FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 77-88
August 17, 1977

REVISED PAMPHLET--REGULATIONS X, G, T, AND U

Securities Credit Transactions

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 revised the pamphlet containing Margin Regulations X, G, T, and U entitled "Securities Credit Transactions."

A complete copy of each regulation now includes the enclosed pamphlet dated June 1977 and the supplements presently in effect. All amendments should be removed from your binder and destroyed.

Any questions concerning these regulations should be directed to Eugene Coy, Jr., of this Bank's Consumer Affairs Section, at Ext. 6171.

Additional copies of the pamphlet will be furnished upon request to the Secretary's Office of this Bank, Ext. 6267.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extention referred to above.

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BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

SECURITIES CREDIT TRANSACTIONS

REGULATION X

(12 CFR 224)

Effective November 1, 1971

REGULATION G

(12 CFR 207)

As amended effective August 20, 1976

REGULATION T

(12 CFR 220)

As amended effective June 1, 1977

REGULATION U

(12 CFR 221)

As amended effective June 1, 1977

JUNE 1977

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Any inquiry relating to Regulations X, G, and U should be addressed to the Federal Reserve Bank of the Federal Reserve district in which the inquiry arises. Any inquiry relating to Regulation T should be addressed to a national securities exchange or a national securities association of which the person making the inquiry is a member or the facilities of which are used for his transactions, or, if this is not practicable, the inquiry should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.

The forms furnished with these regulations are reduced in size and are for information only. Copies of these forms for actual use and other forms required by the regulations can be obtained from any Federal Reserve Bank.

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REGULATION X

(12 CFR 224)

Effective November 1, 1971

RULES GOVERNING BORROWERS WHO OBTAIN SECURITIES CREDIT *

SECTION 224.1—SCOPE OF PART

This Part 224 (Regulation X) contains Rules and Regulations promulgated by the Board of Governors of the Federal Reserve System ("the Board") under the Securities Exchange Act of 1934 as amended ("the Act") and applies to all persons described below who obtain, receive, or enjoy the beneficial use of credit for the purpose of purchasing or carrying securities.[1] For definitions of technical terms see section 224.5, Parts 207, 220, and 221 (Margin Regulations G, T, and U) and the Statutory Appendix. The purpose of this part (Regulation X) is to prevent the infusion of unregulated credit obtained both outside and within the United States into United States securities markets in circumvention of the provisions of the Board's margin regulations or by borrowers falsely certifying the purpose of a loan or otherwise willfully and intentionally evading the provisions of those regulations. When the term "obtain credit" is used in this part (Regulation X) it means "obtain, receive, or enjoy the beneficial use of credit" and when the term "purpose credit" is used, it means "credit for the purpose of purchasing or carrying securities." When the term "borrower" is used, it means a person who obtains credit. This part (Regulation X) implements section 7(f) of the Act, and generally applies to borrowers who are:

(a) Persons who obtain credit from within the United States, or

(b) Those persons who obtain credit from outside the United States who are:

(1) United States persons,[2]

(2) Foreign persons who are controlled by United States persons,[3] or

* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 224, cited as 12 CFR 224. The words "this part," as used herein, mean Regulation X.

[1] 15 U.S.C. 78g.

[2] For definition of the term "United States person," see Statutory Appendix, section 7(f)(2)(A).

[3] For definition of the term "foreign person controlled by a United States person," see Statutory Appendix, section 7(f)(2)(C).

(3) Foreign persons acting on behalf of or in conjunction with [4] United States persons.

SECTION 224.2—GENERAL RULE

(a) **Credit obtained from within the United States.** A borrower shall not obtain any purpose credit from within the United States unless he does so in compliance with the following conditions:

(1) Credit obtained from a G-lender shall conform to the provisions of Part 207 (Regulation G), which is hereby incorporated in this part (Regulation X). When the term "G-lender" is used in this part (Regulation X), it means a person who is not a broker/dealer or bank, who in the ordinary course of his business extends, maintains, or arranges credit that is secured, directly or indirectly, in whole or in part, by collateral that includes any margin securities, and who is subject to the registration requirement of section 207.1(a) of Part 207 (Regulation G).

(2) Credit obtained from a broker/dealer shall conform to the provisions of Part 220 (Regulation T), which is hereby incorporated in this part (Regulation X). When the term "broker/dealer" is used in this part (Regulation X), it means a person who is a broker or dealer, including every member of a national securities exchange, and includes a foreign branch or subsidiary of a broker/dealer.

(3) Credit obtained from a bank shall conform to the provisions of Part 221 (Regulation U), except for section 221.2(i). Except for such section, Part 221 (Regulation U) is hereby incorporated in this part (Regulation X). When the term "bank" is used in this part (Regulation X), it means a bank that is subject to Part 221 (Regulation U).[5]

(b) **Credit obtained from outside the United States.** (1) A United States person or foreign person controlled by a United States person or acting on behalf of or in conjunction with such a person shall not obtain any purpose credit [6] from outside the United States except in compliance with the following conditions:

(i) Credit obtained from a foreign branch of a G-lender shall conform to the provisions of Part 207 (Regulation G), except that the requirement of section 207.1(e) as to obtaining a statement of the purpose of the credit shall not apply.

(ii) Credit obtained from a foreign branch or subsidiary of a broker/dealer shall conform to the provisions of Part 220 (Regulation T).

(iii) Credit obtained from a foreign branch of a bank shall conform to the provisions of Part 221 (Regulation U) which would apply if the credit were obtained from the head office of the bank in the United States, except that the requirement of section 221.3(a) of Part 221 (Regulation U) as to obtaining a statement of the purpose of the credit shall not apply.

(iv) Credit obtained from a foreign lender shall conform to the provisions of Part 207 (Regulation G) which would apply if the person extending, arranging, or maintaining the credit were a G-lender, except that the requirement of section 207.1(e) of Part 207 (Regulation G) as to obtaining a statement of the purpose of the credit shall not apply. When the term "foreign lender" is used in this part (Regulation X) it means any person, other than a United States person, who in the ordinary course of his business extends, maintains, or arranges purpose credit outside the United States and who is not a foreign branch or subsidiary of a broker/dealer, a foreign branch of a bank, or a foreign branch of a G-lender.

(2) The provisions of subparagraph (1) of this paragraph 224.2(b) shall not apply to credit extended before November 1, 1971, except that as to credit extended after October 26, 1970, the requirements as to withdrawals and substitutions of collateral shall apply after May 1, 1972, as follows: the requirements in paragraph 207.1(j) of Part 207 (Regulation G) shall apply to credit obtained from a foreign branch of a G-lender or from a foreign lender; the requirements in paragraph 220.3(b) of Part 220 (Regulation T) shall apply to credit obtained from a foreign branch or subsidiary of a broker/dealer; and the requirements in paragraph 221.1(b) of Part 221 (Regulation U) shall apply to credit obtained from a foreign branch of a bank.

(3) **Record of credit.** Every borrower subject to this Part 224 (Regulation X) who obtains any credit from a lender described in subdivision (i), (iii), or (iv) of paragraph 224.2(b)(1), if such credit is secured directly or indirectly, in whole or in part, by collateral that includes any security, shall prepare and retain in his records, for at least 6 years after such credit is extinguished, a record

[4] For definition of the term "acting on behalf of or in conjunction with," see section 224.5(a) of this part (Regulation X).

[5] For definition of the term "bank" meaning "bank that is subject to Regulation U," see section 224.5(b) of this part (Regulation X) and Statutory Appendix, section 3(a)(6).

[6] For definition of the term "purpose credit," see section 224.5(j) of this part (Regulation X).

substantially in conformity with the requirements of Federal Reserve Form X-1.

SECTION 224.3—EXEMPTIONS

The following classes of persons shall be exempted from the provisions of section 7(f) of the Act and this part (Regulation X) to the extent described below:

(a) A United States person whose permanent residence is outside the United States, and who does not during any calendar year obtain a total of more than $5,000 or have outstanding at any time during any calendar year a total of more than $5,000 in credit obtained outside the United States to purchase or carry margin securities.

(b) A borrower who is not a United States person, but is controlled by or acting on behalf of or in conjunction with such person, who obtains credit for the purpose of *bona fide* clearing, market making, or arbitrage transactions in off-shore debt securities that are convertible into margin securities, except that any credit outstanding against collateral consisting of such securities shall be brought into conformity with the other provisions of this part (Regulation X) [7] upon the conversion of such securities into margin securities.

(c) A borrower who is not a United States person, but is controlled by or acting on behalf of or in conjunction with such person, who obtains credit from outside the United States, which borrower has been exempted by the Board of Governors of the Federal Reserve System, by Order, from the requirements of this part (Regulation X), either unconditionally or upon specified terms and conditions or for stated periods, upon a finding that exceptional circumstances warrant the granting of such an exemption, and that the exemption is consonant with the purposes of section 7(f) of the Act and the provisions of this part (Regulation X).

SECTION 224.4—REPORTS AND RECORDS

Every borrower described in section 224.1 who obtains any credit that is secured directly or indirectly, in whole or in part, by collateral that includes any securities, shall maintain such records and file such reports as may be prescribed by the Board of Governors of the Federal Reserve System to enable it to perform the functions conferred upon it by the Act.

[7] Including Parts 207, 220, or 221 (Regulations G, T, and U) where applicable.

SECTION 224.5—DEFINITIONS

Unless the context otherwise requires, or it is otherwise specified herein, the terms used in and for the purposes of this part (Regulation X) have the meanings given them in this section 224.5, in sections 3(a) or 7(f) of the Act, or in Parts 207, 220, or 221 (Regulations G, T, or U). The relevant portions of sections 3(a) and 7(f) of the Act are set forth in the Statutory Appendix. In the case of inconsistency between definitions appearing in this section 224.5 and those appearing in Parts 207, 220, or 221 (Regulations G, T, or U), the definition appearing in the regulation that applies to the particular credit involved, whether Parts 207, 220, or 221 (Regulations G, T, or U), shall prevail.

(a) The term **"acting on behalf of or in conjunction with"** in reference to a foreign person means obtaining credit for the purpose of purchasing or carrying a security in which, or in the income or gains or losses from which, a United States person or a foreign person controlled by a United States person has a substantial direct or indirect beneficial interest. Absent these factors the term does not include an interest derived solely from the ownership of less than 50 per cent of the outstanding capital stock issued by such foreign person who is obtaining such credit.

(b) The term **"bank"** means a bank as defined in section 3(a)(6) of the Act, including a foreign branch of a bank, except that such term does not include a bank which is a member of a national securities exchange, a foreign affiliate of a bank, or a foreign bank.

(c) The term **"broker/dealer"** means any broker or dealer including every member of a national securities exchange, and includes a foreign branch or subsidiary of a broker/dealer.

(d) The term **"foreign lender"** means a person, other than a United States person, who in the ordinary course of his business extends, maintains, or arranges purpose credit outside the United States and who is not a foreign branch or subsidiary of a broker/dealer, a foreign branch of a bank, or a foreign branch of a G-lender.

