

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 71-177
July 30, 1971

PROPOSED AMENDMENTS TO REGULATIONS G, T AND U (Relating to the Foreign Bank Secrecy Act)

To All Banks, Broker/Dealers, Nonbank Lenders and
Others Concerned in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System on July 26, 1971, proposed amendments to Regulations G, T and U (margin requirements in certain securities transactions), pursuant to Title III of the Foreign Bank Secrecy Act (Public Law 91-508), which became law on October 26, 1971.

Among other provisions, the proposals would require citizens and residents of the United States to comply with applicable margin requirements when borrowing from domestic or foreign lenders. The proposals would also place restrictions on margin credit extended by foreign offices and affiliates of United States banks, which are now exempt from such restrictions.

Additional proposals, which are unrelated to Public Law 91-508, would provide for certain technical changes regarding short sales, and would clarify restrictions on "clearance" transactions by banks and by certain nonbank lenders.

Copies of the Board's press release and the proposed amendments are enclosed. Interested parties who wish to comment on the proposals should submit their views in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to reach the Board not later than September 10, 1971.

Yours very truly,

P. E. Coldwell,

President

Enclosures



FEDERAL RESERVE

press release

For immediate release

July 26, 1971

The Board of Governors of the Federal Reserve System today proposed regulatory amendments to carry out the provisions of Title III of the Foreign Bank Secrecy Act (Public Law 91-508 enacted October 26, 1970) that relate to margin credit requirements. Comments on the proposals should be submitted to the Board by September 10.

That Act for the first time specifically requires borrowers to comply with margin regulations in securities transactions. These regulations previously applied only to lenders. This part of the Act will go into effect with the effective date of the Board's regulatory amendments, but in no case later than November 1, 1971.

Margin regulations are designed to prevent the excessive use of credit in financing securities transactions. Regulation T applies to all securities credit extended by brokers and dealers; Regulation U applies to credit by banks for the purpose of purchasing or carrying margin stocks, while Regulation G applies to securities credit by persons other than banks, brokers, or dealers.

Major provisions of the proposals would:

1. Require that all U. S. citizens and residents comply with margin regulations when they borrow from a lender, domestic or foreign. This provision would also apply to foreigners controlled by U. S. borrowers or persons acting in behalf or in conjunction with a U. S. borrower.

2. Provide that the restrictions on borrowers apply to credit extended, arranged or maintained after the effective date of the amendments. Six months after the effective date of the amendments, restrictions on substitutions and withdrawals from margin accounts would apply to credit extended after October 26, 1970.

3. Clarify the applicability of the registration, reporting and other requirements of Regulation G. A U. S. person or foreigner controlled by U. S. persons, whose office is located outside the United States, would be required to register with the Federal Reserve Bank of New York.

4. Provide that foreign branches or affiliates of U. S. broker-dealers may extend purpose credit to foreign customers without regard to U. S. margin requirements.

5. Impose parallel restrictions on credit extended by foreign offices or affiliates of U. S. banks which are now exempt from margin regulation.

6. Provide that a foreign subsidiary of a U. S. corporation may extend exempt credit to its foreign employes to exercise options to buy stock in the U. S. parent.

At the same time, the Board proposed amendments that would make several technical changes in the regulations relating to the treatment of short sales and so-called "clearance" transactions by banks and lenders subject to Regulation G.

A copy of the proposed amendments is attached.

FEDERAL RESERVE SYSTEM

[12 CFR PART 207]

[REG. G]

SECURITIES CREDIT BY PERSONS OTHER THAN
BANKS, BROKERS, OR DEALERS

1. The Board of Governors proposes to amend Part 207 (Regulation G) to implement the provisions of Title III of the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act of 1970 (Pub. L. No. 91-508, October 26, 1970). This would be accomplished by amending § 207.1(a) and (b), § 207.2(i), § 207.3(a) and (b), § 207.4(a) and (d), and by adding § 207.0, § 207.1(k) and § 207.2(k) and (1), as set forth below.

2. The proposed amendment to paragraph (a) in § 207.1 would clarify that a person is not subject to registration under this paragraph unless such person is a United States person, or under the control of a United States person or acting on behalf of or in conjunction with such person; would provide that the determination as to whether a person has extended, maintained or arranged credit in the minimum amount necessary to bring the person within the registration requirement shall be made as of any calendar or fiscal quarter; and would provide that a person whose principal office is not located in any Federal Reserve district may register with the Federal Reserve Bank of New York.

