

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

June 16, 1937.

Honorable J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. O'Connor:

Reference is made to Deputy Comptroller Gough's letter of April 8, 1937 regarding the question whether the purchase by a national bank of certain debentures of _____ is subject to the Board's Regulation U which relates to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange.

It is understood that the debentures in question are issued for the purpose of obtaining funds to acquire certain stocks which are registered on a national securities exchange. These stocks are pledged with a trustee that is to maintain the collateral for the debentures at a certain level, calling debentures for redemption and liquidating collateral as may be necessary for this purpose.

While it seems clear that the purpose of the issue of debentures is to purchase or carry stocks registered on a national securities exchange, it is to be noted that Regulation U is expressed almost entirely in terms of "loans" instead of using the somewhat broader term of "extend credit" which appears in the provisions of section 7 of the Securities Exchange Act of 1934 under which the regulation is issued. This, of course, would not prevent the scope of the regulation from being broadened in this respect if such a change should appear to be advisable.

The information in the inquiry is not entirely clear as to the status of the debentures; but it is the view of the Board that, if the debentures comply with the requirements of section 5136 of the Revised Statutes and your regulations issued thereunder with respect to the purchase of investment securities, the purchase of the debentures, whether directly from the issuer or from some other source, would not be subject to the present provisions of Regulation U since the regulation is at present expressed in terms of loans. If the

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debentures are securities that fail to meet these requirements, the inability of the national bank to purchase the debentures would prevent any question from arising in the present case as to the application of Regulation U.

If the facts are such that the debentures should not be considered to be securities and thus would not be subject to section 5136, they should, of course, be treated as loans. The facts stated in the inquiry would seem to indicate that if the debentures should be treated as loans they would be loans subject to Regulation U.

As requested, the inclosures forwarded with Mr. Gough's letter are returned herewith.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.