

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1509
February 23, 1935]

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. 41 Interpreting Regulation T.

Announcement has been made that the New York Produce Exchange, which is now a national securities exchange, will discontinue its securities division in the near future. At that time all securities, including certain bank stocks, which are now "registered securities" solely because of the fact that they are listed on that exchange, or have unlisted trading privileges thereon, will cease to be "registered securities" as defined in Regulation T. In these circumstances the Federal Reserve Board has been asked whether such of these securities as are at that time being carried for customers by brokers and dealers subject to Regulation T may continue to be so carried and what "loan value", if any, such securities will have under the regulation.

In reply the Board points out that under Section 5 (c) of Regulation T, the creditor is given express permission to retain, until July 1, 1937, as collateral for any credit initially extended prior to October 1, 1934, or extended in conformity with the regulation, any collateral whatsoever, including unregistered non-exempted securities, provided that the collateral other than exempted or registered securities shall not be the basis of any additional extension of credit and shall be given no value in determining the maximum loan value of the securities in the account. The Securities Exchange Act of 1934 and the regulations issued thereunder do not require liquidation in consequence of the action of the New York Produce Exchange, inasmuch as they do not force a broker or dealer to sell, or to compel his customers to sell, securities which cease to be "registered securities". It is to be noted, furthermore, that no provision of the Securities Exchange Act of 1934 or of any regulation issued thereunder has imposed any restrictions on the amount of credit that may be extended on such securities by any bank which is not a member of a national securities exchange.

The Board calls attention to the possibility that in the circumstances recited the securities in certain accounts may no longer have loan value equal to or greater than the adjusted debit balance of the account, so that such accounts will become "restricted accounts" and will accordingly become subject to the provisions of Regulation T relating to such accounts.

Additional copies of this circular will be furnished upon request.

J. H. CASE,
Federal Reserve Agent.