

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 68-69
March 14, 1968

TECHNICAL AMENDMENTS TO REGULATIONS T, U, AND G

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

The Board of Governors of the Federal Reserve System has adopted technical amendments to Regulations T, U, and G, effective March 11, 1968. Attached is a copy of the press statement regarding the amendments.

Copies of the amendments are enclosed. Member banks are requested to insert the amendments in the ring binder containing the Regulations of the Board of Governors and the Bulletins of this Bank.

Yours very truly,

P. E. Coldwell
President

Enclosures (4)



FEDERAL RESERVE

press release

For immediate release.

March 8, 1968.

The Board of Governors of the Federal Reserve System announced today the adoption of technical amendments to its regulations governing the use of credit in stock market transactions. These regulations are Regulation T, applying to brokers and dealers, Regulation U, applying to banks, and Regulation G, covering securities loans by others. All of the amendments are technical in nature and designed to clarify certain changes in the margin regulations announced by the Board on February 1, 1968, to become effective on March 11, 1968.

The amendments, which also become effective March 11, 1968, will:

1. Clarify that the 50 per cent margin requirements applicable to convertible securities was intended to apply only to convertible debt securities and not to preferred stocks.
2. Sharpen the definition of the term "indirectly secured" in Regulations U and G to make it clear that securities owned by a borrower will not be treated as collateral for a loan under this section merely because a negative covenant (e.g., restrictions on sale or pledge of assets without the consent of the lender) has been included in the loan agreement, so long as the bank or other lender has in good faith not relied on the securities in making the loan. As previously published, the definition of

this term could have been interpreted as including routine negative covenant arrangements common in financial transactions. This change will also eliminate certain technical and administrative difficulties which would otherwise arise in completing the statement as to the purpose of the loan which is required under Regulations U and G.

3. Eliminate the requirement that banks obtain "purpose statements" in connection with routine transactions involving loans to brokers and dealers, who are subject to supervision and control under other governmental regulations and certain loans that are exempt from regulation, regardless of purpose.

4. Clarify the method by which short sales of convertible bonds are to be carried out under Regulation T.

The Board took no action today on a proposed amendment to Regulation U that would, if adopted, exempt from margin regulation loans by banks to broker/dealer firms to finance their market-making activities in convertible bonds. When this proposed amendment was announced on February 1, firms that believed they might be eligible for such an exemption were invited to file, as promptly as possible, reports on their activities in this regard. The Board has not yet received sufficient data to form a basis for a determination as to whether such an exemption is justified and action has been deferred pending receipt and analysis of additional reports.

The text of the amendments will be published in the Federal Register and will be available at the Federal Reserve Board and the Federal Reserve Banks.

**CREDIT BY BANKS FOR THE PURPOSE OF
PURCHASING OR CARRYING REGISTERED STOCKS
TECHNICAL AMENDMENTS TO REGULATION U**

(12 CFR 221)

Effective March 11, 1968

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

1. Section 221.3(a) is amended to read as follows :

SECTION 221.3 — MISCELLANEOUS PROVISIONS.

(a) **Required statement as to stock-secured loan.** In connection with an extension of credit secured directly or indirectly by any stock, the bank shall obtain and retain in its records for at least six years after such credit is extinguished a statement in conformity with the requirements of Federal Reserve Form U-1 executed by the recipient of such extension of credit (sometimes referred to as the "customer") and executed and accepted in good faith by a duly authorized officer of the bank prior to such extension: *Provided*, That this requirement shall not apply to any credit described in paragraph (o) of this section or section 221.2 of this Part except for credit described in paragraphs 221.2(f), (g) and (h) extended to persons who are not brokers or dealers subject to Part 220 of this Chapter (Regulation T). In determining whether or not an extension of credit is for the purpose specified in section 221.1 or for any of the purposes specified in section 221.2 the bank may rely on the statement executed by the customer if accepted in good faith. To accept the customer's statement in good faith, the officer 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.

* * *

2. Section 221.3(c) is amended to read as follows :

SECTION 221.3 — MISCELLANEOUS PROVISIONS.

