

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1449]
October 12, 1934]

INTERPRETATION OF REGULATION T

*To National Securities Exchanges in the
Second Federal Reserve District:*

For your information I quote below the text of a telegram which I have received today from the Federal Reserve Board:

Ruling No. 20 Interpreting Regulation T.

In response to two inquiries with respect to the time when the seven day period allowed under section 6 of Regulation T begins to run in connection with *bona fide* cash transactions, the Federal Reserve Board ruled that:

1. In the case of a *bona fide* cash transaction in which a broker purchases a security as agent for a customer and makes payment to the seller of the security, the seven day period commences to run when the broker pays for the security without having received payment from his customer.

2. In the case of *bona fide* cash transaction in which a dealer acting as principal or as agent for the seller sells a security to a customer, the seven day period commences to run when title to the security passes to the customer without the customer having paid for the security.

In both cases and in all other cases involving cash transactions, the seven day period commences to run when the relation of debtor and creditor arises between the purchaser and the creditor as a result of the cash transaction.

In this connection, the Board explained that the sole purpose of section 6 is to allow the extension of credit for limited periods of time in connection with *bona fide* cash transactions and that this section does not place any restrictions upon a *bona fide* cash transaction which does not result in any debtor and creditor relationship between the customer and the broker or dealer.

Additional copies of this circular will be furnished upon request.

J. H. CASE,
Federal Reserve Agent.