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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, November 1, 1938.

The following ruling will appear in the Federal Reserve Bulletin.

Withdrawal from General Account Followed by
Other Transactions on Same Day

The second paragraph of section 3(b) of Regulation T provides, in part, as follows:

> "A transaction consisting of a withdrawal of cash or registered or exempted securities from a general account shall be permissible only on condition that * * * the transactions (including such withdrawal) on the day of such withdrawal would not create an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account or increase any such excess."

In order to insure compliance with this provision many brokers make it a practice to permit no withdrawals from the account without being assured that trading in the account has been concluded for the day. The Board, however, recently received inquiries regarding two situations in which a broker, having failed to take this precaution, permitted a withdrawal that was followed by transactions which, in combination with the withdrawal, would create or increase an excess of the adjusted debit balance of the account unless margin was deposited in the account on the same day.

For simplicity of exposition these cases may be assumed to be alike in that at the beginning of the day the adjusted debit balance of the account exactly equalled the maximum loan value of the securities in the account, and that early in the day $2500 of registered nonexempted securities were sold. Under present loan values of 60 per cent, this released margin in the complementary percentage of 40 per cent, i.e., $1000. The creditor permitted the customer to withdraw this $1000 in cash.

Later in the day other securities were purchased in the account.

In one case $2000 of registered nonexempted securities were purchased, requiring $800 of margin, i.e., $200 less than the $1000 withdrawn.

In the other case $4000 of such securities were purchased, requiring $1600 of margin, i.e., $600 more than the amount withdrawn.

The question in each case related to the time within which the required margin must be obtained from the customer.

The provisions of section 3(b) quoted above clearly forbid a withdrawal of cash or securities if the withdrawal, in combination with the other transactions on the same day, would create or increase an excess of the adjusted debit balance of the account. Accordingly, in the case of the subsequent transaction requiring $800 margin it would be necessary for the creditor to obtain the full amount of such margin before the end of the day on which the withdrawal took place.

In the other case, in which the subsequent transaction required $1600 margin or $600 more than that originally withdrawn, it would be necessary to obtain, on the date of the transactions in question, the $1000 which had been withdrawn. The remaining $600 required could be obtained, as provided for ordinary transactions by the first paragraph of section 3(b), "as promptly as possible and in any event before the expiration of three full business days following the date of such transaction."