. - The amount to be included in the adjusted debit balance of a general account pursuant to section 3(d)(3) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 50 percent of the current market value of each such security, and in the case of a special omnibus account with another member, broker or dealer, such amount shall be 35 percent of such current market value."

In connection with his vote, Mr. Ransom stated that while he had voted to adopt the revised Regulation T and felt that it was a difficult task well done, and while he agreed that substantial margins should be required by law as being in the public interest, he was of the opinion that the provisions of law requiring the establishment of margins by the Board of Governors might not be the best approach to the problem and that in the light of experience serious consideration should be given to the question whether the procedure was an effective means of credit control and, if so, whether it should be vested in the Board or elsewhere. He added that he wished to make this statement for the record for the reason that, in the event the question comes before the Board in the future and an opportunity is afforded to consider some other solution of the problem, he did not wish to have his vote on Regulation T misinterpreted.

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Mr. Parry referred to his memorandum of December 1, 1937, copies of which were distributed to the members of the Board yesterday, with which he submitted a proposed amendment to the existing Regulation T which would prescribe the method by which brokers, prior to January 1, 1938, should separate customers' outstanding commitments in commodity futures from customers' security accounts, thus placing them on the separate basis on which the revised Regulation T beginning January 1 would require them to be. He explained that the suggested amendment was a necessary change in the existing regulation preparatory to the revised regulation becoming effective and would expire with the old regulation.

Thereupon Mr. Szymczak moved the adoption of the following resolution:

BE IT RESOLVED, That effective December 6, 1937, Regulation T, as amended, is further amended by adding at the end thereof after section 12 a new section reading as follows:

"SECTION 13. SPECIAL COMMODITY ACCOUNT

Notwithstanding any other provision of this regulation:

(a) In a special commodity account recorded separately, a creditor may effect and carry for any customer transactions in commodities, and such a special account when so recorded shall be excluded from all calculations involving any combined account or any other special account; and

(b) On or before December 31, 1937, the creditor shall transfer to the special commodity account of a customer from the combined account and from any other special account of such customer (1) all open trades or contracts in commodities carried in such combined account or such other special account, together with (2) funds in an amount equal to the amount of margin customarily required by the creditor on all such open trades or contracts so transferred plus any net loss on such open trades or contracts OR minus any

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"net profit (not exceeding such margin) on such open trades or contracts.

A special commodity account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation. If a customer has with a creditor both a combined account and such a special commodity account, the creditor shall treat the special commodity account as if the customer had with the creditor no combined account."

Carried unanimously, with the understanding that the amendment would be released to the press for publication in the morning papers of Sunday, December 5, and that prior thereto it would be wired to the Federal reserve banks with a request that they print the amendment and distribute copies thereof to interested persons.

Mr. McKee referred to a draft of a reply to a letter received under date of November 10, 1937, from Mr. Sam H. Hoefler representing the Bankers Association of Lafayette-Ray Counties, Missouri, with further regard to the suggested transfer of thirteen counties in western Missouri from the Eighth to the Tenth Federal Reserve District. The proposed reply stated that, before reaching its conclusion in the matter, the Board made a careful study of the situation and was of the opinion that sufficient information was available to enable the Board to reach a decision without calling upon the banks requesting the transfer for the compilation of any additional information, and that it considered the services now available to member and nonmember banks and the possible advantages of a transfer from the Eighth to the Tenth Federal Reserve District and felt that it would not be warranted in making the proposed change.

After a discussion of the question

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whether further steps should be taken by the Board to determine whether there was any information with respect to the suggested transfer which had not been brought to its attention, it was agreed that a representative of the Board from the Division of Bank Operations or Division of Examinations, as determined upon by Messrs. Smead and Paulger, should be sent to make an investigation to ascertain definitely whether there was any additional information that should be considered by the Board. It was also understood that the letter to Mr. Hoefer would be revised to state that, while the Board felt that adequate steps had been taken to obtain all the important information in connection with the suggested transfer and did not feel that it would be warranted in making the proposed change, arrangements were being made for a representative of the Board to make an investigation to determine definitely whether additional important information was available.

At this point Messrs. Parry, Bradley, Solomon and Dembitz withdrew from the meeting.

