

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 68-40
February 21, 1968

**AMENDMENTS TO REGULATION T AND THE NEW
REGULATION G**

**To All Banks in the
Eleventh Federal Reserve District:**

Enclosed for your information are copies of Regulation T, Credit by Brokers, Dealers, and Members of National Security Exchanges, as amended effective March 11, 1968, and its supplement effective on the same date. Also enclosed are copies of the new Regulation G, Credit by Persons Other Than Banks, Brokers, or Dealers for Purpose of Purchasing or Carrying Registered Equity Securities, and its supplement issued by the Board of Governors of the Federal Reserve System effective March 11, 1968.

In addition, there is enclosed a corrected copy of the press release of the Board dated February 1, 1968, concerning the amended Regulations T and U and the new Regulation G. The second paragraph under item 2 on page 2 of the copy furnished you with our circular letter dated February 2, 1968, was in error and has been corrected in the enclosed copy.

Member banks are requested to place the enclosed copies of the Regulations T and G and Supplements in their ring binders containing the Regulations and Bulletins of this Bank. The copy of Regulation T as amended effective August 7, 1961, and the copy of the Supplement to Regulation T effective November 6, 1963, should be removed from the binder.

Yours very truly,

P. E. Coldwell
President

Enclosures (5)

**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 effective March 11, 1968



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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REGULATION T

(12 CFR 220)

As Amended effective March 11, 1968

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 (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**", "**equity security**", and "**bank**" have the meanings given them in section (3a) of the Act (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

* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 220, cited as 12 CFR 220. The words "this Part," as used herein, mean Regulation T.

** See Appendix.

consequence of its having unlisted trading privileges on a national securities exchange is deemed, under the provisions of section 12(f) of the Act (15 U.S.C. 78l), 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 (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 (12 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 (12 U.S.C. 78g(c)(2)) only to the extent described in paragraph (d)(3) of this section.

(f) The term “**non-equity security**” means any security other than an equity security or an exempted security.

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, and, except to the extent provided in paragraph (b)(2) of § 220.3, all transactions in non-equity securities, exempted securities, and in other securities having no loan value in a general account under the provisions of § 220.3(c) and § 220.8 (the Supplement to Regulation T) (except unissued securities, short sales, and purchases to cover short sales and contracts involving an endorsement or guarantee of any put, call, or other option), shall be included in the appropriate special account provided for by § 220.4. During any period when such § 220.8 specifies that registered equity securities shall have no loan value in a general account, any transaction consisting of a purchase of a security other than 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, special bond account subject to § 220.4(i) or special convertible security account subject to § 220.4(j) any transaction which, in combination with the other transactions effected in such account on the same day, creates an excess of the adjusted debit balance of such account over the maximum loan value of the securities in such 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 five full business days following the date of such transaction, the deposit into such 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 (whether the general account, the special bond account subject to § 220.4(i) or the special convertible security account subject to § 220.4(j)) would exceed the maximum loan value of the securities in such account after such withdrawal. The exceptions are available only in the event no cash or securities need to be deposited in such 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 non-equity or exempted securities held in the general account on March 11, 1968, and continuously thereafter may be withdrawn upon the deposit in the account of cash (or registered equity securities counted at their maximum loan value) at least equal to the "retention requirement" of such withdrawn securities, or (ii) except as provided in (i) of this subparagraph, securities having loan value in the general account, the special bond account subject to § 220.4(i), or the special convertible security account subject to § 220.4(j) may be withdrawn upon the deposit in such account of cash or securities having loan value in such account counted at the maximum loan value at least equal to the "retention requirement" of those securities, or (iii) cash may be withdrawn upon the deposit in the general account, the special bond account subject to § 220.4(i), or the special convertible security account subject to § 220.4(j) of securities having a maximum loan value in such account at least equal to the amount of cash

withdrawn, or (iv) upon the sale (other than the short sale) of securities having loan value in the general account, special bond account subject to § 220.4(*i*) or special convertible security account subject to § 220.4(*j*) 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 such securities, or (v) upon the sale (other than the short sale) of a registered non-equity security or an exempted security that was held in the general account on March 11, 1968 and continuously thereafter 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 as prescribed in § 220.8 (the Supplement to Regulation T).

(3) Rules for computing the maximum loan value of the securities in a general account, special bond account subject to § 220.4(*i*) or special convertible security account subject to § 220.4(*j*) and the adjusted debit balance of such 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, special bond account subject to § 220.4(*i*), or special convertible security account subject to § 220.4(*j*) is the sum of the maximum loan values of the individual securities in such account, including securities (other than unissued securities) bought for such account but not yet debited thereto, but excluding securities sold for such account whether or not payment has been credited thereto.

(2) Except as otherwise provided in this paragraph, the maximum loan value of a security in a general account, special bond account subject to § 220.4(*i*), or special convertible security account subject to § 220.4(*j*) shall be such maximum loan value as the Board shall prescribe from time to time in § 220.8 (the Supplement to Regulation T). No collateral other than an exempted security or a registered non-equity security held in such account on March 11, 1968 and continuously thereafter, or registered equity security shall have any loan value in a general account except that a registered equity security eligible for a special convertible bond account pursuant to § 220.4(*j*) shall

have loan value in a general account only if held in the account on March 11, 1968 and continuously thereafter.

(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, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j); but, if the account contains the security to the holder of which such warrant or certificate has been issued and such warrant or certificate is held in an appropriate account maintained by the creditor for the customer the current market value of such security (if such security is 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 purpose of this Part, the adjusted debit balance of a general account, special bond account subject to § 220.4(i) or special convertible security account subject to § 220.4(j) shall be calculated by taking the sum of the following items:

- (1) the net debit balance, if any, of such account;
- (2) the total cost of any securities (other than unissued securities) bought for such account but not yet debited thereto;
- (3) the current market value of any securities (other than unissued securities) sold short in such 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 (the Supplement to Regulation T) as the margin required for such short sales, except that such amount so prescribed in such § 220.8 need not be included when there are held in such account securities exchangeable or convertible within 90 calendar days, 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 such account in un-

issued 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 such account; and

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

In case such 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 (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 five-day period specified therein, registered nonexempted securities shall be sold (or, to the extent that there are insufficient registered nonexempted securities in the general account, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j) other liquidating transactions shall be effected in such account), prior to the expiration of such five-day period, in such amount that the resulting decrease in the adjusted debit balance of such 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: *Provided*, That a creditor is not required to sell securities or to effect other liquidating transactions specified by this paragraph in an amount greater than necessary to eliminate the excess of the adjusted debit balance of such account over the maximum loan value of the securities remaining in such account after such liquidation.

(f) **Extensions of time.**—In exceptional cases, the five-day period specified in paragraph (b) of this section may, on appli-

* 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).

cation 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, special bond account subject to § 220.4(i), or special convertible bond account subject to § 220.4(j) over the maximum loan value of the securities in such account is created or increased on a given day shall be determined on the basis of all the transactions in the account on such day exclusive of any deposit of cash, deposit of securities, covering transaction or other liquidation that has been effected on such day, pursuant to the requirement 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 increased 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 such account. For the purposes of this Part (Regulation T), if a security has maximum loan value under subparagraph (c)(1) of this section in a general account, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j) a sale of the same security (even though not the same certificate) in such account 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, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j) 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 such 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 such account: *Provided*, That no amount need be included as margin for a net short commitment in unissued securities when there are held in such 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 a general account, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j) by the amount of the payment *minus* the amount required to be included in the adjusted debit balance of such 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, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j).

