

FEDERAL RESERVE BOARD

WASHINGTON

X-9423.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 11, 1936.

Dear Sir:

There are inclosed herewith six copies of a tentative draft of Regulation U -- Loans by Banks for the Purpose of Purchasing or Carrying Equity Securities Registered on a National Securities Exchange -- including as a foreword an explanatory statement to accompany the tentative draft. Additional copies are being sent under separate cover.

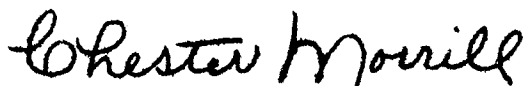
This tentative draft is under consideration by the Board, but before taking action the Board is submitting it for criticisms and suggestions. It will be appreciated, therefore, if you and the officers and counsel of your bank will study this draft and forward your comments and suggestions thereon as promptly as may be possible. In addition, please submit copies of the tentative draft and the explanatory statement to such member and nonmember banks, representatives of securities exchanges, etc., as you may consider advisable, and obtain from them suggestions and criticisms in writing, the originals thereof to be forwarded to the Board as soon as received.

All comments and suggestions should be forwarded to the Board within thirty days after the date of this letter.

You will note that section 4 of the tentative draft provides that the maximum loan values of registered equity securities, for the purposes of the regulation, shall be such as the Board may prescribe from time to time in supplements to the regulation. Two alternative drafts of such a supplement are attached to the regulation. One of these includes the statutory requirements that were adopted in Regulation T for brokers and dealers. In the other, the method of determining margin requirements differs from that in Regulation T. It is the present intention of the Board, in the event that a different method is prescribed for banks when Regulation U is issued, to modify Regulation T so as to bring the method of determining margin requirements for brokers and dealers into conformity with that for banks.

Attention is called, however, to the fact that the Board has authority to change margin requirements from time to time, and the inclusion of the figures in the tentative supplement to Regulation U based upon the statutory formula is not to be taken as indicating that the Board has undertaken to decide at this time what margin requirements will be included in the regulation when it shall be finally approved and promulgated.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

January 10, 1936

(Tentative draft of regulation prepared at direction
of Board of Governors of the Federal Reserve System
but not yet acted upon by the Board of Governors.)

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

LOANS BY BANKS
FOR THE PURPOSE OF PURCHASING OR CARRYING
EQUITY SECURITIES REGISTERED ON A NATIONAL SECURITIES EXCHANGE

REGULATION U

(Reverse side of cover page)

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve bank of the district in which the inquiry arises.

EXPLANATORY STATEMENT TO ACCOMPANY TENTATIVE DRAFT OF REGULATION U

The primary purpose of Regulation U, of which a tentative draft is attached, is to prevent circumvention of the objects of Regulation T by borrowing from banks for the purpose of purchasing or carrying stocks on terms more favorable than those prescribed for security loans by brokers and dealers.

Borrowing from banks for any purpose except the purchasing or carrying of registered equity securities -- i.e., in general, listed stocks -- is not subjected to margin requirements prescribed in this regulation. General banking practices with respect to loans for industrial, agricultural, and commercial purposes would not be affected, regardless of whether these loans are secured or unsecured, and if secured, regardless of the character of the collateral.

The regulation does not apply to any of a bank's loans, no matter for what purpose, to a borrower none of whose loans with the bank are secured by an equity security registered on a national securities exchange.

In case the collateral for a loan includes registered equity securities, the loan will be subject to the regulation unless the loan is not for the purpose of purchasing or carrying such securities. A bank which wishes to establish the fact that such a loan is not subject to the regulation, may do so by obtaining an appropriate statement from the borrower.

Loans made for the purpose of purchasing or carrying securities that are not registered on a national securities exchange are exempt from the regulation.

Nothing in the regulation would require the liquidation of any loan made before the effective date, or any loan, whenever made, by reason of a decline in the market value of the collateral.

Explanatory Statement--page 2

Margin requirements to be prescribed from time to time by the Board will be promulgated by issuing supplements to this regulation. Two samples of such a supplement are attached to the regulation. One of these includes the requirements that were adopted in Regulation T for brokers and dealers. In the other, the method of determining margin requirements differs from that in Regulation T. It is the present intention of the Board, in the event that this different method is prescribed for banks when Regulation U is approved and issued, to modify Regulation T so as to bring the method of determining margin requirements for brokers and dealers into conformity with that for banks.