3. The proposed amendment of paragraph (b) of § 207.1 would provide that a registrant whose principal office is not located in any

Federal Reserve district may de-register with the Federal Reserve Bank of New York.

4. The proposed new paragraph (k) of § 207.1 would implement the provisions of Title III of the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act of 1970 (Pub. L. No. 91-508, October 26, 1970) by providing that customers who are United States persons or foreign persons controlled by such persons, or acting on behalf of or in conjunction with such persons, may not obtain credit except in compliance with applicable margin regulations of the Board of Governors, and that if the extender of the credit is not subject to such regulations, the credit must comply with the provisions of this part. The requirements of paragraph (k) would apply to credit extended after the effective date of the amendments, and such credit already extended at that time would be subject to the retention and withdrawal requirements of paragraph (j) of § 207.1 beginning 6 months after such date.

5. The proposed amendment of paragraph (1) of § 207.2 would clarify that credit extended to a customer by a person whether or not subject to the registration requirement of § 207.1(a) (for example, by a foreign person who is not controlled by or acting in conjunction with or on behalf of a United States person) is indirectly secured by margin stock if described in that paragraph.

6. The proposed new paragraph (k) of § 207.2 incorporates the statutory definition of "United States person".

7. The proposed new paragraph (1) of § 207.2 incorporates the statutory definition of "foreign person controlled by a United States person".

8. The proposed amendment of paragraph (a) of § 207.3 provides that a person subject to the registration requirement of § 207.1(a) whose principal office is not located in a Federal Reserve district shall file required quarterly reports with the Federal Reserve Bank of New York.

9. The proposed amendment of paragraph (b) of § 207.3 provides that United States persons and foreign persons controlled by such persons who obtain, receive, or enjoy the beneficial use of any purpose credit shall maintain such records, and that all such persons, and all persons registered pursuant to § 207.1(a), shall file such reports as the Board shall prescribe to enable it to perform the functions conferred upon it by the Securities Exchange Act of 1934 (15 U.S.C. 78).

10. The proposed new paragraph (a)(4) of § 207.4 provides that a foreign plan-lender extending credit solely to foreign persons is not subject to this part if any United States person who extends, arranges, or has outstanding any credit extended to or by such foreign plan-lender complies with the registration and reporting requirements of §§ 207.1(a) and 207.3.

11. The proposed amendment to paragraph (d) of § 207.4 provides that mechanical mistakes made in good faith by a customer,

as well as by a lender, shall not constitute a violation of this part if prompt action is taken to remedy the noncompliance.

12. At the time the proposed amendments are adopted, footnotes 5 & 6 in § 207.1(f) will be redesignated footnotes 7 and 8, respectively.

To aid in the consideration by the Board of this matter, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than September 10, 1971. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors, July 22, 1971.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

[SEAL]

SECURITIES CREDIT BY PERSONS OTHER THAN
BANKS, BROKERS, OR DEALERS

SECTION 207.0 -- SCOPE OF PART

This part contains Rules and Regulations promulgated by the Board of Governors of the Federal Reserve System under the Securities Exchange Act of 1934 applicable to certain persons (other than banks, brokers, and dealers) who extend, arrange, maintain, or obtain credit.

SECTION 207.1 -- GENERAL RULE

(a) Registration. Every person who is a United States person^{1/} or a foreign person controlled by a United States person^{2/} or acting on behalf of or in conjunction with such person or who extends, arranges, or has outstanding credit of the kind described in this paragraph in the United States and who, in the ordinary course of his business,^{3/} during any calendar (or fiscal) quarter ended after October 20, 1967, extends or arranges for the extension of a total of \$50,000 or more or has outstanding at any time during such quarter, a total of \$100,000 or more, in credit, secured directly or indirectly,^{4/} in whole or in part, by collateral that includes any margin securities,^{5/} unless such person is subject to Part 220 (Regulation T) or Part 221 (Regulation U) of this Chapter, is subject to

^{1/} As defined in § 207.2(k).

^{2/} As defined in § 207.2(1).

^{3/} See § 207.2(b).

^{4/} See § 207.2(i).