(e) The term **"G-lender"** means a person who is not a broker/dealer or bank, who in the ordinary course of his business extends, maintains, or arranges credit that is secured, directly or indirectly, in whole or in part, by collateral that includes any margin securities, and who is sub-

ject to the registration requirement of section 207.1(a) of Part 207 (Regulation G).

(f) The term **"indirectly secured"** includes any arrangement with the lender under which the right or ability to sell, pledge, or otherwise dispose of securities owned by the borrower (or by any other person who has made the use of such securities available to the borrower) 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 maturity of the credit. The foregoing shall not apply, however—

(1) if such restriction arises solely by virtue of an arrangement with the lender which pertains generally to the borrower's assets unless a substantial part of such assets consists of margin 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, or

(3) to securities held by the lender only in the capacity of custodian, depositary, 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.

(g) The term **"lender"** means a person who in the ordinary course of his business extends, maintains, or arranges for credit, including a G-lender, a broker/dealer, a bank, and a foreign lender.

(h) The term **"margin security"** shall have the meaning of "margin security" as defined in section 207.2(d) of Part 207 (Regulation G) if the borrower is obtaining credit from a G-lender or a foreign lender, the meaning of "margin security" as defined in section 220.2(f) of Part 220 (Regulation T) if the borrower is obtaining credit from a broker/dealer, and the meaning of "margin stock" as defined in section 221.3(v) of Part 221 (Regulation U) if the borrower is obtaining credit from a bank.

(i) The term **"offshore debt security"** as to this part (Regulation X) means a debt security offered only outside the United States, the purchase of which by a United States person would give rise to a liability under the Interest Equalization Tax (26 U.S.C. 4911 *et seq*).

(j) The term **"purpose credit"** means credit for the purpose of purchasing or carrying securities. The purpose of a credit is determined by substance rather than form. The following are some examples of purpose credit:

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

(2) Credit to enable the borrower to reduce or retire indebtedness which was originally incurred to purchase a security is for the purpose of "carrying" such a security.

(3) Credit that is secured directly or indirectly, in whole or in part, by collateral that includes any securities, is presumed to be for the purpose of purchasing or carrying securities, unless the borrower has compiled with the requirements of Part 207 (Regulation G), Part 220 (Regulation T), or Part 221 (Regulation U) as to the statement of the purpose of a credit, if such requirements are applicable, or in the case of credit obtained from a foreign lender, can furnish satisfactory evidence of the use of the credit for a purpose other than purchasing or carrying securities.

(4) An extension of credit provided for in a plan, program, or investment contract offered or sold or otherwise initiated after August 31, 1969, which provides for the acquisition both of any securities and of goods, services, property interests, or investments.

(k) The term **"obtain credit"** means to obtain, receive, or enjoy the beneficial use of credit.

(l) The term **"United States"** includes any State of the United States, the District of Columbia, Puerto Rico, the Canal Zone, the Virgin Islands, or any other possession of the United States.

SECTION 224.6—MISCELLANEOUS PROVISIONS

(a) **Innocent mistake.** An innocent mistake made in good faith by a borrower in connection with the obtaining of a credit shall not be deemed to be a violation of this part (Regulation X) if promptly after discovery of the mistake the borrower takes whatever action is practicable to remedy the non-compliance.

(b) **Aiding or abetting.** Any person who wilfully aids or abets the violation by any other person of any provision of this part (Regulation X) shall be deemed to be in violation of this part (Regulation X). For the purpose of this paragraph, the term "aids or abets" shall include, but not be limited to, counsels, commands, induces, or procures.

F.R. Form X-1
11-71

SPECIMEN ONLY

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RECORD WHICH BORROWERS ARE REQUIRED TO MAKE AND MAINTAIN
OF FACTS CONCERNING CREDIT COLLATERALIZED BY SECURITIES

**WHEN SUCH CREDIT IS OBTAINED FROM
OUTSIDE THE UNITED STATES**

*PURSUANT TO REGULATION X
"RULES GOVERNING BORROWERS WHO OBTAIN SECURITIES CREDIT"
(FEDERAL RESERVE FORM X-1)

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

Unless specifically exempted from the provisions of Regulation X, the following borrowers must complete this record or a record substantially in conformity with this form at or prior to the time when credit is obtained from any source outside the United States, other than a foreign branch or subsidiary of a United States broker or dealer who is subject to Regulation T, if the credit is secured in any way by collateral that includes any United States security or security registered on a national securities exchange:

United States persons,
Foreign persons who are controlled by United States persons, or
Foreign persons acting on behalf of or in conjunction with United States persons.

Date credit obtained ..... Amount of credit $.....

Purpose of this credit (state in detail) .....

.....

Credit is secured by following securities (attach schedule including name of issuer, type or class of securities, number of shares, and market value on date credit is obtained) .....

.....

Name and address of lender extending credit .....

.....

Name and address of United States person the borrower is controlled by, or is acting on behalf of or in conjunction with, if applicable (such person must obtain and retain a copy of the filled in form) .....

.....

Name, address, and occupation of any person arranging credit .....

.....

The undersigned hereby certifies and affirms that to the best of my (our) knowledge and belief the information contained herein is true, accurate, and complete.

SIGNED ..... SIGNED .....
(Manual signature) (Date) (Manual signature) (Date)

....
(Type or print name) (Type or print name)

Address of borrower .....

* Copies of Regulation X may be obtained from any Federal Reserve Bank in the United States and are available at United States Embassies and consular posts.

THIS FORM MUST BE RETAINED BY THE BORROWER AND BY ANY UNITED STATES PERSON REQUIRED TO OBTAIN AND RETAIN A COPY FOR AT LEAST 6 YEARS AFTER THE TERMINATION OF THIS CREDIT

The terms used on this record have the meanings given them below; for additional definitions, please refer to section 224.5 of Regulation X, section 3(a) or 7(f) of the Securities Exchange Act of 1934 as amended, or Regulations G, T, or U issued by the Board of Governors of the Federal Reserve System.

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, 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.

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.

The term **"acting on behalf of or in conjunction with"** in reference to a foreign person means obtaining credit for the purpose of purchasing or carrying a security in which, or in the income or gains or losses from which, a United States person or a foreign person controlled by a United States person has a substantial direct or indirect beneficial interest. Absent these factors the term does not include an interest derived solely from the ownership of less than 50 per cent of the outstanding capital stock issued by such foreign person who is obtaining such credit.

The term **"obtain credit"** means to obtain, receive, or enjoy the beneficial use of credit.

The term **"United States"** includes any State of the United States, the District of Columbia, Puerto Rico, the Canal Zone, the Virgin Islands, or any other possession of the United States.

The term **"lender"** means a person who in the ordinary course of his business extends, maintains, or arranges for credit, including a G-lender, a broker/dealer, a bank, and a foreign lender.

The term **"G-lender"** means a person who is not a broker/dealer or bank, who in the ordinary course of his business extends, maintains, or arranges credit that is secured, directly or indirectly, in whole or in part, by collateral that includes any margin securities, and who is subject to the registration requirement of section 207.1(a) of Part 207 (Regulation G).

The term **"bank"** means a bank as defined in section 3(a)(6) of the Securities Exchange Act of 1934, including a foreign branch of a bank, except that such term does not include a bank which is a member of a national securities exchange, a foreign affiliate of a bank, or a foreign bank.

The term **"foreign lender"** means a person, other than a United States person, who in the ordinary course of his business extends, maintains, or arranges purpose credit outside the United States and who is not a foreign branch or subsidiary of a broker/dealer, a foreign branch of a bank, or a foreign branch of a G-lender.

The term **"arranging for credit"** refers to any activity in relation to the credit absent which the credit would not be obtained or any participation indispensable and necessary to the completion of the credit transaction.

REGULATION G

(12 CFR 207)

As amended effective August 20, 1976

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

SECTION 207.1—GENERAL RULE

(a) **Registration.** Every person who, in the ordinary course of his business,[1] during any calendar quarter ended after June 30, 1976, extends or arranges for the extension of a total of $100,000 or more, or has outstanding at any time during the calendar quarter, a total of $500,000 or more, in credit, secured directly or indirectly,[2] in whole or in part, by collateral that includes any margin securities,[3] 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.

(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 and has not had more than $200,000 of credit outstanding at any time during such period, 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. A registration shall be deemed terminated when such application is approved by the Board of Governors of the Federal Reserve System.

(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 margin security (hereinafter called "purpose credit"), if such credit is secured directly or indirectly, 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 margin securities in § 207.5 (the Supplement to Regulation G), or as determined by the

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* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 207, cited as 12 CFR 207. The words "this part" as used herein, mean Regulation G.

[1] See § 207.2(b).

[2] See § 207.2(i).

[3] See § 207.2(d).

lender in good faith for any collateral other than margin securities: *Provided,* That credit extended before July 8, 1969, for the purpose of purchasing or carrying OTC margin stock and/or debt securities convertible into such stock shall not be deemed to be purpose credit: *And provided further,* That any collateral consisting of convertible securities described in paragraph (d) of this section shall have loan value only as provided in that paragraph.

(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 (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: (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 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 security is substituted for a convertible 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.

(e) **Statements as to purpose of credit.** (1) In connection with any extension of credit secured directly or indirectly, in whole or in part, by collateral that includes any margin 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 3 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 (i) be alert to the circumstances surrounding the credit and (ii) 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.

(2) Circumstances which could indicate that such person has not exercised reasonable diligence in so investigating and so satisfying himself would include, but are not limited to, facts such as that (i) the proceeds of the credit were paid to a broker or to a bank in connection with contemporaneous delivery of margin securities, whether or not payment was made against delivery, (ii) there were frequent substitutions of margin securities serving as collateral for the credit, or (iii) 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 margin security to any customer who is subject to Part 220 of this Chapter (Regulation T) without collateral or on collateral consisting of margin securities (other than exempted securities [4]). Where the credit is to be used in the ordinary course of business of such customer, such credit is presumed to be for the purpose of purchasing or carrying margin 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 credit which is unsecured or secured by collateral other than margin securities, and which is (i) made to a dealer [5] to aid in the distribution of securities to customers not through the medium of a national securities exchange, or (ii)

[4] As defined in 15 U.S.C. 78c(a)(12).
[5] As defined in 15 U.S.C. 78c(a)(5).

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 (c)(7) of Rule 15c3-1 of the Securities and Exchange Commission (17 CFR 240.15c3-1(c)(7)).

(3) The Board of Governors of the Federal Reserve System may by Order exempt from the prohibitions of this paragraph (f) and the requirements of this part, either unconditionally or upon specified terms and conditions or for stated periods, any loan for the purpose of making a loan or providing capital to a person who is subject to Part 220 of this Chapter (Regulation T), upon a finding that the granting of such an exemption is necessary or appropriate, in the public interest or for the protection of investors; *Provided,* That the Securities Investor Protection Corporation shall have certified to the Board that such action is appropriate under the circumstances.