CONTENTS

	<u>Page</u>
Sec. 1. <u>Scope and effective date of regulation</u>	1
Sec. 2. <u>Definitions</u>	2
Sec. 3. <u>Regulated loans and exempted loans</u>	
(a) Regulated loans	3
(b) Exempted loans	3
Sec. 4. <u>Making of regulated loans</u>	
(a) Conditions for making regulated loans	6
(b) Definition of maximum loan value	6
(c) Maximum loan value of registered equity securities when rehypothecated	7
(d) Current market price	8
(e) Lowest market price	9
Sec. 5. <u>Maintenance of regulated loans</u>	
(a) Liquidation not required	11
(b) Definition of required collateral	11
(c) Changes in required collateral	11
(d) Time allowed for changing collateral	12
(e) Securities involved in reorganization	13
Sec. 6. <u>Loans made before effective date</u>	14
Sec. 7. <u>Miscellaneous provisions</u>	
(a) Imposition of additional requirements by banks	15
(b) Renewals and extensions	15
(c) Interest, service charges, etc.	15
(d) Innocent mistakes	15
(e) Transactions outside United States	16
Sec. 8. <u>Violations of this regulation</u>	16
<u>Appendix</u> <u>(Provisions of Securities Exchange Act)</u>	17
<u>Supplements.</u> <u>Maximum loan values of registered equity securities for purposes of Regulation U</u>	

(Tentative Draft of Regulation Prepared at Direction
of Board of Governors of the Federal Reserve System
but Not Yet Acted Upon by the Board of Governors.)

REGULATION U

LOANS BY BANKS
FOR THE PURPOSE OF PURCHASING OR CARRYING
EQUITY SECURITIES REGISTERED ON A NATIONAL SECURITIES EXCHANGE

SECTION 1. SCOPE AND EFFECTIVE DATE OF REGULATION

This regulation is issued pursuant to authority contained in the Securities Exchange Act of 1934, particularly subsection (d) of section 7 thereof, to prevent the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions of that section. It applies only to banks; and it relates only to loans for the purpose of purchasing or carrying equity securities registered on a national securities exchange.

This regulation shall become effective on _____, 1936.

- 2 -

SECTION 2. DEFINITIONS

For the purposes of this regulation, unless the context otherwise requires, the following terms shall have the meanings respectively assigned to them.

(a) The terms "person", "member", "broker", "dealer", "buy", "purchase", "sale", "sell", "security", "equity security", "exempted security", and "bank" shall have the meanings given them in section 3(a) of the Securities Exchange Act of 1934 (printed in the appendix of this regulation) except that the term "bank" shall not include any member of a national securities exchange.

(b) The term "registered equity security" means an equity security (other than an exempted security) which--

(1) Is registered on a national securities exchange;

or

(2) In consequence of its having unlisted trading privileges on a national securities exchange, must, under the provisions of section 12(f) of the Securities Exchange Act of 1934, be considered a "security registered on a national securities exchange".

(c) The terms "regulated loan" and "exempted loan" shall have the meanings given them in section 3 of this regulation; the terms "maximum loan value", "current market price", and "lowest market price" shall have the meanings given them in section 4 of this regulation; and the term "required collateral" shall have the meaning given it in section 5 of this regulation.

SECTION 3. REGULATED LOANS AND EXEMPTED LOANS

(a) Regulated loans. - The term "regulated loan" means a discount, advance, overdraft or other loan for any of the following purposes, except that it shall not include any exempted loan:

(1) The purpose of purchasing a registered equity security from or through a broker or dealer who is a member of a national securities exchange or who transacts a business in securities through the medium of any such member;

(2) The purpose of reducing or retiring any indebtedness which was originally incurred for the purpose of so purchasing a registered equity security and which is secured by a registered equity security so purchased;

(3) In the case of a loan to a broker or dealer, the purpose of enabling the borrower to make or maintain loans to his customers for any of the purposes specified above.

