FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

Dallas, Texas, June 2, 1959

To All Banks and Others Concerned
in the Eleventh Federal Reserve District:

There are enclosed reprints of Regulations T and U incorporating all amendments to June 15, 1959, together with supplements thereto.

Member banks are requested to remove the old copies of Regulations T and U, amendments and supplements from their ring binders containing the Regulations of the Board of Governors, and insert the enclosed copies in lieu thereof.

Yours very truly,

Watrous H. Irons
President

BOARD OF GOVERNORS

of the

FEDERAL RESERVE SYSTEM

CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES

▼

REGULATION T

(12 CFR 220)

As Amended to June 15, 1959

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to a national securities exchange of which the person making the inquiry is a member or the facilities of which are used for his transactions, or, if this be not practicable, the inquiry should be addressed to the Federal Reserve bank of the district in which the inquiry arises. In the event that an official of an exchange desires information as to any such question, he should make inquiry of the Federal Reserve bank of the district in which the exchange is located.

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(This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 220, cited as 12 CFR 220)

REGULATION T

(12 CFR 220)

As Amended to June 15, 1959

CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES

SECTION 220.1—SCOPE OF PART

This part is issued by the Board of Governors of the Federal Reserve System (hereinafter called the "Board") pursuant to the Securities Exchange Act of 1934 (called the "Act" in this part), particularly sections 7 and 8(a) thereof (48 Stat. 886, 888; 15 U.S.C. 78g, 78h(a)), and applies to every member of a national securities exchange and to every broker or dealer who transacts a business in securities through the medium of any such member.

SECTION 220.2—DEFINITIONS

For the purposes of this part, unless the context otherwise requires:

(*a*) The terms **"person"**, **"member"**, **"broker"**, **"dealer"**, **"buy"**, **"purchase"**, **"sale"**, **"sell"**, **"security"**, and **"bank"** have the meanings given them in section 3(a) of the Act (48 Stat. 882; 15 U.S.C. 78c(a)).

(*b*) The term **"creditor"** means 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.

(*c*) The term **"customer"** includes any person, or any group of persons acting jointly, (1) to or for whom a creditor is extending or maintaining any credit, or (2) who, in accordance with the ordinary usage of the trade, would be considered a customer of the creditor.

It includes, in case the creditor is a firm, any partner in the firm who would be considered a customer of the firm if he were not a partner, and includes any joint adventure in which a creditor participates and which would be considered a customer of the creditor if the creditor were not a participant.

(*d*) The term **"registered security"** means any security which (1) is registered on a national securities exchange; or (2) in consequence of its having unlisted trading privileges on a national securities exchange is deemed, under the provisions of section 12(f) of the Act (49 Stat. 1375; 15 U.S.C. 781), to be registered on a national securities exchange; or (3) is exempted by the Securities and Exchange Commission from the operation of section 7(c)(2) of the Act (48 Stat. 887; 15 U.S.C.

78g(c)(2)) only to the extent necessary to render lawful any direct or indirect extension or maintenance of credit on such security or any direct or indirect arrangement therefor which would not have been unlawful if such security had been a security (other than an exempted security) registered on a national securities exchange.

(*e*) The term **"exempted security"** has the meaning given it in section 3(a) of the Act (48 Stat. 884; 150 U.S.C. 78c(a)(12)) except that the term does not include a security which is exempted by the Securities and Exchange Commission from the operation of section 7(c)(2) of the Act (48 Stat. 887; 15 U.S.C. 78g(c)(2)) only to the extent described in paragraph (d)(3) of this section.

SECTION 220.3—GENERAL ACCOUNTS

(*a*) **Contents of general account.**—All financial relations between a creditor and a customer, whether recorded in one record or in more than one record, shall be included in and be deemed to be parts of the customer's general account with the creditor, except that the relations which § 220.4 permits to be included in any special account provided for by that section may be included in the appropriate special account, and all transactions in commodities for or with any customer shall be included in the special commodity account provided for by §§ 220.4 (*a*), (*e*). During any period when § 220.8 specifies that registered securities (other than exempted securities) shall have no loan value in a general account, any transaction consisting of a purchase of a security other than a purchase of an exempted security or a purchase of a security to reduce or close out a short position shall be effected in the special cash account provided for by § 220.4(*c*) or in some other appropriate special account provided for by § 220.4.

(*b*) **General rule.**—(1) A creditor shall not effect for or with any customer in a general account any transaction which, in combination with the other transactions effected in the account on the same day, creates an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, or increases any such excess, unless in connection therewith the creditor obtains, as promptly as possible and in any event before the expiration of four full business days following the date of such transaction, the deposit into the account of cash or securities in such amount that the cash deposited plus the maximum loan value of the securities deposited equals or exceeds the excess so created or the increase so caused.

(2) Except as permitted in this subparagraph, no withdrawal of cash or registered or exempted securities shall be permissible if the adjusted debit balance of the account would exceed the maximum loan value of the securities in the account after such withdrawal. The exceptions are available only in the event no cash or securities need

to be deposited in the account in connection with a transaction on a previous day and none would need to be deposited thereafter in connection with any withdrawal of cash or securities on the current day. The permissible exceptions are: (i) registered or exempted securities may be withdrawn upon the deposit in the account of cash (or registered or exempted securities counted at their maximum loan value) at least equal to the "retention requirement" of any registered or exempted securities withdrawn, or (ii) cash may be withdrawn upon the deposit in the account of registered or exempted securities having a maximum loan value at least equal to the amount of cash withdrawn, or (iii) upon the sale (other than short sale) of registered or exempted securities in the account, there may be withdrawn in cash an amount equal to the difference between the current market value of the securities sold and the "retention requirement" of those securities. The "retention requirement" of an exempted security is the same as its maximum loan value, and the "retention requirement" of a registered nonexempted security is prescribed from time to time in § 220.8(*c*) (the Supplement to Regulation T).

(3) Rules for computing the maximum loan value of the securities in a general account and the adjusted debit balance of such an account are provided in paragraphs (*c*) and (*d*) of this section, and certain modifications of and exceptions to the general rule stated in this paragraph are provided in the subsequent paragraphs of this section and in § 220.6.

(*c*) **Maximum loan value and current market value.**—(1) The maximum loan value of the securities in a general account is the sum of the maximum loan values of the individual securities in the account, including securities (other than unissued securities) bought for the account but not yet debited thereto, but excluding securities sold for the account whether or not payment has been credited thereto.

(2) Except as otherwise provided in this paragraph, the maximum loan value of a registered security (other than an exempted security) in a general account shall be such maximum loan value as the Board shall prescribe for general accounts from time to time in § 220.8, and the maximum loan value of an exempted security shall be as determined by the creditor in good faith. No collateral other than registered securities or exempted securities shall have any loan value in a general account.

(3) A warrant or certificate which evidences only a right to subscribe to or otherwise acquire any security and which expires within ninety days of issuance shall have no loan value in a general account; but, if the account contains, in addition to such warrant or certificate, the security to the holder of which such warrant or certificate has been issued, the current market value of such security (if the security be a

registered security) shall, for the purpose of calculating its maximum loan value, be increased by the current market value of such warrant or certificate.

(4) For the *current market value* of a security throughout the day of its purchase or sale, the creditor shall use its total cost or the net proceeds of its sale, as the case may be, and at any other time shall use the closing sale price of the security on the preceding business day as shown by any regularly published reporting or quotation service. In the absence of any such closing sale price, the creditor may use any reasonable estimate of the market value of such security as of the close of business on such preceding business day.

(*d*) **Adjusted debit balance.**—For the purposes of this part, the adjusted debit balance of a general account shall be calculated by taking the sum of the following items:

(1) the net debit balance, if any, of the account;

(2) the total cost of any securities (other than unissued securities) bought for the account but not yet debited thereto;

(3) the current market value of any securities (other than unissued securities) sold short in the account *plus,* for each such security (other than an exempted security), such amount as the Board shall prescribe from time to time in § 220.8 as the margin required for such short sales, except that such amount so prescribed in § 220.8 need not be included when there are held in the account securities exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into such securities sold short;

(4) the amount of margin specified by paragraph (*h*) of this section for every net commitment in the account in unissued securities, *plus* all unrealized losses on each commitment in unissued securities and *minus* all unrealized gains (not exceeding the required margin) on each commitment in unissued securities; and

(5) the amount of any margin customarily required by the creditor in connection with his endorsement or guarantee of any put, call or other option;

and deducting therefrom the sum of the following items:

(6) the net credit balance, if any, of the account; and

(7) the net proceeds of sale of any securities (other than unissued securities) sold for the account but for which payment has not yet been credited thereto.

In case the general account is the account of a partner of the creditor or the account of a joint adventure in which the creditor participates, the adjusted debit balance shall be computed according to the foregoing rule and the supplementary rules prescribed in §§ 220.6(*a*) and 220.6(*b*).

(*e*) **Liquidation in lieu of deposit.***—In any case in which the deposit required by paragraph (*b*) of this section, or any portion thereof, is not obtained by the creditor within the four-day period specified therein, registered nonexempted securities shall be sold (or, to the extent that there are insufficient registered nonexempted securities in the account, other liquidating transactions shall be effected in the account), prior to the expiration of such four-day period, in such amount that the resulting decrease in the adjusted debit balance of the account exceeds, by an amount at least as great as such required deposit or the undeposited portion thereof, the "retention requirement" of any registered or exempted securities sold.

(*f*) **Extensions of time.**—In exceptional cases, the four-day period specified in paragraph (*b*) of this section may, on application of the creditor, be extended for one or more limited periods commensurate with the circumstances by any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which his transactions are effected, provided such committee is satisfied that the creditor is acting in good faith in making the application and that the circumstances are in fact exceptional and warrant such action.

(*g*) **Transactions on given day.**—For the purposes of paragraph (*b*) of this section, the question of whether or not an excess of the adjusted debit balance of a general account over the maximum loan value of the securities in the account is created or increased on a given day shall be determined on the basis of all the transactions in the account on that day exclusive of any deposit of cash, deposit of securities, covering transaction or other liquidation that has been effected on the given day, pursuant to the requirements of paragraphs (*b*) or (*e*) of this section, in connection with a transaction on a previous day. In any case in which an excess so created, or increase so caused, by transactions on a given day does not exceed $100, the creditor need not obtain the deposit specified therefor in subparagraph (*b*)(1) of this section. Any transaction which serves to meet the requirements of paragraph (*e*) of this section or otherwise serves to permit any offsetting transaction in an account shall, to that extent, be unavailable to permit any other transaction in the account. For the purposes of this part (Regulation T), if a security has maximum loan value in the account under subparagraph (*c*)(1) of this section, a sale of the same security (even though not the same certificate) in the account

*This requirement relates to the action to be taken when a customer fails to make the deposit required by § 220.3(*b*), and it is not intended to countenance on the part of customers the practice commonly known as "free-riding", to prevent which the principal national securities exchanges have adopted certain rules. See the rules of such exchanges and § 220.7(*e*).

shall be deemed to be a long sale and shall not be deemed to be or treated as a short sale.

(*h*) **Unissued securities.**—(1) The amount to be included in the adjusted debit balance of a general account as the margin required for a net long commitment in unissued securities shall be the current market value of the net amount of unissued securities long *minus* the maximum loan value which such net amount of securities would have if they were issued registered securities held in the account; and the amount to be so included as the margin required for a net short commitment in unissued securities shall be the amount which would be required as margin for the net amount of unissued securities short if such securities were issued securities and were sold short in the account: *Provided,* That no amount need be included as margin for a net short commitment in unissued securities when there are held in the account securities in respect of which the unissued securities are to be issued, nor for any net position in unissued securities that are exempted securities.

