

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 2970]
July 5, 1945

AMENDMENT NO. 5 TO REGULATION U OF THE BOARD
OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

*To all Banks, Members of National Securities
Exchanges, and Other Interested Persons, in
the Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System has adopted amendments to its Regulations T and U increasing margin requirements from 50 per cent to 75 per cent, effective July 5, 1945, for credit extended by brokers and banks to finance purchases of stock exchange securities. The increased margins also apply to short sales.

The amendments include, in addition, technical changes in the regulations, effective July 16, 1945, to simplify and strengthen the supporting rules. A new provision in Regulation T requires that the proceeds of sales of securities in accounts that are undermargined under the new requirements shall be used to the extent necessary to increase the margin on the remaining securities in the account until they are on a 75 per cent basis. The same rule is applied to loans by a new provision of Regulation U. Except to this extent, neither regulation requires that existing accounts or loans be brought up to the 75 per cent level. Neither Regulation T nor Regulation U is applicable to loans for purposes other than purchasing, carrying or trading in securities.

The text of the amendment to Regulation U is as follows:

AMENDMENT NO. 5 TO REGULATION U
ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Regulation U is hereby amended in the following respects, the changes in the supplement to the regulation and the new section 3(o) to become effective July 5, 1945, and the other changes to become effective July 16, 1945.

1. Section 1 is amended so that the third paragraph will read as follows:

While a bank maintains any such loan, whenever made, the bank shall not at any time permit any withdrawal or substitution of collateral if, after such withdrawal or substitution, the loan exceeds the maximum loan value of the collateral, unless:

(1) In the case of a withdrawal, the loan is reduced by an amount equal to the current market value of the collateral withdrawn; or

(2) In the case of a substitution, the loan is reduced by an amount equal to any excess of the current market value of the collateral withdrawn over the maximum loan value of the collateral deposited.

If the maximum loan value of the collateral has become less than the amount of the loan, such amount may nevertheless be increased if there is provided additional collateral having maximum loan value at least equal to the amount of the increase.

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2. Section 2(b) is amended so that it will read as follows:

(b) Any loan made prior to July 16, 1945, to any person whose total indebtedness to the bank at the date of and including such loan does not exceed \$1,000.

3. Section 2 is amended by deleting subsection (e) and substituting in lieu thereof the following new subsection (e):

(e) Any loan to a broker or dealer secured by any securities which, according to written notice received by the bank from the broker or dealer pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities (Rule X-8C-1 or Rule X-15C2-1), are *securities carried for the account of one or more customers*, provided the bank accepts in good faith from the broker or dealer a signed statement to the effect that he is subject to the provisions of Regulation T (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto).

4. Section 3 is amended by deleting subsection (o) and substituting in lieu thereof the following new subsection (o):

(o) A loan to a member of a national securities exchange who is registered and acts as a specialist in securities on the exchange for the purpose of financing such member's transactions as a specialist in such securities shall not be subject to the provisions of the third paragraph of section 1, but the bank shall not at any time permit withdrawals or substitutions of collateral for such a loan that would create or increase a deficiency in the maximum loan value of the collateral below the amount of the loan, nor shall the bank increase the amount of a loan if the collateral is deficient unless additional collateral is provided having maximum loan value at least equal to the amount of the increase.

5. The supplement to Regulation U is amended so that it will read as follows:

For the purpose of section 1 of Regulation U, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 25 per cent of its current market value, as determined by any reasonable method.

Loans to specialists.—Notwithstanding the foregoing, a stock, if registered on a national securities exchange, shall have a maximum loan value of 50 per cent of its current market value, as determined by any reasonable method, in the case of a loan to a member of a national securities exchange who is registered and acts as a specialist in securities on the exchange for the purpose of financing such member's transactions as a specialist in securities.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.

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**FEDERAL RESERVE BANK
OF NEW YORK**

July 5, 1945

**AMENDMENT NO. 4 TO REGULATION T OF THE BOARD
OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

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

The Board of Governors of the Federal Reserve System has adopted amendments to its Regulations T and U increasing margin requirements from 50 per cent to 75 per cent, effective July 5, 1945, for credit extended by brokers and banks to finance purchases of stock exchange securities. The increased margins also apply to short sales.

The amendments include, in addition, technical changes in the regulations, effective July 16, 1945, to simplify and strengthen the supporting rules. A new provision in Regulation T requires that the proceeds of sales of securities in accounts that are undermargined under the new requirements shall be used to the extent necessary to increase the margin on the remaining securities in the account until they are on a 75 per cent basis. The same rule is applied to loans by a new provision of Regulation U. Except to this extent, neither regulation requires that existing accounts or loans be brought up to the 75 per cent level. Neither Regulation T nor Regulation U is applicable to loans for purposes other than purchasing, carrying or trading in securities.

The text of the amendment to Regulation T is as follows:

AMENDMENT NO. 4 TO REGULATION T

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Regulation T is hereby amended in the following respects, the changes in the supplement to the regulation and the new section 4(g) to become effective July 5, 1945, and the other changes to become effective July 16, 1945.

