

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1528]
April 16, 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 today from the Federal Reserve Board:

Ruling No. 42 Interpreting Regulation T.

The Federal Reserve Board has been asked whether a member of a national securities exchange is permitted under the provisions of the Board's Regulation T to make a short time unsecured loan to a customer who is also a member of such exchange if such loan is not "for the purpose of purchasing or carrying securities" within the meaning of those words as used in the Securities Exchange Act of 1934. The inquiry makes clear that the loan in question is not a loan of an emergency nature permitted under the provisions of section 10 (d) of Regulation T. In reply, the Board rules that the making of the loan referred to is permitted under the provisions of section 5 (b) of the regulation if the loan is not made for the purpose of evading or circumventing the provisions of the regulation.

The Board has also been asked whether a declaration of the borrower as to the purpose of an unsecured loan may be relied upon by the lender with the same effect as in the case of a declaration made under section 8 (c) of Regulation T. The declaration referred to in section 8 (c) is a declaration with respect to an extension of credit on registered, non-exempted securities and the provisions of that section do not apply with the same effect to a declaration made with respect to an extension of credit without collateral. An extension of credit without collateral by a member of a national securities exchange to his customer, if in fact made "for the purpose of purchasing or carrying securities", would be made in violation of section 7 (c) (2) of the Act and the Board is not empowered to make any rule or regulation which would allow such extension of credit to be validly made. In these circumstances, the Board does not feel that it is appropriate for it to make any provision in its regulations or to express any opinion with respect to the circumstances under which, or the extent to which, the lending member would be justified in placing reliance upon his customer's written declaration as to the purpose of a loan without collateral. It is recognized, however, that a declaration similar to that provided for in section 8 (c) of Regulation T may be of considerable value to the lender in determining whether a loan is or is not "for the purpose of purchasing or carrying securities" and the Board knows of no reason why a declaration from the customer should not be obtained even with respect to an extension of credit without collateral.

Additional copies of this circular will be furnished upon request.

J. H. CASE,
Federal Reserve Agent.