(2) Whenever a creditor, pursuant to a purchase of an unissued security for a customer, receives an issued security which is not a registered or exempted security, the creditor shall treat any payment by him for such issued security as a transaction (other than a withdrawal) which increases the adjusted debit balance of the account by the amount of the payment *minus* the amount required to be included in the adjusted debit balance of the account, at the time of and in connection with the purchase of the unissued security, as the margin required for such purchase.

SECTION 220.4—SPECIAL ACCOUNTS

(*a*) **General rule.**—(1) Pursuant to this section, a creditor may establish for any customer one or more special accounts.

(2) Each such special account shall be recorded separately and shall be confined to the transactions and relations specifically authorized for such account by the appropriate paragraph of this section and to transactions and relations incidental to those specifically authorized. An adequate record shall be maintained showing for each such account the full details of all transactions in the account.

(3) 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 part. If a customer has with a creditor both a general account and one or more such special accounts, the creditor shall treat each such special account as if the customer had with the creditor no general account.

(4) The only other conditions to which transactions in such special accounts shall be subject under the provisions of this part shall be such

conditions as are specified in the appropriate paragraph of this section and in §§ 220.2, 220.6, 220.7.

(*b*) **Special omnibus account.**—In a special omnibus account, a member of a national securities exchange may effect and finance transactions for a broker or dealer from whom the member accepts in good faith a signed statement to the effect that he is subject to the provisions of this part (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto) and from whom the member receives (1) written notice, pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities by brokers or dealers (Rule X-8C-1 or Rule X-15C2-1), to the effect that all securities carried in the account will be carried for the account of the customers of the broker or dealer and (2) written notice that any short sales effected in the account will be short sales made in behalf of the customers of the broker or dealer other than his partners.

(*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:

(i) 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.

(ii) 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 subparagraphs (3)-(7) of this paragraph, 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 subparagraph (2) of this paragraph shall be 7 days after the date on which the security is made available by the issuer for delivery to purchasers. If the security when so purchased is a "when distributed" security which is to be distributed

in accordance with a published plan, the period applicable to the transaction under subparagraph (2) of this paragraph shall be 7 days after the date on which the security is so distributed.

(4) If any shipment of securities is incidental to the consummation of the transaction, the period applicable to the transaction under subparagraph (2) of this paragraph 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 subparagraph (1) of this paragraph, 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 subparagraph (2) of this paragraph is not the 7 days therein specified but 35 days after the date of such purchase or sale.

(6) If an appropriate committee of a national securities exchange or a national securities association 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 (i) extend any period specified in subparagraphs (2), (3), (4) or (5) of this paragraph for one or more limited periods commensurate with the circumstances, or (ii), 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 part relating to such an account.

(7) The 7-day periods specified in this paragraph refer to 7 full business days. The 35-day period and the 90-day period specified in this paragraph refer to calendar days, but if the last day of any such period is a Saturday, Sunday, or holiday, such period shall be considered to end on the next full business day. For the purposes of this paragraph, a creditor may, at his option, disregard any sum due by the customer not exceeding $100.

(8) Unless funds sufficient for the purpose are already in the account, no security other than an exempted security shall be purchased for, or sold to, any customer in a special cash account with the creditor if any security other than an exempted security has been purchased by such customer in such an account during the preceding 90 days, 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 or a national securities association, on application of the creditor, may authorize the creditor to disregard for the purposes of this subparagraph 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. For the purposes of this subparagraph, the cancellation of a transaction, otherwise than to correct an error, shall be deemed to constitute a sale. The creditor may disregard for the purposes of this subparagraph a sale without prior payment provided full cash payment is received within the period described by subparagraph (2) of this paragraph and the customer has not withdrawn the proceeds of sale on or before the day on which such payment (and also final payment of any check received in that connection) is received. The creditor may so disregard a delivery of a security to another broker or dealer provided such delivery was for deposit into a special cash account which the latter broker or dealer maintains for the same customer and in which account there are already sufficient funds to pay for the security so purchased; and for the purpose of determining in that connection the status of a customer's account at another broker or dealer, a creditor may rely upon a written statement which he accepts in good faith from such other broker or dealer.

(*d*) **Special arbitrage account.**—In a special arbitrage account, a member of a national securities exchange may effect and finance for any customer *bona fide* arbitrage transactions in securities. For the purposes of this paragraph, the term "arbitrage" means (1) a purchase or sale of a security in one market together with an offsetting sale or purchase of the same security in a different market at as nearly the same time as practicable, for the purpose of taking advantage of a difference in prices in the two markets, or (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within a reasonable time into a second security together with an offsetting sale at or about the same time of such second security, for the purpose of taking advantage of a disparity in the prices of the two securities.

(*e*) **Special commodity account.**—In a special commodity account, a creditor may effect and carry for any customer transactions in commodities.

(*f*) **Special miscellaneous account.**—In a special miscellaneous account, a creditor may:

(1) With the approval of any regularly constituted committee of a national securities exchange having jurisdiction over the business

conduct of its members, make and maintain loans to meet the emergency needs of any creditor;

(2) (i) Make loans, and may maintain loans, (*a*) 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, or to purchase stock in an affiliated corporation of such firm; or (*b*) to or for any person who is or will become the holder of stock of a corporation which is a member of a national securities exchange to enable such person to purchase stock in such corporation, or to purchase stock in an affiliated corporation of such corporation; provided the lender as well as the borrower is a partner in such member firm or a stockholder in such member corporation, or the lender is a firm or corporation which is a member of a national securities exchange and the borrower is a partner in such firm or a stockholder in such corporation;

(ii) Make and maintain subordinated loans to another creditor for capital purposes, provided:

(*a*) Either the lender or the borrower is a firm or corporation which is a member of a national securities exchange, the other party to the loan is an affiliated corporation of such member firm or corporation, and, in addition to the fact that an appropriate committee of the exchange is satisfied that the loan is not in contravention of any rule of the exchange, the loan has the approval of such committee, 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 or corporation or an affiliated corporation of such firm or corporation does any dealing in securities for its own account, the loan is not for the purpose of increasing the amount of such dealing.

(iii) For the purpose of subdivisions (i) and (ii) of this subparagraph, the term "affiliated corporation" means a corporation all the common stock of which is owned directly or indirectly by the member firm or general partners and employees of the firm, or by the member corporation or holders of voting stock and employees of the corporation and an appropriate committee of the exchange has approved the member firm's or member corporation's affiliation with such affiliated corporation.

(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;

(4) Effect and finance, for any member of a national securities exchange who is registered and acts as an odd-lot dealer in securities on the exchange, such member's transactions as an odd-lot dealer in such securities, or effect and finance, for any joint adventure in which the creditor participates, any transactions in any securities of an issue with respect to which all participants, or all participants other than the creditor, are registered and act on a national securities exchange as odd-lot dealers;

(5) Effect transactions for and finance any joint adventure or group in which the creditor participates and in which all participants are dealers (whether such participants be acting jointly or severally), or any member thereof or participant therein, for the purpose of facilitating the underwriting or distributing of all or part of an issue of securities (i) not through the medium of a national securities exchange, or (ii) the distribution of which has been approved by the appropriate committee of a national securities exchange;

(6) Effect for any customer the collection or exchange (other than by sale or purchase) of securities deposited by the customer specifically for such purposes, and (subject to any other applicable provisions of law) receive from or for any customer, and pay out or deliver to or for any customer, any money or securities;

(7) Effect and carry for any customer transactions in foreign exchange; and

(8) Extend and maintain credit to or for any customer without collateral or on any collateral whatever for any purpose other than purchasing or carrying or trading in securities.

(*g*) **Specialist's account.**—In a special account designated as a specialist's account, a creditor may effect and finance, for any member of a national securities exchange who is registered and acts as a specialist in securities on the exchange, such member's transactions as a specialist in such securities, or effect and finance, for any joint adventure in which the creditor participates, any transactions in any securities of an issue with respect to which all participants, or all participants other than the creditor, are registered and act on a national securities exchange as specialists. Such specialist's account shall be subject to the same conditions to which it would be subject if it were a general account except that if the specialist's exchange, in addition to the other requirements applicable to specialists, is designated by the Board of Governors of the Federal Reserve System as requiring reports suitable

for supplying current information regarding specialists' use of credit pursuant to this paragraph, the requirements of § 220.6(*b*) regarding joint adventures shall not apply to such account and the maximum loan value of a registered security in such account shall be as determined by the creditor in good faith.

(*h*) **Special subscriptions account.**—In a special subscriptions account a creditor may effect and finance the acquisition of a registered security for a customer through the exercise of a right to acquire such security which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, and such special subscriptions account shall be subject to the same conditions to which it would be subject if it were a general account except that:

(1) Each such acquisition shall be treated separately in the account, and prior to initiating the transaction the creditor shall obtain a deposit of cash in the account such that the cash deposited plus the maximum loan value of the securities so acquired equals or exceeds the subscription price, giving effect to a maximum loan value for the securities so acquired of 75 percent of their current market value as determined by any reasonable method;

(2) The creditor shall not permit any withdrawal of cash or securities from the account so long as there is a debit balance in the account, except that when the debit connected with a given acquisition of securities in the account has become equal to or less than the maximum loan value of such securities as prescribed for general accounts, such securities may be transferred to the general account together with any remaining portion of such debit; and

(3) No security may be acquired in the account at any time when the account contains any security which has been held therein more than nine months without becoming eligible for transfer to the general account.

In order to facilitate the exercise of a right in accordance with the provisions of this paragraph, a creditor may permit the right to be transferred from a general account to the special subscriptions account without regard to any other requirement of this part.

SECTION 220.5—BORROWING BY MEMBERS, BROKERS, AND DEALERS

(*a*) **General rule.**—It is unlawful for any creditor, directly or indirectly, to borrow in the ordinary course of business as a broker or dealer on any registered security (other than an exempted security) except:

(1) from or through a member bank of the Federal Reserve System; or

(2) from any nonmember bank which shall have filed with the Board an agreement which is still in force and which is in the form prescribed by this part; or

(3) to the extent to which, under the provisions of this part, loans are permitted between members of a national securities exchange and/or brokers and/or dealers, or loans are permitted to meet emergency needs.

(*b*) **Agreements of nonmember banks.**—An agreement filed pursuant to section 8(a) of the Act (48 Stat. 888; 15 U.S.C. 78h(a)) by a bank not a member of the Federal Reserve System shall be substantially in the form contained in Form F. R. T-2 if the bank has its principal place of business in a territory or insular possession of the United States, or if it has an office or agency in the United States and its principal place of business outside the United States. The agreement filed by any other nonmember bank shall be in substantially the form contained in Form F. R. T-1. Any nonmember bank which has executed any such agreement may terminate the agreement if it obtains the written consent of the Board. Blank forms of such agreements, information regarding their filing or termination, and information regarding the names of nonmember banks for which such agreements are in force, may be obtained from any Federal Reserve bank.

(*c*) **Borrowing from other creditors.**—A creditor may borrow from another creditor in the ordinary course of business as a broker or dealer on any registered security to the extent and subject to the terms upon which the latter may extend credit to him in accordance with the provisions of this part, and subject to any other applicable provisions of law.

SECTION 220.6—CERTAIN TECHNICAL DETAILS

(*a*) **Accounts of partners.**—In case a general account is the account of a partner of the creditor, the creditor, in calculating the adjusted debit balance of such account and the maximum loan value of the securities therein, shall disregard the partner's financial relations with the firm as reflected in his capital and ordinary drawing accounts.

(*b*) **Contribution to joint adventure.**—In case a general account is the account of a joint adventure in which the creditor participates, the adjusted debit balance of the account shall include, in addition to the items specified in § 220.3(*d*), any amount by which the creditor's contribution to the joint adventure exceeds the contribution which he would have made if he had contributed merely in proportion to his right to share in the profits of the joint adventure.

(*c*) **Guaranteed accounts.**—No guarantee of a customer's account shall be given any effect for purposes of this part.

(*d*) **Transfer of accounts.**—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 part 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.