(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, or 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 8c-1 (17 CFR § 240.8c-1) or Rule 15c2-1 (17 CFR § 240.15c2-1)), 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 effect 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. If the security when so purchased is a new security issued or to be issued for the purpose of refunding outstanding securities which mature, or are to be payable upon presentation for redemption, within 35 days of the date on which the new security is made available by the issuer for delivery to purchasers, the period applicable to the transaction under subparagraph (2) of this paragraph shall be 7 days after such maturity or payment date: *Provided*, That this sentence shall apply only to the payment of that portion of the purchase price that does not exceed 103 per cent of the amount that will be payable to the purchaser of the new security upon such maturity of, or payment for, securities owned by him at the time of the purchase.

(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 speci-

fied 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, special bond account subject to § 220.4(i), special convertible security account subject to § 220.4(j), 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 90 calendar days following the date of its purchase 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, extend and maintain credit to meet the emergency needs of any creditor;

(2) (i) Extend and maintain credit, (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 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) Extend and maintain subordinated credit to another creditor for capital purposes: *Provided*, That,

(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 credit 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 credit is not in contravention of any rule of the exchange, the credit has the approval of such committee, or

(b) The lender as well as the borrower is a member of such exchange, the credit has the approval of an appropriate committee of the exchange, and the committee, in addition to being satisfied that the credit is not in contravention of any rule of the exchange, is satisfied that the credit 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 credit 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 such customer: *Provided*, That 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 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 per cent of their current market value as determined by any reasonable method;

(2) After October 20, 1967, at the time when credit is extended pursuant to this paragraph, the creditor shall compute the amount by which the credit exceeds the maximum loan value of the collateral as prescribed by § 220.8 (the Supplement to Regulation T) and the customer shall reduce the credit by an amount equal to at least one-fourth of such sum by the end of each of the four succeeding three-calendar-month periods or until the credit does not exceed the current maximum loan value of the collateral, whichever shall occur first, and, if the creditor fails to obtain the required quarterly reduction or a portion thereof with respect to a particular acquisition within five full business days after such reduction is due, the creditor shall promptly liquidate a portion of the collateral so acquired and apply the proceeds of the sale to reduce the credit, in an amount equal to at least twice the required payment or portion thereof for the first two such liquidations, at least equal to the required payment or portion thereof for the third such liquidation, and at least sufficient so that the remaining credit does not exceed the current maximum loan value of the remaining collateral after the fourth such liquidation: *Provided, That*, no such liquidation need be in an amount greater than is necessary so that the remaining credit does not exceed the maximum loan value of the remaining collateral determined as of the date the credit was extended: *And provided further*, That as to loans made between October 20, 1967, and March 11, 1968 such four succeeding periods shall begin on March 11, 1968; and

(3) The creditor shall not permit any withdrawal of cash or securities from the account so long as the remaining credit

exceeds the maximum loan value of the remaining collateral in the account, except that when the remaining credit extended in connection 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 in § 220.8 (the Supplement to Regulation T) (or in connection with an acquisition after October 20, 1967, the requirements of subparagraph (2) of this section have been fulfilled), such securities shall be transferred to the general account (or, if eligible, to a special convertible security account pursuant to § 220.4(j)) together with any remaining portion of such credit. 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.

(i) **Special bond account.**—In a special bond account a creditor may effect and finance transactions in exempted securities and registered non-equity securities for any customer.

(j) **Special convertible security account.**—(1) In a special convertible security account a creditor may extend credit on any registered equity security consisting of a security convertible into stock or a security carrying a warrant or right to subscribe to or purchase stock.

(2) A special convertible security account shall be subject to the same conditions to which it would be subject if it were a general account except that the maximum loan value of the securities in the account shall be as prescribed from time to time in § 220.8 (the Supplement to Regulation T).

(3) Any security which ceases to be an equity security while held in this account shall continue to be treated as an equity security as long as it is continuously held in this account.

(4) In the event that any stock is substituted for security held in this account such stock shall thereupon be transferred to the customer's general account against a deposit of cash or registered equity securities eligible for an extension of credit in this account (counted at their maximum loan value) equal to at least the maximum loan value of the security for which such substitution is made.

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 (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, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j) 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, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j) is the account of a joint adventure in which the creditor participates, the adjusted debit balance of such 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.**—(1) In the event of the transfer of a general account, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j) 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 a signed statement of the transferor that no cash or securities need be deposited in such account in connection with any transaction that has been effected in such 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.

(2) In the event of the transfer of a general account, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j), from one customer to another, or to others, as a *bona fide* incident to a transaction that is not undertaken for the purpose of avoiding the requirements of this Part, each such transferee 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: *Provided*, That, the creditor accepts in good faith and keeps with such transferee account a signed statement of the transferor describing the circumstances giving rise to the transfer.

(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, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j), for the purpose of participating in a reorganization or recapitalization in which the security is involved: *Provided*, That if an unregistered non-exempted 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 such 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) if 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, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j), communication charges with respect to transactions in such 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 such 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 such account.

(2) A creditor may permit interest, dividends or other distributions received by the creditor with respect to securities in a general account, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j), to be withdrawn from such account only on condition that the adjusted debit balance of such account does not exceed the

maximum loan value of the securities in such 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 such 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 per cent 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, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j), any cash or securities that are distributed with respect to any security in such account shall, except to the extent that withdrawal would be permitted under the preceding sentence, be deemed to be a transaction in such 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 of a national securities exchange or through an agency organized or employed by such members 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 mechanical 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 such mistake he takes whatever action may be practicable in the circumstances to remedy such 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 creditor has accepted in good faith a written statement by the customer 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. To accept the customer's statement in good faith, the creditor must (1) be alert to the circumstances surrounding the extension of credit and (2) if he has any information which would cause a prudent man not to accept the statement

without inquiry, have investigated and be satisfied that the customer's statement is truthful. A creditor may rely upon such a written statement if accepted in accordance with this paragraph.

(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.

(f) **Acting as agent.**—No creditor shall act as agent of any person extending credit which the creditor knows or should know is secured directly or indirectly by any registered security unless the creditor accepts in good faith a statement signed by such person that he does not extend or maintain credit to or for borrowers in violation of Parts 207, 220, or 221 of this Chapter (Regulations G, T or U). For this purpose, such activities of an "agent" include, for example, receiving securities to be used as collateral for such credit, determining whether the market value of the collateral for such credit is adequate, and requiring the deposit of additional collateral or the reduction of such credit. In determining whether there has been an extension of credit subject to the provisions of Parts 207, 220, or 221 of this Chapter, and whether he can rely in good faith on the statement described herein, the creditor must (1) be alert to the circumstances surrounding the extension of credit and (2) if he has any information that would cause a prudent man not to accept the statement without inquiry, must have investigated and be satisfied that the credit either is not subject to such Part or is extended or maintained in conformity with the provisions of such Part.

