

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

August 10, 1939.

Mr. _____,
Division of _____,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of August 2, 1939, regarding the question whether a member of a national securities exchange may, under section 6(d) of Regulation T, accept the transfer of an account, the adjusted debit balance of which exceeds the maximum loan value of the securities in the account, from a foreign broker who "transacts a business in securities through the medium of a member".

Section 6(d) provides in part that:

"In the event of the transfer of a general account from one creditor to another, such account may be treated for the purposes of this regulation as if it had been maintained by the transferee from the date of its origin: Provided, That the transferee accepts in good faith the signed statement of the transferor that no cash or securities need be deposited in the account in connection with any transaction that has been effected in the account or, in case he finds that it is not practicable to obtain such a statement from the transferor, accepts in good faith such a signed statement from the customer."

The term creditor is defined in section 2(b) to mean "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".

As your letter points out, the Board recently ruled (S-169, Reg. T-84) that a foreign broker who "transacts a business in securities through the medium of a member" comes within the meaning of the term "creditor" so far as to qualify under section 5(c) as a person from whom a domestic broker may borrow, subject to certain requirements, in the ordinary course of business on registered securities.

The Board is of the view that a foreign broker who "transacts a business in securities through the medium of a member" also comes within the meaning of the term "creditor" so far as to qualify

as a person from whom a member of a national securities exchange may accept the transfer of an account pursuant to section 6(d). It is the Board's view further that, if margin was obtained in amounts that would have met the requirements of Regulation T and the account was otherwise maintained in such a way that it would have satisfied these requirements, it may properly be said that "no cash or securities need be deposited in the account in connection with any transaction that has been effected in the account".

Accordingly, the Board agrees with the suggestion in your letter that the transfer from such a foreign broker of an account meeting these requirements would be permissible under section 6(d).

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.