^{5/} See § 207.2(d).

the registration requirements of this paragraph and shall, within 30 days following the end of such 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 in the case of a person whose principal office is not located in a Federal Reserve district, such statement shall be filed with the Federal Reserve Bank of New York, And provided further, That in the case of credit so secured by collateral that includes any OTC margin stock^{6/} and/or debt securities convertible into OTC margin stock and no other margin security, such date shall be July 8, 1969, instead of October 20, 1967.

(b) Termination of registration. Any person so registered who has not, during the preceding 6 calendar months, extended or arranged for the extension or maintenance of or had outstanding any credit secured directly or indirectly, in whole or in part, by collateral that includes any margin 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: Provided, That in the case of a person whose principal office is not located in a Federal Reserve district,

^{6/} See § 207.2(f). "OTC stock" is stock which is traded "over the counter".

such statement shall be filed with the Federal Reserve Bank of New York. A registration shall be deemed terminated when such application is approved by the Board of Governors of the Federal Reserve System.

* * * * *

(k) Application to customer. (1) No United States person^{9/} or foreign person controlled by a United States person^{10/} or acting on behalf of or in conjunction with such person shall obtain, receive, or enjoy the beneficial use of any loan or extension of credit for the purpose of purchasing or carrying any margin security (without regard to whether the person extending, maintaining, or arranging the credit is subject to this part, Part 220 (Regulation T), or Part 221 (Regulation U), and without regard to whether the office or place of business of such person is in a State or the transaction occurred in whole or in part within a State) unless the loan or other credit transaction is permitted in the case of credit extended, maintained, or arranged by a person subject to this part, Part 220 (Regulation T), or Part 221 (Regulation U) or if the person extending, arranging, or maintaining the credit is not so subject, the credit would be permitted in the

^{9/} As defined in § 207.2(k).

^{10/} As defined in § 207.2(1).

case of a person subject to the registration requirement of § 207.1(a) of this part; Provided, That, in the case of credit obtained from a person not subject to the registration requirement of § 207.1(a), the requirement of § 207.1(e) as to a statement of the purpose of the credit shall not apply.

(2) The provisions of subparagraph (1) of this paragraph shall not apply to credit extended before _____ [effective date of the amendment] except that after _____ [6 months after effective date] the requirements of § 207.1(j) as to withdrawals and substitutions of collateral shall apply to credit extended after October 26, 1970.

* * * * *

SECTION 207.2 -- DEFINITIONS

* * * * *

(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 margin 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 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 margin securities, or (2) if the person extending such credit 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 person extending such credit only in the capacity of custodian, depositary, or trustee, or under similar circumstances, if such person in good faith has not relied upon such securities as collateral in the extension or maintenance of the particular credit.

* * * * *

(k) The term "United States person" includes a person which is organized or exists under the laws of any State or, in the case of a natural person, a citizen or resident of the United States; a domestic estate; or a trust in which one or more of the foregoing persons has a cumulative direct or indirect beneficial interest in excess of 50 per centum of the value of the trust.

(1) The term "foreign person controlled by a United States person" includes any noncorporate entity in which United States persons directly or indirectly have more than a 50 per centum beneficial interest, and any corporation in which one or more United States persons, directly or indirectly, own stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock.

SECTION 207.3 -- REPORTS AND RECORDS

(a) Every person who is registered pursuant to § 207.1(a) shall within 30 days following the end of each succeeding 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 person is located, or in the case of a person whose principal office is not located in a Federal Reserve district, with the Federal Reserve Bank of New York.

(b) Every person who has registered pursuant to § 207.1(a) and every person described in § 207.1(k) or (1) who obtains, receives or enjoys the beneficial use of any purpose credit shall maintain such records and file such reports 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) * * *

(4) A plan-lender which is not a citizen or resident of the United States and which does not extend, arrange, or have outstanding credit of the kind described in § 207.1(a) in the United States (hereinafter referred to as a "foreign plan-lender") shall not be subject to the requirements of this part if such foreign plan-lender extends, arranges, or maintains credit solely to persons who are not citizens or residents of the United States; Provided, That United States persons who extend, arrange, or have outstanding any credit extended to or by a foreign plan-lender shall be subject to the requirements of §§ 207.1(a) and 207.3 if such requirements would be applicable but for this subparagraph.

* * * * *

(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 there is taken whatever action is practicable to remedy the noncompliance.

