

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 69-37  
February 13, 1969

PROPOSED AMENDMENTS TO REGULATIONS G, T, AND U

To the Regulation G Registrant Addressed:

There is attached for your information a copy of a press statement issued by the Board of Governors of the Federal Reserve System relating to proposed amendments to Regulations G, T, and U to implement the recently enacted "Over-The-Counter Margin Act".

Also attached are copies of the Notice of Proposed Rule Making and the proposed amended Regulation G in the form in which they are being submitted for publication in the Federal Register.

Written comments on the proposed amendments may be forwarded to this Bank, and should be received not later than March 17, 1969.

Yours very truly,

P. E. Coldwell

President

Enclosures (3)



# FEDERAL RESERVE

press release

For release in morning papers  
Tuesday, February 11, 1969.

February 10, 1969.

The Board of Governors of the Federal Reserve System announced today proposals to amend margin Regulations G, T, and U to implement the recent amendment to the Securities Exchange Act of 1934. Signed into law on July 29, 1968, the so called "Over-The-Counter Margin Act" (P.L. 90-437) broadens the Board's authority over stock market credit to cover certain securities that are not registered on a national securities exchange, and leaves to the Board the timing and selection of criteria for the application of margin requirements to such "over-the-counter" (OTC) stocks.

Regulation G applies to "Credit By Persons Other Than Banks, Brokers, or Dealers for Purpose of Purchasing or Carrying Registered Equity Securities," Regulation T concerns "Credit By Brokers, Dealers, and Members of National Securities Exchanges," while Regulation U covers "Credit By Banks for the Purpose of Purchasing or Carrying Registered Stocks."

The proposals, on which the Board has invited comment through the Federal Reserve Banks from interested persons by March 17, 1969, are principally designed to include in the regulations the criteria under which the Board would select the OTC stocks which would be subject to the margin and other requirements of the regulations.

Initially, "OTC margin stock" would be stock, not traded on a national securities exchange, which the Board determines to have the degree of national investor interest, the depth and breadth of market, the availability of information respecting such stocks and their issuers, and the character

and permanence of the issuers, to warrant treatment similar to stocks that are registered on such exchanges. The Board would publish a list of "OTC margin stocks" at the time the regulations became effective.

In a related change, bank loans to broker/dealers against inventory positions in OTC margin stocks used to make a bona fide market would be exempt from margin regulation in much the same way as are loans to specialists making a market in stocks registered on exchanges. The criteria used to determine which broker/dealers are entitled to the exemption are designed to ensure, so far as possible, that an "OTC Market Maker" does in fact make a market in the stock, stands ready at all times (within reason) to buy or sell the stock, and does not unjustifiably "back away" from the market. Any registered broker/dealer would be eligible for designation as an "OTC Market Maker" if he meets the standards set forth in Regulation U, files with the Securities and Exchange Commission a notice of his intent to begin or continue such market-making activity and continues to file such other reports as are required pursuant to a rule to be adopted by the Commission respecting market makers in OTC margin stocks.

In another change, the definition of "creditor" in Regulation T would be broadened to cover all brokers and dealers. This would bring under provisions of the new margin requirements brokers and dealers who now handle OTC accounts exclusively. In addition, exempt credit through a special omnibus account would be available only to brokers and dealers actually subject to the regulation.

At present, Regulation T applies to brokers and dealers who are members of an exchange or who transact business through a member firm. Credit which is exempt from margin requirements can be extended by broker-dealers

through a special omnibus account to persons, including foreign firms, who certify that they observe the regulation even though they are not subject to it.

The proposed change is not designed to make foreign banks or broker-dealers subject to U. S. supervision, but only to limit the use of the special omnibus account privilege to institutions that certify that they are actually subject to Regulation T. The privilege would no longer be available to organizations--including foreign financial institutions and others--that prefer not to make such a certification.

A special omnibus account is an account in which a member of an exchange may make wholesale transactions for other brokers without regard to margin requirements. These transactions involve customers' securities on which margin requirements have already been imposed at the retail level. The Department of Justice and the SEC recently presented to The House Banking and Currency Committee evidence of abuses whereby special omnibus accounts have been used by some foreign financial institutions to avoid U. S. margin requirements.