Section 220.8 (the Supplement to Regulation T), prescribing maximum loan values, margin required for short sales 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 (15 U.S.C. 78) that are pertinent to the subject matter of Regulation T:

DEFINITIONS

Sec. 3. (a) When used in this title, unless the context otherwise requires—

* * *

(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.

* * *

* This statutory provision was repealed September 28, 1962. For the present provisions on this subject, see 12 U.S.C. 92a.

(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, pre-organization 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.

(11) The term "equity security" means any stock or similar security; or any security convertible, with or without consideration, into such a security; or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security which the Commission* shall deem to be of similar nature and consider necessary or appropriate, by such rules and regulations as it may prescribe in the public interest or for the protection of investors, to treat as an equity security.

(12) The term "exempted security" or "exempted securities" shall include securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States; such securities issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury as necessary or appropriate in the public interest or for the protection of investors; securities which are direct obligations of or obligations guaranteed as to principal or interest by a State or any political subdivision thereof or any agency or instrumentality of a State or any political subdivision thereof or any municipal corporate instrumentality of one or more States, and such other securities (which may include, among others, unregistered securities, the market in which is

* As used here and elsewhere in the 1933 Act, "Commission" means the Securities and Exchange Commission.

predominantly intrastate) as the Commission may, by such rules and regulations as it deems necessary or appropriate in the public interest or for the protection of investors, either unconditionally or upon specified terms and conditions or for stated periods, exempt from the operation of any one or more provisions of this title which by their terms do not apply to an "exempted security" or to "exempted securities".

(13) The terms "buy" and "purchase" each include any contract to buy, purchase, or otherwise acquire.

(14) The term "sale" and "sell" each include any contract to sell or otherwise dispose of.

* * *

Sec. 3. (b) The Commission and the Board of Governors of the Federal Reserve System, as to matters within their respective jurisdictions, shall have power by rules and regulations to define technical, trade, and accounting terms used in this title insofar as such definitions are not inconsistent with the provisions of of this title.

* * *

REGISTRATION OF NATIONAL SECURITIES EXCHANGES

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.

* * *

RESTRICTIONS ON BORROWING BY MEMBERS, BROKERS, AND DEALERS

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 to 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.

* * *

SEGREGATION AND LIMITATION OF FUNCTIONS

* * *

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 30 days 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, * * *

* * *

REGISTRATION OF SECURITIES

* * *

Sec. 12. (f) * * * Any security for which unlisted trading privileges are continued or extended pursuant to this subsection shall be deemed to be registered on a national securities exchange within the meaning of this Chapter. * * *

* * *

ACCOUNTS AND RECORDS, REPORTS, AND EXAMINATIONS

* * *

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.

* * *

RULES AND REGULATIONS

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.

* * *

VALIDITY OF CONTRACTS

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 right 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.

FOREIGN SECURITIES EXCHANGES

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.

* * *

PENALTIES

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.

* * *

SUPPLEMENT TO REGULATION T

Section 220.8—SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective March 11, 1968

(a) **Maximum loan value for general accounts.**—The maximum loan value of securities in a general account subject to § 220.3 shall be:

(1) of a registered non-equity security held in the account on March 11, 1968 and continuously thereafter and of a registered equity security (except as provided in § 220.3(c) and § 220.8(b)), 30 per cent of the current market value of such securities.

(2) of an exempted security held in the account on March 11, 1968, and continuously thereafter the maximum loan value of the security as determined by the creditor in good faith.

(b) **Maximum loan value for special convertible security account.**—The maximum loan value of a registered equity security eligible for a special convertible security account pursuant to § 220.4(j) shall be 50 per cent of the current market value of the security.

(c) **Margin required for short sales.**—The amount to be included in the adjusted debit balance of a general account, pursuant to § 220.3(d)(3), special bond account pursuant to § 220.4(i), or special convertible security account subject to § 220.4(j) as margin required for short sales of securities (other than exempted securities) shall be 70 per cent of the current market value of each such security.

(d) **Retention requirement.**—(1) 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, pursuant to § 220.3(b)(2), the “retention requirement” of an exempted security held in the account on March 11, 1968, and continuously thereafter shall be equal to its maximum loan value as determined by the creditor in good faith, and the “retention requirement” of a registered non-equity security held in the account on March 11, 1968, and continuously

REGULATION T SUPPLEMENT

thereafter and of a registered equity security shall be 70 per cent of the current market value of the security.

(2) In the case of a special convertible security account subject to § 220.4(*j*) 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 security having loan value in the account shall be 70 per cent of the current market value of the security.

(3) For the purpose of effecting a transfer from a general account to a special convertible security account subject to § 220.4(*j*), the retention requirement of a security described in § 220.4(*j*) shall be 70 per cent of its current market value.

(*e*) **Securities having no loan value in general account.**—No securities other than an exempted security or a registered non-equity security held in the account on March 11, 1968, and continuously thereafter, and a registered equity security shall have any loan value in a general account except that a registered equity security eligible for the special convertible security account pursuant to § 220.4(*j*) shall have loan value only if held in the account on March 11, 1968, and continuously thereafter.

**BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM**

**CREDIT BY PERSONS OTHER THAN BANKS,
BROKERS, OR DEALERS FOR PURPOSE OF
PURCHASING OR CARRYING REGISTERED
EQUITY SECURITIES**



**REGULATION G
(12 CFR 207)**

Effective March 11, 1968



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.

FORMS

The forms furnished with this copy of the Regulation have been reduced in size and are for information only. Copies of the forms for actual use can be obtained from any Federal Reserve Bank.

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REGULATION G

(12 CFR 207)

Effective March 11, 1968

CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS FOR PURPOSE OF PURCHASING OR CARRYING REGISTERED EQUITY SECURITIES

SECTION 207.1—GENERAL RULE

(a) **Registration.**—Every person who, in the ordinary course of his business, during any calendar quarter ended after October 20, 1967, extends or arranges for the extension of a total of fifty thousand dollars (\$50,000) or more, or has outstanding at any time during the calendar quarter, a total of one hundred thousand dollars (\$100,000) or more, in credit, secured directly or indirectly, in whole or in part, by collateral that includes any registered equity securities, unless such person is subject to Part 220 (Regulation T) or Part 221 (Regulation U) of this Chapter, is subject to the registration requirements of this paragraph and shall, within 30 days following the end of the calendar quarter during which the person becomes subject to such registration requirements, register with the Board of Governors of the Federal Reserve System by filing a statement in conformity with the requirements of Federal Reserve Form G-1 with the Federal Reserve Bank of the district in which the principal office of the lender is located: *Provided*, That no such statement need be filed with respect to credit extended in the calendar quarter that ended December 31, 1967, until April 10, 1968.

(b) **Termination of registration.**—Any person so registered who has not, during the preceding six calendar months, extended or maintained or arranged for the extension or maintenance of any credit secured directly or indirectly, in whole or in part, by collateral that includes any registered equity securities may apply for termination of such registration by filing Federal Reserve Form G-2 with the Federal Reserve Bank of the district in which the principal office of the lender is located.