In the event of the transfer of a general account from one customer to another, such account may be treated by the creditor for the purposes of this part as if it had been maintained for the transferee from the date of its origin.

(*e*) **Reorganizations.**—A creditor may, without regard to the other provisions of this part, effect for a customer the exchange of any registered or exempted security in a general account for the purpose of participating in a reorganization or recapitalization in which the security is involved: *Provided,* That if an unregistered nonexempted security is acquired in exchange, the creditor shall not, for a period of 60 days following such acquisition, permit the withdrawal of such security or the proceeds of its sale from the customer's account except to the extent that such security or proceeds could be withdrawn if the security were a registered security.

(*f*) **Time of receipt of funds or securities.**—For the purposes of this part, a creditor may, at his option (1) treat the receipt in good faith of any check or draft drawn on a bank which in the ordinary course of business is payable on presentation, or any order on a savings bank with passbook attached which is so payable, as receipt of payment of the amount of such check, draft or order; (2) treat the shipment of securities in good faith with sight draft attached as receipt of payment of the amount of such sight draft; and (3) in the case of the receipt in good faith of written or telegraphic notice in connection with a special omnibus account of a customer not located in the same city that a specified security or a check or draft has been dispatched to the creditor, treat the receipt of such notice as receipt of such security, check or draft: *Provided, however,* That if the creditor receives notice that such check, draft, order, or sight draft described in subparagraphs (1), (2), or (3) of this paragraph is not paid on the day of presentation, or if such security, check or draft described in subparagraph (3) of this paragraph is not received by the creditor within a reasonable time, the creditor shall promptly take such action as he would have been required

to take by the appropriate provisions of this part if the provisions of this paragraph had not been utilized.

(*g*) **Interest, service charges, etc.**—(1) Interest on credit maintained in a general account, communication charges with respect to transactions in the account, shipping charges, premiums on securities borrowed in connection with short sales or to effect delivery, dividends or other distributions due on borrowed securities, and any service charges (other than commissions) which the creditor may impose, may be debited to the account in accordance with the usual practice and without regard to the other provisions of this part, but such items so debited shall be taken into consideration in calculating the net credit or net debit balance of the account.

(2) A creditor may permit interest, dividends or other distributions received by the creditor with respect to securities in a general account to be withdrawn from the account only on condition that the adjusted debit balance of the account does not exceed the maximum loan value of the securities in the account after such withdrawal, or on condition that (i) such withdrawal is made within 35 days after the day on which, in accordance with the creditor's usual practice, such interest, dividends or other distributions are entered in the account, (ii) such entry in the account has not served in the meantime to permit in the account any transaction which could not otherwise have been effected in accordance with this part, and (iii) any cash withdrawn does not represent any arrearage on the security with respect to which it was distributed, and the current market value of any securities withdrawn does not exceed 10 percent of the current market value of the security with respect to which they were distributed. Failure by a creditor to obtain in a general account any cash or securities that are distributed with respect to any security in the account shall, except to the extent that withdrawal would be permitted under the preceding sentence, be deemed to be a transaction in the account which occurs on the day on which the distribution is payable and which requires the creditor to obtain in accordance with § 220.3(*b*) a deposit of cash or maximum loan value of securities at least as great as that of the distribution.

(*h*) **Borrowing and lending securities.**—Without regard to the other provisions of this part, a creditor (1) may make a *bona fide* deposit of cash in order to borrow securities (whether registered or unregistered) for the purpose of making delivery of such securities in the case of short sales, failure to receive securities he is required to deliver, or other similar cases, and (2) may lend securities for such purpose against such a deposit.

(*i*) **Credit for clearance of securities.**—The extension or maintenance of any credit which is maintained for only a fraction of a day

(that is, for only part of the time between the beginning of business and midnight on the same day) shall be disregarded for the purposes of this part, if it is incidental to the clearance of transactions in securities directly between members or through an agency organized or employed by the members of a national securities exchange for the purpose of effecting such clearance.

(*j*) **Foreign currency.**—If foreign currency is capable of being converted without restriction into United States currency, a creditor acting in good faith may treat any such foreign currency in an account as a credit to the account in an amount determined in accordance with customary practice.

(*k*) **Innocent mistakes.**—If any failure to comply with this part results from a mistake made in good faith in executing a transaction, recording, determining, or calculating any loan, balance, market price or loan value, or other similar matter, the creditor shall not be deemed guilty of a violation of this part if promptly after the discovery of the mistake he takes whatever action may be practicable in the circumstances to remedy the mistake.

SECTION 220.7—MISCELLANEOUS PROVISIONS

(*a*) **Arranging for loans by others.**—A creditor may arrange for the extension or maintenance of credit to or for any customer of such creditor by any person upon the same terms and conditions as those upon which the creditor, under the provisions of this part, may himself extend or maintain such credit to such customer, but only upon such terms and conditions, except that this limitation shall not apply with respect to the arranging by a creditor for a bank subject to Part 221 of this chapter (Regulation U) to extend or maintain credit on registered securities or exempted securities.

(*b*) **Maintenance of credit.**—Except as otherwise specifically forbidden by this part, any credit initially extended without violation of this part may be maintained regardless of (1) reductions in the customer's equity resulting from changes in market prices, (2) the fact that any security in an account ceases to be registered or exempted, and (3) any change in the maximum loan values or margin requirements prescribed by the Board under this part. In maintaining any such credit, the creditor may accept or retain for his own protection additional collateral of any description, including unregistered securities.

(*c*) **Declaration as to purpose of loan.**—Every extension of credit on a registered security (other than an exempted security) shall be deemed to be for the purpose of purchasing or carrying or trading in securities, unless the customer shall file with the creditor a written declaration signed by the customer which shall state the use to be made

of such credit and which shall state specifically that such credit is neither for the purpose of purchasing or carrying or trading in securities nor for the purpose of evading or circumventing the provisions of this part. In connection with any extension of credit, a creditor may rely upon such a written declaration unless he knows the statement to be false or has information which would put a prudent man upon inquiry and if investigated with reasonable diligence would lead to the discovery of the falsity of the statement.

(*d*) **Reports.**—Every creditor shall make such reports as the Board may require to enable the Board to perform the functions conferred upon it by the Act.

(*e*) **Additional requirements by exchanges and creditors.**—Nothing in this part shall (1) prevent any exchange from adopting and enforcing any rule or regulation further restricting the time or manner in which its members must obtain initial or additional margin in customers' accounts because of transactions effected in such accounts, or requiring such members to secure or maintain higher margins, or further restricting the amount of credit which may be extended or maintained by them, or (2) modify or restrict the right of any creditor to require additional security for the maintenance of any credit, to refuse to extend credit, or to sell any securities or property held as collateral for any loan or credit extended by him.

(Section 220.8, Supplement, containing maximum loan values, margin required for short sales and retention requirements, which are changed from time to time, is printed separately.)

Sec. 6. (a) Any exchange may be registered with the Commission as a national securities exchange under the terms and conditions hereinafter provided in this section, by filing a registration statement in such form as the Commission may prescribe, containing the agreements, setting forth the information, and accompanied by the documents, below specified:

(1) An agreement (which shall not be construed as a waiver of any constitutional right or any right to contest the validity of any rule or regulation) to comply, and to enforce so far as is within its powers compliance by its members, with the provisions of this title, and any amendment thereto and any rule or regulation made or to be made thereunder; * * *

(b) No registration shall be granted or remain in force unless the rules of the exchange include provision for the expulsion, suspension, or disciplining of a member for conduct or proceeding inconsistent with just and equitable principles of trade, and declare that the willful violation of any provisions of this title or any rule or regulation thereunder shall be considered conduct or proceeding inconsistent with just and equitable principles of trade.

(c) Nothing in this title shall be construed to prevent any exchange from adopting and enforcing any rule not inconsistent with this title and the rules and regulations thereunder and the applicable laws of the State in which it is located.

MARGIN REQUIREMENTS

Sec. 7. (a) For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Board of Governors of the Federal Reserve System shall, prior to the effective date of this section and from time to time thereafter, prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange. For the initial extension of credit, such rules and regulations shall be based upon the following standard: An amount not greater than whichever is the higher of—

(1) 55 per centum of the current market price of the security, or

(2) 100 per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than 75 per centum of the current market price.

Such rules and regulations may make appropriate provision with respect to the carrying of undermargined accounts for limited periods and under specified conditions; the withdrawal of funds or securities; the substitution or additional purchases of securities;

the transfer of accounts from one lender to another; special or different margin requirements for delayed deliveries, short sales, arbitrage transactions, and securities to which paragraph (2) of this subsection does not apply; the bases and the methods to be used in calculating loans, and margins and market prices; and similar administrative adjustments and details. For the purposes of paragraph (2) of this subsection, until July 1, 1936, the lowest price at which a security has sold on or after July 1, 1933, shall be considered as the lowest price at which such security has sold during the preceding thirty-six calendar months.

(b) Notwithstanding the provisions of subsection (a) of this section, the Board of Governors of the Federal Reserve System, may, from time to time, with respect to all or specified securities or transactions, or classes of securities, or classes of transactions, by such rules and regulations (1) prescribe such lower margin requirements for the initial extension or maintenance of credit as it deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the general credit situation of the country, and (2) prescribe such higher margin requirements for the initial extension or maintenance of credit as it may deem necessary or appropriate to prevent the excessive use of credit to finance transactions in securities.

(c) It shall be unlawful for 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, directly or indirectly to extend or maintain credit or arrange for the extension or maintenance of credit to or for any customer—

(1) On any security (other than an exempted security) registered on a national securities exchange, in contravention of the rules and regulations which the Board of Governors of the Federal Reserve System shall prescribe under subsections (a) and (b) of this section.

(2) Without collateral or on any collateral other than exempted securities and/or securities registered upon a national securities exchange, except in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe (A) to permit under specified conditions and for a limited period any such member, broker, or dealer to maintain a credit initially extended in conformity with the rules and regulations of the Board of Governors of the Federal Reserve System, and (B) to permit the extension or maintenance of credit in cases where the extension or maintenance of credit is not for the purpose of purchasing or carrying securities or of evading or circumventing the provisions of paragraph (1) of this subsection.

(d) It shall be unlawful for any person not subject to subsection (c) to extend or maintain credit or to arrange for the extension or maintenance of credit for the purpose of purchasing or carrying any security registered on a national securities exchange, in contravention of such rules and regulations as the Board of Governors of the Federal Reserve System shall prescribe to prevent the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions of this section. Such rules and regulations may impose upon all loans made for the purpose of purchasing or carrying securities registered on national securities exchanges limitations similar to those imposed upon members, brokers, or dealers by subsection (c) of this section and the rules and regulations thereunder. This subsection and the rules and regulations thereunder shall not apply (A) to a loan made by a person not in the ordinary course of his business, (B) to a loan on an exempted security, (C) to a loan to a dealer to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange, (D) to a loan by a bank on a security other than an equity security, or (E) to such other loans as the Board of Governors of the Federal Reserve System shall, by such rules and regulations as it may deem necessary or appropriate in the public interest or for the protection of investors, exempt, either unconditionally or upon specified terms and conditions or for stated periods, from the operation of this subsection and the rules and regulations thereunder.

* * * * *

Sec. 8. It shall be unlawful for 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, directly or indirectly—

(a) To borrow in the ordinary course of business as a broker or dealer on any security (other than an exempted security) registered on a national securities exchange except (1) from or through a member bank of the Federal Reserve System, (2) from any nonmember bank which shall have filed with the Board of Governors of the Federal Reserve System an agreement, which is still in force and which is in the form prescribed by the Board, undertaking to comply with all provisions of this Act, the Federal Reserve Act, as amended, and the Banking Act of 1933, which are applicable to member banks and which relate to the use of credit to finance transactions in securities, and with such rules and regulations as may be prescribed pursuant to such provisions of law or for the purpose of preventing evasions thereof,

or (3) in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe to permit loans between such members and/or brokers and/or dealers, or to permit loans to meet emergency needs. Any such agreement filed with the Board of Governors of the Federal Reserve System shall be subject to termination at any time by order of the Board, after appropriate notice and opportunity for hearing, because of any failure by such bank to comply with the provisions thereof or with such provisions of law or rules or regulations; and, for any willful violation of such agreement, such bank shall be subject to the penalties provided for violations of rules and regulations prescribed under this title. The provisions of sections 21 and 25 of this title shall apply in the case of any such proceeding or order of the Board of Governors of the Federal Reserve System in the same manner as such provisions apply in the case of proceedings and orders of the Commission.