1. Section 3(b) is amended so that the second paragraph will read as follows:

If a creditor effects for or with any customer any transactions consisting of purchases of securities in a general account, other than purchases of exempted securities or purchases to reduce or close out short positions, the creditor must obtain a deposit as specified in the previous paragraph at least as large as would be required by that paragraph if such purchases were the only transactions in the account on that day (except that such deposit need be no larger than that which would be sufficient to eliminate any excess of the adjusted debit balance over the maximum loan value of the securities in the account). No withdrawal of cash or registered or exempted securities shall be permissible if the account, after such withdrawal, would have an adjusted debit balance exceeding the maximum loan value of the securities in the account, except that exempted securities may be withdrawn upon the deposit in the account of exempted securities having maximum loan value equal to or in excess of the maximum loan value of the exempted securities withdrawn or upon the deposit of cash equal to or in excess of such maximum loan value.

2. Section 3(d) is amended so that the last paragraph will read as follows:

In case the general account is the account of a partner of the creditor or the account of a joint adventure in which the creditor participates, the adjusted debit balance shall be computed according to the foregoing rule and the supplementary rules prescribed in sections 6(a) and 6(b).

3. Section 4(b) is amended to read as follows:

(b) **Special omnibus account.**—In a special omnibus account, a member of a national securities exchange may effect and finance transactions for a broker or dealer from whom the member accepts in good faith a signed statement to the effect that he is subject to the provisions of this regulation (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto) and from whom the member receives (1) written notice, pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities by brokers or dealers (Rule X-8C-1 or Rule X-15C2-1), to the effect that all securities carried in the account will be carried for the account of the customers of the broker or dealer and (2) written notice that

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any short sales effected in the account will be short sales made in behalf of the customers of the broker or dealer other than his partners.

4. Section 4(c) is amended by striking out both provisos in paragraph (5) and by adding the following new paragraph (8):

(8) Unless funds sufficient for the purpose are already in the account, no security other than an exempted security shall be purchased for, or sold to, any customer in a special cash account with the creditor if any security other than an exempted security has been purchased by such customer in such an account during the preceding 90 days, and then, for any reason whatever, without having been previously paid for in full by the customer, the security has been sold in the account or delivered out to any broker or dealer: *Provided*, that an appropriate committee of a national securities exchange or a national securities association, on application of the creditor, may authorize the creditor to disregard for the purposes of this section 4(c) (8) any given instance of the type therein described if the committee is satisfied that both creditor and customer are acting in good faith and that circumstances warrant such authorization.

5. Section 4(c) (6) is amended by inserting the words "or a national securities association" following the words "a national securities exchange".

6. Section 4 is amended by adding the following new subsection (g):

(g) **Specialist's account.**—In a special account designated as a specialist's account, a creditor may effect and finance, for any member of a national securities exchange who is registered and acts as a specialist in securities on the exchange, such member's transactions as a specialist in such securities, or effect and finance, for any joint adventure in which the creditor participates, any transactions in any securities of an issue with respect to which all participants, or all participants other than the creditor, are registered and act on a national securities exchange as specialists; and such specialist's account shall be subject to all the conditions to which it would be subject if it were a general account except that—

(1) At any time when the Board in the supplement to this regulation shall have prescribed for specialists' accounts a special maximum loan value or special margin for short sales, the maximum loan value of a registered security (other than an exempted security) having loan value in such specialist's account shall be such special maximum loan value, and the amount to be included in the adjusted debit balance of such account as the margin required for short sales shall be such special margin for short sales.

(2) A specialist's account shall not be subject to the restrictions specified in the second paragraph of section 3(b) but a transaction consisting of a withdrawal of cash or registered or exempted securities from the account shall be permissible only on condition that the transactions (including such withdrawal) on the day of such withdrawal would not create an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account or increase any such excess.

7. Section 6(c) is amended to read as follows:

(c) No guarantee of a customer's account shall be given any effect for purposes of this regulation.

8. The supplement is amended to read as follows:

Maximum loan value for general accounts.—The maximum loan value of a registered security (other than an exempted security) in a general account, subject to section 3 of Regulation T, shall be 25 per cent of its current market value.

Maximum loan value for specialists' accounts.—The maximum loan value of a registered security (other than an exempted security) in a specialist's account, subject to section 4(g) of Regulation T, shall be 50 per cent of its current market value.

Margin required for short sales in general accounts.—The amount to be included in the adjusted debit balance of a general account, pursuant to section 3(d) (3) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 75 per cent of the current market value of each such security.

Margin required for short sales in specialists' accounts.—The amount to be included in the adjusted debit balance of a specialist's account, subject to section 4(g) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 50 per cent of the current market value of each such security.

Additional copies will be furnished upon request.

ALLAN SPROUL,
President.

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FEDERAL RESERVE BANK
OF NEW YORK

July 7, 1945.

To Banks Engaged in Making Security
Loans to Brokers:

For your information, we quote below the text of a telegram which we have received from the Board of Governors of the Federal Reserve System regarding Amendment No. 4 to Regulation T and Amendment No. 5 to Regulation U recently adopted by the Board:

In view of the fact that the Supplements to Regulations T and U were changed effective July 5 and the new provisions with respect to omnibus accounts and loans do not become effective until July 16, the Board has ruled that until July 16 such accounts and loans may be handled either as they were prior to July 5 or as they are required to be handled after July 16.

Allan Sproul,
President.