(c) **Definition of lender and applicability of margin requirements.**—Any person subject to the registration requirements of paragraph (a) of this section who, in the ordinary course of his business, extends or maintains or arranges for the extension or maintenance of any credit for the purpose of purchasing or

carrying any registered equity security¹ (hereinafter called “purpose credit”), if such credit is secured directly or indirectly² in whole or in part by collateral that includes any such security, is a “lender” subject to this Part and shall not after February 1, 1968, except as provided in section 207.4 (a), extend or arrange for the extension of any purpose credit in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for registered equity securities in section 207.5 (the Supplement to Regulation G), or as determined by the lender in good faith for any collateral other than registered equity securities: *Provided*, That any collateral consisting of convertible securities described in paragraph (d) of this section shall have loan value only as provided in that paragraph: *And provided further*, That in respect to a credit extended after February 1, 1968, and before March 11, 1968, any reduction in the credit or deposit of collateral required to meet this requirement shall be accomplished by April 10, 1968.

(d) **Credit on convertible securities.**—(1) A lender may extend credit for the purpose specified in paragraph (c) of this section on collateral consisting of any security convertible into a registered equity security or any security carrying a warrant or right to subscribe to or purchase such a security (sometimes herein referred to as a “convertible security”).

(2) Credit extended under this paragraph shall be subject to the same conditions as any other credit subject to this section except: (A) the entire amount of such credit shall be considered a single credit treated separately from the single credit specified in paragraph (g) of this section and all the collateral securing such credit shall be considered in determining whether or not the credit complies with this Part, and (B) the maximum loan value of the collateral shall be as prescribed from time to time in section 207.5 (b) (the Supplement to Regulation G).

(3) Any convertible security originally eligible as collateral for a credit extended under this paragraph shall be treated as such as long as continuously held as collateral for such credit even though it ceases to be convertible or to carry warrants or rights.

(4) In the event that any stock is substituted for a convertible security held as collateral for a credit extended under this section the stock and any credit extended on it in compliance with this Part shall thereupon be treated as subject to paragraph (c)

¹ See § 207.2 (d).

² See § 207.2 (g).

of this section and not to this paragraph and the credit extended under this paragraph shall be reduced by an amount equal to the maximum loan value of the convertible security withdrawn less the maximum loan value of any convertible security described in subparagraph (d) (1) deposited as collateral.

(e) **Statements as to purpose of credit.**—In connection with any extension of credit secured directly or indirectly, in whole or in part, by collateral that includes any registered equity security, the lender shall, prior to such extension, obtain a statement in conformity with the requirements of Federal Reserve Form G-3 executed by the customer and executed and accepted in good faith by the lender. The lender shall retain such statement in his records for at least six years after such credit is extinguished. In determining whether credit is “purpose credit”, the lender may rely on the statement executed by the customer if accepted in good faith. To accept the customer’s statement in good faith, the lender must (1) be alert to the circumstances surrounding the credit and (2) if he has any information which would cause a prudent man not to accept the statement without inquiry, have investigated and be satisfied that the customer’s statement is truthful. Circumstances which could indicate that the lender has not exercised reasonable diligence in so acquainting himself and so investigating would include, but are not limited to, facts such as that (1) the proceeds of the credit were paid to a broker or to a bank in connection with contemporaneous delivery of registered equity securities, whether or not payment was made against delivery, (2) there were frequent substitutions of registered equity securities serving as collateral for the credit, or (3) the amount of the credit was disproportionate, or the terms inappropriate, to the stated purpose.

(f) **Credit extended to person subject to Regulation T.**—

(1) No lender shall extend or maintain any credit for the purpose of purchasing or carrying any registered equity security to any person who is subject to Part 220 of this Chapter (Regulation T) without collateral or on collateral consisting of registered securities (other than exempted securities³). Where the credit is to be used in the ordinary course of business of such person, such credit is presumed to be for the purpose of purchasing or carrying registered equity securities unless the lender has in his records statements obtained and executed in conformity with the requirements of paragraph (e) of this section.

³ As defined in 15 U.S.C. 78c(a) (12).

(2) The prohibition of this paragraph (f) shall not apply to a credit which is unsecured or secured by collateral other than registered equity securities, and which is (i) made to a dealer (as defined in section 220.2(a) of Regulation T) to aid in the distribution of securities to customers not through the medium of a national securities exchange, or (ii) subordinated to the claims of general creditors by a subordination agreement approved by an appropriate committee of a national securities exchange or by a "satisfactory subordination agreement" as defined in paragraph (e) (7) of Rule 240-15c3-1 of the Securities and Exchange Commission.

(g) Combining purpose credit extended to the same customer.—For the purpose of this Part, except for a credit subject to paragraph (d) of this section, the aggregate of all outstanding purpose credit extended to a person by a lender after February 1, 1968, shall be considered a single credit and, except as provided in paragraphs (d) and (i) of this section, all the collateral securing such a credit, whether directly or indirectly, in whole or in part, shall be considered in determining whether the credit complies with this Part.

(h) Purpose and nonpurpose credit extended to the same person.—No lender shall after February 1, 1968, extend or maintain or arrange for the extension of any purpose credit, or shall arrange for the maintenance of any purpose credit extended after February 1, 1968, if the credit is secured directly or indirectly, in whole or in part, by collateral that includes any registered equity security which also secures, directly or indirectly, in whole or in part, any other credit extended to the same customer; and no lender shall have outstanding at the same time to the same customer both purpose credit extended after February 1, 1968, and any other credit extended after February 1, 1968.

(i) Purpose credit secured both by registered equity securities and by other collateral.—No lender shall after February 1, 1968, extend or maintain or arrange for the extension of any purpose credit, or shall arrange for the maintenance of any purpose credit extended after February 1, 1968, which is secured directly or indirectly, in whole or in part, by collateral that includes any registered equity security, unless at the time such credit was extended, the lender thereof obtained collateral consisting of registered equity securities in an amount sufficient to meet the requirements of paragraph (c) of this section, and such credit was thereafter maintained in accordance with the re-

quirements of this Part, and where any such credit is so secured, no other collateral shall have any loan value in respect to such credit for the purposes of this Part.

(j) **Withdrawals and substitutions of collateral.**—(1) *General rule.* Except as permitted by the next subparagraph and by section 207.4(a), while a lender maintains any purpose credit extended after February 1, 1968, the lender shall not at any time permit any withdrawal or substitution of collateral unless either (i) the credit would not exceed the maximum loan value of the collateral after such withdrawal or substitution, or (ii) the credit 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 collateral other than registered equity securities is the same as its maximum loan value and the retention requirement of collateral consisting of registered equity securities or securities convertible into registered equity securities is prescribed from time to time in section 207.5 (the Supplement to Regulation G).

(2) *Same-day substitution of collateral.* Except as prohibited by section 207.4(a) a lender may permit a substitution of registered equity securities effected by a purchase and sale on orders executed within the the same day: *Provided*, That (i) if the proceeds of the sale exceed the total cost of the purchase, the credit is reduced by at least an amount equal to the retention requirement in respect to the sale less the retention requirement in respect to the purchase, or (ii) if the total cost of the purchase exceeds the proceeds of the sale, the credit may be increased by an amount no greater than the maximum loan value of the securities purchased less the maximum loan value of the securities sold. If the maximum loan value of the collateral securing the credit has become less than the amount of the credit, the amount of the credit may nonetheless be increased if there is provided additional collateral having maximum loan value at least equal to the amount of increase, or the credit is extended pursuant to section 207.4(a).