(b) Exempted loans. - The term "exempted loan" means any loan described below:

(1) Any loan to any person so long as neither that loan nor any of the bank's outstanding loans to that person is secured in any way by any registered equity security;

(2) Any loan (even though secured by a registered equity security) which is not for any of the purposes specified in subsection (a) of this section; and, although the exemption of a loan under this provision does not necessarily require the obtaining of a statement from the borrower as to the purpose of the loan, a bank may treat a loan as not being for any of the purposes specified in subsection (a) if it obtains and accepts in

- 4 -

good faith either (A) a statement signed by the borrower to the effect that he is not a broker or dealer in securities and that the loan is not for the purpose of purchasing any securities or retiring or reducing any indebtedness incurred for the purpose of purchasing securities, or (B) a statement signed by the borrower otherwise showing that the loan is not for any of the purposes specified in subsection (a);

(3) Any loan secured exclusively by exempted securities (whether registered or unregistered) and/or nonequity securities (whether registered or unregistered);

(4) Any loan to a bank;

(5) Any loan to a dealer, or to two or more dealers acting jointly, to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange;

(6) Any discount of, or advance against, a draft with securities attached which is payable on presentation in the ordinary course of business;

(7) Any temporary advance to finance the purchase of a security in connection with which the bank, as agent of the purchaser, accepts delivery of and pays for the security under an agreement, made in good faith and not to evade or circumvent the provisions of this regulation, that the lending bank is to be repaid the full amount of the advance in cash promptly upon completion of the purchase;

- 5 -

(8) Any loan which is maintained for only a fraction of a calendar day;

(9) Any loan made in exceptional circumstances, in good faith and not for the purpose of evading or circumventing the provisions of this regulation, to meet the emergency needs of a broker or dealer who is a member of a national securities exchange or who has filed with the lending bank his written statement that he transacts a business in securities through the medium of any such member: Provided, That any bank making any such loan shall, within three days, make a concise written report of all material facts relative thereto to the Federal Reserve agent of the district in which the principal office of the bank is located.

SECTION 4. MAKING OF REGULATED LOANS

(a) Conditions for making regulated loans. - Every bank shall comply with the following requirements in making or increasing any regulated loan:

(1) The loan shall be represented by a note, document, or entry which does not represent either in whole or in part any exempted loan; and

(2) The bank's total outstanding regulated loans (including the current loan or increase) to the same person made on or after the effective date of this regulation shall be secured by exempted securities, nonequity securities, and/or registered equity securities which have a maximum loan value at least as great as the amount of the total of such regulated loans.

(b) Maximum loan value. - The term "maximum loan value" when used with respect to any item of collateral securing a regulated loan means the maximum regulated loan which a bank may, under the provisions of this regulation, make on such item of collateral; and, in the case of collateral consisting of more than one item, the maximum loan value is the sum of the maximum loan values of the various items of the collateral. The following items shall have the following maximum loan values:

- 7 -

(1) The maximum loan value of everything other than an exempted security, a nonequity security, or a registered equity security, shall be nothing;

(2) The maximum loan value of an exempted security or a nonequity security shall be not more than the current market price of the security;

(3) The maximum loan value of a registered equity security shall be the maximum loan value which the Board of Governors of the Federal Reserve System shall prescribe from time to time in supplements to this regulation, which will be issued in advance of the date upon which such maximum loan value becomes effective.

(c) Special maximum loan value for rehypothecated securities. -

Subject to the conditions specified in this subsection, registered equity securities which are rehypothecated by a broker or dealer shall have such special maximum loan value or values as the Board of Governors of the Federal Reserve System shall prescribe from time to time in supplements to this regulation, which will be issued in advance of the date on which such maximum loan values become effective. In order that registered equity securities may have the special maximum loan value or values prescribed pursuant to this subsection:

(1) The securities shall secure a regulated loan to a broker or dealer who is a member of a national securities exchange or who has filed with the lending bank his written statement that he transacts a business in securities through the medium of any such member; and

(2) The broker or dealer must be carrying such securities for the account of customers; and a bank may treat such securities as being carried for the account of customers if it obtains and accepts in good faith a written statement signed by the broker or dealer to the effect that they are being so carried.