* * * * *

FEDERAL RESERVE SYSTEM

[12 CFR PART 220]

[REG. T]

CREDIT BY BROKERS AND DEALERS

1. The Board of Governors proposes to amend Part 220 (Regulation T) to implement the provisions of Title III of the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act of 1970 (Pub. L. No. 91-508, October 26, 1970). This would be accomplished by amending § 220.1(b), and by adding §§ 220.2(i) and (j) and 220.4(1), as set forth below.

2. The proposed new paragraph (b) of § 220.1 would implement the provisions of Title III of the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act of 1970 (Pub. L. No. 91-508, October 26, 1970) by providing that customers who are United States persons or foreign persons controlled by such persons, or acting on behalf of or in conjunction with such persons, may not obtain credit except in compliance with applicable margin regulations of the Board of Governors, and that if the extender of the credit is not subject to such regulations, the credit must comply with the provisions of Part 207 (Regulation G). The requirements of paragraph (b) would apply to credit extended after the effective date of the amendments, and such credit that had already been extended at that time would be subject to the retention and withdrawal requirements of § 220.3(b)(2) beginning 6 months after such date.

3. The proposed new paragraph (i) of § 220.2 incorporates the statutory definition of "United States person".

4. The proposed new paragraph (j) of § 220.2 incorporates the statutory definition of "Foreign person controlled by a United States person".

5. The proposed new paragraph (l) of § 220.4 would provide a special account in which a foreign branch of a creditor, or an affiliate of a creditor if all the offices of such affiliate are situated abroad, may, without regard to the other requirements of this part, extend securities credit to persons who are neither United States persons nor foreign persons controlled by or acting on behalf or in conjunction with such persons.

6. At the time the proposed amendments are adopted footnotes 1 through 5 will be redesignated footnotes 3 through 7, respectively.

To aid in the consideration by the Board of this matter, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than September 10, 1971. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors, July 22, 1971.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

CREDIT BY BROKERS AND DEALERS

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), as amended).

(a) Application to broker or dealer. This part applies to every broker or dealer, including every member of a national securities exchange.

(b) Application to customer. No United States person^{1/} or foreign person controlled by a United States person, or acting on behalf of or in conjunction with such person^{2/}, shall obtain, receive, or enjoy the beneficial use of any loan or extension of credit for the purpose of purchasing or carrying any margin security (without regard to whether the person extending, maintaining, or arranging the credit is subject to this part, Part 207 (Regulation G), or Part 221 (Regulation U), and without regard to whether the office or place of business of such person is in a State or the transaction occurred in whole or in part within a State) unless the loan or other credit transaction is permitted in the case of credit extended, maintained, or arranged by a person subject to this part, Part 207 (Regulation G), or Part 221 (Regulation U), or if

^{1/} As defined in § 220.2(i).

^{2/} As defined in § 220.2(j).

the person extending, arranging or maintaining the credit is not so subject, the credit would be permitted in the case of a person subject to the registration requirement of § 207.1(a) of Part 207 of this Chapter (Regulation G): Provided, That the provisions of this paragraph shall not apply to credit extended before _____ [effective date of the amendment] except that after _____ [6 months after effective date] the requirements of § 220.3(b)(2) as to substitutions and withdrawals of collateral shall apply to credit extended after October 26, 1970.

SECTION 220.2 -- DEFINITIONS

* * * * *

(i) The term "United States person" includes a person organized or existing under the laws of any State or, in the case of a natural person, a citizen or resident of the United States; a domestic estate; or a trust in which one or more of the foregoing persons has a cumulative direct or indirect beneficial interest in excess of 50 per centum of the value of the trust.

(j) The term "Foreign person controlled by a United States person" includes any noncorporate entity in which United States persons directly or indirectly have more than a 50 per centum beneficial interest, and any corporation in which one or more United States persons, directly or indirectly, own stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock.

* * * * *

SECTION 220.4 -- SPECIAL ACCOUNTS

* * * * *

(1) Special foreign account. A creditor may, in a special foreign account, permit a branch if the branch is situated outside the United States, or an affiliated person if all the offices of such affiliated person are situated outside the United States, to purchase or carry securities for customers who are not United States persons or foreign persons controlled by United States persons or acting on behalf of or in conjunction with such persons.

FEDERAL RESERVE SYSTEM

[12 CFR PART 221]

[REG. U]

CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING
OR CARRYING MARGIN STOCKS

1. The Board of Governors proposes to amend Part 221 (Regulation U) to implement the provisions of Title III of the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act of 1970 (Pub. L. No. 91-508, October 26, 1970). This would be accomplished by amending § 221.1(a); § 221.2(i), § 221.3(k), and by adding § 221.0, as set forth below.