SECTION 207.2—DEFINITIONS

For the purpose of this Part, unless the context otherwise requires:

(a) The term “**person**” means an individual, a corporation, a partnership, an association, a joint stock company, a business trust, or an unincorporated organization.

(b) The term **“in the ordinary course of his business”** means occurring or reasonably expected to occur from time to time in the course of any activity of the lender for profit or the management and preservation of property or in addition, in the case of a lender other than an individual, carrying out or in furtherance of any business purpose.

(c) The **“purpose”** of a credit is determined by substance rather than form.

(1) Credit which is for the purpose, whether immediate, incidental, or ultimate, of purchasing or carrying a registered equity security is **“purpose credit”**, despite any temporary application of funds otherwise.

(2) Credit to enable the customer to reduce or retire indebtedness which was originally incurred to purchase a registered equity security is for the purpose of **“carrying”** such a security.

(3) Credit for the purpose of purchasing or carrying a security issued by an investment company registered pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8), whose assets customarily include registered equity securities, is for the purpose of purchasing or carrying such registered equity securities.

(4) Credit for the purpose of purchasing or carrying any security convertible into a stock registered on a national securities exchange or any security carrying a warrant or right to subscribe to or purchase a stock registered on a national securities exchange is for the purpose of purchasing or carrying such registered equity securities.

(d) The term **“registered equity security”** means any equity security⁴ which (1) is registered on a national securities exchange; or (2) has unlisted trading privileges 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 Securities Exchange Act of 1934 (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 (4) any security convertible with or without consideration into such registered equity security or carrying any warrant or right to subscribe to or purchase such registered equity security, or any such warrant or right.

(e) (1) The term **“purchase”** includes any contract to buy, purchase, or otherwise acquire.

⁴ As defined in U.S.C. 78c(a)11.

(2) The term “**sale**” includes any contract to sell or otherwise dispose of.

(f) The term “**customer**” includes any recipient of the credit to whom credit is extended directly or indirectly for the use of the customer, and also includes any person engaged in a joint venture, or as a member of a syndicate or a group, with the customer with respect to a purpose loan.

(g) The term “**indirectly secured**” includes, except as provided in section 207.4(a)(3), any arrangement as to assets of the customer which (1) serves to protect the interests of the lender, (2) serves to make assets of the borrower more readily available to the lender than to other creditors of the borrower, or (3) under which the borrower surrenders the right to dispose of assets so long as the credit remains outstanding.

SECTION 207.3—REPORTS AND RECORDS

(a) Every person who is registered pursuant to section 207.1(a) of this Part shall within thirty (30) days following the end of each succeeding calendar quarter file a report on Federal Reserve Form G-4 with the Federal Reserve Bank of the district in which the principal office of the lender is located.

(b) Every person who has registered pursuant to section 207.1(a) of this Part shall maintain such records as shall be prescribed by the Board of Governors of the Federal Reserve System to enable it to perform the functions conferred upon it by the Securities Exchange Act of 1934. (15 U.S.C. 78).

SECTION 207.4—MISCELLANEOUS PROVISIONS

(a) **Stock option and employee stock purchase plans.**—In respect to any credit extended and maintained by a corporation or by a lender wholly controlled by such corporation (such corporations and such lenders are both sometimes referred to as “plan-lenders”), to an officer or employee of the corporation or subsidiary thereof to finance the exercise of rights granted such officer or employee under a stock option plan or employee stock purchase plan adopted by the corporation and approved by a majority of its stockholders to purchase registered equity securities of such corporation or subsidiary,

(1) Sections 207.1(c), (d), (f), (g), (h), and (i) of this Part shall not apply to any such credit extended to finance the exercise of such rights granted to any named officer or employee prior to February 1, 1968, and effectively exercised by such

is secured directly or indirectly by any registered security unless the agent obtains and accepts in good faith a statement signed by such lender, bank, or creditor that he does not extend or maintain credit to or for customers in violation of such Part. For this purpose such activities of an "agent" include, but are not limited to receiving securities to be used as collateral for such credit, determining whether the market value of the collateral for such credit is adequate, and requiring the deposit of additional collateral or the reduction of such credit. In determining whether there has been an extension of credit subject to the provisions of Parts 207, 220, or 221 of this Chapter, and whether he can rely in good faith on the statement described herein, the person shall (1) be alert to the circumstances surrounding the credit and (2) if he has any information which would cause a prudent man not to accept the statement without inquiry, must have investigated and be satisfied that the credit either is not subject to such Part, or is extended and maintained in conformity with such Part.

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

APPENDIX

There are printed below certain provisions of the Securities Exchange Act of 1934: (15 U.S.C., 78) :

DEFINITIONS

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 in-

stitution 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.

(11) The term "equity security" means any stock or similar security; or any security convertible, with or without consideration, into such a security; or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security which the Commission shall deem to be of similar nature and consider necessary or appropriate, by such rules and regulations as it may prescribe in the public interest or for the protection of investors, to treat as an equity security.

* * *

(13) The terms "buy" and "purchase" each include any contract to buy, purchase, or otherwise acquire.

(14) The terms "sale" and "sell" each include any contract to sell or otherwise dispose of.

* * *

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.

* * *

RESTRICTIONS ON BORROWING BY MEMBERS, BROKERS, AND DEALERS

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

regulation; 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.

* * *

ACCOUNTS AND RECORDS, REPORTS, EXAMINATIONS

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 en-

able 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.

* * *

VALIDITY OF CONTRACTS

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.

* * *

PENALTIES

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 of 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.

SPECIMEN ONLY

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

**REGISTRATION STATEMENT FOR LENDERS OTHER THAN
COMMERCIAL BANKS AND BROKERS THAT EXTEND CREDIT
SECURED BY REGISTERED EQUITY SECURITIES**

(Pursuant to Section 207.1 (a) of Federal Reserve Regulation G)

Registration Requirement ¹

Every person not subject to Federal Reserve Regulations T and U, who, in the ordinary course of business, during the calendar quarter ended December 31, 1967, extended or arranged for the extension of a total of \$50,000 or more, or had outstanding at any time during such calendar quarter a total of \$100,000 or more, in credit, against collateral that included registered equity securities shall prior to April 10, 1968 register with the Board of Governors by filing Form G-1 with the Federal Reserve Bank of the district in which the principal office of the lender is located. Thereafter, any such person not already registered who during any calendar quarter (a) extends or arranges for the extension of \$50,000 or more of such credit, or (b) has outstanding \$100,000 or more of such credit, shall register within 30 days after the end of that quarter.

General Instructions

All persons subject to the preceding registration requirement should (1) supply the background information specified below; (2) complete Schedules A and B; and (3) file a balance sheet (as of the end of the registrant's latest fiscal year).

Registrants should submit, if available, a balance sheet certified by an independent public accountant which is accompanied by the accountant's opinion and related explanatory notes. If the registrant is subject to supervision by a State or Federal regulatory authority, the balance sheet last filed with such regulatory authority may be used. If neither of the two preceding types of balance sheets is available, registrants should complete Schedule C. Balance sheets for any date prior to June 30, 1967 will not be acceptable.

Registration forms will be returned to registrants for corrections if not all items have been answered in the manner required or if the forms are otherwise unacceptable for filing.