(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 and § 207.4(a)(2), the aggregate of all outstanding purpose credit extended to a 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 margin 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 when such credit is secured by a first lien on such dwelling; or (ii) 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 both by margin 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 margin 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 margin securities is the same as its maximum loan value and the retention requirement of collateral consisting of margin securities or debt securities convertible into margin 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)(2), in the case of a credit in which the equity ratio is equal to or exceeds the minimum equity ratio as prescribed in § 207.5 (the supplement to the regulation) a lender may permit a substitution of margin 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).

SECTION 207.2—DEFINITIONS

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

(a) Terms herein have the meanings given them in section 3(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)).

(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 margin 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 margin security is for the purpose of "carrying" such a security.

(3) An extension of credit provided for in a plan, program, or investment contract offered or sold or otherwise initiated after August 31, 1969, which provides for the acquisition both of any securities described in paragraph (d) of this section and of goods, services, property interests, other securities, or investments, is "purpose credit."

(d) **Margin security.** The term "margin security" means any equity security [6] 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 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.[7]

(e) **Registered equity security.** The term "registered equity security" means any equity security which (1) is registered on a national securities exchange, (2) has unlisted trading privileges on a national securities exchange, or (3) is exempted by the Securities and Exchange Commission from the operation of section 7(c)(2) of the Securities Exchange Act of 1934 (15 U.S.C. 78g(c)(2)) only to the extent necessary to render lawful any direct or indirect extension or maintenance of credit on such security.

(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 subjecting such security to the requirements of this part.

(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 of § 207.5(d) (the Supplement to Regulation G).

(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 of which the issuer ceases to exist, or

(ii) Meet substantially the provisions of subparagraph (1) of this paragraph (f) and of § 207.5(e) (the Supplement to Regulation G).

(4) The foregoing notwithstanding, the Board may omit or remove any stock that is not traded

[6] As defined in 15 U.S.C. 78c(a)(11).

[7] As defined in 15 U.S.C. 78c(a)(12).

on a national securites 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 in an 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.

(g) **Purchase and sale.** (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.

(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.

(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 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, depositary, 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.

(k) The term **"equity ratio"** means the fraction stated as a percentage in which the denominator is the current market value of the collateral having loan value in respect to the credit and the numerator is such current market value minus the amount of the credit currently owing.

SECTION 207.3—REPORTS AND RECORDS

(a) Every person who is registered pursuant to § 207.1(a) of this part shall, within 30 days following June 30, 1977 and within 30 days following each succeeding June 30 thereafter, 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).

SECTION 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 and (except in the case of a lender formed prior to February 1, 1968, or a trustee) wholly owned 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 margin 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 (with respect to credit extended to purchase OTC margin stock or debt securities convertible into such stock, such dates shall be July 8, 1969, and July 8, 1970, respectively), (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, or (iii) to any credit extended by a plan-lender pursuant to a stock purchase plan or stock option which is qualified or restricted under Internal Revenue Code §§ 422, 423, or 424, to finance the exercise of such rights granted prior to February 1, 1968.

(2) The restrictions imposed by § 207.1(c) and (d) and § 207.5 (the Supplement to Regulation G) on the maximum loan value of margin 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) Each such credit extended to any officer or employee pursuant to this subparagraph (2) in connection with the exercise of rights under one or more plans or with the periodic exercise of rights under a single plan, when such credits shall be outstanding at the same time, may be treated separately from any other credit extended pursuant to this subparagraph (2) and shall be treated separately from any other credit extended pursuant to sections 207.1(c), (d), and (g) of this part: *Provided*, That the collateral with respect to each individual credit extended pursuant to such plan or plans shall be identified with, and shall have loan value only with respect to, such individual credit.

(ii) At the time when credit is extended in connection with a plan subject to this subparagraph, (*a*) the plan-lender computes the "deficiency"—the amount by which the credit exceeds the maximum loan value of the collateral as prescribed by § 207.5 (the Supplement to Regulation G), and (*b*) the agreement under which the credit is extended provides that, except as permitted by the proviso in subdivision (iii) of this subparagraph, the officer or employee shall, in respect to such deficiency, for at least 3 years from the extension of the credit, 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 of the Federal Reserve System, upon application may permit;

(iii) The officer or employee is not permitted under such plan or credit 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 3-year period provided in 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 and/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 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 margin security purchased pursuant to the plan: *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) **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.

(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.

(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.

(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 margin securities or exempted securities.

(f) **Combined purchase of mutual funds and insurance.** (1) An extension of purpose credit provided for in a plan, program, or investment contract that is registered with the Securities and Exchange Commission under the Securities Act of 1933 (15 U.S.C. 77) and provides for the acquisition both of a security issued by an investment company described in § 207.2(d)(5) and of an insurance policy or contract shall be subject to all the provisions of this part, except that, where the credit is secured by the security and does not exceed the premium on such policy (plus any applicable interest), the maximum loan value of such security shall be 40 per cent of its current market value, as determined by any reasonable method.

(2) Sections 207.1(c), (d), (f), (g), (h), (i), and (j) of this part shall not apply to any credit extended to a person registered pursuant to § 207.1(a) who extends credit pursuant to subparagraph (1) of this paragraph, *Provided,* That:

(i) the credit extended pursuant to this subparagraph is secured by securities that are issued by an investment company described in § 207.2(d)(5), and are carried for the account of one or more customers under a plan, program, or investment contract described in subparagraph (1) of this paragraph (and the person extending such credit receives written notice from the recipient of the credit to this effect); and

(ii) the provisions of such plan, program, or investment contract conform to the provisions of Rule 15c2-1 of the Securities and Exchange Commission concerning hypothecation of customers' securities (17 CFR 240.15c2-1).

(g) **Transfers.** A person who is registered pursuant to the requirement of § 207.1(a) of this part may, without following the requirements of this part as to the extension of a credit, accept the transfer of a credit originally extended in conformity with the requirements of this part directly from another such person: *Provided,* That the statement of purpose, executed by the customer in connection with the original extension of credit and accepted in good faith and signed by the transferor in conformity with the requirements of § 207.1(e) of this part, is obtained and kept with each such transferee account: *And provided further,* That any transfer pursuant to this paragraph is made as a *bona fide* incident to a transaction not undertaken for the purpose of avoiding the requirements of this part, the amount of the credit in connection with the transfer is not increased, and the collateral for the transferred credit is not changed; and, after such transfer, a lender may permit such withdrawals and substitutions of collateral as are permitted in respect to a credit it extends subject to this part.

[SECTION 207.5—SUPPLEMENT, containing maximum loan values, retention requirement, and requirements for inclusion on list of OTC margin stock, is printed separately.]

F. R. Form G-3
Rev. 6-69

SPECIMEN ONLY

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF PURPOSE OF AN EXTENSION OF CREDIT SECURED BY MARGIN SECURITIES BY A PERSON SUBJECT TO REGISTRATION UNDER REGULATION G (FEDERAL RESERVE FORM G–3)

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

Instructions:

(1) Please print or type (if space is inadequate attach separate sheet).
(2) The term "margin security" is defined in § 207.2(d) of Regulation G. See also § 207.2(e).
(3) Part I (3) and (4) need be filled in only if the purpose of the credit described in Part I (1) is other than to purchase or carry margin securities.
(4) In Part II "source of valuation" need be filled in only if such source is other than regularly published information in journal of general circulation.
(5) Part II need not be completed in the case of a credit of $5,000 or less which is not for the purpose of purchasing or carrying margin securities. However, in such cases, Part I must be completed as if Part II were completed.

PART I (to be completed by customer(s))

(1) The purpose of this credit in the amount of $ ....., secured in whole or in part by the margin securities listed in Part II (A) and (B) is (describe in detail) .....

.....

.....

.....

(2) ..... (Name of person extending credit) , has outstanding, or has agreed to extend, to the undersigned, the following credits in addition to the credit described on this form (itemize and describe briefly, including amounts and collateral if any). If none, so state .....

.....

(3) Is any of the collateral listed in Part II (A) or (B) to be delivered, or has any such collateral been delivered, from a bank, broker, dealer, or person other than the undersigned? Yes ☐ No ☐

If yes, from whom? ..... Against payment? Yes ☐ No ☐

(4) Has any of the collateral listed in Part II (A) or (B) been owned less than six months? Yes ☐ No ☐ If yes, identify all such collateral so owned. .....

.....

The undersigned has (have) read this form and hereby certifies and affirms that to the best of my (our) knowledge and belief the information contained therein is true, accurate, and complete.

SIGNED ..... (Manual signature) ..... (Date)

..... (Print or type name)

SIGNED ..... (Manual signature) ..... (Date)

..... (Print or type name)

PART II (to be completed by person extending credit)

(A) Collateral consisting of margin securities, other than debt securities convertible into margin securities. The loan value of such securities under the current Supplement to Regulation G is ..... per cent.

No. of shares	Itemize separately by issue	Market price per share	Source of valuation	Total market price per issue

(B) Collateral consisting of debt securities convertible into margin securities. The loan value of such securities under the current Supplement to Regulation G is ..... per cent.

Par value	Itemize separately by issue	Market price	Source of valuation	Total market price per issue

(C) Other collateral.

Describe briefly (itemize where 10 per cent or more)	Market value	Source of valuation	Good faith loan value

The undersigned, a person subject to registration under Regulation G, is aware that this credit secured by margin securities may be subject to Regulation G, has read this form, has accepted the customer's statement on Part I in good faith as defined below*, and hereby certifies and affirms that to the best of his knowledge and belief all the information contained therein is true, accurate, and complete.

Date ..... SIGNED .....

(Manual signature)

.....

(Print or type name and title)

* Regulation G requires that the customer's statement on this form be accepted by the person extending the credit in good faith. Good faith requires that such person (1) must be alert to the circumstances surrounding the credit, and (2) if he has any information which would cause a prudent man not to accept the statement without inquiry, has investigated and is satisfied that the statement is truthful. Among the facts which would require such investigation are receipt of the statement through the mail or from a third party.

THIS FORM MUST BE RETAINED BY THE PERSON EXTENDING THE CREDIT FOR AT LEAST THREE YEARS AFTER THE TERMINATION OF THIS CREDIT

REGULATION T

(12 CFR 220)

As amended effective June 1, 1977

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), and applies to every broker or dealer, including every member of a national securities exchange.

SECTION 220.2—DEFINITIONS

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

(a) The terms herein have the meanings given them in section 3(a) of the Act (15 U.S.C. 78c(a)).

(b) The term **"creditor"** means any broker or dealer including every member of a national securities exchange.

(c) The term **"customer"** (1) includes any person, or any group of persons acting jointly, (i) to or for whom a creditor is extending, arranging, or maintaining any credit, or (ii) who, in accordance with the ordinary usage of the trade, would be considered a customer of the creditor, and (2) includes, but is not limited to (i) in case the creditor is a firm, any partner in the firm who would be considered a customer of the firm if he were not a partner, and (ii) any joint venture in which a creditor participates and which would be considered a customer of the creditor if the creditor were not a participant.

