

X-9741

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers
of Friday, November 20, 1936

AMENDMENT OF REGULATION T

The Board of Governors of the Federal Reserve System today submitted to the twelve Federal reserve banks for their consideration and suggestions the attached tentative draft of an amendment to Regulation T. After consulting with persons who would be affected by the amendment, including representatives of securities exchanges, the reserve banks are requested to return their replies to the Board not later than December 7, 1936. The Board will thereupon give consideration to the advisability of adopting such an amendment.

Regulation T at present, as a matter of convenience both for customers and brokers, allows a certain number of days within which the required margin may be furnished after a purchase is made. A practice has developed, however, which was not intended under this provision whereby purchasers of securities on margin sell within a period of three or four days, and by this means avoid having to furnish the required margin. This practice, when repeated by what is commonly known as "in-and-out" trading, permits a continuous avoidance of the furnishing of the amount of margin prescribed by the Board under the law. The development of this practice has emphasized a weakness in the regulation which it is believed should be remedied in the public interest. The proposed amendment would cause the broker to require that any customer who purchases securities on margin shall provide the required margin in advance of the purchase -- or in any event, except in the case of purchases and sales made on the same day, not later than the end of the day on which the purchase is made.

TENTATIVE DRAFT OF PROPOSED AMENDMENT TO REGULATION T

Amendment No. _____ of Regulation T - Effective _____ 1936.

Regulation T, as amended, is hereby further amended in the following respects:

1. Subsections (i) and (j) of section 2 of said regulation are amended to read as follows:

"(i) The term 'unrestricted account' means an account in which the adjusted debit balance equals or is less than the maximum loan value of the securities in the account.

"(j) The term 'restricted account' means an account in which the adjusted debit balance exceeds the maximum loan value of the securities in the account."

2. The last paragraph of subsection (b) of section 3 of said regulation is amended by striking out the words "and together with demands for additional margin in connection therewith".

3. Subsection (f) of section 3 of said regulation is amended by striking out clause (8); by substituting a period for the semicolon and the word "and" at the end of clause (7); and by adding the word "and" at the end of clause (6) after the semicolon.

4. Subsections (c), (d), and (e) of section 4 of said regulation are amended to read as follows:

"(c) Transactions in unrestricted accounts. - A creditor shall not permit any customer to make in an unrestricted account any transaction or combination of transactions which would cause such account to become a restricted account.

"(d) Transactions in restricted accounts. - A creditor shall not permit a customer to make in a restricted account any transaction which, in combination with any other transactions made on the same day, results in any increase of the excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, or results in any net withdrawal of cash and/or securities: Provided, however, That a creditor may permit a customer to make any transaction or combination of transactions which causes the account to become an unrestricted account.

"(e) Combination of transactions. - For the purposes of subsections (c) and (d) of this section all the transactions in a given account on a given day may be considered a single transaction; and any substitution of securities consisting of a sale of securities in the account followed by the purchase of other securities on the next succeeding business day may be considered a substitution occurring entirely on the day on which the purchase occurs."

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5. Section 6 of said regulation is amended by changing the period at the end of said section to a colon and adding thereafter the following:

"Provided, That the special cash account provided for in this section may be used, to any extent not forbidden by other provisions of law, to receive and hold for any customer cash or securities, including cash or securities withdrawn from another account without violation of this regulation."