If the proposal is adopted, most firms borrowing in special omnibus accounts would not be affected. However, in the case of omnibus account credit extended to brokers or dealers who did not certify that they were subject to Regulation T, no further substitutions of collateral would be permitted after ninety days from the adoption of the amended regulation. Credit extended in such accounts would have to be brought into conformity with ordinary margin requirements within a year.

At the same time, the Board incorporated into the current proposal the broadened coverage of margin Regulations G and U that it originally proposed last December. This applied to loans on mutual fund shares and would

bring "equity funding" plans or programs under both regulations. Under the current proposal, all brokers or dealers, including those selling equity funding plans or programs, would be subject to Regulation T. Regulation T prohibits loans on mutual fund shares. The Board, at the request of some firms engaged in extending credit on such plans or programs, plans shortly to schedule an oral presentation on this aspect of its proposals.

A number of other conforming changes of a technical nature are also made throughout the regulation as necessary or appropriate.

In a change unrelated to the implementation of P.L. 90-437, the provision in Regulation G regarding stock options and employee stock purchase plans would be amended to make clear that an increase in the current market value of the collateral may be taken into consideration in determining whether its maximum loan value is equal to the outstanding credit owing pursuant to that provision's withdrawal requirements. In other unrelated changes, the time for retaining Federal Reserve Forms G-3 and U-1 (the "purpose statements" required by Regulations G and U) would be reduced from six to three years to ease the burden of record retention, and statements obtained by brokers and dealers in connection with "non-purpose" extensions of credit collateralized by regulated securities would be obtained on a new Federal Reserve Form T-4.

Attached are copies of the proposed amended regulations which, with the exception of the indications of textual changes, are in the form in which they will be submitted for publication to the Federal Register.

## FEDERAL RESERVE SYSTEM

[12 CFR Part 207]

[Reg. G]

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

## Notice of Proposed Rule Making

Pursuant to the authority contained in the Securities Exchange Act of 1934 (15 U.S.C. 78g), as amended by the Act of July 29, 1968 (P.L. 90-437; 82 Stat. 452), the Board of Governors of the Federal Reserve System is considering amending Part 207 (Regulation G) as set forth below<sup>1/</sup> in order to regulate the amount of credit that may be extended with respect to certain securities that are not registered on a national securities exchange.

P.L. 90-437 broadens the Board's authority over stock market credit to cover "over-the-counter" (OTC) stocks. The legislation leaves to the Board the timing and selection of criteria for the implementation of OTC margin requirements.

The proposed amendments to Regulation G are principally designed to include in the regulation the criteria under which the Board will select OTC stocks which would be subject to the margin and other requirements of the regulation. Initially, such "OTC margin stock" would be stocks, not traded on a national securities exchange, which the Board has determined to have the degree of national investor interest, the depth and breadth of market, the availability of information respecting such stocks and their issuers, and the character and permanence of the issuers to warrant

---

<sup>1/</sup> Copies of the proposed amended regulation, indicating textual changes, are available at the offices of the Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

treatment similar to stocks that are registered on such exchanges.

The proposal would also introduce to the regulation the term "regulated equity security", which would encompass registered equity securities, OTC margin stock, shares of most investment companies registered pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8), "equity funding" plans or programs, and debt securities convertible into or carrying warrants or rights to subscribe to or purchase a regulated equity security. With the exception of OTC margin stock and equity funding plans or programs, virtually all of these securities have hitherto been included within the definition of "registered equity security." A proposal to include "equity funding" plans or programs within the coverage of the regulation was published for comment in the Federal Register on December 17, 1968 (33 F.R. 18629). Accordingly, the term "regulated equity security" would be substituted where appropriate for the term "registered equity security" throughout this Part, with corresponding conforming changes.

The proposal would amend the regulation to include a definition of "stock" substantially similar to that contained in Regulation U (12 CFR Part 221). In addition it would clarify that for the purpose of Part 207 it is immaterial whether a debt security is convertible, with or without consideration, presently or in the future, into a regulated equity security.