(d) The term **"registered security"** means any security which (1) is registered on a national securities exchange; or (2) in consequence of its having unlisted trading privileges on a national securities exchange is deemed, under the provisions of section 12(f) of the Act (15 U.S.C. 78*l*), to be registered on a national securities exchange; or (3) is exempted by the Securities and Exchange Commission from the operation of section 7(c)(2) of the Act (15 U.S.C. 78g(c)(2)) only to the extent necessary to render lawful any direct or indirect extension or maintenance of credit on such security or any direct or indirect arrangement therefor which would not have been unlawful if such security had been a security (other than an exempted security) registered on a national securities exchange.

(e)(1) The term **"OTC margin stock"** [1] means stock not traded on a national securities exchange which the Board of Governors of the Federal Re-

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

[1] "OTC stock" hereinafter refers to stock traded "over the counter."

serve 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 subjecting such stock to the requirements of this part.

(2) The Board will from time to time publish a list of OTC margin stock as to which the Board has made the determinations described in subparagraph (1) of this paragraph (e). Except as provided in subparagraph (4) of this paragraph (e), such stocks shall meet the requirements of § 220.8 (h) (the Supplement to Regulation T).

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

(i) Exist or of which the issuer ceases to exist, or

(ii) Meet substantially the provisions of subparagraph (1) of this paragraph (e) and of § 220.8 (i) (the Supplement to Regulation T).

(4) The foregoing notwithstanding, the Board may 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 creditor 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 in an 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.

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

(g) The term **"exempted security"** has the meaning given it in section 3(a) of the Act (15 U.S.C. 78c(a)(12)), except that the term does not include a security which is exempted by the Securities and Exchange Commission from the operation of section 7(c)(2) of the Act (15 U.S.C. 78g(c)(2)) only to the extent described in paragraph (d)(3) of this section.

(h) The term **"non-equity security"** means any security other than an equity security [2] or an exempted security.

SECTION 220.3—GENERAL ACCOUNTS

(a) **Contents of general account.** All financial relations between a creditor and a customer, whether recorded in one record or in more than one record, shall be included in and be deemed to be 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 this section, all transactions in non-equity securities, exempted securities, and in other securities having no loan value in a general account under the provisions of paragraph (c) of this section 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), purchases to cover short sales and contracts involving an endorsement or guarantee of any put, call, or other option), shall be included in the appropriate special account provided for by § 220.4. During any period when such § 220.8 specifies that 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 by § 220.4.

(b) **General rule.** (1) (i) A creditor shall not effect for or with any customer in a general account, special bond account subject to § 220.4(i), or special convertible debt security account any transaction which, in combination with the other transactions effected in such account on the same day, creates an excess of the adjusted debit balance of such account over the maximum loan value of the securities in such account, or increases any such excess, unless in connection therewith the creditor obtains, as promptly as possible and in any event before the expiration of 5 full business days following the date of such

[2] As defined in 15 U.S.C. 78c(a)(11).

transaction, the deposit into such account of cash or securities in such amount that the cash deposited plus the loan value of the securities deposited equals or exceeds the excess so created or the increase so caused.

(ii) If the adjusted debit balance in a general account or special convertible debt security account, computed using the margin requirement for short sales specified in § 220.8(g)(2) of the Supplement to Regulation T, exceeds the maximum loan value of the securities in such account specified in § 220.8(g)(1), the account is subject to § 220.8(g) (sometimes referred to herein as "account subject to section 8(g)"). If an account is subject to § 220.8(g) as of the close of business on the preceding business day, it shall be subject in addition to all other requirements applying to the account, to the requirement that the creditor shall not effect any transaction in the account which creates an excess of the adjusted debit balance of such account, computed using the margin requirements for short sales specified in § 220.8(d), over the maximum loan value of the securities in such account specified in § 220.8 (a) and (c), or increases any such excess, unless in connection therewith the creditor obtains, as promptly as possible and in any event before the expiration of 5 full business days following the date of such transaction, the deposit into such account of cash or securities in such amount that the cash deposited plus the loan value of the securities deposited equals or exceeds the excess so created or the increase so caused. The required deposit may be reduced by the amount of cash or securities which otherwise could be withdrawn pursuant to the provisions of subparagraph (2) of this paragraph in connection with any other transactions in the account on the same day.

(2) Except as permitted in this subparagraph, no withdrawal of cash or exempted or margin securities shall be permissible if the adjusted debit balance of the account (whether the general account, the special bond account, or the special convertible security account) would exceed the maximum loan value of the securities in such account after such withdrawal. The exceptions are available only in the event no cash or securities need to be deposited in such account in connection with a transaction on a previous day and none would need to be deposited thereafter in connection with any withdrawal of cash or securities on the current day. The permissible exceptions are (i) registered non-equity securities or exempted securities held in the general account on March 11, 1968, and continuously thereafter may be withdrawn upon the deposit in the account of cash (or margin equity securities counted at their maximum loan value) at least equal to the "retention requirement" of such withdrawn securities, or (ii) except as provided in (i) of this subparagraph, securities having loan value in the general account, the special bond account, or the special convertible security account may be withdrawn upon the deposit in such account of cash or securities having loan value in such account counted at the maximum loan value at least equal to the "retention requirement" of those securities, or (iii) cash may be withdrawn upon the deposit in the general account, the special bond account, or the special convertible security account of securities having a maximum loan value in such account at least equal to the amount of cash withdrawn, or (iv) upon the sale (other than the short sale) of margin securities or securities having loan value in the general account, special bond account, or special convertible security account there may be withdrawn in cash an amount equal to the difference between the current market value of the securities sold and the "retention requirement" of such securities, or (v) upon the sale (other than the short sale) of a registered non-equity security or an exempted security that was held in the general account on March 11, 1968, and continuously thereafter there may be withdrawn in cash an amount equal to the difference between the current market value of the securities sold and the "retention requirement" of those securities as prescribed in § 220.8 (the Supplement to Regulation T).

(3) Rules for computing the maximum loan value of the securities in a general account, special bond account, or special convertible security account and the adjusted debit balance of such account are provided in paragraphs (c) and (d) of this section, and certain modifications of and exceptions to the general rule stated in this paragraph are provided in the subsequent paragraphs of this section and in § 220.6.

(c) **Maximum loan value and current market value.** (1) The maximum loan value of the securities in a general account, special bond account, or special convertible security account is the sum of the maximum loan values of the individual securities in such account, including securities (other than unissued securities) bought for such account

but not yet debited thereto, but excluding securities sold for such account whether or not payment has been credited thereto.

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

(3) A warrant or certificate which evidences only a right to subscribe to or otherwise acquire any security and which expires within 90 days of issuance shall have no loan value in a general account, special bond account, or special convertible security account; but, if the account contains the security to the holder of which such warrant or certificate has been issued and such warrant or certificate is held in an appropriate account maintained by the creditor for the customer the current market value of such security (if such security is a margin security) shall, for the purpose of calculating its maximum loan value, be increased by the current market value of such warrant or certificate.

(4) For the current market value of a security throughout the day of its purchase or sale, the creditor shall use its total cost or the net proceeds of its sale, as the case may be, and at any other time shall use the closing sale price of the security on the preceding business day as shown by any regularly published reporting or quotation service. In the absence of any such closing sale price, the creditor may use any reasonable estimate of the market value of such security as of the close of business on such preceding business day.

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

(1) the net debit balance, if any, of such account;

(2) the total cost of any securities (other than unissued securities) bought for such account but not yet debited thereto;

(3) The current market value of any securities (other than unissued securities) sold short in the general account plus, for each security (other than an exempted security), such amount as the Board shall presecribe from time to time in § 220.8 (d) (the Supplement to Regulation T) as the margin required for such short sales, except that such amount so prescribed in such § 220.8(d) 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;

(4) the amount of margin specified by paragraph (h) of this section for every net commitment in such account in unissued securities, plus all unrealized losses on each commitment in unissued securities and minus all unrealized gains (not exceeding the required margin) on each commitment in unissued securities; and

(5) the amount of margin as provided for in paragraph (i) of this section and § 220.8 (the Supplement to Regulation T) for each transaction involving the issuance, endorsement, or guarantee of any put, call, or combination thereof.

and deducting there from the sum of the following items:

(6) the net credit balance, if any, of such account; and

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

In case such account is the account of a partner of the creditor or the account of a joint venture in which the creditor participates, the adjusted debit balance shall be computed according to the foregoing rule and the supplementary rules prescribed in § 220.6(a) and (b).

(e) **Liquidation in lieu of deposit.**[3] In any case in which the deposit required by paragraph (b) of this section, or any portion thereof, is not obtained

[3] This requirement relates to the action to be taken when a customer fails to make the deposit required by § 220.3(b), and it is not intended to countenance on the part of customers the practice commonly known as "free-riding," to prevent which the principal national securities exchanges have adopted certain rules. See the rules of such exchanges and § 220.7(e).

by the creditor within the 5-day period specified therein, margin non-exempted securities shall be sold (or, to the extent that there are insufficient margin non-exempted securities in the general account, special bond account, or special convertible security account other liquidating transactions shall be effected in such account), prior to the expiration of such 5-day period, in such amount that the resulting decrease in the adjusted debit balance of such account exceeds, by an amount at least as great as such required deposit or the undeposited portion thereof, the "retention requirement" of any margin or exempted securities sold: *Provided*, That a creditor is not required to sell securities or to effect other liquidating transactions specified by this paragraph in an amount greater than necessary to eliminate the excess of the adjusted debit balance of such account over the maximum loan value of the securities remaining in such account after such liquidation.

(f) **Extensions of time.** In exceptional cases, the 5-day period specified in paragraph (b) of this section may, on application of the creditor, be extended for one or more limited periods commensurate with the circumstances (1) by any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which his transactions are effected, or (2) in instances where the procedure described above is not readily available or appropriate, by a committee of a national securities association: *Provided*, That such committee is satisfied that the creditor is acting in good faith in making the application and that the circumstances are in fact exceptional and warrant such action.

(g) **Transactions on given day.** (1) For the purpose of paragraph (b)(1) of this section, except in the case of an account subject to section 8(g), the question of whether or not an excess of the adjusted debit balance of a general account, special bond account, or special convertible debt security account over the maximum loan value of the securities in such account is created or increased on a given day shall be determined on the basis of all the transactions in the account on such day exclusive of any deposit of cash, deposit of securities, covering transactions, or other liquidation that has been effected on such day, pursuant to the requirements of paragraph (b) or (e) of this section, in connection with a transaction on a previous day.

(2) In the case of an account subject to section 8(g), the computation for the required deposit, under paragraph (b)(1)(ii) of this section in connection with transactions on a given day, may be made at the close of trading on such day and shall be made exclusive of any deposit of cash, deposit of securities, covering transactions or other liquidation that has been effected on such day, pursuant to the requirements of paragraph (b) or (e) of this section, in connection with a transaction on a previous day.

(3) In any case in which an excess so created, or increase so caused, by transactions on a given day does not exceed $100, the creditor need not obtain the deposit specified therefor in paragraph (b)(1) of this section.

(4) Any transaction which serves to meet the requirements of paragraph (e) of this section or otherwise serves to permit any offsetting transaction in an account shall, to that extent, be unavailable to permit any other transaction in such account.