(d) Current Market Price. - For the purposes of this regulation and any supplements thereto, the current market price of a security may at the option of the bank be considered to be either the closing bid price or the closing sale price of the security on any national securities exchange on the preceding business day: Provided, That, in the absence of such a closing sale price, the bank shall have the further option of using the price at which the last recorded sale of the security during the current or preceding calendar month was made on a national securities exchange: Provided, further, That, if none of the prices described above is available, the bank may use any reasonable estimate of the market value of the security.

In ascertaining the foregoing prices, a bank may rely upon any regularly published reporting or quotation service used by the bank, including any newspaper or financial publication carrying market reports with respect to an exchange on which the security is registered,

In the case of a loan made at the time a security is purchased, or in connection with the purchase of a security to be substituted for collateral previously pledged, the price at which such security is purchased may be considered by the bank, at its option, to be the current market price for the purpose of such transaction.

(e) Lowest market price. - For the purpose of this regulation and any supplements thereto, the lowest market price of a registered equity security during a specified period means the lowest price at which that security has sold during that period on the national securities exchanges on which it is or has been registered (including any sales made on such exchanges during the part of the specified period which preceded their respective registrations as national securities exchanges under the Securities Exchange Act of 1934): Provided, That, if the security is a stock upon which there has been any stock dividend amounting to more than 10 percent in any one calendar year, or any reduction or increase in the number of shares by calling in the outstanding shares and issuing in substitution therefor a smaller or larger number of shares, or any other change accomplishing substantially the same result as any such reduction or increase, any prices established before that dividend or change in number of shares or other change shall be adjusted therefor.

- 10 -

A bank using a figure published as such lowest market price in any record published or approved by any national securities exchange may rely on that figure for the purposes of this regulation.

SECTION 5. MAINTENANCE OF REGULATED LOANS

(a) Liquidation not required. - In maintaining any regulated loan, every bank shall comply with the requirements of this section with respect to the withdrawal and substitution of collateral; but any loan made before the effective date of this regulation or made in conformity with the requirements of this regulation may be maintained regardless of changes in market prices, and nothing in this regulation shall be construed as requiring any bank to reduce any loan, obtain additional collateral for any loan, or sell any collateral securing any loan, solely because of changes in market prices.

(b) Required collateral. - The term "required collateral" means an exempted security, a nonequity security, or a registered equity security, which secures a regulated loan made on or after the effective date of this regulation because:

(1) It was required for the making of the loan under section 4 of this regulation; or

(2) It was required in order to make a change in the collateral for that loan under the following subsections of this section.

(c) Changes in required collateral. - No bank shall maintain a regulated loan and at the same time permit the withdrawal of any required collateral, unless---

(1) After the withdrawal the bank's total outstanding regulated loans to the same person made on or after the effective date of this regulation are secured by exempted securities, nonequity securities, and/or registered equity securities, having a maximum loan value at least as great as the amount of such total of regulated loans; or

(2) The total amount of such outstanding regulated loans to such person is reduced, or other exempted securities, nonequity securities, or registered equity securities are substituted to secure such loans, or both, to such an extent that

(A) the maximum loan value of the securities substituted, plus the amount of reduction in the regulated loans, is at least as great as the maximum loan value of the securities withdrawn, and

(B) the current market price of the securities substituted, plus the amount of reduction in the regulated loans, is at least as great as the current market price of the securities withdrawn.

(d) Time allowed for changing collateral. - In order to comply with the requirements of subsection (c) of this section with respect to changes in required collateral, the necessary substitution of securities

- 13 -

and/or reduction in the regulated loans shall be made on the same day as the withdrawal of required collateral, except that in the case of a substitution involving either (1) the sale of required collateral and the purchase and deposit of other collateral to secure the loan, or (2) the purchase and deposit of other collateral to secure the loan and the sale of required collateral, the bank may, if both the contract of purchase and contract of sale are made within a period of two successive business days, allow such time for making deliveries and otherwise completing the substitution as may be reasonably necessary.