2. The proposed amendment of paragraph (a) of § 221.1 would add a new subparagraph (4) implementing the provisions of Title III of the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act of 1970 (Pub. L. No. 91-508, October 26, 1970) by providing that customers who are United States persons or foreign persons controlled by such persons, or acting on behalf of or in conjunction with such persons, may not obtain credit except in compliance with applicable margin regulations of the Board of Governors, and that if the extender of the credit is not subject to such regulations, the credit must comply with the provisions of Part 207 (Regulation G). The requirements of subparagraph (4) would apply to credit extended after the effective date of the amendments, and such credit already extended at that time would be subject to the retention and withdrawal requirements of § 221.1(b) beginning six months after such date.

3. The proposed amendment to paragraph (i) of § 221.2 would provide that "purpose" credit extended, arranged, or maintained by a foreign branch of a bank, or an affiliate of the bank of which all the offices of such affiliate are situated abroad, is subject to the requirements of this part if such credit is extended to customers who are United States persons or foreign persons controlled by or acting on behalf of or in conjunction with such persons. "Purpose" credit extended to others is not subject to the requirements of this part.

4. The proposed amendments to paragraph (k) of § 221.3 would add a new subparagraph (3) incorporating the statutory definition of "United States person"; and would add a new subparagraph (4) incorporating the statutory definition of "Foreign person controlled by a United States person".

5. At the time the proposed amendments are adopted, footnote 5 will be redesignated footnote 9.

To aid in the consideration by the Board of this matter, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than September 10, 1971. Such

material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors, July 22, 1971.

(Signed) Kenneth A. Kenyon

[SEAL]

Kenneth A. Kenyon,
Deputy Secretary.

CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING
OR CARRYING MARGIN STOCKS

SECTION 221.0 -- SCOPE OF PART

This part contains Rules and Regulations promulgated by the Board of Governors of the Federal Reserve System under the Securities Exchange Act of 1934 applicable to banks. This part also applies to certain persons who obtain credit on securities from banks.

SECTION 221.1 -- GENERAL RULE

(a) * * *

(4) Application to customer. No United States person^{5/} or foreign person controlled by a United States person^{6/} or acting on behalf of or in conjunction with such person shall obtain, receive, or enjoy the beneficial use of any loan or extension of credit for the purpose of purchasing or carrying any margin stock (without regard to whether the person extending, maintaining, or arranging the credit is subject to this part, Part 207 (Regulation G), or Part 220 (Regulation T), and without regard to whether the office or place of business of such person is in a State or the transaction occurred in whole or in part within a State) unless the loan or other credit transaction is permitted in the case of credit extended, maintained, or arranged by a person subject to this part, Part 207, or Part 220, or if the person extending, arranging, or maintaining the credit is not so subject the credit would be permitted in the case of a person subject to the registration requirement of § 207.1(a) of Part 207 (Regulation G); Provided, That the provisions of subparagraph (1) of

^{5/} As defined in § 221.3(k)(3).

^{6/} As defined in § 221.3(k)(4).

this paragraph shall not apply to credit extended before _____
[effective date of the amendment] except that after _____ [6
months after effective date] the requirements of § 221.1(b) as to
substitutions and withdrawals of collateral shall apply to credit extend-
ed after October 26, 1970.

* * * * *

SECTION 221.2 - EXCEPTIONS TO GENERAL RULE

* * * * *

(i) Any credit extended by a branch of a bank if the
branch is situated outside the United States, or by an affiliated
person of a bank if all the offices of such affiliated person are
situated outside the United States, to purchase or carry margin stocks
for customers who are not United States persons^{7/} or foreign persons
controlled by United States persons^{8/} or acting on behalf of or in
conjunction with such persons.

* * * * *

SECTION 221.3 - MISCELLANEOUS PROVISIONS

* * * * *

(k) Definitions. (1) For the purposes of this
part, except as provided in subparagraphs (3) and (4) of this para-
graph unless the context otherwise requires, the terms herein have
the meanings assigned to them in section 3(a) of the Securities
Exchange Act of 1934 (15 U.S.C. 78c(a)).

* * *

^{7/} As defined in § 221.3(k)(3).
^{8/} As defined in § 221.3(k)(4).