(5) For the purposes of this part (Regulation T), if a security has maximum loan value under paragraph (c)(1) of this section in a general account, or under § 220.4(j) in a special convertible debt security account, a sale of the same security (even though not the same certificate) in such account shall be deemed to be a long sale and shall not be deemed to be or treated as a short sale.

(h) **Unissued securities.** (1) The amount to be included in the adjusted debit balance of a general account, special bond account, or special convertible security account as the margin required for a net long commitment in unissued securities shall be the current market value of the net amount of unissued securities long *minus* the maximum loan value which such net amount of securities would have if they were issued margin securities held in such account; and the amount to be so included as the margin required for a net short commitment in unissued securities shall be the amount which would be required as margin for the net amount of unissued securities short if such securities were issued securities and were sold short in such account: *Provided*, That no amount need be included as margin for a net short commitment in unissued securities when there are held in such account securities in respect of which the unissued securities are to be issued, nor for any net position in unissued securities that are exempted securities.

(2) Whenever a creditor, pursuant to a purchase of an unissued security for a customer, receives an issued security which is not a margin or exempted security, the creditor shall treat as the margin required for such purchase, any payment by the customer for such issued security as a transaction (other than a withdrawal) which increases the adjusted debit balance of a general account, special bond account, or special convertible security account by the amount of the payment *minus* the amount required to be included in the adjusted debit balance of such account, at the time of and in connection with the purchase of the unissued security.

(i) **Options.** (1) The amount to be included in the adjusted debit balance of an account as the margin required for each transaction involving the issuance, endorsement or guarantee of any put or call shall be such amount as the Board shall prescribe from time to time in section 220.8 (the Supplement to Regulation T) as the margin required for the writing of options, increased by any unrealized loss on each such commitment, or reduced by any excess of the exercise price over the current market value of the underlying security in the case of a call or any excess of the current market value of the underlying security over the exercise price in the case of a put. Such sum, however, shall not exceed the current market value of the underlying security in the case of a call, or the exercise price in case of a put, nor be less than $250 in the case of either a call or a put. Such sum need not be included in the adjusted debit balance when there is held in the account any of the following:

(i) The underlying security in the case of a call or a short position in the underlying security in the case of a put;

(ii) Securities immediately convertible into or exchangeable for the underlying security without restriction or the payment of money in the case of a call, provided that the right to convert or exchange does not expire on or before the expiration date of the option;

(iii) An agreement under which a bank, which is holding the underlying securities or the required cash, is obligated to deliver, in the case of a call, or accept, in the case of a put, the underlying securities against payment of the exercise price upon exercise of the option;

(iv) A long position in a call on the same number of shares of the same underlying security which does not expire before the expiration date of the call issued, endorsed or guaranteed, provided that there is also added to the adjusted debit balance the amount, if any, by which the exercise price of such long position exceeds the exercise price of the call issued, endorsed or guaranteed;

(v) A long position in a put on the same number of shares of the same underlying security which does not expire before the expiration date of the put issued, endorsed or guaranteed, provided that there is also added to the adjusted debit balance the amount, if any, by which the exercise price of the put issued, endorsed or guaranteed exceeds the exercise price of such long position; or

(vi) A warrant to purchase the underlying security, in the case of a call, which does not expire on or before the expiration date of the call, provided that there is also added to the adjusted debit balance the amount, if any, by which the exercise price of the warrant exceeds the exercise price of the call, issued, endorsed or guaranteed. A warrant used in lieu of the required margin under this provision shall have no loan value in the account.

(2) When a security held in the account serves in lieu of the margin required for a call, such security shall be valued at no greater than the exercise price of the call.

(3) When a short position held in the account serves in lieu of the margin required for a put, the amount prescribed by paragraph (d)(3) of this section as the amount to be added to the adjusted debit balance in respect of short sales shall be increased by any unrealized loss on the position.

(4) When both a put and a call are issued, endorsed or guaranteed in a general account on the same number of shares of the same underlying security, the amount of margin required shall be the margin on either the put or the call, whichever is greater, plus any unrealized loss on the other option.

(5) Any security position held in the account which serves in lieu of the margin required for a put or a call shall be unavailable to support any other option transaction in the account.

(6) The customer may either designate at the time the option order is entered which security position held in the account is to serve in lieu of

the margin required or have a standing agreement with the creditor as to the method to be used for making the determination on any given day as to which security position will be used in lieu of the margin to support an option transaction.

SECTION 220.4—SPECIAL ACCOUNTS

(a) **General rule.** (1) Pursuant to this section, a creditor may establish for any customer one or more special accounts.

(2) Each such special account shall be recorded separately and shall be confined to the transactions and relations specifically authorized for such account by the appropriate paragraph of this section and to transactions and relations incidental to those specifically authorized. An adequate record shall be maintained showing for each such account the full details of all transactions in the account.

(3) A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this part. If a customer has with a creditor both a general account and one or more such special accounts, the creditor shall treat each such special account as if the customer had with the creditor no general account, special bond account subject to § 220.4(i), or special convertible security account subject to § 220.4(j).

(4) The only other conditions to which transactions in such special accounts shall be subject under the provisions of this part shall be such conditions as are specified in the appropriate paragraph of this section and in §§ 220.2, 220.6, 220.7, or 220.8, except insofar as § 220.3 applies to §§ 220.4(i), and (j).

(b) **Special omnibus account.** In a special omnibus account, a member of a national securities exchange may effect and finance transactions for another member of a national securities exchange or a broker or dealer registered with the Securities and Exchange Commission under section 15 of the Securities Exchange Act of 1934 (15 U.S.C. 78o) from whom the member receives (1) written notice, pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities by brokers or dealers (Rule 8c-1 (17 CFR 240.8c-1) or Rule 15c2-1 (17 CFR 240.15c2-1)), to the effect that all securities carried in the account will be carried for the account of the customers of the broker or dealer and (2) written notice that any short sales effected in the account will be short sales made in behalf of the customers of the broker or dealer other than his partners. No substitutions of collateral securing credit extended to a broker or dealer not described in the preceding sentence shall be permitted after October 6, 1969, and no such credit shall be maintained after July 8, 1970.

(c) **Special cash account.** (1) In a special cash account, a creditor may effect for or with any customer *bona fide* cash transactions in securities in which the creditor may:

(i) Purchase any security for, or sell any security to, any customer, provided funds sufficient for the purpose are already held in the account or the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the customer will promptly make full cash payment for the security and that the customer does not contemplate selling the security prior to making such payment.

(ii) Sell any security for, or purchase any security from, any customer, provided the security is held in the account or the creditor is informed that the customer or his principal owns the security and the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the security is to be promptly deposited in the account.

(2) In case a customer purchases a security (other than an exempted security) in the special cash account and does not make full cash payment for the security within 7 days after the date on which the security is is so purchased, the creditor shall, except as provided in subparagraphs (3)–(7) of this paragraph, promptly cancel or otherwise liquidate the transaction or the unsettled portion thereof.

(3) If the security when so purchased is an unissued security, the period applicable to the transaction under subparagraph (2) of this paragraph shall be 7 days after the date on which the security is made available by the issuer for delivery to purchasers. If the security when so purchased is a "when distributed" security which is to be distributed in accordance with a published plan, the period applicable to the transaction under subparagraph (2) of this paragraph shall be 7 days after the date on which the security is so distributed. If the security when so purchased is a new security issued or to be issued for the purpose of refunding outstanding securities which mature,

or are to be payable upon presentation for redemption, within 35 days of the date on which the new security is made available by the issuer for delivery to purchasers, the period applicable to the transaction under subparagraph (2) of this paragraph shall be 7 days after such maturity or payment date: *Provided,* That this sentence shall apply only to the payment of that portion of the purchase price that does not exceed 103 per cent of the amount that will be payable to the purchaser of the new security upon such maturity of, or payment for, securities owned by him at the time of the purchase.

(4) If any shipment of securities is incidental to the consummation of the transaction, the period applicable to the transaction under subparagraph (2) of this paragraph shall be deemed to be extended by the number of days required for all such shipments, but not by more than 7 days.

(5) If the creditor, acting in good faith in accordance with subparagraph (1) of this paragraph, purchases a security for a customer, or sells a security to a customer, with the understanding that he is to deliver the security promptly to the customer, and the full cash payment to be made promptly by the customer is to be made against such delivery, the creditor may at his option treat the transaction as one to which the period applicable under subparagraph (2) of this paragraph is not the 7 days therein specified but 35 days after the date of such purchase or sale.

(6) If an appropriate committee of a national securities exchange or a national securities association is satisfied that the creditor is acting in good faith in making the application, that the application relates to a *bona fide* cash transaction, and that exceptional circumstances warrant such action, such committee, on application of the creditor, (i) may extend any period specified in subparagraphs (2), (3), (4), or (5) of this paragraph for one or more limited periods commensurate with the circumstances, or (ii), in case a security purchased by the customer in the special cash account is a margin or exempted security, may authorize the transfer of the transaction to a general account, special bond account, special convertible security account, or special omnibus account, and the completion of such transaction pursuant to the provisions of this part relating to such an account.

(7) The 7-day periods specified in this paragraph refer to 7 full business days. The 35-day period and the 90-day period specified in this paragraph refer to calendar days, but if the last day of any such period is a Saturday, Sunday, or holiday, such period shall be considered to end on the next full business day. For the purposes of this paragraph, a creditor may, at his option, disregard any sum due by the customer not exceeding $100.

(8) Unless funds sufficient for the purpose are already in the account, no security other than an exempted security shall be purchased for, or sold to, any customer in a special cash account with the creditor if any security other than an exempted security has been purchased by such customer in such an account, and then, for any reason whatever, without having been previously paid for in full by the customer, the security has been sold in the account or delivered out to any broker or dealer during the preceding 90 days: *Provided,* that an appropriate committee of a national securities exchange or a national securities association, on application of the creditor, may authorize the creditor to disregard for the purposes of this subparagraph any given instance of the type therein described if the committee is satisfied that both creditor and customer are acting in good faith and that circumstances warrant such authorization. For the purposes of this subparagraph, the cancellation of a transaction, otherwise than to correct an error, shall be deemed to constitute a sale. The creditor may disregard for the purposes of this subparagraph a sale without prior payment provided full cash payment is received within the period described by subparagraph (2) of this paragraph and the customer has not withdrawn the proceeds of sale on or before the day on which such payment (and also final payment of any check received in that connection) is received. The creditor may so disregard a delivery of a security to another broker or dealer provided such delivery was for deposit into a special cash account which the latter broker or dealer maintains for the same customer and in which account there are already sufficient funds to pay for the security so purchased; and for the purpose of determining in that connection the status of a customer's account at another broker or dealer, a creditor may rely upon a written statement which he accepts in good faith from such other broker or dealer.

(d) **Special arbitrage account.** In a special arbitrage account, a member of a national securities exchange may effect and finance for any customer *bona fide* arbitrage transactions in securities. For the purpose of this paragraph, the term "arbitrage" means (1) a purchase or sale of a security in one market together with an offsetting sale or

purchase of the same security in a different market at as nearly the same time as practicable, for the purpose of taking advantage of a difference in prices in the two markets, or (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days following the date of its purchase into a second security together with an offsetting sale at or about the same time of such second security for the purpose of taking advantage of a disparity in the prices of the two securities, except that when the security purchased is solely a due bill for, or other evidence of the right to receive, only the security that is sold, and the security that is sold is trading as a when-issued security, such period shall be 180 calendar days.