(b) To permit in the ordinary course of business as a broker his aggregate indebtedness to all other persons, including customers' credit balances (but excluding indebtedness secured by exempted securities), to exceed such percentage of the net capital (exclusive of fixed assets and value of exchange membership) employed in the business, but not exceeding in any case 2,000 per centum, as the Commission may by rules and regulations prescribe as necessary or appropriate in the public interest or for the protection of investors.

(c) In contravention of such rules and regulations as the Commission shall prescribe for the protection of investors to hypothecate or arrange for the hypothecation of any securities carried for the account of any customer under circumstances (1) that will permit the commingling of his securities without his written consent with the securities of any other customer, (2) that will permit such securities to be commingled with the securities of any person other than a bona fide customer, or (3) that will permit such securities to be hypothecated, or subjected to any lien or claim of the pledgee, for a sum in excess of the aggregate indebtedness of such customers in respect of such securities.

(d) To lend or arrange for the lending of any securities carried for the account of any customer without the written consent of such customer.

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Sec. 11. (d) It shall be unlawful for a member of a national securities exchange who is both a dealer and a broker, or for any person who both as a broker and a dealer transacts a business in

securities through the medium of a member or otherwise, to effect through the use of any facility of a national securities exchange or of the mails or of any means or instrumentality of interstate commerce, or otherwise in the case of a member, (1) any transaction in connection with which, directly or indirectly, he extends or maintains or arranges for the extension or maintenance of credit to or for a customer on any security (other than an exempted security) which was a part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within six months prior to such transaction: *Provided,* That credit shall not be deemed extended by reason of a bona fide delayed delivery of any such security against full payment of the entire purchase price thereof upon such delivery within thirty-five days after such purchase, * * *

* * * * *

Sec. 17. (b) Any broker, dealer, or other person extending credit who is subject to the rules and regulations prescribed by the Board of Governors of the Federal Reserve System pursuant to this title shall make such reports to the Board as it may require as necessary or appropriate to enable it to perform the functions conferred upon it by this title. If any such broker, dealer, or other person shall fail to make any such report or fail to furnish full information therein, or, if in the judgment of the Board it is otherwise necessary, such broker, dealer, or other person shall permit such inspections to be made by the Board with respect to the business operations of such broker, dealer, or other person as the Board may deem necessary to enable it to obtain the required information.

* * * * *

Sec. 23. (a) The Commission and the Board of Governors of the Federal Reserve System shall each have power to make such rules and regulations as may be necessary for the execution of the functions vested in them by this title, and may for such purpose classify issuers, securities, exchanges, and other persons or matters within their respective jurisdictions. No provision of this title imposing any liability shall apply to any act done or omitted in good faith in conformity with any rule or regulation of the Commission or the Board of Governors of the Federal Reserve System, notwithstanding that such rule or regulation may, after such act or omission, be amended or rescinded or be determined by judicial or other authority to be invalid for any reason.

* * * * *

Sec. 29. (a) Any condition, stipulation, or provision binding any person to waive compliance with any provision of this title or of

any rule or regulation thereunder, or of any rule of an exchange required thereby shall be void.

(b) Every contract made in violation of any provision of this title or of any rule or regulation thereunder, and every contract (including any contract for listing a security on an exchange) heretofore or hereafter made the performance of which involves the violation of, or the continuance of any relationship or practice in violation of, any provision of this title or any rule or regulation thereunder, shall be void (1) as regards the rights of any person who, in violation of any such provision, rule, or regulation, shall have made or engaged in the performance of any such contract, and (2) as regards the rights of any person who, not being a party to such contract, shall have acquired any right thereunder with actual knowledge of the facts by reason of which the making or performance of such contract was in violation of any such provision, rule or regulation: * * *

(c) Nothing in this title shall be construed (1) to affect the validity of any loan or extension of credit (or any extension or renewal thereof) made or of any lien created prior or subsequent to the enactment of this title, unless at the time of the making of such loan or extension of credit (or extension or renewal thereof) or the creating of such lien, the person making such loan or extension of credit (or extension or renewal thereof) or acquiring such lien shall have actual knowledge of facts by reason of which the making of such loan or extension of credit (or extension or renewal thereof) or the acquisition of such lien is a violation of the provisions of this title or any rule or regulation thereunder, or (2) to afford a defense to the collection of any debt or obligation or the enforcement of any lien by any person who shall have acquired such debt, obligation, or lien in good faith for value and without actual knowledge of the violation of any provision of this title or any rule or regulation thereunder affecting the legality of such debt, obligation, or lien.

Sec. 30. (a) It shall be unlawful for any broker or dealer, directly or indirectly, to make use of the mails or of any means or instrumentality of interstate commerce for the purpose of effecting on an exchange not within or subject to the jurisdiction of the United States, any transaction in any security the issuer of which is a resident of, or is organized under the laws of, or has its principal place of business in, a place within or subject to the jurisdiction of the United States, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors or to prevent the evasion of this title.

(b) The provisions of this title or of any rule or regulation thereunder shall not apply to any person insofar as he transacts a business in securities without the jurisdiction of the United States, unless he transacts such business in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate to prevent the evasion of this title.

* * * * *

Sec. 32. (a) Any person who willfully violates any provision of this title, or any rule or regulation thereunder the violation of which is made unlawful or the observance of which is required under the terms of this title, or any person who willfully and knowingly makes, or causes to be made, any statement in any application, report, or document required to be filed under this title or any rule or regulation thereunder or any undertaking contained in a registration statement as provided in subsection (d) of section 15 of this title, which statement was false or misleading with respect to any material fact, shall upon conviction be fined not more than $10,000, or imprisoned not more than two years, or both, except that when such person is an exchange, a fine not exceeding $500,000 may be imposed; but no person shall be subject to imprisonment under this section for the violation of any rule or regulation if he proves that he had no knowledge of such rule or regulation.

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SUPPLEMENT TO REGULATION T

Section 220.8—SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective June 15, 1959

(*a*) **Maximum loan value for general accounts.**—The maximum loan value of a registered security (other than an exempted security) in a general account, subject to § 220.3, shall be 10 percent of its current market value.

(*b*) **Margin required for short sales in general accounts.**—The amount to be included in the adjusted debit balance of a general account, pursuant to § 220.3(*d*)(3), as margin required for short sales of securities (other than exempted securities) shall be 90 percent of the current market value of each such security.

(*c*) **Retention requirement for general accounts.**—In the case of a general account which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, the "retention requirement" of a registered security (other than an exempted security), pursuant to § 220.3(*b*)(2), shall be 50 percent of its current market value.

QUESTIONS AND ANSWERS ILLUSTRATING APPLICATION

OF

REGULATION U

LOANS BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED STOCKS

Board of Governors
of the
Federal Reserve System

June 15, 1959

CONTENTS

QUESTIONS AND ANSWERS ILLUSTRATING APPLICATION OF REGULATION U

Regulation U, relating to "Loans By Banks For the Purpose of Purchasing or Carrying Registered Stocks", is issued pursuant to section 7 of the Securities Exchange Act of 1934, particularly subsection (d) of the section. It applies to all banks (whether or not members of the Federal Reserve System), except banks which are members of a national securities exchange and therefore subject to Regulation T.

The following Questions and Answers have been prepared for the benefit and guidance of banks subject to the regulation and examiners concerned with determining compliance with the regulation. Of course, the Questions and Answers cannot be expected to cover in detail all aspects of the regulation. Furthermore, in any given case the Answers to particular Questions must necessarily depend on the specific facts and circumstances involved. Therefore, the following Questions and Answers, as indicated above, should be regarded as general aids to a better understanding of the principal features of the regulation, rather than an exhaustive, detailed explanation of the application of its various provisions.

References to sections are to the sections of the regulation as published in the Federal Register, 12 CFR 221, except that "221." is omitted at the beginning of each such reference. Thus, "section 3" refers to "section 221.3" in the Federal Register and the Board's June 15, 1959 reprint of the regulation.

GENERAL COVERAGE OF REGULATION:

(1) QUESTION. - What type of loan is subject to the provisions of Regulation U? (Hereafter, such a loan will be referred to as a "regulated loan".)

ANSWER. - (a) Any loan by a bank that meets both the following tests [Sec. 1(a)]:

I. The loan is not excepted by section 2 of the regulation and is for the purpose of purchasing or carrying stocks registered on a national securities exchange. (Such a loan is sometimes referred to in these questions and answers as a "purpose loan".)

II. The loan is secured directly or indirectly by any stock, whether registered or unregistered.

(b) A loan is also subject to the regulation if it is so secured and is for the purpose of purchasing or carrying a "redeemable security" issued by an open-end investment company (sometimes known as a "mutual fund") whose assets customarily include registered stocks, whether or not the "redeemable security" itself is registered, since a loan for such purpose shall be deemed to be for the purpose of purchasing or carrying registered stocks. [Sec. 3(b)(2)]

(c) A loan can also be subject to the regulation, regardless of whether it is secured by any stock, if it is to a person subject to neither Regulation U nor to Regulation T, who is engaged principally or as an important activity, in the business of making loans for the purpose of purchasing or

carrying registered stocks. Unless unmistakably kept distinct from financing by the borrower of purchasing or carrying of registered stocks, such loans will be deemed to be for such a purpose and therefore subject to section 3(q) of the regulation which requires that such loans be secured.

(d) A loan made on or after June 15, 1959 for the purchase of a security other than a registered stock (principally convertible bonds) which is convertible into a registered stock becomes subject to the regulation at the time that conversion takes place and the registered stock is substituted as collateral for the loan. At this time the loan is not permitted to exceed the then maximum loan value of the collateral, except that any reduction of the loan or deposit of collateral to meet this requirement may be brought about within 30 days from such date. [Sec. 3(r)]

REGULATED LOAN:

(2) QUESTION. - In general, when is a loan secured by stock?

ANSWER. - A loan is secured by stock when it is secured, directly or indirectly, by some stock, whether registered or unregistered, even though such stock be only a small portion of the total collateral. It is not possible for the same borrower to have at the bank both "unsecured" and secured purpose loans; all such indebtedness is considered as a unit, together with related collateral. This is because section 1(b) of Regulation U states that the "entire indebtedness of any

borrower to any bank incurred at any time for the purpose of purchasing or carrying stocks registered on a national securities exchange shall be considered a single loan, and all the collateral securing such indebtedness shall be considered in determining whether or not the loan complies. . . ."

(3) QUESTION. - Is there any kind of loan, not secured by any stock, which can be subject to the regulation by reason of the nature of the borrower?

ANSWER. - Yes. Such a loan is one to a person not subject to either Regulation T or Regulation U, who is engaged principally, or as one of the person's important activities, in the business of making loans for the purpose of purchasing or carrying stocks registered on a national securities exchange. Such loans are deemed to be for the purpose of purchasing or carrying registered stocks unless the loan and its purposes are unmistakably separated and disassociated from any financing or refinancing for any such purpose. Unless such a loan is so "separated and disassociated" or is excepted by section 2 of the regulation, it is subject to the regulation, regardless of whether or not it is secured by any stock. No such loan may be made after June 15, 1959 without collateral; and it must be secured to the same extent as would be required if it were secured by stock. Such a loan, whether

made before or after June 15, 1959 is subject to all of the other provisions of the regulation including provisions relating to withdrawal and substitution of collateral. [Sec. 3(q)]

(4) QUESTION. - In general, when is a loan for the purpose of purchasing or carrying stock registered on a national securities exchange?

