

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 3177]
January 18, 1947]

SUPPLEMENT TO REGULATION U OF THE BOARD OF
GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective February 1, 1947

*To all 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 January 18, 1947:

The Board of Governors of the Federal Reserve System today amended its Regulations T and U to reduce margin requirements to 75 per cent, effective February 1, 1947. These requirements will be applicable both to purchases of securities and to short sales. The change will restore margins to the levels prevailing from July 5, 1945, to January 21, 1946, at which time purchases were put on a cash basis and short sales required to have 100 per cent margins.

The amendment referred to in the foregoing statement changes the Supplement to Regulation U to read as follows:

SUPPLEMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective February 1, 1947

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.

In addition, the Chairman of the Board of Governors of the Federal Reserve System issued a statement for the press, released for publication January 18, 1947, the text of which is reprinted on the reverse side of this circular.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.

(OVER)

STATEMENT FOR THE PRESS BY CHAIRMAN ECCLES

When the Board increased margin requirements from 75 per cent to 100 per cent, effective January 21, 1946, accumulated and prospective inflationary pressures had reached dangerous proportions because of the vast expansion of the country's money supply resulting from war financing, the rising level of current incomes, the huge backlog of public wants and needs, and the acute shortage of most goods to satisfy this demand. Under these circumstances, the Board felt that any growth in the use of credit for the purpose of buying securities could only intensify inflationary pressures. While it was recognized that margin requirements would have only a minor influence in combating general inflation, the Board nevertheless felt that it should do what it could to curb inflationary developments brought about by speculative activity in the stock markets.

In the intervening year economic conditions and prospects have altered materially. The supply of money was reduced during the year as a result of a substantial decrease of the Government debt held by the banking system. This has had a salutary effect. Clearly this policy should be continued. By combining continued high levels of taxation with prudent economy in all Government expenditures, it will be possible to realize a budgetary surplus which can be used to reduce further the public debt held by the banking system. This would continue to have an anti-inflationary influence depending upon the size of the surplus.

Notwithstanding industrial strife and other obstacles, the 1946 production of the economy reached new peacetime levels so that by the end of the year 10 million demobilized veterans, together with millions of those who had jobs in war industries, had been largely absorbed in peacetime production. Full and sustained production depends on an extended period of industrial peace, the avoidance of further wage increases that bring about increased prices, and the downward adjustment of prices which are now out of line.

The supply of goods and services is now more nearly in balance with demand than was the case a year ago. Shortages in many important lines have been met and in many other lines are rapidly being overcome. The removal of various Government controls in 1945 and 1946, together with tax reduction and repeal of the excess profits tax, ushered in a sharp rise in prices during the year just ended, so that the cost-of-living index rose from 129.9 in January to 153.3 in December of 1946. This is approximately as much as the rise in prices during the four preceding war years. As a result of higher prices and of the narrowing margin between individual incomes and expenditures, the intensity of demand has abated considerably.

In contrast with the behavior of most prices, stock prices, which had risen sharply for several months prior to January 1946 and continued to rise somewhat further after that time, subsequently declined materially. The level now is about the same as that existing when margin requirements were increased to 75 per cent. At the same time, the volume of credit in the stock market has been substantially reduced until that used for carrying listed securities is at about the lowest level in the last thirty years. Undoubtedly the rise in stock prices and the subsequent fall would have been much greater if the Board had not increased the requirements, first from 50 to 75 per cent as of July 5, 1945, then from 75 to 100 per cent early in 1946.

It now appears that inflation has largely run its course, assuming that fiscal, labor and management policies, such as I have indicated, are pursued. Accordingly, some readjustment in margin requirements is appropriate at this time. By its action the Board has restored the 75 per cent level in effect from July 5, 1945 until January 21, 1946.

While it is evident from a large volume of correspondence which has come to me that there is a strong public sentiment against margin trading under any conditions, it should be remembered that the mandate which Congress gave to the Reserve Board applies only to listed securities and specifies that margin requirements shall be imposed for "the purpose of preventing the excessive use of credit" in such stock market operations. The Board is not authorized to impose a permanent ban on margin trading.

As I said in discussing this subject several months ago, this is not a one-way street. The present adjustment to changed economic conditions is restrictive without being prohibitive. Further action will depend upon the course of economic events.

FEDERAL RESERVE BANK
OF NEW YORK

January 18, 1947

SUPPLEMENT TO REGULATION T OF THE BOARD OF
GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective February 1, 1947

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Brokers and Dealers in Securities 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 January 18, 1947:

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The amendment referred to in the foregoing statement changes the Supplement to Regulation T to read as follows:

SUPPLEMENT TO REGULATION T

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective February 1, 1947

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.

In addition, the Chairman of the Board of Governors of the Federal Reserve System issued a statement for the press, released for publication January 18, 1947, the text of which is reprinted on the reverse side of this letter.

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ALLAN SPROUL,
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In the intervening year economic conditions and prospects have altered materially. The supply of money was reduced during the year as a result of a substantial decrease of the Government debt held by the banking system. This has had a salutary effect. Clearly this policy should be continued. By combining continued high levels of taxation with prudent economy in all Government expenditures, it will be possible to realize a budgetary surplus which can be used to reduce further the public debt held by the banking system. This would continue to have an anti-inflationary influence depending upon the size of the surplus.

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The supply of goods and services is now more nearly in balance with demand than was the case a year ago. Shortages in many important lines have been met and in many other lines are rapidly being overcome. The removal of various Government controls in 1945 and 1946, together with tax reduction and repeal of the excess profits tax, ushered in a sharp rise in prices during the year just ended, so that the cost-of-living index rose from 129.9 in January to 153.3 in December of 1946. This is approximately as much as the rise in prices during the four preceding war years. As a result of higher prices and of the narrowing margin between individual incomes and expenditures, the intensity of demand has abated considerably.

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It now appears that inflation has largely run its course, assuming that fiscal, labor and management policies, such as I have indicated, are pursued. Accordingly, some readjustment in margin requirements is appropriate at this time. By its action the Board has restored the 75 per cent level in effect from July 5, 1945 until January 21, 1946.

While it is evident from a large volume of correspondence which has come to me that there is a strong public sentiment against margin trading under any conditions, it should be remembered that the mandate which Congress gave to the Reserve Board applies only to listed securities and specifies that margin requirements shall be imposed for "the purpose of preventing the excessive use of credit" in such stock market operations. The Board is not authorized to impose a permanent ban on margin trading.

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