In a change unrelated to the implementation of P.L. 90-437, the provisions regarding stock options and employee stock purchase plans would be amended to clarify that an increase in the current market value

of the collateral may be taken into consideration in determining whether its maximum loan value is equal to the outstanding credit owing pursuant to the withdrawal requirements of § 207.4(a)(2)(iii)(B) and to make the provisions of § 207.4(a)(3) conform to the parallel provision in Regulation U (12 CFR 221.2(b)). In other unrelated changes, the definition of "indirectly secured" would be clarified to indicate that credit is indirectly secured if there is any arrangement that may accelerate the maturity of the credit, and, to ease record retention burdens, the time for retaining Federal Reserve Form G-3, (the "purpose statement" required pursuant to § 207.1(e)) would be reduced from six to three years.

This notice is published pursuant to section 553(b) of Title 5, United States Code, and § 262.2(a) of the rules of procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2(a)).

To aid in the consideration of this matter by the Board, interested persons are invited to submit, in writing, relevant data, views, or arguments. Such material should be submitted to any Federal Reserve Bank, to be received not later than March 17, 1969. Under the Board's rules regarding availability of information (12 CFR 261), such materials will be made available for inspection and copying to any person upon request unless the person submitting the material requests that it be considered confidential.

Dated at Washington, D. C., this 10th day of February 1969.

By order of the Board of Governors.

(Signed) Robert P. Forrestal

---

Robert P. Forrestal,  
Assistant Secretary.



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

REGULATIONS

Sec.

- 207.1 General rule.
- 207.2 Definitions.
- 207.3 Reports and records.
- 207.4 Miscellaneous provisions.
- 207.5 Supplement.

Authority: The provisions of this Part 207 issued under section 7 of the Securities Exchange Act of 1934 (15 U.S.C. 78g) as amended by P.L. 90-437 (82 Stat. 452).

§ 207.1 General rule.

(a) Registration. - Every person who, in the ordinary course of his business <sup>1/</sup>, 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~~ regulated 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 such person 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.~~

1/ See § 207.2(b).

(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 regulated 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 such person 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 regulated equity security<sup>1/2/</sup> (hereinafter called "purpose credit"), if such credit is secured directly or indirectly<sup>2/ 3/</sup> 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 § 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 regulated equity securities in § 207.5 (the Supplement to Regulation G), or as determined by the lender in good faith for any collateral other than registered regulated 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

---

<sup>1/ 2/</sup> See § 207.2(d).

<sup>2/ 3/</sup> See § .207.2(g)(i)

credit-extended-after-February-1,-1968,-and-before-March-11,-1968,-any-reduction-in-the-credit-or-deposit-of-collateral-required-to-meet-this-requirements shall-be-accomplished-by-April-10,-1968.

(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 (i) convertible with or without consideration, presently or in the future, into a registered regulated equity security or (ii) any-debt-security carrying a any warrant or right to subscribe to or purchase such a registered regulated equity security (such a convertible debt security is sometimes referred to herein 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)~~ (1) 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)~~ (ii) the maximum loan value of the collateral shall be as prescribed from time to time in § 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 registered regulated stock equity security other than a convertible security is substituted for a convertible

security held as collateral for a credit extended under this section, such registered stock regulated equity security 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.

(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 regulated equity security, every person who is subject to the registration requirement of paragraph (a) of this section 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 such person. Such person shall retain such statement in his records for at least ~~six~~ three years after such credit is extinguished. In determining whether credit is "purpose credit", such person may rely on the statement executed by the customer if accepted in good faith. To accept the customer's statement in good faith, such person must (1) be alert to the circumstances surrounding the credit and (2) if he has any further 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 such person 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 regulated equity securities, whether or not payment was made against

delivery, (2) there were frequent substitutions of registered regulated 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 regulated equity security to any person customer who is subject to Part 220 of this Chapter (Regulation T) without collateral or on collateral consisting of registered regulated securities (other than exempted securities ~~3/~~ 4/). Where the credit is to be used in the ordinary course of business of such person customer, such credit is presumed to be for the purpose of purchasing or carrying registered regulated equity securities unless the lender has in his records a statement to the contrary obtained and executed in conformity with the requirements of paragraph (e) of this section.

