

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1458]
[October 17, 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. 27 Interpreting Regulation T.

The Federal Reserve Board has received inquiries as to whether a member of a national securities exchange may extend credit on unregistered, non-exempted securities in clearing for another broker or dealer transactions involving the purchase of such securities for cash by such other broker or dealer. The inquiries submitted indicate that in performing the function of clearing the transactions the clearing member furnishes the cash which is paid for the securities and thereby extends credit until he receives reimbursement either from the broker or dealer or from some subsequent purchaser. In reply the Board has called attention to the fact that section 7(c) of the Securities Exchange Act of 1934 forbids 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 extend credit to any customer on unregistered non-exempted securities for the purpose of purchasing or carrying securities. While the act authorizes the Board to prescribe rules permitting the extension of credit on unregistered non-exempted securities in certain circumstances it denies the Board the right to grant such permission in cases where the extension of credit is for the purpose of purchasing or carrying securities. As the questions giving rise to this ruling indicate that the extensions of credit in the cases presented are for the purpose of purchasing or carrying securities and that the credit is extended to "customers" as that term is used in section 7(c) of the Securities Exchange Act of 1934 and in Regulation T the Board has advised that such extensions of credit are prohibited by law and that no authority is given to the Board to permit them to be made.

Additional copies of this circular will be furnished upon request.

J. H. CASE,
Federal Reserve Agent.

Note: This ruling has been revoked by the Federal Reserve Board in its Ruling No. 34, dated November 2, 1934, and quoted in Circular No. 1470, dated November 2, 1934.