(e) Securities involved in reorganization. - Notwithstanding the foregoing provisions of this section, a bank may permit the withdrawal of any security involved in a reorganization of the issuer of that security when such withdrawal is reasonably necessary to facilitate such reorganization: Provided, That all cash, exempted securities, nonequity securities, and registered equity securities received, under the terms of the reorganization, in exchange for the security withdrawn under this provision, shall promptly be applied on the regulated loans or substituted for the security withdrawn.

SECTION 6, LOANS MADE BEFORE EFFECTIVE DATE

Nothing in this regulation shall be construed as requiring a bank to obtain the repayment or reduction of, or the pledge of additional collateral for, any loan which was made before the effective date of this regulation or with respect to any renewal or extension of maturity of any such loan: Provided, That, notwithstanding any other provision of this regulation:

(1) All exempted securities, nonequity securities, and registered equity securities securing any regulated loan or group of regulated loans at the opening of business on the effective date of this regulation, and all securities thereafter substituted therefor pursuant to the requirements of this section, shall be identified by the bank and shall be treated for the purposes of this regulation as if they secured only that loan or group of loans;

(2) No such identified collateral shall be taken into account in determining whether or not any regulated loan made after the effective date of this regulation is secured in compliance with the terms of this regulation; and

(3) No withdrawal of any such identified collateral shall be made except under the same terms and conditions as apply under section 5 of this regulation to a withdrawal of required collateral securing a regulated loan made after the effective date of this regulation.

A bank may obtain and rely upon a statement signed by the borrower respecting the purpose for which a loan made before the effective date of this regulation was obtained, in the same manner and with the same effect as provided by section 3(b) of this regulation for loans made on or after such effective date.

SECTION 7. MISCELLANEOUS PROVISIONS

(a) Imposition of additional requirements by banks. - Nothing in this regulation shall be construed as restricting the right of any bank to require additional collateral at the time of, or subsequent to, the making of any loan, or as restricting the right of any bank to refuse to make or maintain a loan.

(b) Renewals and extensions. - A renewal or an extension of the maturity of a loan need not be treated as the making of a new loan if the amount of the loan is not increased except as permitted in subsection (c) of this section; but any other increase in the amount of a loan shall, to the extent of the increase, be treated as the making of a loan.

(c) Interest, service charges, etc. - Nothing in this regulation shall be construed as preventing the addition to a regulated loan of interest on the loan, sales or transfer taxes on transactions in connection with the loan, service charges imposed by the bank in connection with the loan or any incidental expenditure made by the bank for its own protection, regardless of the amount of the loan or the collateral which secures the loan.

(d) Innocent mistakes. - No innocent mistake made in good faith in executing a transaction, recording, determining, or calculating any loan, market price, loan value, or other administrative adjustment or detail, shall be deemed to be a violation of this regulation if the mistake be corrected as promptly as possible upon its discovery.

(c) Transactions outside the United States. - The provisions of this regulation shall not apply to any transaction which is effected outside the States of the United States and the District of Columbia and is not for the purpose of evading or circumventing the provisions of this regulation.

SECTION 8. VIOLATIONS OF THIS REGULATION

Violations of this regulation are subject to the provisions of section 29 and 32 of the Securities Exchange Act of 1934, which are printed on pages _____ and _____ of the Appendix to this regulation.

APPENDIX

There are printed below certain provisions of the Securities Exchange Act of 1934 which are pertinent to the subject matter of this regulation:

SEC. 3.(a) * * *

(3) The term "member" when used with respect to an exchange means any person who is permitted either to effect transactions on the exchange without the services of another person acting as broker, or to make use of the facilities of an exchange for transactions thereon without payment of a commission or fee or with the payment of a commission or fee which is less than that charged the general public, and includes any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm.

(4) The term "broker" means any person engaged in the business of effecting transactions in securities for the account of others, but does not include a bank.

(5) The term "dealer" means any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise, but does not include a bank, or any person insofar as he buys or sells securities for his own account, either individually or in some fiduciary capacity, but not as a part of a regular business.

(6) The term "bank" means (A) a banking institution organized under the laws of the United States, (B) a member bank of the Federal Reserve System, (C) any other banking institution, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under section 11(k) of the Federal Reserve Act, as amended, and which is supervised and examined by State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of this title, and (D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B), or (C) of this paragraph.