¹ The following definitions of terms may help to clarify the meaning of this requirement; for additional definitions, see Section 207.2 of Regulation G.

Person (as used in the registration requirement): An individual, a corporation, a partnership, an association, a joint stock company, a business trust, or an unincorporated organization.

In the ordinary course of business: Occurring or reasonably expected to occur from time to time in the course of any activity of the lender for profit or the management and preservation of property or in addition, in the case of a lender other than an individual, carrying out or in furtherance of any business purpose.

Registered equity security: Any equity security which (1) is registered on a national securities exchange, (2) has unlisted trading privileges on a national securities exchange, or (3) any security convertible with or without consideration into such registered equity security or carrying any warrant or right to subscribe to or purchase or carry such registered equity security, or any such warrant or right.

BACKGROUND INFORMATION

1. Full name of registrant: IRS Employee Identification No.:

2. Name under which business is conducted, if different than as stated in No. 1:

- 3a. Address of principal place of business: (Do not use P.O. Box No.)

- b. Mailing address, if different than as stated in "a":

4. Principal lines of business:

5. Registrant is (check one)
Sole proprietorship _____ Other (specify) _____
Partnership _____
Corporation _____
6. If registrant is sole proprietor, state full residence address:

7. If registrant is a partnership, list names and nature of interest of all general partners and those limited partners that have a more than 10 per cent interest in the partnership:
- | <u>Partner</u> | <u>Nature of Interest</u> |
|----------------|---------------------------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
8. If registrant is a corporation,
- a. State date and place of incorporation:
Date _____ Place _____
- b. Furnish names and titles of all principal officers:
- | <u>Officer</u> | <u>Title</u> |
|----------------|--------------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

BACKGROUND INFORMATION (continued)

9. If registrant is other than a sole proprietor, partnership, or corporation, indicate names of principals:

- 10a. Does any person not named in Items 1 and 6 through 9, inclusive, directly or indirectly, through stock ownership, agreement, or otherwise, exercise or have power to exercise a controlling influence over the management or policies of registrant? Yes _____ No _____

- b. If answer to "a" is yes, state the name of each such person and describe the agreement or other basis through which such person exercises a controlling influence:

11. If registrant has any arrangement with any other person, firm, or organization under which any of the accounts or records of registrant are kept or maintained by such other person, firm or organization, furnish the name and address of the other person, firm, or organization:

If additional space is needed to answer any of the above items, supplemental sheets should be attached.

SIGNATURE

The Registrant filing this Form and its attachments and the person by whom it is executed represent hereby that all information contained therein is true and complete. It is understood that all applicable items and schedules are considered integral parts of this form.

Dated this _____ day of _____, 19____

(Name of Corporation, Partnership, or other organization)

(Manual signature of Sole Proprietor, General Partner, Managing Agent or Principal Officer)

(Title)

**A FALSE OR DISHONEST STATEMENT ON THIS FORM MAY BE
PUNISHABLE BY FINE OR IMPRISONMENT (U.S. CODE, TITLE 15,
SECTION 78f AND TITLE 18, SECTION 1001.)**

Schedule A
SECURITIES CREDIT OUTSTANDING AT END
OF LATEST FISCAL QUARTER
(In dollars)

(Date _____)

A. CREDIT EXTENDED TO PURCHASE OR CARRY REGISTERED EQUITY SECURITIES

1. Secured directly

- a. In whole or in part by registered equity securities _____
- b. Wholly by other collateral _____

2. Secured indirectly ¹

- a. In whole or in part by registered equity securities _____
- b. Wholly by other collateral _____

B. OTHER EXTENSIONS OF CREDIT SECURED IN WHOLE OR IN PART BY REGISTERED EQUITY SECURITIES

1. Secured directly

2. Secured indirectly ¹

Schedule B

VOLUME OF SECURITIES CREDIT EXTENDED
IN LATEST FISCAL QUARTER

(Fiscal Quarter ended _____)

	Number of loans	Volume (In dollars)
A. CREDIT EXTENDED TO PURCHASE OR CARRY REGISTERED EQUITY SECURITIES		
1. Secured directly		
a. In whole or in part by registered equity securities	_____	_____
b. Wholly by other collateral	_____	_____
2. Secured indirectly ¹		
a. In whole or in part by registered equity securities	_____	_____
b. Wholly by other collateral	_____	_____
B. OTHER EXTENSIONS OF CREDIT SECURED IN WHOLE OR IN PART BY REGISTERED EQUITY SECURITIES		
1. Secured directly	_____	_____
2. Secured indirectly ¹	_____	_____

¹ For purposes of these schedules registrants should exclude loans made pursuant to loan agreements containing negative pledge or other similar provisions. However, indicate in the boxes that follow whether your loan agreements normally contain such provisions. ☐ yes ☐ no

For specific instructions in completing these schedules see next page

Instructions for Schedules A and B

- (1) Registrants need supply data only on the lines indicated; summations will be made by the Federal Reserve.
- (2) Data on credits outstanding (Schedule A) and the volume of credits extended (Schedule B) should be reported in even dollars; cents should be omitted.
- (3) **"Registered equity securities,"** as indicated by the definition set forth at the bottom of page 1 of this registration statement, include bonds or debentures convertible into stocks registered on national securities exchanges as well as the stocks themselves. A list containing the names of all registered stocks can be obtained from your nearest Federal Reserve Bank.
- (4) Credit extensions included under Section A of Schedules A and B are **"purpose"** credits, as defined in section 207.2(c) of Regulation G; and those included under Section B of the schedules are **"non-purpose"** credits.
- (5) The term **"other collateral"** in lines A(1)b and A(2)b of both schedules includes—in addition to non-registered equity securities, non-convertible bonds, and other financial assets—any nonfinancial assets pledged against the loan.
- (6) For purposes of completing lines A(2) and B(2), the term **"secured indirectly"** means any arrangement as to assets of the borrower which (1) serves to protect the interest of the lender in insuring that the credit is repaid, or (2) serves to make assets of the borrower more readily available to the lender than to other creditors of the borrower.
- (7) A **"negative pledge"** is a covenant signed by the borrower agreeing not to sell, encumber, or otherwise dispose of any of his assets without first obtaining the consent of the lender.

Schedule C
BALANCE SHEET AT END OF LATEST FISCAL YEAR ¹

(As of _____)
Date

(To the Nearest
Dollar)

ASSETS

1. Cash, deposits, and owned securities maturing in one year or less ²
2. Notes and accounts receivable (net of allowance for bad debts of \$_____))
3. Plant, equipment and other fixed assets (net of depreciation and depletion amounting to \$_____))
4. Inventories
5. Equity in non-consolidated subsidiaries ³
6. All other assets
7. Total Assets

LIABILITIES

8. Bank loans maturing in one year or less ²
9. Other notes and accounts payable maturing in one year or less ²
10. Long-term debt
11. Other liabilities
12. Total Liabilities

NET WORTH

13. Paid-in capital, and paid-in surplus
14. Earned surplus and/or undivided profits
15. Total Net Worth
16. Total Liabilities and Net Worth

¹ To be completed *only* by firms not submitting corporate balance sheets certified by an independent public accountant or used to meet reporting requirements of supervisory agencies.

