

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **8998**
January 12, 1981]

CREDIT BY BROKERS AND DEALERS

Comment Invited on Proposed Amendment to Regulation T

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

Printed on the following pages is the text of a proposed amendment to Regulation T, "Credit by Brokers and Dealers," of the Board of Governors of the Federal Reserve System. The proposed amendment would prohibit the holding of foreign currency or gold in a margin account.

Comments on the proposal should be submitted by February 19 and may be sent to our Regulations Division. Note that the Board has specifically asked for comments on any impact the proposed amendment would have on the operations of foreign branches or affiliates of U.S. brokers and dealers.

ANTHONY M. SOLOMON,
President.

Title 12 - Banks and Banking

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Part 220 — Credit By Brokers and Dealers

Notice of Proposal to Delete Provision Permitting Use of Foreign Currency in a Margin Account

[Docket No. R-0250]

AGENCY: Federal Reserve Board

ACTION: Proposed Amendment

SUMMARY: The Board proposes to amend Regulation T (12 CFR §220) by deleting the paragraph which permits the use of foreign currency as a credit to a margin account (§220.6(j)). It has been called to the Board's attention that the existing language of §220.6(j) may permit the speculative holding of foreign currency and securities in a margin account. By deleting §220.6(j), the Board will clarify that such a possibility is prohibited and that transactions in foreign currency should be effected in the Special Commodities Account or the Special Miscellaneous Account, since in either case, they would be insulated from security credit transactions. The Board specifically asks for comments on any impact the proposed amendment would have on operations of foreign branches or affiliates of United States brokers and dealers.

DATE: Comments should be received on or before February 19, 1981.

ADDRESS: Comments, which should refer to Docket No. R-0250, may be mailed to Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D. C. 20551, or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received may also be inspected at Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR §261.6(a)).

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer, or Bruce Brett, Securities Regulation Analyst, Securities Regulation Section, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-2781).

SUPPLEMENTARY INFORMATION: The Board has been requested by a law firm to interpret Regulation T (12 CFR §220.6(j)) so as to permit the use of bank depository receipts for gold as cash in a margin account. Section 220.6(j) of Regulation T reads as follows:

"If foreign currency is capable of being converted without restriction into United States currency, a creditor acting in good faith may treat any such foreign currency in an account as a credit to the account in an amount determined in accordance with customary practice."

The law firm is of the view that since the South African Krugerrand is legally "currency" and, therefore, eligible for use as credit to an account, bank depository receipts for gold, being similar in nature to the Krugerrand, should also be eligible for use as a cash credit in a margin account under Regulation T.

The Board rejected this argument, pointing out that since §220.6(j) of Regulation T was written in 1938, when United States citizens were prohibited from owning or trading gold, it was thus clear that §220.6(j) was never intended to allow gold to be used in a margin account. Furthermore, the Board pointed out, the law firm's request should be denied as a matter of policy, because the use of volatile foreign currency and commodities such as gold in a margin account could result in the speculative holding of both such currency or commodity and securities in one account. In this connection, the Board noted that since December 31, 1974, when the ban on private ownership of gold was ended, the price of gold has widely fluctuated in value from \$42.22 to \$875.00. Similarly, the volatility of foreign exchange rates has increased since the fixed exchange rate system was abandoned in 1978. Today the values of most major currencies are "floating" in response to market forces. The Board, therefore, believes that §220.6(j) should be deleted since it may be interpreted to permit speculative activity in foreign exchange.

Since both gold and foreign exchange futures are presently traded on commodity exchanges, the Board believes that the Special Commodity Account (§220.4(e)) would be the appropriate account to transact business in both. The Special Miscellaneous Account (§220.4(f)(7)) may also be used to effect and carry customer transactions in foreign exchange. In either the Special Commodities Account or the Special Miscellaneous Account, the gold or foreign exchange transactions would be insulated from security credit transactions.

Accordingly, pursuant to §§7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. §§78g, 78w), the Board proposes to adopt the following amendments to §220.6 of Regulation T:

Paragraph (j) of §220.6 is removed in its entirety and paragraphs (k) and (l) are redesignated as paragraphs (j) and (k), respectively.