There was presented the following draft of letter to President Leach of the Federal Reserve Bank of Richmond, which had previously been circulated among the members of the Board:

"Reference is made to your letter of September 7, 1937, transmitting a letter dated August 31, 1937, from Mr. George C. Cutler, President of Safe Deposit and Trust Company, Baltimore, Maryland, in which he submits for the consideration of the Board alternative amendments to Regulation L, the purpose of which is to permit a director, officer or employee of a member bank of the Federal Reserve System to serve at the same time as a director, officer or employee of not more than one trust company all or substantially all of the business of which is acting in a fiduciary capacity.

"Section 8 of the Clayton Act, as amended by the Banking Act of 1935, specifies in some detail the classes of cases exempted from the general prohibition of the statute

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"and leaves to the Board only a power to permit exceptions by regulation. In approving a revision of its Regulation L, following the amendment of the law, the Board decided that exceptions should be allowed only in certain classes of cases which appeared to be clearly in harmony with the general purpose and structure of the amended law.

"The Board has given serious consideration to the amendments proposed by Mr. Cutler but feels that the underlying purpose of these amendments is contrary to the spirit and purpose of section 8 of the Clayton Act, inasmuch as either of them would permit interlocking relationships between institutions engaged in the same class or classes of business in the same community, for example, a trust company engaged solely in acting in fiduciary capacities and a member bank exercising trust powers.

"Accordingly, the Board does not believe that the proposed amendments are consonant with the spirit and purpose or the structure of section 8 of the Clayton Act as amended by the Banking Act of 1935. Please inform Mr. Cutler of the Board's views in the matter."

Upon motion by Mr. Szymczak, the letter was approved, Mr. Ransom voting "no" for the reason that he felt that if the trust company would agree to do no commercial banking business, to accept no commercial deposits, and otherwise not to engage in the same class or classes of business as the commercial bank, there would be no objection to interlocking directorates between the bank and trust company for the reason that such a relation was not the kind contemplated by the amended Clayton Act.

Following the above action, Messrs. Paulger and Leonard left the room.

It was stated that, in accordance with the procedure heretofore followed by the Banking and Currency Committee of the Senate, the Board was beginning to receive routine requests for reports on bills referred to the committee; that in the past such requests had been received for reports on a number of bills in connection with which

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there was little likelihood that the legislation would receive consideration; that an attempt to answer all these requests carefully would result in a substantial increase in the work of the Board; and that it had been the policy during recent years to hold such requests without action until it appeared that there was something in the situation surrounding a particular bill which made it advisable to submit a report.

It was agreed that the same procedure should be followed during the present special session and the succeeding regular session of Congress, with the understanding that Counsel's office would keep in touch with all banking legislation and would submit to the Board for consideration a report on any bill when it appeared that, because of its nature or any special consideration that was being given to it by either house of Congress, such a report would be made upon request by a committee of Congress. In this connection it was understood that at the first opportunity the Chairman would discuss the matter with Chairman Wagner.

In further connection with the above matter, reference was made to a request received under date of December 3, 1937, from Chairman Wagner of the Senate Banking and Currency Committee for a report on S. 1990, a bill for the regulation and stabilization of agricultural and commodity prices through the regulation and stabilization of the value of the dollar, pursuant to the power conferred on the Congress by paragraph 5 of section 8 of article I of the Constitution, and for other purposes. It was stated that under date of July 29, 1937, the



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Board addressed a letter to Senator Smith of the Committee on Agriculture and Forestry, inclosing a statement on the subject "Objectives of monetary policy" which reflected the views of the Board of Governors with respect to the important questions raised by bill S. 1990, and that it appeared from the copy of the bill inclosed with Senator Wagner's letter that the bill had been discharged from the Committee on Agriculture and Forestry and referred to the Committee on Banking and Currency.

The Secretary was requested to send a letter to Senator Wagner transmitting a copy of the Board's letter of July 29 to Senator Smith, together with a copy of the statement inclosed therewith.

There was then presented a memorandum dated November 4, 1937, from Mr. Morrill referring to the appointment of Mr. Sampson H. Bass on a temporary basis as voucher clerk in the Secretary's office, and his inability to pass the usual physical examination, and recommending that, for the reasons stated in the memorandum, Mr. Bass be given a permanent appointment as voucher clerk in the Secretary's office with salary at the rate of \$2,700 per annum, and that he be made a member of the Retirement System. The memorandum had been circulated among the members of the Board together with a memorandum dated November 22, 1937, from Mr. Smead with respect to physical examinations of employees of the Board and the Federal reserve banks in connection with admission to membership in the Retirement System.

Upon motion by Mr. Szymczak, Mr. Morrill's recommendation was approved

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unanimously, to become effective December 16, 1937, with the understanding that Mr. Bass would be admitted to membership in the Retirement System as of that date.