(2) The prohibition of this paragraph (f) shall not apply to a credit which is unsecured or secured by collateral other than registered regulated equity securities, and which is (1) made to a dealer (as defined in § 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 3/ 4/ As defined in 15 U.S.C. 78c(a)(12).

to a person customer 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 arrange for the extension of any purpose credit, or maintain or 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 regulated equity security which also secures, directly or indirectly, in whole or in part, any other credit in excess of \$5,000 extended to the same customer after February 1, 1968; and no lender shall have outstanding at the same time to the same customer both such purpose credit and any such other credit; Provided, That the prohibitions of this paragraph shall not apply to (i) credit extended for the purpose of purchasing, constructing, maintaining, or improving a dwelling which is occupied or to be occupied by the customer as his principal residence, and is secured by a first lien on such dwelling; or (ii) to credit secured by a share account or other claim acquired by the customer from the lender independently of the credit and payable (or entitling the holder to a loan thereon) in a dollar amount determined without regard to the market value of the assets supporting the claim.

(i) Purpose credit secured by both registered regulated equity securities and by other collateral. - In the case of any purpose credit extended or arranged after February 1, 1968, secured, directly or indirectly,

in whole or in part, by any registered regulated equity security, no other collateral shall have any loan value in respect to such credit for the purpose of this Part: Provided, however, That a share account or other claim acquired by the customer from the lender independently of the credit and payable (or entitling the holder to a loan thereon) in a dollar amount determined without regard to the market value of the assets supporting the claim shall have a maximum loan value as determined by the lender in good faith.

(j) Withdrawals and substitutions of collateral. - (1) General rule. Except as permitted by the next subparagraph and by § 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 regulated equity securities is the same as its maximum loan value and the retention requirement of collateral consisting of registered regulated equity securities or debt securities convertible into registered regulated equity securities is prescribed from time to time in § 207.5 (the Supplement to Regulation G).

(2) Same-day substitution of collateral. - Except as prohibited by § 207.4(a) a lender may permit a substitution of registered regulated equity securities effected by a purchase and sale on orders executed within 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 § 207.4(a).

§ 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 a person for profit or the management and preservation of property or in addition, in the case of a person 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 regulated 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 regulated equity security is for the purpose of "carrying" such a security.

(d) Regulated equity security. - The term "regulated equity security" means any equity security ~~4/~~ 5/ which is (1) a registered equity security, (2) an OTC margin stock, (3) a debt security (i) convertible with or without consideration, presently or in the future, into a regulated equity security, or (ii) carrying any warrant or right to subscribe to or purchase, presently or in the future, a regulated equity security, (4) any such warrant or right, (5) 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), unless at least 95 per cent of the assets of such company are continuously invested in exempted securities 6/ and (6) a plan, program, or investment contract offered or sold after April 30, 1969, which provides for the acquisition both of any securities described in this paragraph (d) and of goods, services, other securities, or investments.

~~(d)~~(e) Registered equity security. - ~~(1)~~ The term "registered equity security" means any equity security ~~4/~~ which ~~(1)~~(1) is registered on a national securities exchange, ~~(11)~~(2) has unlisted trading privileges on a national securities exchange, or ~~(111)~~(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.

4/ 5/ As defined in 15 U.S.C. 78c(a)(11).

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

(2) -- Credit for the purpose of purchasing or carrying (i) any security convertible with or without consideration into a registered equity security or carrying any warrant or right to subscribe to or purchase a registered equity security or any such warrant or right, or (ii) any 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 registered equity securities, and such security, or such warrant or right, shall for purposes of this Part be treated as if it were a registered equity security.

(f) OTC margin stock. - (1) The term "OTC margin stock" means stock, not traded on a national securities exchange, which the Board of Governors of the Federal Reserve System has determined to have the degree of national investor interest, the depth and breadth of market, the availability of information respecting the stock and its issuer, and the character and permanence of the issuer to warrant such treatment.

