

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 1536]  
May 1, 1935

AMENDMENTS OF REGULATION T OF THE FEDERAL RESERVE BOARD.

To Members of National Securities Exchanges,  
Brokers and Dealers in Securities, and Banking  
Institutions, in the Second Federal Reserve District:

For your information I quote below Amendments Nos. 1-4 inclusive (effective May 10, 1935) of Regulation T of the Federal Reserve Board and the Federal Reserve Board's explanatory notes to Amendments Nos. 3 and 4:

Amendment No. 1 of Regulation T—Effective May 10, 1935

Section 2 of Regulation T is hereby amended by adding at the end thereof a new subsection reading as follows:

“(n) The term ‘days’ as distinguished from ‘business days’ and ‘full business days’, means calendar days, but if the last day of a specified period of days be a Saturday, a Sunday, or a holiday, such period shall be considered to end on the next full business day.”

Amendment No. 2 of Regulation T—Effective May 10, 1935

Section 5 of Regulation T is hereby amended by adding at the end thereof a new subsection reading as follows:

“(d) **Maintenance of credit without collateral or on collateral other than exempted or registered securities.**—Any credit which was initially extended prior to October 1, 1934, or which was extended in conformity with this regulation and which is or has become, without violation of this regulation, credit maintained without collateral or on collateral other than exempted or registered securities, may be maintained without collateral or on collateral other than exempted or registered securities until July 1, 1937: *Provided*, That any collateral securing such credit other than exempted or registered securities (a) shall not be the basis of any additional extension of credit which is for the purpose of purchasing or carrying securities, and (b) shall be given no value in determining the maximum loan value of the securities in the account.”

Amendment No. 3 of Regulation T—Effective May 10, 1935

Section 6 of Regulation T entitled “Cash Transactions” is hereby amended to read as follows:

“SECTION 6. CASH TRANSACTIONS”

“Notwithstanding any other provision of this regulation, a creditor may, in a special cash account recorded separately, subject to the conditions specified in this section, (1) effect *bona fide* cash transactions and transactions incidental thereto and (2) make, for limited periods not exceeding seven days, extensions of credit which are incidental to *bona fide* cash transactions.

A *bona fide* cash transaction is (1) a transaction in which a customer buys a security (whether registered or unregistered), through a creditor acting as broker or from a creditor acting as dealer, pursuant to an agreement made in good faith, and not to evade or circumvent the provisions of this regulation, that the customer will promptly make full cash payment for such security, or (2) a transaction in which a customer sells, through a creditor acting as broker or to a creditor acting as dealer, a security (whether registered or unregistered) which the creditor holds in the special cash account of such customer or which, pursuant to an agreement made in good faith and not to evade or circumvent the provisions of this regulation, is to be deposited in or transferred to such account.

The creditor shall record the full details of every *bona fide* cash transaction and of every transaction incidental thereto which is effected in the special cash account provided for in this section and shall record in the special cash account itself the following details: (1) in the case of every security purchased by the customer the name of the customer, the date of payment by the creditor, and the date of payment by the customer, and (2) in the case of every security sold by the customer the name of the customer, the date of deposit of the security in or the transfer thereof to the account, the date of payment to the customer, and the date of the crediting of the proceeds of the sale to the account.

No extension of credit which is incidental to any such *bona fide* cash transaction shall constitute a violation of this regulation (1) if, within the time specified above, payment is received by the creditor (who may disregard for the purpose of this clause any sum due not exceeding fifty dollars), or (2) if, within two full business days after the time when payment should have been received under this section, the creditor (a) in the case of any security purchased by the customer from the creditor acting as dealer, cancels the sale or resells the security, or (b) in the case of any security purchased through the creditor acting as broker, sells the security, or (c) in the case of any security sold through the creditor acting as broker, resells the security or is repaid by the customer: *Provided, however,* That, in exceptional cases, 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, may, on application of the creditor, grant a further extension of time not exceeding thirty-five days or, in the case of a registered security, authorize the creditor to extend credit on such security subject to the provisions of this regulation, if such committee is satisfied that the transaction was a *bona fide* cash transaction, that the creditor is acting in good faith in making the application, and that the circumstances warrant such action.

The special cash account provided for in this section shall not be used in any way for the purpose of evading or circumventing any provision of this regulation. No transactions shall be effected in such account except *bona fide* cash transactions and transactions incidental thereto, and no extension of credit shall be made in such account except extensions incidental to *bona fide* cash transactions.”

**NOTE:** The Board's rulings numbered 16, 27, 34, and 35 interpreting Regulation T may be disregarded with respect to transactions occurring on and after the effective date of the foregoing amendment. After enactment of Amendment No. 3, Ruling No. 36 interpreting Regulation T will still be controlling as to the facts stated in the ruling but it is contemplated that the ruling will be of less general interest because of the possibility under Amendment No. 3 of transferring unregistered, non-exempted securities from a combined account to a cash account for the purpose of effecting their sale as a *bona fide* cash transaction.

#### Amendment No. 4 of Regulation T—Effective May 10, 1935

Subsection (b) of section 8 of Regulation T is hereby amended by adding at the end thereof a new paragraph reading as follows:

“Nothing in this regulation shall be construed to prevent a creditor from paying to or for a customer from any account (including any restricted account) interest and/or cash dividends collected by the creditor for the customer's account, if such payment is made within thirty-five days after the day on which, in accordance with the creditor's usual practice, such interest or dividends are credited to the account, and if the crediting of such interest or dividends has not served in the meantime to permit in the account any purchase of securities or other transaction which could not otherwise have been effected in accordance with this regulation.”

**NOTE:** The Board's rulings numbered 30 and 38 interpreting Regulation T must be disregarded with respect to transactions occurring on or after the effective date of the foregoing amendment.

Additional copies of this circular will be furnished upon request.

J. H. CASE,  
*Federal Reserve Agent.*