

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.

Broker or Dealer Who Transacts a Business in Securities
Through the Medium of a Member

Under section 7(c) of the Securities Exchange Act of 1934 "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" is subject to the Board's Regulation T, which relates to the extension and maintenance of credit by such persons. In this connection the Board has had occasion to consider certain questions as to what brokers or dealers "transact a business in securities through the medium of a member".

The general question of whether or not a particular broker or dealer "transacts a business in securities through the medium of a member" must turn upon all the relevant facts involved in the business of that broker or dealer. It has not seemed feasible to attempt to specify any conditions or factual situations which would prevent a broker or dealer from coming within the description.

The Board has, however, expressed the view that the mere failure to handle any business in registered securities would not,

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in itself, be sufficient to keep a broker or dealer from being one who transacts a business in securities through the medium of a member. This is because the relevant language does not refer to transacting a business in registered securities but to transacting a business in securities.

Similarly, it has expressed the opinion that the fact that a firm does not carry any so-called margin accounts would not, in itself, be sufficient to keep the firm from being a broker or dealer who transacts a business in securities through the medium of a member, because the Act refers to transacting a business in securities rather than to transacting a margin business in securities.

A "broker or dealer who transacts a business in securities through the medium" of any member of a national securities exchange is subject to Regulation T to the same extent as a member. Accordingly, if a broker or dealer is one who transacts a business in securities through the medium of a member, he is subject to the regulation even as to a particular transaction which is not effected through a member.