

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 3153]
[November 13, 1946]

AMENDMENT NO. 7 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:*

For your information we quote below the text of a press statement issued by the Board of Governors of the Federal Reserve System and released for publication on November 13, 1946:

The Board of Governors of the Federal Reserve System has adopted Amendments No. 6 to Regulation T and No. 7 to Regulation U, relating to the use of credit for purchasing securities, effective December 1, 1946.

The amendments will permit stockholders of any corporation who receive rights to subscribe to new issues to obtain credit for the purpose of exercising these rights. The permission extends also to cases in which a public utility holding company, when simplifying its corporate structure as required by the Public Utility Holding Company Act of 1935, issues to its stockholders rights to subscribe to its holdings of outstanding securities of operating companies.

Under these amendments, if the stockholder needs to borrow in order to take up the rights issued directly to him by the company in which he owns stock, he may do so by pledging securities which, for this purpose, shall have a loan value of 50 per cent. Otherwise the prevailing 100 per cent margin requirements remain in effect.

The Board decided that this change in the regulations would be appropriate as a matter of equity and that it could be made without stimulating speculation or encouraging to any material extent the growth of stock market credit.

The text of Amendment No. 7 to Regulation U is set forth on the reverse side of this circular. Additional copies will be furnished upon request.

ALLAN SPROUL,
President.

(OVER)

AMENDMENT NO. 7 TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective December 1, 1946, Regulation U is hereby amended by adding the following new subsection at the end of section 3 thereof:

(p) In connection with the making of a loan the sole purpose of which is to enable the borrower to acquire stock in a corporation by exercising a warrant or certificate evidencing a right to acquire such stock, which right expires within 90 days of issuance and was issued to him as a stockholder of such corporation or as a stockholder of a company distributing the stock in order to effectuate the provisions of section 11 of the Public Utility Holding Company Act of 1935, a bank may treat any stock received as collateral in connection with the making of such loan as having a maximum loan value of 50 per cent of its current market value as determined by any reasonable method. After the loan has been made, the stock so received shall have only the maximum loan value, if any, prescribed in the supplement to this regulation. The right shall be deemed to have been issued to the borrower as a stockholder if he actually owned the stock giving rise to the right when such right accrued, even though such stock was not registered in his name; and in determining such fact the bank may rely upon a signed statement of the borrower which the bank accepts in good faith.

FEDERAL RESERVE BANK
OF NEW YORK

November 13, 1946

AMENDMENT NO. 6 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:*

For your information we quote below the text of a press statement issued by the Board of Governors of the Federal Reserve System and released for publication on November 13, 1946:

The Board of Governors of the Federal Reserve System has adopted Amendments No. 6 to Regulation T and No. 7 to Regulation U, relating to the use of credit for purchasing securities, effective December 1, 1946.

The amendments will permit stockholders of any corporation who receive rights to subscribe to new issues to obtain credit for the purpose of exercising these rights. The permission extends also to cases in which a public utility holding company, when simplifying its corporate structure as required by the Public Utility Holding Company Act of 1935, issues to its stockholders rights to subscribe to its holdings of outstanding securities of operating companies.

Under these amendments, if the stockholder needs to borrow in order to take up the rights issued directly to him by the company in which he owns stock, he may do so by pledging securities which, for this purpose, shall have a loan value of 50 per cent. Otherwise the prevailing 100 per cent margin requirements remain in effect.

The Board decided that this change in the regulations would be appropriate as a matter of equity and that it could be made without stimulating speculation or encouraging to any material extent the growth of stock market credit.

The text of Amendment No. 6 to Regulation T is set forth on the reverse side of this letter. Additional copies will be furnished upon request.

ALLAN SPROUL,
President.

(OVER)

AMENDMENT NO. 6 TO REGULATION T

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective December 1, 1946, Regulation T is hereby amended by adding the following new subsection at the end of section 6 thereof:

(l) **Subscriptions.**—Notwithstanding any other provision of this regulation, a creditor may effect and finance the acquisition of a registered security for a customer in a general account through the exercise of a right to acquire such security which is evidenced by a warrant or certificate expiring within 90 days of issuance, provided (1) such right was originally issued to the customer as a stockholder of the corporation issuing the registered security or as a stockholder of a company distributing the registered security in order to effectuate the provisions of section 11 of the Public Utility Holding Company Act of 1935, and (2) the creditor shall obtain a deposit prior to the initiation of the transaction in such amount that the cash deposited plus the maximum loan value of the securities so acquired or deposited equals or exceeds the subscription price, giving effect to a maximum loan value for the security so acquired or for any other registered security so deposited of 50 per cent of its current market value as determined by any reasonable method. After such acquisition, the security or securities so acquired or deposited shall have only the maximum loan value, if any, prescribed for general accounts in the supplement to this regulation. The right shall be deemed to be issued to the customer as a stockholder if he actually owned the stock giving rise to the right when such right accrued, even though such stock was not registered in his name; and in determining such fact the creditor may rely upon a signed statement of the customer which the creditor accepts in good faith.