ANSWER. - In general, in determining whether a loan is for the purpose of purchasing or carrying registered stocks, the ultimate purpose of the loan cannot be defeated by any temporary application of the funds. However, with respect to "carrying", under section 3(b)(1) a loan made to a borrower when he has owned registered stock free of any lien for a continuous period of at least a year need not be treated as a loan to "carry" that stock unless the loan is for the purpose of reducing or retiring indebtedness incurred to purchase the stock. Also a loan need not be treated as for the purpose of "carrying" registered stocks if the purpose of the loan is to meet emergency expenses not reasonably foreseeable or to meet recurring expenses the borrower has customarily met by temporary borrowing. These are not the only instances in which loans need not be treated as for the purpose of "carrying" registered stock which the borrower owns, but they are the major ones.

As noted in the Answer to Question 1, a loan for the purpose of purchasing or carrying a "redeemable security"

of an open-end investment company whose assets customarily include registered stocks is considered to be for the purpose of purchasing or carrying a registered stock. [Sec. 1(a); sec. 3(b)(2)]

(5) QUESTION. - When would a loan be secured "indirectly" by any stock?

ANSWER. - An answer necessarily must depend upon the facts and circumstances of each case that arises. For example, it has been held that a purpose loan is subject to the regulation as one secured by stock where, although the pledge of the stock was delayed, both the bank and the borrower contemplated that the loan would be so secured.

In determining whether a loan is "indirectly" secured, it should be borne in mind that the reason the Board has thus far refrained (except to the limited extent covered in section 3(q)) from regulating loans not secured by stock has been to simplify operations under the regulation. This objective of simplifying operations does not apply to loans in which arrangements are made to retain the substance of stock collateral while sacrificing only the form.

As a related point it may be noted, as shown in the Answer to Question 2, that any collateral securing any portion of a borrower's purpose loan at a bank automatically secured all such indebtedness of the borrower at the bank. Hence, it

is not possible for a borrower to have both "unsecured" and secured purpose loans at the bank.

(6) QUESTION. - What is included within the term "stock" as used in the regulation?

ANSWER. - The term "stock" includes any security commonly known as a stock, including preferred stock, any voting trust certificate or other instrument representing such a security, and any warrant or right to subscribe to or purchase such a security. [Sec. 3(1)] It does not, under the present regulation, include any bond, including a bond convertible into stock, or a bond carrying stock purchase warrants. But, where the immediate purpose is to obtain the stock, a loan to purchase a bond convertible into, or carrying warrants to acquire the stock, should be considered a loan to purchase the stock. See also section 3(r) regarding loans for the purchase of convertible securities.

(7) QUESTION. - How may one determine whether a particular stock is registered on a national securities exchange or whether a security is a "redeemable security" of an open-end investment company?

ANSWER. - The bank may rely upon any reasonably current record of such stocks and securities published or specified in a publication of the Board of Governors. [Sec. 3(c)] Such a record is published by the Board from time to time in the

form of a "List of Stocks Registered on National Securities Exchanges and of Redeemable Securities of Certain Investment Companies". Copies of the current list or Supplements thereto may be obtained from the local Federal Reserve Bank. Frequently, it is not possible to keep this list completely current on newly organized mutual funds or new listings on exchanges. Sound practice would require that a bank take account of such late developments of which it knows or has reason to know.

(8) QUESTION. - In determining whether a loan for the purpose of purchasing or carrying a particular stock is now a purpose loan, is the status of registration of the stock at the present time or at the time of making the loan the determining factor?

ANSWER. - Whether a loan is a purpose loan at a particular time depends on the status of the stock at that time.

> A loan initially made for the purpose of purchasing or carrying a particular stock is a purpose loan if that particular stock is now registered, and this would be true even if the stock were not registered at the time the loan was originally made. A bank ordinarily is not required to reduce an outstanding secured loan or obtain additional collateral when the stock becomes registered, but the indebtedness must thereafter be treated as a regulated loan. An

exception to this concerns the purchase of a convertible security which is not a registered stock. In this case, the loan becomes regulated at the time any registered stock obtained through conversion of the securities originally purchased, is substituted as collateral for the loan. If the loan would be undermargined at this time, the borrower has 30 days within which either to reduce the loan or to deposit additional collateral in order to bring the loan up to margin.

Conversely, if stock becomes unregistered, a loan which had been made for the purpose of purchasing or carrying that stock ceases to be a purpose loan.

MAXIMUM LOAN VALUE:

(9) QUESTION. - What limit is placed on the amount of a regulated loan?

ANSWER. - The maximum loan value of a stock is a percentage of its market value, specified in the current Supplement to the regulation, but varying from time to time as the Supplement is amended. The amount of the loan must not exceed the maximum loan value of the collateral at the time the loan is made. [Sec. 1(a)] The single exception to this occurs in the case of convertible securities, in which case the maximum loan value of the collateral is determined at the time Regulation U becomes applicable, that is, at the time of the conversion and the substitution as collateral of the registered stocks obtained upon conversion. [Sec. 3(r)]

(10) QUESTION. - What is the present maximum loan value of collateral securing a regulated loan?

ANSWER. - (a) Except as noted in paragraph (b) of this Answer, the maximum loan value of any stock, whether registered or unregistered, at this time is 10 per cent of its current market value as determined by any reasonable method. [Supplement to regulation, effective October 16, 1958] In the case of mixed collateral (e.g., stocks and bonds), stocks have the present maximum loan value just indicated, i.e., 10 per cent, and bonds or other nonstock collateral have loan value as determined by the bank in good faith. [Sec. 1(a)]

(b) However, if the loan is to enable the borrower to exercise a stock subscription right which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, a maximum loan value of 75 per cent of the current market value of the stock so acquired as determined by any reasonable method is permissible, provided the transaction is treated as indicated below in connection with Question 9. In no event could the loan exceed 100 per cent of the subscription price, since a loan in excess of that price would not be for the requisite purpose. [Sec. 3(p)]

(11) QUESTION. - Does the regulation provide any special or preferential maximum loan values for stocks in certain circumstances?

ANSWER. - The only special or preferential maximum loan value for stocks is described under Question 10 above, i.e., the 75 per cent maximum loan value in the case of a loan to enable the borrower to exercise a stock subscription right which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance. However, the 75 per cent maximum loan value in such a case is permissible only if (1) the transaction is handled by the bank on a segregated basis; (2) the bank prohibits any withdrawal or substitution of the stock used to make the loan until the amount of the loan is reduced to an amount not exceeding the regular maximum loan value specified in the current Supplement to the regulation, at which time the loan need no longer be segregated; and (3) there is no other subscription right loan to the borrower which has been outstanding at the bank more than nine months without being reduced to the amount indicated in clause (2) above. [Sec. 3(p)]

In particular, no preferential maximum loan value is provided for a registered stock acquired under an officers' or employees' stock purchase plan. However, the loan value may be computed against its current market value as indicated on the exchange where it is listed, rather than against the borrower's cost if the latter is lower.

EXCEPTED LOANS:

(12) QUESTION. - What loans, even though they have the characteristic of a regulated loan, are excepted from the regulation?

ANSWER. - (a) Any loan to a bank or to a foreign banking institution. [Sec. 2(a)] The term "bank" does not include a bank which is a member of a national securities exchange and therefore subject to Regulation T. [Sec. 3(k)]

(b) Any loan made prior to July 16, 1945 to any person whose total indebtedness to the bank at the date of and including such loan does not exceed $1,000. [Sec. 2(b)] The term "total indebtedness" means total indebtedness for all purposes and is not restricted to total indebtedness for the purpose of purchasing or carrying registered stocks or "redeemable securities".

(c) Any loan to a dealer, or to two or more dealers, to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange. [Sec. 2(c)] In general, this exception covers the underwriting and distributing of new issues; it should not be regarded as excepting, for example, a loan to finance the ordinary activities of an over-the-counter dealer, nor the disposition through salesmen of securities purchased on an exchange.

(d) Any loan to a broker or dealer that is made in exceptional circumstances in good faith to meet his emergency needs. [Sec. 2(d)] The bank, however, should obtain and preserve adequate evidence of the details in order to support excepting the loan.

(e) Any loan to a broker or dealer secured by any securities which, according to written notice received by the bank from the broker or dealer pursuant to the rules of the Securities and Exchange Commission concerning the hypothecation of customers' securities, are securities carried for the account of one or more customers, provided the bank accepts in good faith from the borrower a signed statement that he is subject to Regulation T or that all credit extended or maintained by him for customers complies with Regulation T. [Sec. 2(e)]

(f) Any temporary advance to finance the purchase or sale of securities for prompt delivery which is to be repaid in the ordinary course of business upon completion of the transaction. [Sec. 2(f)] This exception is intended to facilitate the financing of bona fide cash transactions such as, for example, (1) the purchase of a security by a bank as agent for the account of a customer who intends to make payment promptly upon receipt of the security, or (2) an advance to a customer who has sold his security pending delivery to and payment by the buyer. The exception does not apply to a temporary loan which is to be repaid from the proceeds of a new regulated loan.

(g) Any loan against securities in transit or surrendered for transfer, which is payable in the ordinary course of business upon completion of the transaction. [Sec. 2(f)] In general, this exception is designed to cover the cashing of sight drafts with securities attached.

(h) Any loan which is to be repaid on the calendar day on which it is made. [Sec. 2(h)] This exception would cover so-called "day" loans but not "overnight" loans.

(i) A loan made outside the 49 States of the United States and the District of Columbia. [Sec. 2(i)] The exception would apply, for example, to the usual loan by the foreign branch office of an American bank.

(j) Any loan to a member of a national securities exchange for the purpose of financing his or his customers' bona fide arbitrage transactions in securities. [Sec. 2(j)] In general, arbitrage means (1) the purchase or sale of a security in one market together with an off-setting sale or purchase of the same security in a different market at as nearly the same time as practicable for the purpose of taking advantage of a difference in prices in the two markets (e.g., the purchase in London of 100 shares of stock of the X company and the immediate sale of a like amount of the same security in New York); or (2) the purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within a reasonable time into a second security together with an off-setting sale at or about the same time of such second security, for the purpose of taking advantage of a disparity in the price of the two securities (e.g., the purchase of a bond of X company and the immediate sale of the stock into which the bond is convertible without any restriction). The purchase of issued securities and

sale of unissued securities which are to be issued to holders of the issued security under a tentative plan of reorganization or merger which has not been finally approved by the stockholders, the court, or other necessary authority, should not be considered a bona fide arbitrage.

(k) Any loan to a member of a national securities exchange for the purpose of financing such member's transactions as an odd-lot dealer (including transactions as a combined odd-lot dealer and specialist) in securities with respect to which he is registered on such exchange as an odd-lot dealer. The separate function of the specialist on the NYSE, where the two are separate, may be similarly financed under a "good faith" loan value. [Secs. 2(k), 3(o)]

MAKING OF REGULATED LOANS:

(13) QUESTION. - If the maximum loan value of the collateral securing an outstanding regulated loan exceeds the total amount of the loan, may the bank make another regulated loan without the deposit of additional collateral?

ANSWER. - Yes. The bank may make an additional regulated loan equal to the amount of the excess loan value of the collateral. This is permissible regardless of the cause of the excess, whether it results from an increase in the market value of the collateral, a decrease in the amount of the original loan, or a subsequent increase by the Board in the permissible maximum loan value.

(14) QUESTION. - May a bank make a new regulated loan in case the outstanding regulated loan has a deficiency in collateral?