(9) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a business trust, or an unincorporated organization.

(10) The term "security" means any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit, for a security, or in general, any instrument commonly known as a "security"; or any

certificate of interest or participation in, temporary or interim certificate for, receipt for, ~~or~~ warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

(11) The term "equity security" means any stock or similar security; or any security convertible, with or without consideration, into such a security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security which the Commission shall deem to be of similar nature and consider necessary or appropriate, by such rules and regulations as it may prescribe in the public interest or for the protection of investors, to treat as an equity security.

(12) The term "exempted security" or "exempted securities" shall include securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States; such securities issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury as necessary or appropriate in the public interest or for the protection of investors; securities which are direct obligations of or obligations guaranteed as to principal or interest by a State or any political subdivision thereof or any agency or instrumentality of a State or any political subdivision thereof or any municipal corporate instrumentality of one or more States; and such other securities (which may include, among others, unregistered securities, the market in which is predominantly intrastate) as the Commission may, by such rules and regulations as it deems necessary or appropriate in the public interest or for the protection of investors, either unconditionally or upon specified terms and conditions or for stated periods, exempt from the operation of any one or more provisions of this title which by their terms do not apply to an "exempted security" or to "exempted securities."

(13) The terms "buy" and "purchase" each include any contract to buy, purchase, or otherwise acquire.

(14) The terms "sale" and "sell" each include any contract to sell or otherwise dispose of.

SEC. 3. (b) The Commission and the Federal Reserve Board, as to matters within their respective jurisdictions, shall have power by rules and regulations to define technical, trade, and accounting terms used in this title insofar as such definitions are not inconsistent with the provisions of this title.

SEC. 7. (a) For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Federal Reserve Board shall, prior to the effective date of this section and from time to time thereafter, prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange. For the initial extension of credit, such rules and regulations shall be based upon the following standards: An amount not greater than whichever is the higher of--

(1) 55 per centum of the current market price of the security, or

(2) 100 per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than 75 per centum of the current market price.

Such rules and regulations may make appropriate provision with respect to the carrying of undermargined accounts for limited periods and under specified conditions; the withdrawal of funds or securities; the substitution or additional purchases of securities; the transfer of accounts from one lender to another; special or different margin requirements for delayed deliveries, short sales, arbitrage transactions, and securities to which paragraph (2) of this subsection does not apply; the bases and the methods to be used in calculating loans, and margins and market prices; and similar administrative adjustments and details. For the purposes of paragraph (2) of this subsection, until July 1, 1936, the lowest price at which a security has sold on or after July 1, 1933, shall be considered as the lowest price at which such security has sold during the preceding thirty-six calendar months.

(b) Notwithstanding the provisions of subsection (a) of this section, the Federal Reserve Board, may, from time to time, with respect to all or specified securities or transactions, or classes of securities, or classes of transactions, by such rules and regulations (1) prescribe such lower margin requirements for the initial extension or maintenance of credit as it deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the general credit situation of the country, and (2) prescribe such higher margin requirements for the initial extension or maintenance of credit as it may deem necessary or appropriate to prevent the excessive use of credit to finance transactions in securities.

(c) It shall be unlawful for any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly to extend or maintain credit or arrange for the extension or maintenance of credit to or for any customer--

(1) On any security (other than an exempted security) registered on a national securities exchange, in contravention of the rules and regulations which the Federal Reserve Board shall prescribe under subsections (a) and (b) of this section.

(2) Without collateral or on any collateral other than exempted securities and/or securities registered upon a national securities exchange, except in accordance with such rules and regulations as the Federal Reserve Board may prescribe (A) to permit under specified conditions and for a limited period any such member, broker, or dealer to maintain a credit initially extended in conformity with the rules and regulations of the Federal Reserve Board, and (B) to permit the extension or maintenance of credit in cases where the extension or maintenance of credit is not for the purpose of purchasing or carrying securities or of evading or circumventing the provisions of paragraph (1) of this subsection.