(3) The term "United States person" includes a person organized or existing under the laws of any State or; in the case of a natural person, a citizen or resident of the United States; a domestic estate; or a trust in which one or more of the foregoing persons have a cumulative direct or indirect beneficial interest in excess of 50 per centum of the value of the trust.

(4) The term "foreign person controlled by a United States person" includes any noncorporate entity in which United States persons directly or indirectly have more than a 50 per centum beneficial interest, and any corporation in which one or more United States persons, directly or indirectly, own stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock.

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FEDERAL RESERVE SYSTEM

[12 CFR PART 207]

[REG. G]

SECURITIES CREDIT BY PERSONS OTHER THAN
BANKS, BROKERS, OR DEALERS

1. The Board of Governors proposes to amend Part 207 (Regulation G) to make certain technical changes. This would be accomplished by amending § 207.1(d), § 207.1(1) and § 207.2(d).

2. The proposed amendment of paragraph (d) of § 207.1 would clarify that securities are not eligible for the preferential margin provided by this section unless they are debt securities.

3. The proposed new paragraph (1) of § 207.1 would clarify that a person subject to the registration requirement of § 207.1(a) may not handle "clearance" for any customer of securities purchased through a broker or dealer unless the customer deposits the amount of the purchase price with the lender within 7 full business days, and in any event, before delivering the security to any other person; or in the case of sales, promptly receives from the customer the security that has been sold, and does not accept payment for such security sold until he has received the security from the customer.

4. The proposed amendment of paragraph (d) of § 207.2 would clarify that a convertible preferred stock is a margin security if the security into which such stock is convertible is such a security.

To aid in the consideration by the Board of this matter, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than September 10, 1971. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors, July 22, 1971.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.

[SEAL]

SECURITIES CREDIT BY PERSONS OTHER THAN
BANKS, BROKERS, OR DEALERS

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 (i) convertible with or without consideration, presently or in the future, into a margin security or (ii) carrying any warrant or right to subscribe to or purchase such a margin security.

(2) Credit extended under this paragraph shall be subject to the same conditions as any other credit subject to this section except: (i) 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 (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 debt security originally eligible as collateral for 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 margin security other than a convertible debt security is substituted for a convertible debt security held as collateral for credit extended under this section, such margin 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.

* * * * *

(1) Clearance credit. (1) Purchases. No lender shall extend any credit, whether or not such credit is secured directly or indirectly by any margin securities, for the purpose of clearing any unpaid purchase of a security in an account described in Part 220 of this Chapter (Regulation T) unless the lender obtains from the customer as promptly as possible and in any event before the expiration of 7 full business days following the date of such purchase the full amount of the purchase price of such security (notwithstanding that the delivery of the security may be delayed beyond the seventh day following such date), and in no event may the lender deliver such purchased security to any other person until he has been paid such purchase price by the customer.

(2) Sales. No lender shall effect for a customer, or knowingly assist a customer in effecting the sale of a security in an account described in Part 220 of this Chapter (Regulation T) unless

the lender obtains from the customer, as promptly as possible, the security sold, and in no event may the lender accept payment for any such security from any other person until he has received the security from the customer.

SECTION 207.2 -- DEFINITIONS

* * * * *

(d) Margin security. The term "margin security" means any equity security ^{11/} which is (1) a registered equity security, (2) an OTC margin stock, (3) a security (i) convertible with or without consideration, presently or in the future, into a margin security, or (ii) carrying any warrant or right to subscribe to or purchase, presently or in the future, a margin security, (4) any such warrant or right, (5) a security issued by an investment company, other than a small business investment company licensed under the Small Business Investment Company Act of 1958 (15 U.S.C. 661), 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.^{12/}

* * * * *

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

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

FEDERAL RESERVE SYSTEM

[12 CFR PART 220]

[REG. T]

CREDIT BY BROKERS AND DEALERS

1. The Board of Governors proposes to amend Part 220 (Regulation T) to make certain technical changes. This would be accomplished by amending §§ 220.2(f); 220.3(a) and (d); 220.4(c) and (j); and 220.7(c), as set forth below.

2. The proposed new paragraph (f)(2) of § 220.2 supplies a definition of the term "margin equity security".

3. The proposed amendment to paragraph (a) of § 220.3 provides that certain short sales may be effected in the special convertible debt security account described in § 220.4(j).