* * *

(c) **Indirectly secured.** The term "indirectly secured" includes any arrangement with the customer under which the customer's right or ability to sell, pledge, or otherwise dispose of stock owned by the customer is in any way restricted so long as the credit remains outstanding, or under which the exercise of such right, whether by written agreement or otherwise, is cause for acceleration of the maturity of the credit: *Provided*, That the foregoing shall not apply (1) if such restriction arises solely by virtue of an arrangement with the customer which pertains generally to the customer's assets unless a substantial part of such assets consists of stock, or (2) if the bank in good faith has not relied upon

such stock as collateral in the extension or maintenance of the particular credit: *And provided further*, That the foregoing shall not apply to stock held by the bank only in the capacity of custodian, depository, or trustee, or under similar circumstances, if the bank in good faith has not relied upon such stock as collateral in the extension or maintenance of the particular credit

* * *

3. Section 221.3(t)(1) and (4) are amended to read as follows:

SECTION 221.3 — MISCELLANEOUS PROVISIONS.

* * *

(t) **Credit on convertible debt securities.** (1) a bank may extend credit for the purpose specified in section 221.1 on collateral consisting of any debt security convertible into a stock registered on a national securities exchange or any debt security carrying a warrant or right to subscribe to or purchase a stock so registered (such a debt security is sometimes referred to herein as a “convertible security”).

* * *

(4) In the event that any stock is substituted for a convertible security held as collateral for a credit extended under this paragraph, the stock and any credit extended on it in compliance with this Part shall thereupon be treated as subject to section 221.1 and the credit extended under this paragraph shall be reduced by an amount equal to the maximum loan value of the security withdrawn.

* * *

4. Section 221.4(b) and (c) is amended to read as follows:

SECTION 221.4 — SUPPLEMENT.

* * *

(b) **Maximum loan value of convertible debt securities subject to section 221.3(t).** For the purpose of section 221.3(t), the maximum loan value of any security against which credit is extended pursuant to section 221.3(t) shall be 50 per cent of its current market value, as determined by any reasonable method.

(c) **Retention requirement.** For the purpose of section 221.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the “retention requirement” of a stock, whether or not registered on a national securities exchange, and of a convertible debt security subject to section 221.3(t), shall be 70 per cent of its current market value, as determined by any reasonable method.

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**CREDIT BY PERSONS OTHER THAN BANKS, BROKERS,
OR DEALERS FOR THE PURPOSE OF PURCHASING OR
CARRYING REGISTERED EQUITY SECURITIES
TECHNICAL AMENDMENTS TO REGULATION G**

(12 CFR 207)

Effective March 11, 1968

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

1. Section 207.1(d)(1) and (4) is amended to read as follows:

SECTION 207.1 — GENERAL RULE.

* * *

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

* * *

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

* * *

2. Section 207.2(g) is amended to read as follows:

SECTION 207.2 — DEFINITIONS.

* * *

(g) The term "*indirectly secured*" includes, except as provided in section 207.4(a)(3), any arrangement with the customer under which the customer's right or ability to sell, pledge, or otherwise dispose of registered equity securities owned by the customer is in any way restricted

so long as the credit remains outstanding, or under which the exercise of such right, whether by written agreement or otherwise, is cause for acceleration of the maturity of the credit: *Provided*, That the foregoing shall not apply (1) if such restriction arises solely by virtue of an arrangement with the customer which pertains generally to the customer's assets unless a substantial part of such assets consists of registered equity securities, or (2) if the lender in good faith has not relied upon such securities as collateral in the extension or maintenance of the particular credit: *And provided further*, That the foregoing shall not apply to stock held by the lender only in the capacity of custodian, depository or trustee, or under similar circumstances, if the lender in good faith has not relied upon such securities as collateral in the extension or maintenance of the particular credit.

* * *

3. Section 207.4(a) (1) is amended to read as follows:

SECTION 207.4 — MISCELLANEOUS PROVISIONS.

(a) **Stock option and employee stock purchase plans.*** * *

(1) Sections 207.1(c), (d), (f), (g), (h), (i), and (j) of this Part shall not apply (i) 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 officer or employee prior to February 1, 1969, or (ii) to any credit extended prior to February 1, 1969, to a plan-lender pursuant to a bona fide written commitment in existence on February 1, 1968, to finance the exercise of such rights and by such plan-lender from the proceeds of such credit to any officer or employee to finance the exercise of rights granted pursuant to a stock purchase plan under which the exercise price does not exceed 50 per cent of the market value of the stock subject to purchase, valued as of the offering date thereof.

* * *

4. Section 207.5(b) is amended to read as follows:

(b) **Maximum loan value of convertible debt 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.

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