

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 3447]
May 13, 1949

AMENDMENT NO. 9 TO REGULATION T AND
AMENDMENT NO. 10 TO REGULATION U OF THE BOARD
OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective May 16, 1949

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

For your information we quote below from a press statement issued by the Board of Governors of the Federal Reserve System and released for publication on May 14, 1949:

Effective Monday, May 16, 1949, the Board of Governors has amended Regulations T and U (margin requirements), increasing from 50 to 75 per cent the loan value for securities acquired through the exercise of subscription rights, whether exercised by the original holder or by a purchaser of the rights. The amendments specify that such transactions shall be set aside in a special account and that substitutions or withdrawals may not be made in the account. No new credit may be granted to a customer on the preferential terms if such a credit has been outstanding more than nine months without being changed to the 50 per cent basis generally applicable under the regulations.

Enclosed are printed copies of the amendments, effective May 16, 1949.

Additional copies of this circular and of the enclosed amendments will be furnished upon request.

ALLAN SPROUL,
President.

AMENDMENT NO. 9 TO REGULATION T

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective May 16, 1949, Regulation T is hereby amended by striking out section 6(l) of said regulation and by adding the following subsection at the end of section 4 of said regulation:

“(h) **Special subscriptions account.**—In a special subscriptions account a creditor may effect and finance the acquisition of a registered security for a customer through the exercise of a right to acquire such security which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance and such special subscriptions account shall be subject to the same conditions to which it would be subject if it were a general account except that—

“(1) Each such acquisition shall be treated separately in the account, and prior to initiating the transaction the creditor shall obtain a deposit of cash in the account such that the cash deposited plus the maximum loan value of the securities so acquired equals or exceeds the subscription price, giving effect to a maximum loan value for the securities so acquired of 75 per cent of their current market value as determined by any reasonable method;

“(2) The creditor shall not permit any withdrawal of cash or securities from the account so long as there is a debit balance in the account, except that when the debit connected with a given acquisition of securities in the account has become equal to or less than the maximum loan value of such securities as prescribed for general accounts, such securities may be transferred to the general account together with any remaining portion of such debit; and

“(3) No security may be acquired in the account at any time when the account contains any security which has been held therein more than nine months without becoming eligible for transfer to the general account.

“In order to facilitate the exercise of a right in accordance with the provisions of this section, a creditor may permit the right to be transferred from a general account to the special subscriptions account without regard to any other requirement of this regulation.”

AMENDMENT NO. 10 TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective May 16, 1949, Regulation U is hereby amended by changing section 3(*p*) of said regulation to read as follows:

“(*p*) A loan need not comply with the other requirements of this regulation if it is to enable the borrower to acquire a stock by exercising a right to acquire such stock which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, provided that (1) each such acquisition under this subsection shall be treated separately, and the loan when made shall not exceed 75 per cent of the current market value of the stock so acquired as determined by any reasonable method, (2) while the borrower has any loan outstanding at the bank under this subsection no withdrawal or substitution of stock used to make such loan shall be permissible, except that when the loan has become equal to or less than the maximum loan value of the stock as prescribed for section 1 in the supplement to this regulation the stock and indebtedness may thereafter be treated as subject to section 1 instead of this subsection, and (3) no loan shall be made under this subsection at any time when the borrower has any such loan at the bank which has been outstanding more than 9 months without becoming eligible to be treated as subject to section 1. In order to facilitate the exercise of a right under this subsection, a bank may permit the right to be withdrawn from a loan subject to section 1 without regard to any other requirement of this regulation.”

FEDERAL RESERVE BANK
OF NEW YORK

May 13, 1949

AMENDMENT NO. 10 TO REGULATION U OF THE BOARD
OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective May 16, 1949

*To Nonmember Banks, and Other Interested Persons,
in the Second Federal Reserve District:*

For your information we quote below from a press statement issued by the Board of Governors of the Federal Reserve System and released for publication on May 14, 1949:

Effective Monday, May 16, 1949, the Board of Governors has amended Regulations T and U (margin requirements), increasing from 50 to 75 per cent the loan value for securities acquired through the exercise of subscription rights, whether exercised by the original holder or by a purchaser of the rights. The amendments specify that such transactions shall be set aside in a special account and that substitutions or withdrawals may not be made in the account. No new credit may be granted to a customer on the preferential terms if such a credit has been outstanding more than nine months without being changed to the 50 per cent basis generally applicable under the regulations.

Enclosed is a printed copy of Amendment No. 10 to Regulation U, effective May 16, 1949.

Additional copies of this letter and of the enclosed amendment will be furnished upon request.

ALLAN SPROUL,
President.

AMENDMENT NO. 10 TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective May 16, 1949, Regulation U is hereby amended by changing section 3(*p*) of said regulation to read as follows:

“(p) A loan need not comply with the other requirements of this regulation if it is to enable the borrower to acquire a stock by exercising a right to acquire such stock which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, provided that (1) each such acquisition under this subsection shall be treated separately, and the loan when made shall not exceed 75 per cent of the current market value of the stock so acquired as determined by any reasonable method, (2) while the borrower has any loan outstanding at the bank under this subsection no withdrawal or substitution of stock used to make such loan shall be permissible, except that when the loan has become equal to or less than the maximum loan value of the stock as prescribed for section 1 in the supplement to this regulation the stock and indebtedness may thereafter be treated as subject to section 1 instead of this subsection, and (3) no loan shall be made under this subsection at any time when the borrower has any such loan at the bank which has been outstanding more than 9 months without becoming eligible to be treated as subject to section 1. In order to facilitate the exercise of a right under this subsection, a bank may permit the right to be withdrawn from a loan subject to section 1 without regard to any other requirement of this regulation.”