(e) **Special commodity account.** In a special commodity account, a creditor may effect and carry for any customer transactions in commodities.

(f) **Special miscellaneous account.** In a special miscellaneous account, a creditor may:

(1) With the approval of any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, extend and maintain credit to meet the emergency needs of any creditor;

(2)(i) Extend and maintain credit, (*a*) to or for any partner of a firm which is a member of a national securities exchange to enable such partner to make a contribution of capital to such firm, or to purchase stock in an affiliated corporation of such firm, or (*b*) to or for any person who is or will become the holder of stock of a corporation which is a member of a national securities exchange to enable such person to purchase stock in such corporation, or to purchase stock in an affiliated corporation of such corporation; provided the lender as well as the borrower is a partner in such member firm or a stockholder in such member corporation, or the lender is a firm or a stockholder in such member corporation, or the lender is a firm or corporation which is a member of a national securities exchange and the borrower is a partner in such firm or a stockholder in such corporation;

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

(*a*) Either the lender or the borrower is a firm or corporation which is a member of a national securities exchange, the other party to the credit is an affiliated corporation of such member firm or corporation, and, in addition to the fact that an appropriate committee of the exchange is satisfied that the credit is not in contravention of any rule of the exchange, the credit has the approval of such committee, or

(*b*) The lender as well as the borrower is a member of such exchange, the credit has the approval of an appropriate committee of the exchange, and the committee, in addition to being satisfied that the credit is not in contravention of any rule of the exchange, is satisfied that the credit is outside the ordinary course of the lender's business, and that, if the borrower's firm or corporation or an affiliated corporation of such firm or corporation does any dealing in securities for its own account, the credit is not for the purpose of increasing the amount of such dealing.

(iii) For the purpose of subdivisions (i) and (ii) of this subparagraph, the term "affiliated corporation" means a corporation all the common stock of which is owned directly or indirectly by the member firm or general partners and employees of the firm, or by the member corporation or holders of voting stock and employees of the corporation and an appropriate committee of the exchange has approved the member firm's or member corporation's affiliation with such affiliated corporation.

(3) Purchase any security from any customer who is a member of a national securities exchange or a broker or dealer registered with the Securities and Exchange Commission under section 15 of the Securities Exchange Act of 1934 (15 U.S.C. 78o), or sell any security to such customer: *Provided,* That the creditor acting in good faith purchases or sells the security for delivery, against full payment of the purchase price, as promptly as practicable in accordance with the ordinary usage of the trade;

(4) Effect and finance, for any member of a national securities exchange who is registered and acts as odd-lot dealer in securities on the exchange, such member's transactions as an odd-lot dealer in such securities, or effect and finance, for any joint venture in which the creditor participates, any transactions in any securities of an issue with respect to which all participants, or all participants other than the creditor, are registered and act on a national securities exchange as odd-lot dealers;

(5) Effect transactions for and finance any joint venture or group in which the creditor participates and in which all participants are dealers (whether such participants be acting jointly or severally), or any member thereof or participant therein, for the purpose of facilitating the underwriting or distri-

buting of all or part of an issue of securities (i) not through the medium of a national securities exchange, or (ii) the distribution of which has been approved by the appropriate committee of a national securities exchange;

(6) Effect for any customer the collection or exchange (other than by sale or purchase) of securities deposited by the customer specifically for such purposes, and (subject to any other applicable provisions of law) received from or for any customer, and pay out or deliver to or for any customer, any money or securities;

(7) Effect and carry for any customer transactions in foreign exchange; and

(8) Extend and maintain credit to or for any customer without collateral or on any collateral whatever for any purpose [4] other than purchasing or carrying or trading in securities.

(g) **Specialist's account.** (1) In a special account designated as a specialist's account, a creditor may effect and finance, for any member of a national securities exchange who is registered and acts as a specialist in securities on the exchange, such member's transactions as a specialist in such securities, or effect and finance, for any joint venture in which the creditor participates, any transactions in any securities of an issue with respect to which all participants, or all participants other than the creditor, are registered and act on a national securities exchange as specialists.

(2) Such specialist's account shall be subject to the same conditions to which it would be subject if it were a general account except that if the specialist's exchange is a national securities exchange which requires and submits to the Board of Governors of the Federal Reserve System reports suitable for supplying current information regarding specialist's use of credit pursuant to this paragraph (g), the requirements of § 220.6(b) regarding joint ventures shall not apply to such accounts and the maximum loan value of a registered security in such account (except a security that has been identified as a security held for investment pursuant to a rule of the Commissioner of Internal Revenue (Regs. section 1-1236-1(d))) shall be as determined by the creditor in good faith.

(h) **Special subscriptions account.** In a special subscriptions account a creditor may effect and finance the acquisition of a margin security for a customer through the exercise of a right to acquire such security which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, and such special subscriptions account shall be subject to the same conditions to which it would be subject if it were a general account, except that:

(1) Each such acquisition shall be treated separately in the account, and prior to initiating the transaction the creditor shall obtain a deposit of cash in the account such that the cash deposited plus the maximum loan value of the securities so acquired equals or exceeds the subscription price, giving effect to a maximum loan value for the securities so acquired of 75 per cent of their current market value as determined by any reasonable method;

(2) After October 20, 1967, at the time when credit is extended pursuant to this paragraph, the creditor shall compute the amount by which the credit exceeds the maximum loan value of the collateral as prescribed by § 220.8 (the Supplement to Regulation T) and the customer shall reduce the credit by an amount equal to at least one-fourth of such sum by the end of each of the 4 succeeding 3-calendar-month periods or until the credit does not exceed the current maximum loan value of the collateral, whichever shall occur first, and, if the creditor fails to obtain the required quarterly reduction or a portion thereof with respect to a particular acquisition within 5 full business days after such reduction is due, the creditor shall promptly liquidate a portion of the collateral so acquired and apply the proceeds of the sale to reduce the credit, in an amount equal to at least twice the required payment or portion thereof for the first 2 such liquidations, at least equal to the required payment or portion thereof for the third such liquidation, and at least sufficient so that the remaining credit does not exceed the current maximum loan value of the remaining collateral after the fourth such liquidation: *Provided,* That no such liquidation need be in an amount greater than is necessary so that the remaining credit does not exceed the maximum loan value of the remaining collateral determined as of the date the credit was extended; and

(3) The creditor shall not permit any withdrawal of cash or securities from the account so long as the remaining credit exceeds the maximum loan value of the remaining collateral in the account , except that when the remaining credit extended in connection with a given acquisition of

[4] See § 220.7(c).

securities in the account has become equal to or less than the maximum loan value of such securities as prescribed in § 220.8 (the Supplement to Regulation T) (or in connection with an acquisition after October 20, 1967, the requirements of subparagraph (2) of this section have been fulfilled), such securities shall be transferred to the general account (or, if eligible, to a special convertible security account pursuant to § 220.4(j)) together with any remaining portion of such credit. In order to facilitate the exercise of a right in accordance with the provisions of this paragraph, a creditor may permit the right to be transferred from a general account to the special subscriptions account without regard to any other requirement of this part.

(i) **Special bond account.** In a special bond account a creditor may effect and finance transactions in exempted securities and registered nonequity securities for any customer.[5] Call options may be issued, endorsed or guaranteed in this account on shares of any underlying equity security which is held in this account because it is an exempted security.

(j) **Special convertible debt security account.** (1) In a special convertible debt security account a creditor may extend credit on any margin security consisting of a margin debt security (i) convertible with or without consideration, presently or in the future, into margin stock or (ii) carrying a warrant or right to subscribe to or purchase such stock.

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

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

(4) In the event any convertible debt 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 so transferred 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).

(6) Without regard to the margin required for the writing of options in section 220.8(j) (Supplement to Regulation T), call options may be issued, endorsed or guaranteed in this account on the number of shares of an underlying security into which a margin debt security held in the account is convertible, and put options may be issued, endorsed or guaranteed in this account on the number of shares of an underlying security sold short in the account. Such option positions may be carried in the account in conformity with the requirements of section 220.3(d) and (i).

(k) **Special insurance premium funding account.** In a special insurance premium funding account a creditor may arrange for the extension or maintenance of credit, not in excess of the premiums on the insurance policy (plus any applicable interest), on 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) that serves as collateral under a plan, program, or investment contract, registered with the Securities and Exchange Commission under the Securities Act of 1933 (15 U.S.C. 77), that provides for the acquisition both of a security issued by such investment company and of insurance: *Provided,* That such credit is extended or maintained by a lender subject to Part 207 of this Chapter (Regulation G) or a bank subject to Part 221 of this Chapter (Regulation U). A creditor arranging credit in a special insurance premium funding account shall not extend, arrange, or maintain credit in the general account or any other special account in § 220.3 and this section, except for transactions involving the purchase of shares, in the special cash account described in paragraph (c) of this section, in investment companies which are so registered.

[5] For maximum loan value of such securities see § 220.8 (b), the Supplement to Regulation T.

SECTION 220.5—BORROWING BY MEMBERS, BROKERS, AND DEALERS

(a) **General rule.** It is unlawful for any creditor, directly or indirectly, to borrow in the ordinary course of business as a broker or dealer on any registered security (other than an exempted security) except:

(1) from or through a member bank of the Federal Reserve System; or

(2) from any nonmember bank which shall have filed with the Board an agreement which is still in force and which is in the form prescribed by this part; or

(3) to the extent to which, under the provisions of this part, loans are permitted between members of a national securities exchange and/or brokers and/or dealers, or loans are permitted to meet emergency needs.

(b) **Agreements of nonmember banks.** An agreement filed pursuant to section 8(a) of the Act (15 U.S.C. 78h(a)) by a bank not a member of the Federal Reserve System shall be substantially in the form contained in Form F.R. T-2 if the bank has its principal place of business in a territory or insular possession of the United States, or if it has an office or agency in the United States and its principal place of business outside the United States. The agreement filed by any other nonmember bank shall be in substantially the form contained in Form F.R. T-1. Any nonmember bank which has executed any such agreement may terminate the agreement if it obtains the written consent of the Board. Blank forms of such agreements, information regarding their filing or termination, and information regarding the names of nonmember banks for which such agreements are in force, may be obtained from any Federal Reserve Bank.

(c) **Borrowing from other creditors.** A creditor may borrow from another creditor in the ordinary course of business as a broker or dealer on any registered security to the extent and subject to the terms upon which the latter may extend credit to him in accordance with the provisions of this part, and subject to any other applicable provisions of law.

SECTION 220.6—CERTAIN TECHNICAL DETAILS

(a) **Accounts of partners.** In case a general account, special bond account, or special convertible security account is the account of a partner of the creditor, the creditor, in calculating the adjusted debit balance of such account and the maximum loan value of the securities therein, shall disregard the partner's financial relations with the firm as reflected in his capital and ordinary drawing accounts.