² Items maturing in one year or less include those that have shortened with the passage of time as well as items with original maturities of one year or less.

³ Includes the parent company's share of earnings retained in the non-consolidated subsidiary as well as its direct contributions of capital.

⁴ Registrants for which items 13 and 14 are not relevant should still fill in item 15.

SPECIMEN ONLY

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

**DEREGISTRATION STATEMENT FOR LENDERS REGISTERED PURSUANT TO REGULATION G
(FEDERAL RESERVE FORM G-2)**

A. For use by Non-Corporate Lenders.

Certificate

I (We), doing business under the name, _____, hereby certify that I (we) have not extended or maintained, or arranged for the extension or maintenance of any credit secured, directly or indirectly, in whole or in part by collateral that includes any registered equity securities during the six calendar months prior to the date hereof.

I (We) understand that if I (we), in the future, extend or arrange for the extension of a total of fifty thousand dollars (\$50,000) or more during any calendar quarter, or have outstanding at any time during a calendar quarter a total of one hundred thousand dollars (\$100,000) or more, in credit secured, directly or indirectly, in whole or in part, by collateral that includes any registered equity securities, I (we) shall within 30 days following the end of such calendar quarter re-register with the Board of Governors of the the Federal Reserve System by filing Federal Reserve Form G-1 with the Federal Reserve Bank of the district in which my (our) principal office is located.

This certification is given in connection with an application for termination of registration pursuant to section 207.1(b) of Regulation G of the Board of Governors of the Federal Reserve System (12 CFR 207).

Date _____

Signature _____

(Print or type name and title,
if any, below signature)

(Name of Firm)

(Type of organization, e.g.
individual proprietorship,
partnership)

**A FALSE OR DISHONEST STATEMENT ON THIS FORM MAY BE
PUNISHABLE BY FINE OR IMPRISONMENT (U. S. CODE, TITLE
15, SECTION 78ff AND TITLE 18, SECTION 1001).**

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DEREGISTRATION STATEMENT FOR LENDERS REGISTERED PURSUANT TO REGULATION G
(FEDERAL RESERVE FORM G-2)

B. For use by Corporate Lenders.

Officer's Certificate

I, _____, of _____,
a _____ corporation, do hereby certify that _____ has
not extended or maintained, or arranged for the extension or maintenance of any credit secured, directly
or indirectly, by collateral that includes any registered equity securities during the six calendar months
prior to the date hereof.

It is understood that if _____ shall, in the future, extend or arrange for
the extension of a total of fifty thousand dollars (\$50,000) or more during any calendar quarter, or has
outstanding at any time during a calendar quarter, a total of one hundred thousand dollars (\$100,000) or
more, in credit that is secured, directly or indirectly, in whole or in part, by collateral that includes any
registered equity securities, _____ shall within 30 days following the end of
such calendar quarter re-register with the Board of Governors of the Federal Reserve System, by filing
Federal Reserve Form G-1 with the Federal Reserve Bank of the District in which the principal office of
the corporation is located.

This certification is given in connection with an application for termination of registration pursuant to
section 207.1(b) of Regulation G of the Board of Governors of the Federal Reserve System (12 CFR
207).

In witness whereof I have hereunto set my hand and affixed the seal of the corporation this
_____ day of _____, 19_____.

SEAL

Signature* _____
(Print or type name and title
below signature)

ATTEST: _____
(Corporate Secretary)

* To be executed by a duly authorized president or vice president of the corporation.

A FALSE OR DISHONEST STATEMENT ON THIS FORM MAY BE
PUNISHABLE BY FINE OR IMPRISONMENT (U. S. CODE, TITLE
15, SECTION 78ff AND TITLE 18, SECTION 1001).

SPECIMEN ONLY

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF PURPOSE OF THE PROCEEDS OF AN EXTENSION OF CREDIT BY A
PERSON OTHER THAN A BANK, BROKER, OR DEALER SECURED BY REGISTERED
EQUITY SECURITIES. (FEDERAL RESERVE FORM G-3)

A FALSE OR DISHONEST STATEMENT BY THE CUSTOMER OR THE LENDER ON THIS FORM MAY BE PUNISHABLE BY FINE OR IMPRISONMENT (U.S. CODE, TITLE 18, SECTION 781, AND TITLE 18, SECTION 1001).

Please print or type (if space is inadequate attach separate sheet).

I (we), _____, have applied for an extension of credit from
(name(s))

_____ in the amount of \$_____ secured in whole
(name of lender)
or in part by registered equity securities as follows:

Part I. Registered Equity Security Collateral

Part I. Registered Equity Security Collateral				TO BE COMPLETED BY THE LENDER	
Registered equity securities (list separately by issue)	Number of shares	Source of valuation	Market value (in \$)	Source of valuation	Market value (in \$)
				Maximum loan value under Regulation G \$_____	Total: \$_____
Part II. Other Collateral					
List collateral (Itemize where 10 per cent or more)	Source of valuation	Market value (in \$)	Source of valuation	Market value (in \$)	Good faith loan value (in \$)
		Total: \$_____		Total: \$_____	Total: \$_____
			Total amount of credit granted \$_____.		

Part III.

1. The proceeds of this credit are to be used for _____
(describe in detail)

2. I (we) have owned the registered equity securities securing this credit continuously for (check one)
☐ six months or more ☐ less than six months.

I (WE) HAVE READ THIS FORM AND HEREBY CERTIFY AND AFFIRM THAT TO THE BEST OF MY (OUR) KNOWLEDGE AND BELIEF THE STATEMENTS REQUIRED OF ME (US) ARE TRUE, ACCURATE, AND COMPLETE.

Manual signature of customer (s):

DATE _____

(SIGNED) _____

(Print name under each signature)

(Street address)

(City, state)

Part IV.

TO BE COMPLETED BY LENDER

1. State amount of any other credit extended to the customer(s) (a) secured in whole or in part, directly or indirectly, by any portion of collateral listed in Parts I and II: \$ _____ and (b) unsecured credit in excess of \$5,000 in the aggregate \$ _____.
2. Is the collateral listed in Part I to be delivered or has the collateral been delivered from a bank, broker, dealer, or a person other than the customer? _____ Against payment? _____

I HAVE SUPPLIED THE INFORMATION REQUIRED OF THE LENDER AND ACCEPT THE CUSTOMER'S STATEMENT ON THIS FORM IN GOOD FAITH AS DEFINED BELOW.* I AM FAMILIAR WITH THE PROVISIONS OF REGULATION G.

DATE _____

(SIGNED) _____

(Print name and title under signature)

(Name of lender)

(Street address)

(City, state)

* Regulation G requires that the customer's statement on this form be accepted by the lender acting in good faith. Good faith requires that such lender (1) must be alert to the circumstances surrounding the credit, and (2) if he has any information which would cause a prudent man not to accept the statement without inquiry, has investigated and is satisfied that the statement is truthful.

This form must be retained by the lender for at least six years after the termination of the credit.

SUPPLEMENT TO REGULATION G

SECTION 207.5—SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective March 11, 1968

(a) Maximum loan value of registered equity securities.—For the purpose of section 207.1, the maximum loan value of any registered equity security, except convertible securities subject to section 207.1(d), shall be 30 per cent of its current market value, as determined by any reasonable method.