ANSWER. - Yes. The new loan, however, must be secured by additional collateral having a maximum loan value at least equal to the amount of the new loan. Thereafter both loans must be considered a single loan for the purposes of substitutions or withdrawals of collateral. An increase of an existing loan must be considered a new loan, except insofar as the increase may be due solely to the addition of interest or service charges, or of taxes on transactions in connection with the loan. [Sec. 3(d)] See also Question 1(d) of these Questions and Answers and section 3(r) of Regulation U relating to conversion of convertible securities.

(15) QUESTION. - If a bank has outstanding a purpose loan which is not a regulated loan because it is not secured directly or indirectly by any stock, may the bank, without regard to the status of the outstanding loan, make the same customer another loan which is a regulated loan?

ANSWER. - Yes, but the outstanding loan thereupon becomes a regulated loan and thereafter both loans must be considered, by reason of their purpose, to be a single loan. [Sec. 1(b)] However, the bank need not obtain additional collateral to cover the outstanding loan, even if the

combined single loan is now undermargined. [See also Answers to Questions 16, 24 and 25.]

(16) QUESTION. - May a bank make a nonpurpose loan in reliance on the collateral used to meet the requirements for a regulated loan?

ANSWER. - In general, no. In the case of any regulated loan, the bank is required to identify all the collateral used to meet the maximum loan value limitation of the regulation, and only the collateral so identified has loan value for the purpose of the regulation and is subject to the restrictions of the regulation applicable to collateral for a regulated loan. For any nonregulated indebtedness of the same borrower (other than loans excepted by sections 2(d), (f), (g), or (h)), the bank shall require in good faith as much collateral (if any) not so identified as it would require if it did not hold the regulated loan. However, this does not require the bank to waive or forego any lien. It also does not apply to a loan to meet emergency expenses not reasonably foreseeable, provided the circumstances are suitably documented. [Sec. 3(n)]

It should be noted that the nonregulated indebtedness referred to here is necessarily a nonpurpose indebtedness, since it is not possible for the same borrower to have at the same bank both "unsecured" and secured purpose loans. See Answer to Question 2.

(17) QUESTION. - Does the regulation require that a bank obtain a statement of purpose for every stock-secured loan which is not a regulated loan?

ANSWER. - While there is no requirement in the present regulation that such a statement be obtained, a bank should do so in any case in which the bank's records do not otherwise indicate satisfactorily the actual purpose of the loan. There is no need for a statement of purpose with respect to a loan which the bank treats as if it were a regulated loan. A bank may rely upon a statement with respect to the purpose of the loan, if it is (1) signed by the borrower, (2) accepted by the bank in good faith and signed by an officer as having been so accepted, and (3) if it merely states what is not the purpose of the loan, it is supported by a memorandum of the lending officer describing the purpose of the loan. [Sec. 3(a)] Unless such a statement is on file, the bank should be able to demonstrate the purpose of a loan which is secured by stocks.

(18) QUESTION. - Would the mere acceptance by a bank of a nonpurpose statement protect the bank?

ANSWER. - No. Under section 3(a) as amended effective June 15, 1959, if a statement of the borrower merely states what is not the purpose of the loan, it must be supported by a memorandum or notation of the lending officer describing the purpose of the loan. In addition, no statement of the borrower may be relied upon unless it is accepted "in good faith" and signed by an officer of the bank as having been so accepted. A bank could not, of course, rely "in

good faith" upon a statement which it knew to be false or if, in the circumstances, it had reason to question the correctness or completeness of the statement. The requirement of "good faith" is of vital importance; and to fulfill such requirement the bank must be alert to circumstances surrounding the loan and the borrower. For example, if the bank had reason to suspect that a loan was obtained with the idea of purchasing unregistered stock or bonds merely as a temporary expedient and shortly thereafter selling the unregistered stock or bonds and purchasing registered stocks, the loan should be considered to be a purpose loan; and the bank, in such a case, would not be justified in relying on the borrower's statement without full investigation. Special vigilance would be necessary also where, on more than one occasion, a borrower substituted registered stock for other collateral securing a loan. In addition, a bank could not accept a statement in "good faith" without obtaining a reliable and satisfactory explanation where, for example, a loan is made to a customer who is not a broker or dealer, but a broker or dealer is to deliver registered stock to secure the loan or is to receive the proceeds of the loan. There usually would be reasonable grounds for questioning reliance upon a statement if an unsecured loan should become secured by registered stock shortly after disbursement of the

loan. In any case, "good faith" would require the exercise of special diligence where the borrower is not personally known to the bank or to the officer who processes the loan.

(19) QUESTION. - If a bank holds stock under a bona fide trust agreement established by a borrower for the benefit of a college, for example, and therefore does not rely upon such stock in any way in making a purpose loan, does the purpose loan become a regulated loan by virtue of the stock held under the trust?

ANSWER. - No. A loan need not be treated as collateralled by securities which are held by the bank only in the capacity of custodian, depositary or trustee, or under similar circumstances, if the bank in good faith has not relied upon such securities as collateral in the making or maintenance of the particular loan. [Sec. 3(f)]

WITHDRAWALS AND SUBSTITUTIONS OF COLLATERAL:

(20) QUESTION. - May a bank permit the substitution or withdrawal of collateral securing a regulated loan which is fully margined in accordance with the maximum loan value specified in the current Supplement to the regulation?

ANSWER. - Yes, if the substitution or withdrawal would not cause the maximum loan value of the remaining collateral at such time to be less than the amount of the loan. If the withdrawal or substitution would result in a deficiency, then it would be permitted only on the terms applicable to

withdrawals or substitutions in undermargined accounts, as described in the Answer to Question 21. [Sec. 1(c)]

(21) QUESTION. - May a bank permit the substitution or withdrawal of collateral securing a regulated loan which is undermargined, i.e., which has insufficient collateral to satisfy the maximum loan value specified in the current Supplement to the regulation?

ANSWER. - Substitution or withdrawal, unless it results from a purchase and sale executed on the same day, is permissible in an undermargined account only if (1) the loan would not exceed the maximum loan value of the collateral after such withdrawal or substitution, or (2) the loan is reduced by an amount at least equal to the "retention requirement" of the collateral withdrawn minus the maximum loan value of the collateral deposited. [Sec. 1(c)]

The "retention requirement" of nonstock collateral is the same as its maximum loan value, and the "retention requirement" of stock collateral is prescribed from time to time in the Supplement to the regulation. Effective June 15, 1959, the "retention requirement" of a stock, whether or not registered on a national securities exchange, was set in the Supplement at 50 per cent of market value.

For example, if $1,000 market value of stock X were withdrawn from an undermargined account in a situation other than a same-day-purchase-and-sale, and $1,000 market value

of stock Y were deposited, the loan must be reduced by an amount determined as follows: the retention requirement of collateral withdrawn (i.e., 50 per cent of $1,000, or $500) less the maximum loan value of the collateral deposited (i.e., 10 per cent of $1,000, or $100) equals the required reduction (i.e., $400). Thus, the loan in this example must be reduced by $400. Of course, if some smaller reduction would reduce the loan to the maximum loan value of the collateral, then the smaller reduction would be sufficient.

In the case of a substitution resulting from a purchase and sale occurring on the same day, the substitution is permissible in an undermargined loan without additional collateral or reduction in the loan if the excess of the loan over the maximum loan value of the securities is not thereby increased. The bank must reasonably ascertain and have evidence in its records that the purchase and sale orders were both executed on the same day. The controlling events which must occur on the same day are the executions of the purchase and sale orders, and not the bank's receipt or release of stock certificates. For example, if $2,000 market value of stock A were sold in an undermargined loan, and $2,000 market value of stock B were purchased in the loan, both orders being executed on the same day, the substitution could be effected in the account without any deposit of additional collateral or any reduction in the loan.

(22) QUESTION. - How much collateral may a bank release by reason of a reduction in the amount of a regulated loan which is undermargined on the basis of the maximum loan value specified in the current supplement to the regulation?

ANSWER. - A reduction in the amount of an undermargined loan permits the bank to release collateral having a "retention requirement" as large as the reduction in the loan. [Sec. 1(c)]

For example, under present retention requirements of 50 per cent for stock collateral, if an undermargined loan were reduced by $1,000, stock collateral with a market value of $2,000 could be withdrawn.

(23) QUESTION. - Are there any exceptions to the provisions explained above regarding substitutions or withdrawals of collateral?

ANSWER. - (a) Yes, substitutions and withdrawals are permitted, without regard to the above provisions, to enable a borrower to participate in a reorganization. [Sec. 3(g)] In any such case the bank would normally be expected to obtain as promptly as possible such other securities as are to be issued in connection therewith.

(b) Withdrawals or substitutions are prohibited in the case of subscription right loans as indicated in the Answer to Question 11 above, except as may be permissible under section 3(g).

(24) QUESTION. - If a bank has outstanding a loan either secured or unsecured, the purpose of which is not known, and then, subsequently, makes a regulated loan to the same borrower, may the bank permit withdrawals or substitutions of collateral to either loan without ascertaining the purpose of the first loan?

ANSWER. - Not if the maximum loan value of the remaining collateral is, or would thereupon become, less than the combined indebtedness. Since all the borrower's purpose loans at the bank must be considered a single loan, and all collateral therefor must be considered as a unit, the bank cannot exclude from this total indebtedness a previously outstanding loan unless the bank has satisfied itself that the loan is not a purpose loan. See Questions 17 and 18 regarding the purpose of a loan.

(25) QUESTION. - Are the provisions of Regulation U applicable to the withdrawal or substitution of collateral to a loan that is not for the purpose of purchasing or carrying a registered stock?

ANSWER. - No. Under so-called "overlap" agreements which are frequently used by banks, collateral which secures one loan of a borrower at a bank also secures all other indebtedness of the borrower to the bank. As a result of such "overlap" agreements, collateral securing a nonpurpose loan may also secure a purpose loan. Before the June 15, 1959

amendment to section 3(n), collateral which secured a non-purpose loan might in that way become subject to limitations on withdrawals and substitutions. Since that date, however, the limitations apply only to collateral that has been used to meet the requirements of the regulation, rather than to all collateral available to secure a purpose loan.

MAINTENANCE OF A REGULATED LOAN:

(26) QUESTION. - If there is a decline in the market value of the collateral securing a regulated loan or a decrease in the maximum loan value prescribed by the Board which causes the maximum loan value of the collateral to be less than the amount of the loan, is the bank required by the regulation to demand additional collateral equal to the deficiency or to require liquidation or payment of the loan?

ANSWER. - No. The regulation does not require the bank to obtain additional collateral nor to liquidate or reduce any regulated loan by reason of such a decline or decrease. But see section 3(r) concerning loans for the purchase of convertible securities.

TRANSFER OF LOANS:

(27) QUESTION. - What procedure should a bank follow in accepting the transfer of a loan from another bank, as permitted by section 3(e)?

ANSWER. - The transferee bank should pay off the transferor bank against the receipt of the collateral. A loan to enable a borrower to reduce or retire existing

indebtedness at another bank or to replace funds which the borrower has used for such purpose does not constitute a transfer of the loan within the meaning of section 3(e).

(28) QUESTION. - May a bank accept transfer of a regulated loan from another bank if the bank knows or has reason to know that the loan when made failed to comply with the regulation?

ANSWER. - No.

(29) QUESTION. - If a regulated loan is fully margined must there be compliance with section 3(e) in connection with the transfer of the loan to another bank?

ANSWER. - No. Since the transferee bank could make the loan initially because the maximum loan value of the securities equals or exceeds the loan, the transferee bank may treat the loan as a new loan and need not rely on section 3(e) permitting transfers.

(30) QUESTION. - In accepting the transfer of a loan from another bank, how may the transferee bank determine whether there is any change in the amount of the loan or in the collateral thereto?