(b) **Contribution to joint venture.** In case a general account, special bond account, or special convertible security account is the account of a joint venture in which the creditor participates, the adjusted debit balance of such account shall include, in addition to the items specified in § 220.3(d), any amount by which the creditor's contribution to the joint venture exceeds the contribution which he would have made if he had contributed merely in proportion to his right to share in the profits of the joint venture.

(c) **Guaranteed accounts.** No guarantee of a customer's account shall be given any effect for purposes of this part.

(d) **Transfer of accounts.** (1) In the event of the transfer of a general account, special bond account, or special convertible security account from one creditor to another, such account may be treated for the purposes of this part as if it had been maintained by the transferee from the date of its origin: *Provided*, That the transferee accepts in good faith a signed statement of the transferor that no cash or securities need be deposited in such account in connection with any transaction that has been effected in such account or, in case he finds that it is not practicable to obtain such a statement from the transferor, accepts in good faith such a signed statement from the customer.

(2) In the event of the transfer of a general account, special bond account, or special convertible security account, from one customer to another, or to others, as a *bona fide* incident to a transaction that is not undertaken for the purpose of avoiding the requirements of this part, each such transferee account may be treated by the creditor for the purposes of this part as if it had been maintained for the transferee from the date of its origin: *Provided*, That the creditor accepts in good faith and keeps with such transferee account a signed statement of the transferor describing the circumstances giving rise to the transfer.

(e) **Reorganizations.** A creditor may, without regard to the other provisions of this part, effect for a customer the exchange of any margin or exempted security in a general account, special

bond account, or special convertible security account, for the purpose of participating in a reorganization or recapitalization in which the security is involved: *Provided,* That if a non-margin non-exempted security is acquired in exchange the creditor shall not, for a period of 60 days following such acquisition, permit the withdrawal of such security or the proceeds of its sale from such account except to the extent that such security or proceeds could be withdrawn if the security were a margin security.

(f) **Time of receipt of funds or securities.** For the purposes of this part, a creditor may, at his option (1) treat the receipt in good faith of any check or draft drawn on a bank which in the ordinary course of business is payable on presentation, or any order on a savings bank with passbook attached which is so payable, as receipt of payment of the amount of such check, draft, or order; (2) treat the shipment of securities in good faith with sight draft attached as receipt of payment of the amount of such sight draft; and (3) in the case of the receipt in good faith of written or telegraphic notice in connection with a special omnibus account of a customer not located in the same city that a specified security or a check or draft has been dispatched to the creditor, treat the receipt of such notice as receipt of such security, check, or draft: *Provided, however,* That if the creditor receives notice that such check, draft, order , or sight draft described in subparagraphs (1), (2), or (3) of this paragraph is not paid on the day of presentation, or if such security, check, or draft described in subparagraph (3) of this paragraph is not received by the creditor within a reasonable time, the creditor shall promptly take such action as he would have been required to take by the appropriate provisions of this part if the provisions of this paragraph had not been utilized.

(g) **Interest, service charges, etc.** (1) Interest on credit maintained in a general account, special bond account, or special convertible security account, communication charges with respect to transactions in such account, shipping charges, premiums on securities borrowed in connection with short sales or to effect delivery, dividends or other distributions due on borrowed securities, and any service charges (other than commissions) which the creditor may impose, may be debited to such account in accordance with the usual practice and without regard to the other provisions of this part, but such items so debited shall be taken into consideration in calculating the net credit or net debit balance of such account.

(2) A creditor may permit interest, dividends, or other distributions received by the creditor with respect to securities in a general account, special bond account, or special convertible security account, to be withdrawn from such account only on condition that the adjusted debit balance of such account does not exceed the maximum loan value of the securities in such account after such withdrawal, or on condition that (i) such withdrawal is made within 35 days after the day on which, in accordance with the creditor's usual practice, such interest, dividends, or other distributions are entered in such account, (ii) such entry in the account has not served in the meantime to permit in the account any transaction which could not otherwise have been effected in accordance with this part, and (iii) any cash withdrawn does not represent any arrearage on the security with respect to which it was distributed, and the current market value of any securities withdrawn does not exceed 10 per cent of the current market value of the security with respect to which they were distributed. Failure by a creditor to obtain in a general account, special bond account, or special convertible security account, any cash or securities that are distributed with respect to any security in such account shall, except to the extent that withdrawal would be permitted under the preceding sentence, be deemed to be a transaction in such account which occurs on the day on which the distribution is payable and which requires the creditor to obtain in accordance with § 220.3(b) a deposit of cash or securities having a maximum loan value at least as great as that of the distribution.

(h) **Borrowing and lending securities.** Without regard to the other provisions of this part, a creditor (1) may make a *bona fide* deposit of cash in order to borrow securities (whether margin or non-margin) for the purpose of making delivery of such securities in the case of short sales, failure to receive securities he is required to deliver, or other similar cases, and (2) may lend securities for such purpose against such a deposit.

(i) **Credit for clearance of securities.** The extension or maintenance of any credit which is maintained for only a fraction of a day (that is, for only part of the time between the beginning of business and midnight on the same day) shall be

disregarded for the purposes of this part, if it is incidental to the clearance of transactions in securities directly between members of a national securities exchange or through an agency organized or employed by such members for the purpose of effecting such clearance.

(j) **Foreign currency.** If foreign currency is capable of being converted without restriction into United States currency, a creditor acting in good faith may treat any such foreign currency in an account as a credit to the account in an amount determined in accordance with customary practice.

(k) **Innocent mistakes.** If any failure to comply with this part results from a mechanical mistake made in good faith in executing a transaction, recording, determining, or calculating any loan, balance, market price or loan value, or other similar mechanical mistake, the creditor shall not be deemed guilty of a violation of this part if promptly after the discovery of such mistake he takes whatever action may be practicable in the circumstances to remedy such mistake.

(*l*) **Credit related to portion of a security.** Credit for the purpose of purchasing or carrying any part of an investment contract security (for example, but not limited to, the cattle ownership portion of a program to own and feed cattle, or the condominium ownership part of a program to own and rent a unit through a rental pool or otherwise) shall be deemed to be credit on the entire security.

SECTION 220.7—MISCELLANEOUS PROVISIONS

(a) **Arranging for loans by others.** A creditor may arrange for the extension or maintenance of credit to or for any customer of such creditor by any person upon the same terms and conditions as those upon which the creditor, under the provisions of this part, may himself extend or maintain such credit to such customer, but only upon such terms and conditions, except that this limitation shall not apply to the arranging by a creditor:

(1) for a bank subject to Part 221 of this Chapter (Regulation U) to extend or maintain credit on margin securities or exempted securities, or

(2) for any person to extend or maintain credit for the purpose of purchasing or carrying a security (including sale of a security with instalment payments or other credit features) in a transaction which is exempt from the registration requirements of the Securities Act of 1933 by virtue of section 4(2) of that Act (15 U.S.C. 77d(2)) *Provided, that:*

(i) the credit to be extended or maintained will not violate the provisions of Parts 207 and 221 of this Chapter; and

(ii) the credit will not be used to purchase or carry a security that is publicly-held. For the purpose of this paragraph, a security shall be deemed to be "publicly-held" if it is (a) a security of a class that is registered, or will be required to be registered (assuming existing circumstances requiring registration continue to prevail) within 120 days after the last day of the fiscal year of the issuer, under Section 12 of the Act or would be required to be registered except for the exemptions provided by paragraphs (2)(B) and (G) of subsection 12(g), or (b) a security of a class any portion of which was registered under Section 5 of the Securities Act of 1933 (15 U.S.C. 77e) and in connection with which the issuer is required to file periodic reports under Section 15(d) of the Act.

(b) **Maintenance of credit.** Except as otherwise specifically forbidden by this part, any credit initially extended without violation of this part may be maintained regardless of (1) reductions in the customer's equity resulting from changes in market prices, (2) the fact that any security in an account ceases to be margin or exempted, and (3) any change in the maximum loan values or margin requirements prescribed by the Board under this part. In maintaining any such credit, the creditor may accept or retain for his own protection additional collateral of any description, including non-margin securities.

(c) **Statement of purpose of loan.** Every extension of credit on a margin security (other than an exempted security) shall be deemed to be for the purpose of purchasing or carrying or trading in securities, unless the creditor has accepted in good faith a written statement 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.

(d) **Reports.** Every creditor shall make such reports as the Board may require to enable the Board to perform the functions conferred upon it by the Act.

(e) **Additional requirements by exchanges and creditors.** Nothing in this part shall (1) prevent any exchange or national securities association from adopting and enforcing any rule or regulation further restricting the time or manner in which its members must obtain initial or additional margin in customer's accounts because of transactions effected in such accounts, or requiring such members to secure or maintain higher margins, or further restricting the amount of credit which may be extended or maintained by them, or (2) modify or restrict the right of any creditor to require additional security for the maintenance of any credit, to refuse to extend credit, or to sell any securities or property held as collateral for any loan or credit extended by him.

(f) **Credit by insurance companies that issue variable annuity contracts.** (1) Except as provided in subparagraph (2) of this paragraph, Part 207 of this chapter (Regulation G) rather than this Part shall apply to any credit extended, maintained, or arranged for by a life insurance company which (i) meets the definition of "insurance company" set forth in section 2(a)(17) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(a)(17)) and (ii) is engaged in issuing or participating in the issuance of any variable annuity contract, or of any interest in a separate account established by such insurance company, registered under the Securities Act of 1933 (15 U.S.C. 77) or exempt from such registration by Rule 156 of the Securities and Exchange Commission (17 CFR 230.156).

(2) The provisions of this Part shall apply to any credit extended to or maintained or arranged for a customer by a life insurance company described in subparagraph (1) of this paragraph that has registered, or is required to register, as a broker or dealer pursuant to section 15 of the Securities Exchange Act of 1934 (15 U.S.C. 78o) in connection with its activities as such a broker or dealer, including:

(i) the offer or sale of any security or securities registered under the Securities Act of 1933 (15 U.S.C. 77) or exempt from such registration by Rule 156 of the Securities and Exchange Commission (17 CFR 230.156) issued by (*a*) such insurance company, or (*b*) an investment company registered pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8) for which the insurance company is an underwriter, investment advisor or dealer; and

(ii) those activities which are not part of the conventional lending activities of such life insurance companies and which, in accordance with the ordinary usage of the trade, would be considered part of the business of a broker or dealer.

[SECTION 220.8—SUPPLEMENT, containing maximum loan values, margin for short sales, retention requirement, and requirements for inclusion on list of OTC margin stock, is printed separately.]

F. R. Form T-4
6-69

SPECIMEN ONLY

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF PURPOSE OF AN EXTENSION OF CREDIT BY A CREDITOR
(FEDERAL RESERVE FORM T–4)

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

Instructions:

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

(2) In Part II "source of valuation" need be filled in only if such source is other than regularly published information in journal of general circulation.

(3) This form need be obtained only if the purpose of the credit is other than to purchase, carry, or trade in securities (see § 220.7(c) of Regulation T).