(2) The Board will from time to time publish a list of OTC margin stocks as to which the Board has made the determinations described in subparagraph (1) of this paragraph (f). Except as provided in subparagraph (4) of this paragraph (f), such stocks shall meet the requirements that:

(i) The stock is subject to registration under § 12 (g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g)(1)), or if issued by an insurance company subject to § 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) the issuer had at least \$1 million of capital and surplus,

(ii) Five or more dealers, stand willing to, and do in fact, make a market in such stock including making regularly published bona fide bids and offers for such stock for their own accounts, or the stock is registered on a securities exchange that is exempted by the Securities and Exchange Commission from registration as a national securities exchange pursuant to section 5 of the Act (15 U.S.C. 78e),

(iii) There are 1500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(iv) The issuer, or a predecessor in interest, has been in existence for at least three years,

(v) The stock has been publicly traded for at least six months, and

(vi) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;

and shall meet three of the four additional requirements that:

(vii) There are 500,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(viii) The shares described in subdivision (vii) of this subparagraph have a market value in the aggregate of at least \$10 million,

(ix) The minimum average bid price of such stock, as determined by the Board in the latest month, is at least \$10 per share, and

(x) The issuer had at least \$5 million of capital, surplus, and undivided profits.

(3) The Board shall from time to time remove from the list described in subparagraph (2) of this paragraph (f) stocks that cease to:

- (i) Exist or for which the issuer ceases to exist, or
- (ii) Meet substantially, the provisions of subparagraphs (1) and (2) of this paragraph (f).

(4) The foregoing notwithstanding, the Board may, upon its own initiative, or upon application by any interested party, omit or remove any stock that is not traded on a national securities exchange from or add any such stock to such list of OTC margin stocks, if in the judgment of the Board, such action is necessary or appropriate in the public interest.

(5) It shall be unlawful for any person to make, or cause to be made, any representation to the effect that the inclusion of a security on such list of OTC margin stocks is evidence that the Board or the Securities and Exchange Commission has in any way passed upon the merits of, or given approval to such security or any transaction therein. Any statement, advertisement, or other similar communication containing a reference to the Board in connection with such stocks or such list shall constitute such an unlawful representation.

(e)(g) (1) The term "purchase" includes any contract to buy, purchase, or otherwise acquire.

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

(f)(h) 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)(i) The term "indirectly secured" includes, except as provided in § 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 regulated equity securities owned by the customer is in any way restricted as long as the credit remains outstanding, or under which the exercise of such right, whether by written agreement or otherwise, is or may be cause ~~of~~ ~~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 regulated 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.

(j) The term "stock" includes any security commonly known as a stock; any voting trust certificate or other instrument representing such a security; any security convertible with or without consideration into such security, certificate or other instrument, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right.

§ 207.3 Reports and records.

(a) Every person who is registered pursuant to § 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 § 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).

§ 207.4 Miscellaneous provisions.

(a) Stock option and employee stock purchase plans. - In respect to any credit extended and maintained by a corporation, by a lender wholly controlled by such corporation, or by a lender which is a membership thrift organization whose membership is limited to employees and former employees of such corporation, its subsidiaries, or affiliates (such corporations and such lenders are both sometimes referred to as "plan-lenders"), to an officer or employee of the corporation, subsidiary or affiliate 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~~ regulated equity securities of such corporation, subsidiary or affiliate,

(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.

