

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-327
December 10, 1974

INTERPRETATION OF REGULATION G

To All Banks, Brokers/Dealers, Regulation G-Registrants
and Others Concerned in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System has issued an interpretation of its Regulation G, "Securities Credit By Persons Other Than Banks, Brokers, or Dealers", regarding extensions of credit in certain stock option and stock purchase plans.

Enclosed is a copy of the interpretation of Regulation G; additional copies will be furnished upon request.

Yours very truly,

Ernest T. Baughman,

President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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

INTERPRETATION OF REGULATION G

**EXTENSIONS OF CREDIT IN CERTAIN
STOCK OPTION AND STOCK
PURCHASE PLANS**

§ 207.109 Questions have been raised as to whether certain stock option and stock purchase plans involve extensions of credit subject to Regulation G when the participant is free to cancel his participation at any time prior to full payment, but in the event of cancellation the participant remains liable for damages. It thus appears that the participant has the opportunity to gain and bears the risk of loss from the time the transaction is executed and payment is deferred. In some cases brought to the Board's attention damages are related to the market price of the stock but in others, there may be no such relationship. In

either of these circumstances, it is the Board's view that such plans involve extensions of credit. Accordingly, where the security being purchased is a margin security and the credit is secured, directly or indirectly, by any margin security, the creditor must register and the credit must conform with either the regular margin requirements of section 207.1(c) or the special "plan-lender" provisions set forth in section 207.4(a) of the regulation, whichever is applicable. This assumes, of course, that the amount of credit extended is such that the creditor is subject to the registration requirements of section 207.1(a) of the regulation.

12/2/74