ANSWER. - If the transferred loan is a regulated loan, it must be accompanied by all the collateral used to meet the collateral requirements of the regulation, i.e., all the collateral required to be identified under section 3(n). In the case of a transfer of a portion of such a loan, the transferred portion should be accompanied by its proper

proportion of the entire collateral so that the ratio of loan value of collateral to indebtedness is the same with the transferred portion of the indebtedness and transferred portion of the collateral as with the aggregate indebtedness and aggregate collateral.

(31) QUESTION. - May a bank rely upon a borrower's statement relative to the essential facts concerning the transfer of a loan?

ANSWER. - The regulation does not prescribe any specific method for determining such facts. A bank should exercise good faith, including reasonable diligence, in ascertaining the relevant facts. A signed statement of the borrower may be relied upon if accepted in good faith. See the last sentence of section 3(a) regarding acceptance of a statement in good faith.

(32) QUESTION. - May a bank accept the transfer of a loan of a borrower from another lender which is not a bank (e.g., a broker or dealer) without following the requirements of the regulation as to the making of the loan?

ANSWER. - No. Although the regulation originally permitted such a transfer, this permission was eliminated shortly after the regulation was issued. [Sec. 3(e)]

(33) QUESTION. - After a transfer of a regulated loan from one bank to another, may the bank permit withdrawals and substitutions of collateral?

ANSWER. - Yes. The bank accepting the transfer of a regulated loan may permit withdrawals and substitutions of collateral on the same basis as if it had been the original maker of the loan. If the transferee bank already has a regulated loan to the same borrower or a loan to him which has not been a regulated loan solely because it has not been secured by any stock, the transferred loan and the outstanding loan must be combined for the purpose of the regulation in determining permissible withdrawals or substitutions of collateral.

LOANS TO OVER-THE-COUNTER DEALERS:

(32) QUESTION. - Does the regulation apply to stock-secured loans made to an over-the-counter dealer whose business consists chiefly of purchasing or carrying unregistered securities but who also, as a regular part of his business, purchases or carries registered stocks?

ANSWER. - Theoretically, if the different parts of the dealer's business are kept separate so that it can be demonstrated that a particular loan is not for the purpose of purchasing or carrying any registered stocks, such loan, of course, would not be subject to the regulation.

In practice, however, it would be difficult to effect any such separation. In the absence of such separation, any loan to replenish the working capital of such over-the-counter dealer cannot be said to be a nonpurpose loan and should, therefore, be considered a regulated loan.

BANK BORROWING BY BROKERS AND DEALERS ON REGISTERED SECURITIES:

Under the provisions of section 8(a) of the Securities Exchange Act of 1934 it is unlawful for 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, directly or indirectly, to borrow in the ordinary course of business as a broker or dealer on any registered security (other than an exempted security) from any bank which is not a member of the Federal Reserve System unless such nonmember bank shall have filed with the Board of Governors of the Federal Reserve System an agreement (on Federal Reserve Board Form T-1 or T-2) undertaking to comply with all the provisions of the Securities Exchange Act of 1934, the Federal Reserve Act as amended, and the Banking Act of 1933, which are applicable to member banks and which relate to the use of credit to finance transactions in securities, and with such rules and regulations as may be prescribed pursuant to such provisions of law.

In view of the foregoing, a nonmember bank should not make loans to any brokers or dealers in the circumstances specified in the Act unless such bank has filed an agreement on Federal Reserve Board Form T-1 or T-2 with the Board of Governors.

SUPPLEMENT TO REGULATION U

Section 221.4—SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective June 15, 1959

(*a*) **Maximum loan value of stocks.**—For the purpose of § 221.1, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 10 percent of its current market value, as determined by any reasonable method.

(*b*) **Retention requirement.**—For the purpose of § 221.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the "retention requirement" of a stock, whether or not registered on a national securities exchange, shall be 50 percent of its current market value, as determined by any reasonable method.

BOARD OF GOVERNORS

of the

FEDERAL RESERVE SYSTEM

LOANS BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED STOCKS

REGULATION U

(12 CFR 221)

As Amended to June 15, 1959

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.

EXPLANATORY FOREWORD

(Not a part of the regulation)

This regulation is issued pursuant to the provisions of section 7 of the Securities Exchange Act of 1934.

This regulation does not prevent a bank from taking for any loan collateral in addition to that required by the regulation. Except as provided in § 221.3(*r*) with respect to convertible securities, it does not require a bank to reduce any loan, to obtain collateral for any outstanding loan, or to call any outstanding loan because of insufficient collateral.

NOTE.—The reporting and record-keeping requirements contained herein have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

REGULATION U

(12 CFR 221)

As Amended to June 15, 1959

LOANS BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED STOCKS*

SECTION 221.1—GENERAL RULE

(*a*) No bank shall make any loan secured directly or indirectly by any stock for the purpose of purchasing or carrying any stock registered on a national securities exchange (and no bank shall make any loan described in § 221.3(*q*) regardless of whether or not such loan is secured by any stock) in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for stocks in § 221.4 (the Supplement to Regulation U) and as determined by the bank in good faith for any collateral other than stocks.

(*b*) For the purpose of this part, the entire indebtedness of any borrower to any bank incurred at any time for the purpose of purchasing or carrying stocks registered on a national securities exchange shall be considered a single loan; and all the collateral securing such indebtedness shall be considered in determining whether or not the loan complies with this part.

(*c*) While a bank maintains any such loan, whenever made, the bank shall not at any time permit any withdrawal or substitution of collateral unless either (1) the loan would not exceed the maximum loan value of the collateral after such withdrawal or substitution, or (2) the loan is reduced by at least the amount by which the maximum loan value of any collateral deposited is less than the "retention requirement" of any collateral withdrawn. The "retention requirement" of nonstock collateral is the same as its maximum loan value, and the "retention requirement" of stock collateral is prescribed from time to time in § 221.4 (the Supplement to Regulation U). If the maximum loan value of the collateral securing the loan has become less than the amount of the loan, the amount of the loan may nevertheless be increased if there is provided additional collateral having maximum loan value at least equal to the amount of the increase.

SECTION 221.2—EXCEPTIONS TO GENERAL RULE

Notwithstanding the provisions of § 221.1, a bank may make and may maintain any loan for the purpose specified in § 221.1, without

*This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 221; cited as 12 CFR 221.

regard to the limitations prescribed therein, if the loan comes within any of the following descriptions:

(*a*) Any loan to a bank or to a foreign banking institution;

(*b*) Any loan made prior to July 16, 1945, to any person whose total indebtedness to the bank at the date of and including such loan does not exceed $1,000;

(*c*) Any loan to a dealer, or to two or more dealers, to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange;

(*d*) Any loan to a broker or dealer that is made in exceptional circumstances in good faith to meet his emergency needs;

(*e*) Any loan to a broker or dealer secured by any securities which, according to written notice received by the bank from the broker or dealer pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities (Rule X-8C-1 or Rule X-15C2-1), are *securities carried for the account of one or more customers,* provided the bank accepts in good faith from the broker or dealer a signed statement to the effect that he is subject to the provisions of Part 220 of this chapter (Regulation T) (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto);

(*f*) Any temporary advance to finance the purchase or sale of securities for prompt delivery which is to be repaid in the ordinary course of business upon completion of the transaction;

(*g*) Any loan against securities in transit, or surrendered for transfer, which is payable in the ordinary course of business upon arrival of the securities or upon completion of the transfer;

(*h*) Any loan which is to be repaid on the calendar day on which it is made;

(*i*) Any loan made outside the 49 States of the United States and the District of Columbia;

(*j*) Any loan to a member of a national securities exchange for the purpose of financing his or his customers' *bona fide* arbitrage transactions in securities;

(*k*) Any loan to a member of a national securities exchange for the purpose of financing such member's transactions as an odd-lot dealer in securities with respect to which he is registered on such national securities exchange as an odd-lot dealer.

SECTION 221.3—MISCELLANEOUS PROVISIONS

(*a*) In determining whether or not a loan is for the purpose specified in § 221.1 or for any of the purposes specified in § 221.2, a bank may

rely upon a statement with respect thereto only if such statement (1) is signed by the borrower; (2) is accepted in good faith and signed by an officer of the bank as having been so accepted; and (3) if it merely states what is not the purpose of the loan, is supported by a memorandum or notation of the lending officer describing the purpose of the loan. To accept the statement in good faith, the officer must be alert to the circumstances surrounding the loan and the borrower and must have no information which would put a prudent man upon inquiry and if investigated with reasonable diligence would lead to the discovery of the falsity of the statement.

(*b*) (1) A loan made to a borrower when he has owned a stock registered on a national securities exchange free of any lien for a continuous period of as much as one year need not be treated as a loan for the purpose of "carrying" that stock unless the loan is for the purpose of reducing or retiring indebtedness incurred to purchase that stock. A loan also need not be treated as a loan for the purpose of "carrying" a stock registered on a national securities exchange if the loan is for the purpose of meeting emergency expenses not reasonably foreseeable or meeting recurring expenses the borrower has customarily met by temporary borrowing.

(2) A loan for the purpose of purchasing or carrying a "redeemable security" (i.e. a redeemable proportionate interest in the issuer's assets) issued by an "open-end company", as defined in the Investment Company Act of 1940, whose assets customarily include stocks registered on a national securities exchange, shall be deemed to be for the purpose of purchasing or carrying a stock so registered.

(*c*) In determining whether or not a security is a "stock registered on a national securities exchange" or a "redeemable security" described in paragraph (*b*) (2) of this section, a bank may rely upon any reasonably current record of such securities that is published or specified in a publication of the Board of Governors of the Federal Reserve System.

(*d*) Except as provided in paragraph (*r*) of this section, the renewal or extension of maturity of a loan need not be treated as the making of a loan if the amount of the loan is not increased except by the addition of interest or service charges on the loan or of taxes on transactions in connection with the loan.

(*e*) A bank may accept the transfer of a loan from another bank, or permit the transfer of a loan between borrowers, without following the requirements of this part as to the making of a loan, provided the loan is not increased and the collateral for the loan is not changed; and, after such transfer, a bank may permit such withdrawals and substitutions of

collateral as the bank might have permitted if it had been the original maker of the loan or had originally made the loan to the new borrower.

(*f*) A loan need not be treated as collateralled by securities which are held by the bank only in the capacity of custodian, depositary or trustee, or under similar circumstances, if the bank in good faith has not relied upon such securities as collateral in the making or maintenance of the particular loan.

(*g*) Nothing in this part shall be construed to prevent a bank from permitting withdrawals or substitutions of securities to enable a borrower to participate in a reorganization.

(*h*) No mistake made in good faith in connection with the making or maintenance of a loan shall be deemed to be a violation of this part.

(*i*) Nothing in this part shall be construed as preventing a bank from taking such action as it shall deem necessary in good faith for its own protection.

(*j*) Every bank, and every person engaged in the business of extending credit who, in the ordinary course of business, extends credit for the purpose of purchasing or carrying securities registered on a national securities exchange, shall make such reports as the Board of Governors of the Federal Reserve System may require to enable it to perform the functions conferred upon it by the Securities Exchange Act of 1934 (48 Stat. 881; 15 U.S.C. Chapter 2B).

(*k*) Terms used in this part have the meanings assigned to them in a portion of section 3(a) of the Securities Exchange Act of 1934 (48 Stat. 882; 15 U.S.C. 78c(a)), except that the term "bank" does not include a bank which is a member of a national securities exchange.

(*l*) The term "stock" includes any security commonly known as a stock, any voting trust certificate or other instrument representing such a security, and any warrant or right to subscribe to or purchase such a security.

(*m*) Indebtedness "subject to § 221.1" is indebtedness which is secured directly or indirectly by any stock (or made to a person described in paragraph (*q*) of this section), is for the purpose of purchasing or carrying any stock registered on a national securities exchange, and is not excepted by § 221.2.