4. The proposed amendment to paragraph (d) of § 220.3 makes a conforming change in regard to short sales to be effected in the special convertible debt security account described in § 220.4(j).

5. The proposed amendment to paragraph (c) of § 220.4 incorporates the substance of an interpretation of the Board published at § 220.123 (36 Federal Register 2777-78 (February 10, 1971)).

6. The proposed amendments to paragraph (j) of § 220.4 provide that short sales of margin equity securities into which convertible debt securities held in that account are convertible may be effected in the special convertible debt security account.

7. The proposed amendment to paragraph (c) of § 220.7 provides that a creditor must obtain a statement of purpose in

regard to all extensions of credit made by him, other than for the purpose of purchasing or carrying margin securities.

To aid in the consideration by the Board of this matter, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than September 10, 1971. Such material will be made available for inspection and copying upon request except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors, July 22, 1971.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

[SEAL]

CREDIT BY BROKERS AND DEALERS

* * * * *

SECTION 220.2 -- DEFINITIONS

* * * * *

(f) Margin security. (1) The term "margin security" means any registered security or OTC margin stock.

(2) The term "margin equity security" means any margin security which is an equity security.^{4/}

* * * * *

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 part 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 securities positions to offset short sales other than those permitted in § 220.4(j)(5) of this part, purchases to cover short

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

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 margin equity securities shall have no loan value in a general account or special convertible debt security account (sometimes referred to herein as "special convertible security account") subject to § 220.4(j), 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.

* * * * *

(d) Adjusted debit balance. For the purpose of this part, the adjusted debit balance of a general account, special bond account, or special convertible security account shall be calculated by taking the sum of the following items:

* * *

(3) the current market value of any securities (other than unissued securities) sold short in the general account plus, for each 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 the general account or special convertible debt security account the same securities or securities exchangeable or convertible within 90 calendar days, without restriction other than the payment of money, into such securities sold short;

* * * * *

SECTION 220.4 -- SPECIAL ACCOUNTS

* * * * *

(c) Special cash account. * * *

(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, except that where a portion consisting of ten per cent or more of an issue of non-equity securities is issued pursuant to contracts entered into at the time of the initial underwriting between the issuer and the purchasers of such portion providing for delayed issue of non-equity securities in amounts of \$250,000 or more per contract, such period shall be 7 days after the date fixed by contract between the issuer and the purchasers of such portion. 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 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.

* * * * *

(j) Special convertible debt security account. * * *

(4) In the event any convertible security held in this account is to be converted to a stock, such security shall upon conversion be transferred to the customer's general account against a deposit of cash or margin 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, without regard to the retention requirement of § 220.3(b)(2).

(5) In a special convertible debt security account the amount of margin equity securities into which a margin debt security held in the account is convertible may be sold short without regard to the margin required for short sales in § 220.8(d) (Supplement to Regulation T), and such short position may be carried in the special convertible debt security account in conformity with the exception provided in § 220.3(d)(3) of this part.

* * * * *

SECTION 220.7 -- MISCELLANEOUS PROVISIONS

* * * * *

(c) Statement of purpose of loan. Every extension of credit by a creditor 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 to the contrary in conformity with the requirements of Form F. R. T-4 executed by the customer and executed and accepted in good faith by the creditor prior to such extension. The creditor shall retain such statement in his records for at least 3 years after such credit is extinguished. 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.

* * * * *

FEDERAL RESERVE SYSTEM

[12 CFR PART 221]

[REG. U]

CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR
CARRYING MARGIN STOCKS

1. The Board of Governors proposes to amend Part 221 (Regulation U) to make certain technical changes. This would be accomplished by amending § 221.1(a); and 221.3(k), (m), (s), and (v) as set forth below.

2. The proposed amendment of paragraph (a) of § 221.1 would eliminate a superfluous reference; would add a new subparagraph (2) clarifying that a person subject to this part may not handle "clearance" for any customers of securities purchased through a broker or dealer unless the customer deposits the amount of the purchase price with the lender within 7 full business days, and in any event, before delivering the security to any other person; or in the case of sales promptly receives from the customer the security that has been sold, and does not accept payment for such security sold until he has received the security from the customer, and would renumber the present subparagraph (2) as subparagraph (3).

3. The proposed amendments to paragraph (k) of § 221.3 would add a new subparagraph (2) for the definition of a Bank which is a member of national securities exchange.

