

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

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May 10, 1939.

The Board of Governors of the Federal Reserve System has amended its Regulation T, entitled "Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges", for the purpose of clarifying and liberalizing, with appropriate safeguards, provisions that relate to bona fide cash transactions in securities and to certain other classes of transactions that are not effected in margin accounts. The amendment, in tentative form, was submitted to securities exchanges and other organizations for comment last November. It becomes effective May 22, 1939, in the form attached.

The principal changes made by the amendment may be summarized as follows:

Cash sales for customers. - When a broker sells a security for a customer in a special cash account, without first having obtained the security from the customer, the broker will no longer be required by the regulation to get the security within a period of 7 days, or within any other specified period. Such a sale cannot be a short sale, since the making of a short sale by a customer in a special cash account is forbidden.

Cash purchases for customers on C.O.D. basis. - When a broker buys a security for a customer in a special cash account and the transaction is of the type in which the customer arranges to have the security delivered to him promptly against payment, the broker will no longer be

required by the regulation to obtain payment (and consequently to make delivery) within a period of 7 days. The time limit is not altogether removed, but is fixed at 35 days. The broker is not permitted, however, without the permission of an appropriate committee of a national securities exchange, to give the customer more than 7 days if the customer, for any reason whatever, has failed to settle with him promptly in full on any cash transaction during the preceding three months.

Cash transactions between brokers or dealers. - Cash transactions between one broker or dealer and another, as distinguished from transactions and relations with the general public, are relieved from the 7-day limitation, or any similar limitation, provided the transactions are in good faith for prompt settlement in accordance with the ordinary usage of the trade.

Loans by one member of an exchange to another. - A new provision has been added to the regulation to facilitate the making of a loan by one member of a national securities exchange to another member for the purpose of enabling the borrower, in his capacity as a partner in a member firm, to make a contribution of capital to his firm. Unless the loan is by one partner in a firm to another partner in the same firm, however, it must be approved, in accordance with conditions specified in the amendment, by an appropriate committee of the exchange, and one of these conditions is that if the firm is one that does any dealing in securities for its own account, the loan must not be for the purpose of enabling the firm to increase the amount of such dealing.

Amendment No. 2 of Regulation T - Effective May 22, 1939.

1. Section 4(c) of Regulation T is amended to read as follows:

"(c) Special cash account. - (1) 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 --

(A) purchase any security for, or sell any security to, any customer, provided funds sufficient for the purpose are already held in the account or 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 the security and that the customer does not contemplate selling the security prior to making such payment; or

(B) sell any security for, or purchase any security from, any customer, provided the security is held in the account or the creditor is informed that the customer or his principal owns the security and the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the security is to be promptly deposited in the account.

(2) In case a customer purchases a security (other than an exempted security) in the special cash account and does not make full cash payment for the security within 7 days after the date on which the security is so purchased, the creditor shall, except as provided in the succeeding subdivisions of this section 4(c), promptly cancel or otherwise liquidate the transaction or the unsettled portion thereof.

(3) If the security when so purchased is an unissued security, the period applicable to the transaction under subdivision (2) of this section 4(c) shall be 7 days after the date on which the security is made available by the issuer for delivery to purchasers.

(4) If any shipment of securities is incidental to the consummation of the transaction, the period applicable to the transaction under subdivision (2) of this section 4(c) shall be deemed to be extended by the number of days required for all such shipments, but not by more than 7 days.

(5) If the creditor, acting in good faith in accordance with subdivision (1) of this section 4(c), purchases a security for a customer, or sells a security to a customer, with the understanding that he is to deliver the security promptly to the customer, and the full cash payment to be made promptly by the customer is to be made against such delivery, the creditor may at his option treat the transaction as one to which the period applicable under subdivision (2) of this section 4(c) is not the 7 days therein specified but 35 days after the date of such purchase or sale: Provided, however, That the creditor shall not so treat any purchase by a given customer if any security has been purchased by such customer at any time during the preceding 90 days in a special cash account with the creditor, and then, for any reason whatever, without having been previously paid for in full by the customer, the security has been sold in the account or delivered out to any broker or dealer: Provided, That an appropriate committee of a national securities exchange, on application of the creditor, may authorize the creditor to disregard for the purposes of the preceding proviso any given instance of the type therein described if the committee is satisfied that both creditor and customer are acting in good faith and that circumstances warrant such authorization.

(6) If an appropriate committee of a national securities exchange is satisfied that the creditor is acting in good faith in making the application, that the application relates to a bona fide cash transaction, and that exceptional circumstances warrant such action, such committee, on application of the creditor, may (A) extend any period specified in subdivision (2), (3), (4) or (5) of this section 4(c) for one or more limited periods commensurate with the circumstances, or (B), in case a security purchased by the customer in the special cash account is a registered or exempted security, authorize transfer of the transaction to a general account or special omnibus account and completion of the transaction pursuant to the provisions of this regulation relating to such an account.

(7) The days specified in this section 4(c) are calendar days, but if the last day of any period specified herein is a Saturday, Sunday, or holiday, such period shall be considered to end on the next full business day. For the purposes of this section 4(c), a creditor may, at his option, disregard any sum due by the customer not exceeding \$50."

2. Section 4(f) of Regulation T is amended by inserting the following subdivisions after subdivision (1) of said section and renumbering the succeeding subdivisions accordingly:

"(2) Make loans, and may maintain loans, to or for any partner of a firm which is a member of a national securities exchange to enable such partner to make a contribution of capital to such firm provided (A) the lender as well as the borrower is a partner in such firm, or (B) the lender as well as the borrower is a member of such exchange, the loan has the approval of an appropriate committee of the exchange, and the committee, in addition to being satisfied that the loan is not in contravention of any rule of the exchange, is satisfied that the loan is outside the ordinary course of the lender's business, and that, if the borrower's firm does any dealing in securities for its own account, the loan is not for the purpose of enabling the firm to increase the amount of such dealing;

(3) Purchase any security from any customer who is a broker or dealer, or sell any security to any such customer, provided the creditor acting in good faith purchases or sells the security for delivery, against full payment of the purchase price, as promptly as practicable in accordance with the ordinary usage of the trade;"