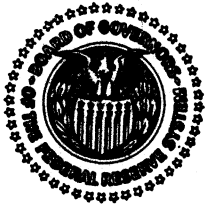


BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Sale Of Securities Held In Account But Not Delivered Against Sale".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

A handwritten signature in black ink, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Saturday, April 30, 1938.

The following ruling will appear in the Federal Reserve Bulletin.

Sale Of Securities Held In Account But Not Delivered
Against Sale

In a case recently considered by the Board under Regulation T, the adjusted debit balance of a customer's general account exceeded the maximum loan value of the securities therein, and the account was "long" 100 shares of XYZ, a registered nonexempt security. On the day in question the customer sold 100 XYZ and instructed the broker not to deliver his "long" stock against the sale. This was the only transaction in the customer's account on that day. The question presented was whether any margin must be obtained because of the transaction.

The sale of XYZ stock with instructions not to deliver the stock held "long" in the account constitutes a short sale of the XYZ stock within the meaning of section 3(d)(3) of the regulation which provides that the adjusted debit balance of the account shall include:

"the current market value of any securities (other than unissued securities) sold short in the account plus, for each such security (other than an exempted security), such amount as the Board shall prescribe from time to time in the supplement to this regulation as the margin required for such short sales, except that such amount so prescribed in the supplement need not be included when there are held in the

account securities exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into such securities sold short;".

In view of this provision, the current market value of the securities sold short should be added to the adjusted debit balance. Since the XYZ stock held in the account could be delivered at any time against the short position, however, "there are held in the account securities exchangeable or convertible * * * into such securities sold short." Therefore, it would not be necessary to add any "margin * * * for such short sales."

Section 3(d)(7) of the regulation provides that there shall be deducted from the adjusted debit balance:

"the net proceeds of sale of any securities (other than unissued securities) sold for the account but for which payment has not yet been credited thereto."

The deduction made pursuant to section 3(d)(7) would, on the day of the short sale, exactly equal and offset the addition made pursuant to section 3(d)(3).

Accordingly, there would be no change in the adjusted debit balance of the account and, since there also would be no change in the maximum loan value of the securities in the account, the transaction would neither release margin nor require that margin be obtained.