(d) It shall be unlawful for any person not subject to subsection (c) to extend or maintain credit or to arrange for the extension or maintenance of credit for the purpose of purchasing or carrying any security registered on a national securities exchange, in contravention of such rules and regulations as the Federal Reserve Board shall prescribe to prevent the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions of this section. Such rules and regulations may impose upon all loans made for the purpose of purchasing or carrying securities registered on national securities exchanges limitations similar to those imposed upon members, brokers, or dealers by subsection (c) of this section and the rules and regulations thereunder. This subsection and the rules and regulations thereunder shall not apply (A) to a loan made by a person not in the ordinary course of his business, (B) to a loan on an exempted security, (C) to a loan to a dealer to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange, (D) to a loan by a bank on a security other than an equity security, or (E) to such other loans as the Federal Reserve Board shall, by such rules and regulations as it may deem necessary or appropriate in the public interest or for the protection of investors, exempt, either unconditionally or upon specified terms and conditions or for stated periods, from the operation of this subsection and the rules and regulations thereunder.

(e) The provisions of this section or the rules and regulations thereunder shall not apply on or before July 1, 1937, to any loan or extension of credit made prior to the enactment of this title or to the maintenance, renewal, or extension of any such loan or credit, except to the extent that the Federal Reserve Board may by rules and regulations prescribe as necessary to prevent the circumvention of the provisions of this section or the rules and regulations thereunder by means of withdrawals of funds or securities, substitutions of securities, or additional purchases or by any other device.

SEC. 8 It shall be unlawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly--

- 21 -

(a) To borrow in the ordinary course of business as a broker or dealer on any security (other than an exempted security) registered on a national securities exchange except (1) from or through a member bank of the Federal Reserve System, (2) from any nonmember bank which shall have filed with the Federal Reserve Board an agreement, which is still in force and which is in the form prescribed by the Board, undertaking to comply with all provisions of this Act, the Federal Reserve Act, as amended, and the Banking Act of 1933, which are applicable to member banks and which relate to the use of credit to finance transactions in securities, and with such rules and regulations as may be prescribed pursuant to such provisions of law or for the purpose of preventing evasions thereof, or (3) in accordance with such rules and regulations as the Federal Reserve Board may prescribe to permit loans between such members and/or brokers and/or dealers, or to permit loans to meet emergency needs. Any such agreement filed with the Federal Reserve Board shall be subject to termination at any time by order of the Board, after appropriate notice and opportunity for hearing, because of any failure by such bank to comply with the provisions thereof or with such provisions of law or rules or regulations; and, for any willful violation of such agreement, such bank shall be subject to the penalties provided for violations of rules and regulations prescribed under this title. The provisions of sections 21 and 25 of this title shall apply in the case of any such proceeding or order of the Federal Reserve Board in the same manner as such provisions apply in the case of proceedings and orders of the Commission.

* * * * *

(c) In contravention of such rules and regulations as the Commission shall prescribe for the protection of investors to hypothecate or arrange for the hypothecation of any securities carried for the account of any customer under circumstances (1) that will permit the commingling of his securities without his written consent with the securities of any other customer, (2) that will permit such securities to be commingled with the securities of any person other than a bona fide customer, or (3) that will permit such securities to be hypothecated, or subjected to any lien or claim of the pledgee, for a sum in excess of the aggregate indebtedness of such customers in respect of such securities.

(d) To lend or arrange for the lending of any securities carried for the account of any customer without the written consent of such customer.

SEC. 17. (b) Any broker, dealer, or other person extending credit who is subject to the rules and regulations prescribed by the Federal Reserve Board pursuant to this title shall make such reports to the Board as it may require as necessary or appropriate to enable it to perform the functions conferred upon it by this title. If any such broker, dealer, or other person shall fail to make any such report or fail to furnish full information therein, or, if in the judgment of the Board it is otherwise necessary, such broker, dealer, or other person shall permit such inspections to be made by the Board with respect to the business operations of such broker, dealer, or other person as the Board may deem necessary to enable it to obtain the required information.

SEC. 23. (a) The Commission and the Federal Reserve Board shall each have power to make such rules and regulations as may be necessary for the execution of the functions vested in them by this title, and may for such purpose classify issuers, securities, exchanges, and other persons or matters within their respective jurisdictions.