(b) Maximum loan value of convertible securities subject to section 207.1(d).—For the purpose of section 207.1, the maximum loan value of any security against which credit is extended pursuant to section 207.1 (d) shall be 50 per cent of its current market value, as determined by any reasonable method.

(c) Retention requirement.—For the purpose of section 207.1, 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 registered equity security and of a security against which credit is extended pursuant to section 207.1(d) shall be 70 per cent of its current market value, as determined by any reasonable method.



FEDERAL RESERVE

press release

For immediate release.

February 1, 1968.

The Board of Governors of the Federal Reserve System announced today that it has adopted a number of changes to broaden the coverage of, and, in most respects, to tighten its regulations governing the use of credit in stock market transactions. These changes are based on proposals which were published for comment on October 20, 1967. Interested persons were asked to submit their comments in writing by November 20, 1967. The proposals have been revised extensively in the light of numerous comments received in response to the Board's invitation. As adopted, the changes will:

1. Extend the period in which a broker or dealer must obtain the customer's margin deposit on a margin transaction by one day, to five full business days after the transaction. This change will become effective on February 5, 1968. The purpose of this liberalizing proposal is to reduce the current pressures on bookkeeping departments of brokerage firms by insuring that a weekend will always be included in the period of time within which the deposit must be obtained.

The margin required on stock transactions remains unchanged at 70 per cent. This means in effect that anyone buying a \$100 stock on credit must deposit in his margin account at least \$70 in cash, or securities with an equivalent loan value.

2. Impose a new margin requirement on loans made by banks for the purpose of purchasing or carrying securities convertible into registered stock. This requirement will be set independently of the margin requirement for loans to purchase or carry registered stock, and is fixed initially at 50 per cent in recognition of the fact that convertible securities combine characteristics of both stocks and bonds. The same requirement applies to loans by brokers and dealers on registered convertible securities, instead of the present 70 per cent, but margin requirements are removed from loans they make on non-convertible bonds. In consequence, banks, brokers and dealers will be on substantially the same footing in these respects.

Beginning March 11, the 50 per cent initial requirement will apply to all new loans on convertibles by banks, brokers and dealers, or other lenders. On loans made by banks between October 20, 1967, and March 11, 1968, a fully margined status must be achieved by April 10; bank loans made before October 20, 1967, are not affected unless there have been subsequent substitutions of collateral or conversions into stock. On loans made by lenders other than banks or brokers and dealers between February 1, 1968, and March 11, 1968, a fully margined status must also be achieved by April 10, 1968.

For all lenders--banks, brokers and others--loans on convertibles that have a margin status below the prescribed 50 per cent will be subject to a 70 per cent "retention requirement": that is, 70 per cent of the proceeds from a sale of these securities will have to be retained to improve the status of the loan until it is margined at the full 50 per cent.

3. Require that non-convertible bonds and exempted securities (e.g., Government securities) on the one hand, and convertible securities on the other, be segregated in two new accounts, separate from the ordinary margin account in which only stock may be held. The purpose of requiring

separate accounts is to foreclose use of the "same-day-substitution" privilege to circumvent the retention requirement for accounts that are below the prescribed margin. Placing convertible securities in a separate account will also, it is believed, avoid some bookkeeping and other mechanical problems which would result from having in the same margin account securities with different loan values.

4. Require that collateral in special subscription accounts-- that is, securities acquired by the exercise of subscription rights on the preferential 25 per cent initial margin presently allowed for such acquisitions--be brought into "fully margined" status by payments in four equal quarterly instalments. This provision, as adopted, requires that when a payment is not made, the bank, broker or dealer sell enough collateral so that the remaining credit will be roughly in the same proportion to the collateral remaining in the account as if the payment had been made. As originally proposed, the changes would have required all the collateral in the account to be sold, and the loan paid off, if a payment were missed.

5. Introduce a new regulation (designated "Regulation G") to extend to other lenders margin requirements corresponding to those long applicable to brokers, dealers, and banks on credit extended for the purpose of purchasing or carrying registered equity securities.

The "other lenders" whose security loans are thus put on a corresponding footing with those of banks and brokers include the following: "factors," "collateral lenders," and others whose stock loans usually rise during periods when both margin requirements and stock market activity are high; insurance companies; tax-exempt organizations; credit unions; finance companies; those State-chartered savings and loan associations

authorized to make such loans; and anyone acting as agent for a lender-- foreign or domestic--in handling securities loans.

The new Regulation G does not apply to any credit extended before February 1, 1968, and persons extending credit in relatively small amounts will not be subject to its requirements. Only credit on registered equity securities (stocks and securities convertible into stock) will be subject to the regulation (as contrasted with the proposals, which applied to credit on all registered securities). Lenders extending more than \$50,000 in credit in any calendar quarter against registered equity securities, or whose loans against such securities amount to \$100,000 at any time during the quarter, must register with the Board by the end of the month following the close of the quarter. Margin requirements will apply to any loan made for the purpose of purchasing or carrying registered equity securities by a person subject to the registration requirement, and all registered lenders must file quarterly reports.

An exception from initial margin requirements is provided for credit extended by corporations to finance the exercise of stock purchase rights granted officers and employees under corporate plans that contain certain safeguards designed to make it less likely that the credit will be repaid with proceeds of the sale of the securities. Exceptions are also made for borrowing to finance plans of this kind, and for rights that were granted prior to February 1, 1968.

6. Require that banks and other persons performing certain services "as agent" for foreign and other stock market lenders obtain a signed statement from their principals to the effect that the activities of the principal conform to the applicable margin regulations. The agent may

act in reliance on such a statement. A similar requirement has been inserted into Regulation T, as to services by brokers and dealers. Also, banks and other lenders will be forbidden to arrange for credit on lower margin than they can extend themselves; brokers and dealers have long been subject to this rule.

7. Require that banks and other lenders obtain from the borrower a signed statement of the purpose of any stock-secured loan, on a form prescribed by the Board, determine in good faith that the statement is correct, and sign it as so accepted. A false statement on the form may be punishable by fine or imprisonment. The forms will have to be kept in the records of the bank or lender for at least six years after the credit is extinguished. Loans by brokers and dealers are generally for the purpose of purchasing or carrying securities, and no statement of purpose is ordinarily required in connection with such loans.

In adopting the new provisions relating to convertible securities, the Board also published for comment a proposal to exempt from margin requirements loans made by banks to dealers to finance their market-making activities in convertible securities. If adopted, this exemption would become effective not later than March 11, 1968. Dealers who wish to be eligible for the exemption should begin to file reports promptly on Federal Reserve Form U-3, copies of which will be available from any Federal Reserve Bank. Information supplied on such reports will be accorded confidential treatment, in conformity with the Board's rules.

Margin requirements were established initially in October, 1934, under authority Congress granted the Federal Reserve Board in the Securities Exchange Act of 1934 "for the purpose of preventing the excessive use of credit for the purchase or carrying of securities."

Under present law, margin requirements can be applied only to loans for the purpose of purchasing or carrying securities registered on a national securities exchange. The Reserve Board has, however, submitted to Congress a legislative proposal that would provide authority to apply margin regulations also to securities that are actively traded in the over-the-counter market.