(*n*) (1) The bank shall identify all the collateral used to meet the collateral requirements of § 221.1 (entire indebtedness being considered a single loan and collateral being similarly considered, as required by § 221.1) and shall not cancel the identification of any portion thereof except in circumstances that would permit the withdrawal of that portion. Such identification may be made by any reasonable method, and in the case of indebtedness outstanding at

the opening of business on June 15, 1959 need not be made until immediately before some change in that or other indebtedness of the borrower or in collateral therefor.

(2) Only the collateral required to be so identified shall have loan value for purposes of § 221.1 or be subject to the restrictions therein specified with respect to withdrawals and substitutions; and

(3) For any indebtedness of the same borrower that is not subject to § 221.1 (other than a loan described in § 221.2(*d*), (*f*), (*g*) or (*h*)), the bank shall in good faith require as much collateral not so identified as the bank would require (if any) if it held neither the indebtedness subject to § 221.1 nor the identified collateral. This shall not be construed, however, to require the bank, after it has made any loan, to obtain any collateral therefor because of any deficiency in collateral already existing at the opening of business on June 15, 1959, or any decline in the value or quality of the collateral or in the credit rating of the borrower. It also does not require a bank to waive or forego any lien. In addition, it shall not apply to a loan to enable the borrower to meet emergency expenses not reasonably foreseeable, provided the loan is supported by a statement of the borrower describing the circumstances, accepted in good faith and signed by an officer of the bank as having been so accepted.

(*o*) In the case of a loan to a member of a national securities exchange who is registered and acts as a specialist in securities on the exchange for the purpose of financing such member's transactions as a specialist in such securities, the maximum loan value of any stock shall be as determined by the bank in good faith provided that the specialist's exchange, in addition to other requirements applicable to specialists, is designated by the Board of Governors of the Federal Reserve System as requiring reports suitable for supplying current information regarding specialists' use of credit pursuant to this section.

(*p*) A loan need not comply with the other requirements of this part if it is to enable the borrower to acquire a stock by exercising a right to acquire such stock which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance: *Provided,* That (1) each such acquisition under this paragraph shall be treated separately, and the loan when made shall not exceed 75 percent of the current market value of the stock so acquired as determined by any reasonable method, (2) while the borrower has any loan outstanding at the bank under this paragraph no withdrawal or substitution of stock used to make such loan shall be permissible, except that when the loan has become equal to or less than the maximum loan value of the stock as prescribed for § 221.1 in § 221.4 the stock and indebtedness may thereafter be treated as subject to § 221.1 instead of this paragraph, and (3)

no loan shall be made under this paragraph at any time when the borrower has any such loan at the bank which has been outstanding more than 9 months without becoming eligible to be treated as subject to § 221.1. In order to facilitate the exercise of a right under this paragraph, a bank may permit the right to be withdrawn from a loan subject to § 221.1 without regard to any other requirement of this part.

(*q*) Any loan to a person not subject to this part (Regulation U) or to Part 220 (Regulation T) engaged principally, or as one of the person's important activities, in the business of making loans for the purpose of purchasing or carrying stocks registered on a national securities exchange, is a loan for the purpose of purchasing or carrying stocks so registered unless the loan and its purposes are effectively and unmistakably separated and disassociated from any financing or refinancing, for the borrower or others, of any purchasing or carrying of stocks so registered. Any loan to any such borrower, unless the loan is so separated and disassociated or is excepted by § 221.2, is a loan "subject to § 221.1" regardless of whether or not the loan is secured by any stock; and no bank shall make any such loan subject to § 221.1 to any such borrower on or after June 15, 1959 without collateral or without the loan being secured as would be required by this Part 221 if it were secured by any stock. Any such loan subject to § 221.1 to any such borrower, whether or not made after June 15, 1959, shall be subject to the other provisions of this Part 221 applicable to loans subject to § 221.1, including provisions regarding withdrawal and substitution of collateral.

(*r*) If, on or after June 15, 1959, a loan is made for the purpose of purchasing or carrying a security other than a stock registered on a national securities exchange and the loan is secured by the security, but subsequently there is substituted as direct or indirect collateral for the loan a stock so registered which is acquired by the borrower through the conversion or exchange of the security pursuant to its terms, the loan shall thereupon be deemed to be for the purpose of purchasing or carrying a stock so registered. In any such case, the amount of the outstanding loan, or such amount plus any increase therein to enable the borrower to acquire the stock so registered, shall not be permitted on the date such stock is substituted as collateral to exceed the maximum loan value of the collateral for the loan on such date, and thereafter such indebtedness shall be treated as subject to § 221.1; provided, however, that any reduction in the loan or deposit of collateral required on that date to meet this requirement may be brought about within 30 days of such substitution.

(Section 221.4, Supplement, containing maximum loan values and retention requirements, which are changed from time to time, is printed separately.)

APPENDIX

There are printed below certain provisions of the Securities Exchange Act of 1934:

Sec. 3.(a) * * *

(3) The term "member" when used with respect to an exchange means any person who is permitted either to effect transactions on the exchange without the services of another person acting as broker, or to make use of the facilities of an exchange for transactions thereon without payment of a commission or fee or with the payment of a commission or fee which is less than that charged the general public, and includes any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm.

(4) The term "broker" means any person engaged in the business of effecting transactions in securities for the account of others, but does not include a bank.

(5) The term "dealer" means any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise, but does not include a bank, or any person insofar as he buys or sells securities for his own account, either individually or in some fiduciary capacity, but not as a part of a regular business.

(6) The term "bank" means (A) a banking institution organized under the laws of the United States, (B) a member bank of the Federal Reserve System, (C) any other banking institution, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under section 11(k) of the Federal Reserve Act, as amended, and which is supervised and examined by State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of this title, and (D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B), or (C) of this paragraph.

* * * * *

(9) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a business trust, or an unincorporated organization.

(10) The term "security" means any note, stock, treasury stock, bond, debenture, certificate of interest or participation in

any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit, for a security, or in general, any instrument commonly known as a "security"; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

* * * * *

Sec. 7.(a) For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Board of Governors of the Federal Reserve System shall, prior to the effective date of this section and from time to time thereafter, prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange. For the initial extension of credit, such rules and regulations shall be based upon the following standard: An amount not greater than whichever is the higher of—

(1) 55 per centum of the current market price of the security, or

(2) 100 per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than 75 per centum of the current market price.

Such rules and regulations may make appropriate provision with respect to the carrying of undermargined accounts for limited periods and under specified conditions; the withdrawal of funds or securities; the substitution or additional purchases of securities; the transfer of accounts from one lender to another; special or different margin requirements for delayed deliveries, short sales, arbitrage transactions, and securities to which paragraph (2) of this subsection does not apply; the bases and the methods to be used in calculating loans, and margins and market prices; and similar administrative adjustments and details. For the purposes of paragraph (2) of this subsection, until July 1, 1936, the lowest price at which a security has sold on or after July 1, 1933, shall be considered as the lowest price at which such security has sold during the preceding thirty-six calendar months.

(b) Notwithstanding the provisions of subsection (a) of this

section, the Board of Governors of the Federal Reserve System, may, from time to time, with respect to all or specified securities or transactions, or classes of securities, or classes of transactions, by such rules and regulations (1) prescribe such lower margin requirements for the initial extension or maintenance of credit as it deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the general credit situation of the country, and (2) prescribe such higher margin requirements for the initial extension or maintenance of credit as it may deem necessary or appropriate to prevent the excessive use of credit to finance transactions in securities.

(c) It shall be unlawful for 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, directly or indirectly to extend or maintain credit or arrange for the extension or maintenance of credit to or for any customer—

(1) On any security (other than an exempted security) registered on a national securities exchange, in contravention of the rules and regulations which the Board of Governors of the Federal Reserve System shall prescribe under subsections (a) and (b) of this section.

(2) Without collateral or on any collateral other than exempted securities and/or securities registered upon a national securities exchange, except in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe (A) to permit under specified conditions and for a limited period any such member, broker, or dealer to maintain a credit initially extended in conformity with the rules and regulations of the Board of Governors of the Federal Reserve System, and (B) to permit the extension or maintenance of credit in cases where the extension or maintenance of credit is not for the purpose of purchasing or carrying securities or of evading or circumventing the provisions of paragraph (1) of this subsection.

(d) It shall be unlawful for any person not subject to subsection (c) to extend or maintain credit or to arrange for the extension or maintenance of credit for the purpose of purchasing or carrying any security registered on a national securities exchange, in contravention of such rules and regulations as the Board of Governors of the Federal Reserve System shall prescribe to prevent the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions of this section. Such rules and regulations may impose upon all loans made for the purpose of purchasing or carrying

securities registered on national securities exchanges limitations similar to those imposed upon members, brokers, or dealers by subsection (c) of this section and the rules and regulations thereunder. This subsection and the rules and regulations thereunder shall not apply (A) to a loan made by a person not in the ordinary course of his business, (B) to a loan on an exempted security, (C) to a loan to a dealer to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange, (D) to a loan by a bank on a security other than an equity security, or (E) to such other loans as the Board of Governors of the Federal Reserve System shall, by such rules and regulations as it may deem necessary or appropriate in the public interest or for the protection of investors, exempt, either unconditionally or upon specified terms and conditions or for stated periods, from the operation of this subsection and the rules and regulations thereunder.

(e) The provisions of this section or the rules and regulations thereunder shall not apply on or before July 1, 1937, to any loan or extension of credit made prior to the enactment of this title or to the maintenance, renewal, or extension of any such loan or credit, except to the extent that the Board of Governors of the Federal Reserve System may by rules and regulations prescribe as necessary to prevent the circumvention of the provisions of this section or the rules and regulations thereunder by means of withdrawals of funds or securities, substitutions of securities, or additional purchases or by any other device.

Sec. 29.(a) Any condition, stipulation, or provision binding any person to waive compliance with any provision of this title or of any rule or regulation thereunder, or of any rule of an exchange required thereby shall be void.

(b) Every contract made in violation of any provision of this title or of any rule or regulation thereunder, and every contract (including any contract for listing a security on an exchange) heretofore or hereafter made the performance of which involves the violation of, or the continuance of any relationship or practice in violation of, any provision of this title or any rule or regulation thereunder, shall be void (1) as regards the rights of any person who, in violation of any such provision, rule, or regulation, shall have made or engaged in the performance of any such contract, and (2) as regards the rights of any person who, not being a party to such contract, shall have acquired any right thereunder with actual knowledge of the facts by reason of which the making or performance of such contract was in violation of any such provision, rule or regulation. * * *

(c) Nothing in this title shall be construed (1) to affect the validity of any loan or extension of credit (or any extension or renewal thereof) made or of any lien created prior or subsequent to the enactment of this title, unless at the time of the making of such loan or extension of credit (or extension or renewal thereof) or the creating of such lien, the person making such loan or extension of credit (or extension or renewal thereof) or acquiring such lien shall have actual knowledge of facts by reason of which the making of such loan or extension of credit (or extension or renewal thereof) or the acquisition of such lien is a violation of the provisions of this title or any rule or regulation thereunder, or (2) to afford a defense to the collection of any debt or obligation or the enforcement of any lien by any person who shall have acquired such debt, obligation, or lien in good faith for value and without actual knowledge of the violation of any provision of this title or any rule or regulation thereunder affecting the legality of such debt, obligation, or lien.

Sec. 32.(a) Any person who willfully violates any provision of this title, or any rule or regulation thereunder the violation of which is made unlawful or the observance of which is required under the terms of this title, or any person who willfully and knowingly makes, or causes to be made, any statement in any application, report, or document required to be filed under this title or any rule or regulation thereunder or any undertaking contained in a registration statement as provided in subsection (d) of section 15 of this title, which statement was false or misleading with respect to any material fact, shall upon conviction be fined not more than $10,000, or imprisoned not more than two years, or both, except that when such person is an exchange, a fine not exceeding $500,000 may be imposed; but no person shall be subject to imprisonment under this section for the violation of any rule or regulation if he proves that he had no knowledge of such rule or regulation.

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