

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 1609 ]  
[ November 18, 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 from the Board of Governors of the Federal Reserve System:

**Ruling No. 47 Interpreting Regulation T.**

The Board of Governors of the Federal Reserve System has been asked to interpret section 3 (f) (4) of Regulation T with respect to the application of the "margin rules covering 'when issued' contracts" adopted by the New York Stock Exchange on November 12, 1935.

In reply to this inquiry the Board rules that the "required margin" in sections 1 (a), 1 (b) and 1 (c) of such rules of the exchange constitutes for members of the exchange "the amount of margin customarily required by the creditor on every future commitment in unissued securities . . . . *plus* any unrealized loss on each such commitment and/or *minus* any unrealized gain on each such commitment not exceeding the margin thereon" referred to in section 3 (f) (4) of Regulation T.

For your information in connection with the foregoing ruling there is printed on the attached page a copy of the letter dated November 12, 1935, from the Secretary of the New York Stock Exchange to its members, containing the "margin rules covering 'when issued' contracts" adopted by the New York Stock Exchange on that date.

Additional copies of this circular will be furnished upon request.

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

# NEW YORK STOCK EXCHANGE

## COMMITTEE ON BUSINESS CONDUCT

November 12, 1935.

### TO THE MEMBERS OF THE EXCHANGE:

In order that the Exchange may be in a position to apply for the registration of securities or rights for dealing on a "when issued" basis, pursuant to Rules JD-4 to JD-12 inclusive of the Securities and Exchange Commission, the Committee on Business Conduct has adopted the following special margin requirements, the substance of which is prescribed by such rules as a condition of such registration.

### MARGIN RULES COVERING "WHEN ISSUED" CONTRACTS

1. General Rule: Except as otherwise provided in these rules, the amount of margin required on all commitments in securities or rights admitted to "when issued" dealings upon the New York Stock Exchange shall be as follows:

(a) Upon a net long commitment in a "when issued" right, the required margin shall be 100% of the net sum which will be payable by the member carrying the account upon the settlement of the "when issued" contracts representing such net commitment. For the purpose of computing such margin, such "when issued" rights shall be deemed to have no value.

(b) Upon a net long commitment in a "when issued" security other than a right, the required margin shall be computed by subtracting 55% of the current market value of such net long commitment from the net sum which will be payable by the member carrying the account upon the settlement of the "when issued" contracts representing such net commitment; but if 55% of such current market value exceeds such net sum, the surplus shall be deemed to have no value for margin purposes.

(c) Upon a net short commitment in a "when issued" right or a "when issued" security, the required margin shall be ten points, plus any unrealized loss, and/or minus any unrealized profit not exceeding ten points, on such commitment.

No margin is required upon the sale of a "when issued" security or a "when issued" right for a customer in any case in which the security upon which the "when issued" security or "when issued" right accrues is in the customer's account at the time of such sale.

2. Special Cash Accounts: No margin shall be required in a special cash account, recorded separately, and not used for the purpose of evading or circumventing the provisions of these rules, in which a customer

(a) buys through a member acting as a broker or from a member acting as a dealer "when issued" securities and/or "when issued" rights pursuant to an agreement made in good faith that the customer will, as promptly as possible on or after the delivery date fixed by the Exchange for the settlement of such "when issued" contracts, make full cash payment for such securities and/or rights; or

(b) sells through a member acting as a broker or to a member acting as a dealer "when issued" securities and/or "when issued" rights pursuant to an agreement made in good faith that the customer will, as promptly as possible on or after the delivery date fixed by the Exchange for the settlement of such "when issued" contracts, deposit such securities or rights in such special account.

3. Special Arbitrage Accounts: In a special arbitrage account, recorded separately, and not used for the purpose of evading or circumventing the provisions of these rules, no margin shall be required with respect to "when issued" commitments entered into for *bona fide* arbitrage purposes provided any long or short position in an issued security forming part of such arbitrage shall be margined in accordance with the requirements of Circular C-5221, issued by the Committee on Business Conduct on August 2, 1933.

The amount of margin prescribed by the foregoing rules is the minimum which must be initially required and subsequently maintained with respect to each account affected thereby; but nothing in these rules shall be construed to prevent a member from requiring margin in an amount greater than that specified.

Members must exercise due diligence to learn the essential facts in regard to every special account established pursuant to these rules for cash or arbitrage transactions in "when issued" securities or "when issued" rights.

ASHBEL GREEN,  
Secretary.