4. The proposed amendments to paragraph (m) of § 221.3 would clarify certain cross-references.

5. The proposed amendments to paragraph (s) of § 221.3 would clarify certain cross-references.

6. The proposed amendment to paragraph (v) of § 221.3 would clarify that a convertible preferred stock is a margin stock if the stock into which such preferred stock is convertible is a margin stock.

To aid in the consideration by the Board of this matter, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than September 10, 1971. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors, July 22, 1971.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

[SEAL]

CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING
OR CARRYING MARGIN STOCKS

SECTION 221.1 -- GENERAL RULE

(a)(1) Purpose credit secured by stock. Except as otherwise provided in this part no bank shall extend any credit secured directly or indirectly^{1/} by any stock ^{2/} for the purpose of purchasing or carrying any margin stock ^{3/} in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for stocks in § 221.4 (the Supplement to Regulation U) and as determined by the bank in good faith for credit subject to § 221.3(s) for any collateral other than stocks: Provided, That unless held as collateral for such credit on October 20, 1967, and continuously thereafter, any collateral other than stock shall have loan value for the purpose of this part only as collateral for a credit which is not secured by stock, as described in § 221.3(s), and any collateral consisting of convertible debt securities described in § 221.3(t) shall have loan value only for the purpose of that section, and not for any other credit subject to this part.

(2) Clearance credit. (a) Purchases. No bank shall extend any credit, whether or not such credit is secured directly or indirectly by any stock, for the purpose of clearing any unpaid purchase of a security in an account described in Part 220 of this Chapter (Regulation T) unless the bank obtains from the customer as promptly as possible and in any event before the expiration of 7 full business days following the date

^{1/} As defined in § 221.3(c).

^{2/} As defined in § 221.3(1).

^{3/} Sometimes referred to as a "purpose credit". See § 221.3(b). The term "margin stock" is defined in § 221.3(v).

of such purchase the full amount of the purchase price of such security (notwithstanding that the delivery of the security may be delayed beyond the seventh day following such date), and in no event may the bank deliver such purchased security to any other person until the bank has been paid such purchase price by the customer.

(b) Sales. No bank shall effect for a customer, or knowingly assist a customer in effecting the sale of a security in an account described in Part 220 of this Chapter (Regulation T) unless the bank obtains from the customer, as promptly as possible, the security sold, and in no event may the bank accept payment for any such security from any other person until it has received the security from the customer.

(3) OTC margin stock credit extended prior to certain dates. Credit extended prior to July 8, 1969, for the purpose of purchasing or carrying any OTC margin stock 4/ or any debt security convertible into such stock (and no other margin stock) is not purpose credit, except that with respect to any OTC margin stock such date shall be August 7, 1969, if extended to a member of a national securities exchange or a broker or dealer registered under section 15 of the Securities Exchange Act of 1934 (15 U.S.C. 78o).

* * * * *

SECTION 221.3 - MISCELLENEOUS PROVISIONS

* * * * *

(k) Definitions. (1) x x x

4/ As defined in 221.3(d), "OTC stock" hereinafter refers to stock traded "over the counter."

(2) The term "bank" does not include a bank which is a member of a national securities exchange.

* * * * *

(m) Credit subject to § 221.1 A "credit subject to § 221.1" is a credit which is (1) secured directly or indirectly by any stock (or described in § 221.1(a) or § 221.3(q)), (2) extended for the purpose of purchasing or carrying any margin stock, and (3) not otherwise excepted by this part.

* * * * *

(s) Credit secured by collateral other than stocks.

Except as provided in § 221.1(a) and § 221.3(q) a bank may extend credit for the purpose of purchasing or carrying a margin stock secured by collateral other than stock, and, in the case of such credit, the maximum loan value of the collateral shall be as determined by the bank in good faith.

* * * * *

(v) The term "margin stock" means any stock 10/ which is (1) a stock registered on a national securities exchange, (2) an OTC margin stock 11/, (3) a security (i) convertible with or without consideration, presently or in the future, into a margin stock or (ii) carrying any warrant or right to subscribe to or purchase, presently or in the future, a margin stock, (4) any such warrant or right, (5) any security issued by an investment company other than a small business investment company licensed under the Small Business Investment Company

10/ As defined in § 221.3(1).
11/ As defined in § 221.3(d).
12/ As defined in 15 U.S.C. 78c(a)(12).

Act of 1958 (15 U.S.C. 661) 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 12/.

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