(2) The restrictions imposed by § 207.1(c) and (d) and § 207.5 (the Supplement to this Part) on the maximum loan value of ~~registered~~ regulated equity securities serving as collateral for purpose credit shall not apply to securities purchased, and serving as direct or indirect collateral for credit extended, pursuant to such a plan, Provided, That

(i) The entire amount of credit extended to any officer or employee pursuant to this ~~paragraph~~ subparagraph (2) in connection with the exercise of rights under such plan or plans shall be considered a single credit;

(ii) At the time when credit is extended under a plan subject to this ~~paragraph~~ subparagraph, (A) the plan-lender computes the amount by which the credit exceeds the maximum loan value of the collateral as prescribed by § 207.5 (the Supplement to Regulation G), (the "deficiency"), and (B) the agreement under which the credit is extended provides that except as permitted by the proviso in ~~subparagraph (iii)~~ subdivision (iii) of this subparagraph the officer or employee shall, in respect to such deficiency, make equal repayments to the plan-lender at least quarterly and equivalent to at least 20 per cent of such deficiency per annum, or such lesser amount as the Board of Governors, upon application, may permit, for at least three years from the extension of the credit;

(iii) The officer or employee is not permitted under such plan or agreement to sell, withdraw, pledge, or otherwise dispose of all or any part of such collateral until (A) all repayments have been made for at least the

three-year period provided in ~~subparagraph-(ii)~~ subdivision (ii) of this subparagraph and the deficiency has been repaid, or (B) as a result of the repayments described in subdivision (ii) of this subparagraph, or of a change in the current market value of the collateral, the maximum loan value of the collateral, as prescribed by § 207.5 (the Supplement to Regulation G), is at least equal to the credit which remains owing from the officer or employee to the plan-lender, whichever shall occur first: Provided, That this restriction need not apply where such collateral is required to be sold to meet emergency expenses arising from circumstances not reasonably foreseeable at the time of the extension of the credit (for this purpose such emergency expenses shall include the death, disability, or involuntary termination of employment of the officer or employee or some other change in his circumstances, involving extreme hardship, not reasonably foreseeable at the time the credit is extended. The opportunity to realize monetary gain is not a "change in his circumstances" for this purpose); and

(iv) At such time as either of the conditions with respect to sale, withdrawal, pledge, or other disposition of collateral specified in ~~subparagraph-(iii)~~ subdivision (iii) of this subparagraph are satisfied the credit is thereafter treated as a credit subject to all the requirements of this Part.

(3) No extension of credit to a plan-lender to finance such a plan shall be deemed to be indirectly secured by a registered regulated equity security purchased pursuant to the plan provided: Provided, That such security is not repledged by the plan-lender to secure such extension of credit to the plan-lender and in no event does the person extending such credit have recourse to such security and: Provided further, That the



amount of the credit does not exceed the total amount of credit currently extended by such plan-lender pursuant to such plan.

~~(b)~~ List of securities. --- In determining whether a security is a registered equity security or a security convertible into such security, or a security of the kind described in § 207.2(d)(2), a lender may rely upon the latest list of equity securities registered on a national securities exchange and securities of the kind described in § 207.2(d)(2) issued by the Board of Governors of the Federal Reserve System.

~~(e)~~(b) Extensions and renewals. - The renewal or extension of maturity of a credit need not be treated as the extension of a credit if the amount of the credit is not increased except by the addition of interest or service charges on the credit or of taxes on transactions in connection with the credit.

~~(d)~~(c) Reorganization or recapitalization. - Nothing in this Part shall be construed to prohibit withdrawal or substitution of securities to enable a customer to participate in a reorganization or recapitalization.

~~(e)~~(d) Mistakes in good faith. - Failure to comply with this Part due to a mechanical mistake made in good faith in determining, recording, or calculating any credit, balance, market price or loan value, or other similar mechanical mistake, shall not constitute a violation of this Part if promptly after discovery of the mistake the lender takes whatever action is practicable to remedy the noncompliance.

~~(f)~~(e) 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~~ regulated equity securities or exempted securities.

§ 207.5 Supplement.

(a) Maximum loan value of ~~registered~~ regulated equity securities. - For the purpose of § 207.1, the maximum loan value of any-~~registered~~ regulated equity security, except convertible securities subject to § 207.1(d), shall be 20 per cent of its current market value, as determined by any reasonable method.

(b) Maximum loan value of convertible debt securities subject to § 207.1(d). - For the purpose of § 207.1, the maximum loan value of any security against which credit is extended pursuant to § 207.1(d) shall be 40 per cent of its current market value, as determined by any reasonable method.

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