

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1460]
[October 19, 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. 28 Interpreting Regulation T.

The Federal Reserve Board has been asked whether a creditor, as defined in section 2(b) of Regulation T, may permit a customer to sell a registered security for a designated old account and on the same day to purchase in its place in the old account an unregistered, non-exempted security, if the adjusted debit balance of the old account is not increased. In reply the Board called attention to the prohibition contained in section 7(c) (2) of the Securities Exchange Act of 1934 on the extension of credit on unregistered, non-exempted securities for the purpose of purchasing or carrying securities, and to the fact that the provisions of section 4 of Regulation T are made applicable to old accounts by the first proviso of section 7(a) of the regulation. Accordingly, the Board advised that in the circumstances indicated, the extension of credit for the purchase of the unregistered, non-exempted security is not permitted unless at the time of such purchase the maximum loan value of the securities in the account exceeds the adjusted debit balance of the account by an amount equal to or greater than the purchase price of the unregistered, non-exempted security.

Additional copies of this circular will be furnished upon request.

J. H. CASE,
Federal Reserve Agent.