At this point Messrs. Thurston, Wyatt, Smead and Dreibelbis left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 2, 1937, were approved unanimously.

Telegrams to Mr. Sanford, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, stating that the Board approves the establishment without change by the New York bank on December 2, 1937, and by the Philadelphia and Atlanta banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated November 27, 1937, from Mr. Morrill, recommending, for the reasons stated in the memorandum, that Mr. Seburn E. Baker be appointed as a supply and duplicating clerk in the Office of the Secretary, with salary at the rate of \$1,620 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

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Memorandum dated November 24, 1937, from Mr. Noell, Assistant Secretary, recommending, for the reason stated in the memorandum, that Rutledge R. Wheeler, porter, be granted additional leave of absence with pay on account of illness for a period not to exceed sixty days from November 26, 1937.

Approved unanimously.

Letter to Mr. Leo Rullman, United States Customs Service, New York, New York, reading as follows:

"Reference is made to your letter of October 18, 1937, with respect to the amount paid to Mrs. Kitzmiller by the Retirement System of the Federal Reserve Banks on the death of her husband, a former employee of the Board.

"Prior to the receipt of your letter the Board had reviewed this matter in the light of the rules and regulations of the Retirement System and the practice of the Board and the Federal reserve banks in the retirement of their employees. When the decision was made that Mr. Kitzmiller should be retired on December 31, 1937, the Board authorized the payment to the Retirement System, for the purpose of increasing the retirement allowance which Mr. Kitzmiller would receive, the sum of \$1,800, and since, if he had lived until the first of next year such a payment would have been made, the Board felt it would be justified in making the payment to Mrs. Kitzmiller. Accordingly, I am pleased to advise that, because of the special circumstances involved including the long and faithful service of Mr. Kitzmiller which is deeply appreciated by the Board, it has authorized the payment to Mrs. Kitzmiller of \$1,800 in addition to the amount due her under the rules and regulations of the Retirement System.

"Mr. Kitzmiller attained age 65 on May 5, 1937, and could have retired on his own application on the first day of any month thereafter. He did not apply for retirement, however, and in fact did not wish to retire at that time, and inasmuch as he was rendering satisfactory service the Board decided to permit him to remain in its service until December 31, 1937. The amount payable on the death of a

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"member of the Retirement System, whether in active service or after retirement, is definitely determined on an actuarial basis and there was no way by which any additional payment could be made to Mrs. Kitzmiller from the funds of the Retirement System."

Approved unanimously.

Memorandum dated November 29, 1937, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated November 24 from Mr. Schaller, President of the Federal Reserve Bank of Chicago, which requested approval by the Board of changes in the personnel classification plan of the bank to provide for changes in the maximum salaries for the positions of "Supervisor" in the Mail Department, and "Supervisor" and "Security Mail Teller" in the Bond Department, and of the payment of a salary in excess of the maximum provided in the personnel classification plan for the position of "Junior Clerk A". The memorandum stated that the proposed changes and the request for the payment of salary in excess of the maximum had been reviewed and that it was recommended that they be approved.

Approved unanimously.

Letter to the board of directors of "The Farmers State Bank of Montague, Michigan", Montague, Michigan, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank

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of Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. As soon as practicable, such bank shall dispose of any loans which may be secured in whole or in part by its own stock, or obtain the substitution of other adequate security for each such loan."

Approved unanimously, for transmission through the Federal Reserve Bank of Chicago.

Letter to Mr. Stewart, Chairman of the Federal Reserve Bank of San Francisco, reading as follows:

"Receipt is acknowledged of your letter of November 18, 1937, advising the Board of the results of the consideration by your board of directors of the report of a survey of the Auditing Department of your bank transmitted to you with the Board's letter of October 29, 1937.

"The Board appreciates the completeness of your review of the matters contained in this report of survey and has noted with interest the changes being made in the auditing procedure at your bank."

Approved unanimously.

Letter to Mr. Logan, Vice President of the Federal Reserve Bank of New York, reading as follows:

"In response to your letter of November 17, 1937, you are advised that the Board approves payment of \$1,000 to Jenkins, Deyo & Hitchcock, Esquires, attorneys of Binghamton, New York, as an additional fee for services rendered since January 1, 1934, in disposing of a suit to establish a preferred claim against the closed State Bank of Binghamton, Binghamton, New York."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morley  
Secretary.

Approved:

W. Steeles  
Chairman.