SEC. 29. (a) Any condition, stipulation, or provision binding any person to waive compliance with any provision of this title or of any rule or regulation thereunder, or of any rule of an exchange required thereby shall be void.

(b) Every contract made in violation of any provision of this title or of any rule or regulation thereunder, and every contract (including any contract for listing a security on an exchange) heretofore or hereafter made the performance of which involves the violation of, or the continuance of any relationship or practice in violation of, any provision of this title or any rule or regulation thereunder, shall be void (1) as regards the rights of any person who, in violation of any such provision, rule, or regulation, shall have made or engaged in the performance of any such contract, and (2) as regards the rights of any person who, not being a party to such contract, shall have acquired any right thereunder with actual knowledge of the facts by reason of which the making or performance of such contract was in violation of any such provision, rule or regulation.

(c) Nothing in this title shall be construed (1) to affect the validity of any loan or extension of credit (or any extension or renewal thereof) made or of any lien created prior or subsequent to the enactment of this title, unless at the time of the making of such loan or extension of credit (or extension or renewal thereof) or the creating of such lien, the person making such loan or extension of credit (or extension or renewal thereof) or acquiring such lien shall have actual knowledge of facts by reason of which the making of such loan or extension of credit (or extension or renewal thereof) or the acquisition of such lien is a violation of the provisions of this title or any rule or regulation thereunder, or (2) to afford a defense

to the collection of any debt or obligation or the enforcement of any lien by any person who shall have acquired such debt, obligation, or lien in good faith for value and without actual knowledge of the violation of any provision of this title or any rule or regulation thereunder affecting the legality of such debt, obligation, or lien.

SEC. 32. Any person who willfully violates any provision of this title, or any rule or regulation thereunder the violation of which is made unlawful or the observance of which is required under the terms of this title, or any person who willfully and knowingly makes, or causes to be made, any statement in any application, report, or document required to be filed under this title or any rule or regulation thereunder, which statement was false or misleading with respect to any material fact, shall upon conviction be fined not more than \$10,000, or imprisoned not more than two years, or both, except that when such person is an exchange, a fine not exceeding \$500,000 may be imposed; but no person shall be subject to imprisonment under this section for the violation of any rule or regulation if he proves that he had no knowledge of such rule or regulation.

SUPPLEMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective , 1936

Maximum loan values of registered equity securities for purposes of Regulation U

Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 4 of its Regulation U, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum loan values of registered equity securities for loans regulated under Regulation U:

(1) General rule regarding maximum loan values. - Except as provided in paragraph (2) of this supplement, the maximum loan value of a registered equity security securing a regulated loan shall be whichever is the higher of:

(A) 55 percent of the current market price of the security; or

(B) 100 percent of the lowest market price of the security during the period of 36 calendar months immediately prior to the first day of the current month, but not more than 75 percent of the current market price: Provided, That until July 1, 1936, for the purpose of this regulation, the lowest price at which a security has sold on or after July 1, 1933, but prior to the first day of the current month, shall be considered as the lowest market price of such security during the preceding 36 calendar months: and Provided, That the lowest market price which could be used under the provisions of this regulation during any calendar month may be used during the first 7 calendar days of the succeeding calendar month.

(2) Special maximum loan value for rehypothecated securities. - The maximum loan value of a registered equity security which is rehypothecated by a broker or dealer subject to the conditions specified in subsection (c) of section 4 of Regulation U, shall be ___ percent of the current market price of the security.

SUPPLEMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective , 1936

Maximum loan values of registered equity securities for purposes of Regulation U

Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 4 of its Regulation U, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum loan values of registered equity securities for loans regulated under Regulation U:

(1) General rule regarding maximum loan values. - Except as provided in paragraph (2) of this supplement, the maximum loan value of a registered equity security securing a regulated loan shall be ___ percent of the lowest market price of the security during the period of _____ calendar months immediately prior to the first day of the current month; Provided, That the lowest market price which could be used under this provision during any calendar month may also be used during the first seven calendar days of the succeeding calendar month.

(2) Special maximum loan value for rehypothecated securities. - The maximum loan value of a registered equity security which is rehypothecated by a broker or dealer subject to the conditions specified in subsection (c) of section 4 of Regulation U, shall be ___ percent of the current market price of the security.