



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

S-128  
Reg. T-82

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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 17, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Paying for Purchase in Special Cash Account by Selling Another Security".

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,

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,  
Tuesday, November 22, 1938.

The following ruling will appear in the Federal Reserve  
Bulletin:

Paying for Purchase in Special Cash Account  
by Selling Another Security

Section 4(c) of Regulation T provides in part as follows:

"In a special cash account, a creditor may effect for or with any customer bona fide cash transactions in securities in which the creditor may --

(1) purchase any security for, or sell any security to, any customer, provided \* \* \* the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the customer will promptly make full cash payment for such security;

\* \* \* \* \*

"Except as otherwise provided in this section 4(c), in case a customer does not make full cash payment for a security purchased by him in the account \* \* \* within seven days after the date on which the security was purchased or sold, the creditor shall promptly cancel, cover, or otherwise liquidate, the transaction or the unsettled portion thereof."

The Board recently had occasion to consider two questions regarding transactions in the special cash account.

The first question arose from a case in which a customer proposed to purchase a security in the special cash account and then to

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make the necessary prompt payment by selling in the account another security of sufficient value and using the proceeds of sale for the purpose. The question was whether such a proposal for making payment disqualified the purchase for inclusion in the special cash account.

The exact answer to this question would depend upon the circumstances of the particular case. In some circumstances, such a combination of transactions might be evidence of an attempt to evade or circumvent the regulation, and if the purchase was part of such an attempt its inclusion in the special cash account would, of course, be forbidden, because section 4(a) of the regulation provides in part that:

"A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation."

It is the view of the Board, however, that, while a proposal to effect such a combination of transactions should be carefully scrutinized, the effecting of the proposed purchase in the special cash account would not necessarily be prohibited if the purchase complied in other respects with the requirements of the regulation and there was in fact no attempt to evade or circumvent the regulation. This would require, among other things, that the proposed purchase be in fact a "bona fide cash transaction" as that term is ordinarily used in the trade and that the proposed sale be one that is to be made and settled promptly.

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The second question arose from a permissible instance of the type described above in which the security to be sold was deposited with the creditor and sold promptly, well within seven days after the date of the purchase, and the creditor was to receive the proceeds of sale promptly in the usual course of business but not until more than seven days after the date of the purchase. This presented the question whether in such circumstances it might be considered that the security purchased by the customer had been paid for by him within seven days after the purchase.

Assuming that the purchase was one which, as indicated above, could properly be effected in the special cash account, the question whether it might be considered that payment had been made within seven days should be answered in the affirmative. When a customer has sold a security in a special cash account, section 4(c) permits the broker to make the proceeds of the sale of the security available to the customer upon the receipt of the security in the special cash account even though this be prior to the date on which the broker is to receive the proceeds of the sale. Accordingly, in the instant case the creditor could have paid the customer the proceeds of sale within the seven-day period and the customer could in turn have used such proceeds to make full cash payment to the creditor for the security purchased. In the circumstances, such payment could properly be treated as having been made by the customer without the necessity for the mechanical passage of funds from the creditor to the customer and back again to the creditor.