PART I (to be completed by customer(s))

(1) The purpose of this credit in the amount of $ ....., which is unsecured or secured in whole or in part by the collateral listed in Part II, is not to purchase or carry or trade in securities. It is for the purpose of (describe in detail) .....

.....

.....

.....

(2) This creditor, ... (Name of creditor), has outstanding, or has agreed to extend, to the undersigned, the following other credits, which are not for the purpose of purchasing or carrying or trading in securities, in addition to the credit described on this form (itemize and describe briefly, including amounts and collateral if any). If none, so state .....

.....

(3) Is any of the collateral listed in Part II (A) or (B) to be delivered, or has any such collateral been delivered, from a bank, broker, dealer, or person other than the undersigned? Yes ☐ No ☐

If yes, from whom? ..... Against payment? Yes ☐ No ☐

(4) Has any of the collateral listed in Part II (A) or (B) been owned less than six months? Yes ☐ No ☐ If yes, identify all such collateral so owned .....

.....

The undersigned has (have) read this form and hereby certifies and affirms that to the best of my (our) knowledge and belief the information contained on this form is true, accurate, and complete.

SIGNED ..... (Manual signature) (Date)

..... (Print or type name)

SIGNED ..... (Manual signature) (Date)

..... (Print or type name)

PART II (to be completed by creditor)

(A) Collateral consisting of margin stock or margin securities consisting of debt securities convertible into margin stock. The loan value of such stock under the current Supplement to Regulation T is ..... per cent; the loan value of such debt securities is ..... per cent.

No. of shares or other unit	Itemize separately by issue	Market price per share	Source of valuation	Total market price per issue

(B) Collateral consisting of other securities, e.g., mutual fund shares, registered non-equity securities.

Par value or other denomination	Itemize separately by issue	Market price	Source of valuation	Total market price per issue

(C) Other collateral.

Itemize	Current market value	Source of valuation	Good faith loan value

The undersigned, a duly authorized representative of the creditor has read this form, has accepted the customer's statement on Part I in good faith as defined below*, and hereby certifies and affirms that to the best of his knowledge and belief all the information contained on this form is true, accurate, and complete.

Date ..... SIGNED .....

(Manual signature)

.....

(Print or type name and title)

* Regulation T requires that the customer's statement on this form be accepted by the creditor acting in good faith. Good faith requires that the creditor or his duly authorized representative (1) must be alert to the circumstances surrounding the credit, and (2) if he has any information which would cause a prudent man not to accept the statement without inquiry, has investigated and is satisfied that the statement is truthful. Among the facts which would require such investigation are receipt of the statement through the mail or from a third party.

THIS FORM MUST BE RETAINED BY THE CREDITOR FOR AT LEAST THREE YEARS AFTER THE TERMINATION OF THIS CREDIT

REGULATION U

(12 CFR 221)
As amended effective January 1, 1977

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

SECTION 221.1—GENERAL RULE

(a) **Purpose credit secured by stock.** (1) Except as provided in subparagraph (2) of this paragraph (a) and in § 221.3(q) 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 other credit subject to this part.

(2) 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).

(b) **Substitutions and withdrawals.** Except as permitted in paragraph (c) of this section, while a bank maintains any credit subject to this part, whenever extended, the bank shall not at any time permit any withdrawal or substitution of collateral unless either (1) the credit would not exceed the maximum loan value of the collateral after such withdrawal or substitution, or (2) 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 stock is the

* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, part 221, cited as 12 CFR 221. The words "this part," as used herein, mean Regulation U.

[1] As defined in § 221.3(c).

[2] As defined in § 221.3(*l*).

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

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

same as its maximum loan value and the "retention requirement" of collateral consisting of stock is prescribed from time to time in § 221.4 (the Supplement to Regulation U).

(c) **Same-day transactions.** (1) Except as provided in § 221.3(r)(1), a bank may in the case of a credit in which the equity ratio is equal to or exceeds the minimum equity ratio as prescribed in § 221.4 (the supplement to the regulation) permit a substitution of stock whether margin or nonmargin, 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" with respect to the sale less the "retention requirement" with 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 stock purchased less the maximum loan value of the stock 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 the increase.

(2) For the purpose of this paragraph, the term "equity ratio" means the fraction (stated as a percentage) in which the denominator is the current market value of the collateral having loan value in respect of the credit and the numerator is such current market value minus the amount of the credit currently owing.

(d) **Single credit rule.** For the purpose of this part, except for credit subject to § 221.3(s) or (t), the entire amount of the purpose credit extended to any customer by any bank at any time shall be considered a single credit; and all the collateral securing such credit shall be considered in determining whether or not the credit complies with this part.

SECTION 221.2—EXCEPTIONS TO GENERAL RULE

Notwithstanding the provisions of § 221.1, a bank may extend and may maintain any credit for the purpose specified in § 221.1, without regard to the limitations prescribed therein, or in § 221.3(t), if the credit comes within any of the following descriptions.

(a) Any credit extended to a bank or to a foreign banking institution;

(b) Any credit extended to a "plan-lender" as defined in § 207.4(a) of Part 207 of this Chapter (Regulation G) to finance a plan described therein: *Provided,* That in no event does the bank have recourse to any stock purchased pursuant to such plan;

(c) Any credit extended to a dealer, or to two or more dealers, to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange;

(d) Any credit extended to a broker or dealer that is extended in exceptional circumstances in good faith to meet his emergency needs;

(e) Any credit 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) secured by any securities which, according to written notice received by the bank from the broker or dealer pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities (Rule 8c-1 (17 CFR 240.8c-1) or Rule 15c2-1 (17 CFR 240.15c2-1)), are securities carried for the account of one or more customers;

(f) Any credit extended to finance the purchase or sale of securities for prompt delivery which is to be repaid in the ordinary course of business upon completion of the transaction: *Provided,* That the advance is not made to a person described in § 221.3(q): *And provided further,* That it is either (1) extended to a broker or dealer, or (2) extended for a purpose other than to enable the borrower to pay for stock purchased in an account subject to Part 220 of this Chapter (Regulation T);

(g) Any credit extended against securities in transit, or surrendered for transfer, which is payable in the ordinary course of business upon arrival of the securities or upon completion of the transfer: *Provided,* That the credit is not extended to a person described in § 221.3(q): *And provided further,* That it is either (1) extended to a broker or dealer, or (2) extended for a purpose other than to enable the customer to pay for stock purchased in an account subject to Part 220 of this Chapter (Regulation T);

(h) Any credit which is to be repaid on the calendar day on which it is extended: *Provided,* That the credit is not extended to a person described in § 221.3(q): *And provided further,* That it is either (1) extended to a broker or dealer, or (2) extended for a purpose other than to enable the customer to pay for stock purchased in an account subject to Part 220 of this Chapter (Regulation T);

(i) Any credit extended outside the States of the United States and the District of Columbia;

(j) Any credit extended to a member of a national securities exchange for the purpose of financing his or his customers' *bona fide* arbitrage transactions in securities. For the purposes of this paragraph, the term "arbitrage" means (1) a purchase or sale of a security in one market together with an offsetting sale or purchase of the same security in a different market at as nearly the same time as practicable, for the purpose of taking advantage of a difference in prices in the two markets, or (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days following the date of its purchase into a second security together with an offsetting sale at or about the same time of such second security, for the purpose of taking advantage of a disparity in the prices of the two securities, except that when the security purchased is solely a due bill for, or other evidence of the right to receive, only the security that is sold, and the security that is sold is trading as a when-issued security, such period shall be 180 calendar days;

(k) Any credit extended to a member of a national securities exchange for the purpose of financing such members' transactions as an odd-lot dealer in securities with respect to which he is registered on such national securities exchanges as an odd-lot dealer;

(*l*) Any loan for the purpose of making a loan or providing capital to a person who is subject to Part 220 of this Chapter (Regulation T), which loan has been exempted by the Board of Governors of the Federal Reserve System, by Order, from the requirements of this Part, either unconditionally or upon specified terms and conditions or for stated periods, upon a finding that the granting of such an exemption is necessary or appropriate, in the public interest or for the protection of investors; *Provided,* That the Securities Investor Protection Corporation shall have certified to the Board that such action is appropriate under the circumstances, and

(m) Any credit extended to or maintained for a customer for the purpose of making a loan or contribution of capital to a broker or dealer subject to Part 220 (Regulation T) if the loan or contribution is in conformity with the requirements regarding satisfactory subordination agreements or equities in the accounts of partners of a rule of the Securities and Exchange Commission (Rule 15c3-1(c)(2)(A), (c)(4), and (c)(7)) (17 CFR 240.15c3-1(c)(2)(A), (c)(4), and (c)(7)) or the capital rules of an exchange of which the broker or dealer is a member if the members thereof are exempt therefrom by Rule 15c3-1(b)(2) of the Commission (17 CFR 240.15c3-1(b)(2)) or to purchase stock in a broker or dealer which is a corporation when such stock is purchased directly from the issuer and not as part of a public distribution: *Provided,* That any such credit extended after April 16, 1971, shall become subject upon renewal to such additional restrictions as the Board of Governors may impose by regulation concerning the conditions upon which credit may be extended for the purpose of making such loan or contribution: *And provided further,* That (1) all of the proceeds of such extension of credit are so loaned or contributed to the capital of the broker or dealer and (2) that all of the proceeds of any withdrawal of such loan or contribution of capital from the broker or dealer by the customer or redemption of such stock shall be used to reduce or retire said extension of credit.

SECTION 221.3—MISCELLANEOUS PROVISIONS

(a) **Required statement as to stock-secured credit.** In connection with an extension of credit secured directly or indirectly by any stock, the bank shall obtain and retain in its records for at least 3 years after such credit is extinguished a statement in conformity with the requirements of Federal Reserve Form U-1 executed by the recipient of such extension of credit (sometimes referred to as the "customer") and executed and accepted in good faith by a duly authorized officer of the bank prior to such extension: *Provided,* That this requirement shall not apply to any credit described in paragraphs (o), (w), (y), or (z) of this section or § 221.2 of this part except for

credit described in paragraphs 221.2(f), (g), and (h) extended to persons who are not brokers or dealers subject to Part 220 of this Chapter (Regulation T). In determining whether or not an extension of credit is for the purpose specified in § 221.1 or for any of the purposes specified in § 221.2 or this section the bank may rely on the statement executed by the customer if accepted in good faith. To accept the customer's statement in good faith, the officer must (1) be alert to the circumstances surrounding the credit and (2) if he has any information which would cause a prudent man not to accept the statement without inquiry, have investigated and be satisfied that the customer's statement is truthful.

(b) **Purpose of a credit.** 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 margin stock 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 margin stock is for the purpose of "carrying" such a security.

(3) An extension of credit provided for in a plan, program, or investment contract offered or sold or otherwise initiated after August 31, 1969, which provides for the acquisition both of any securities described in paragraph (v) of this section and of goods, services, property interests, other securities, or investments, is "purpose credit".

(c) **Indirectly secured.** The term "indirectly secured" includes any arrangement with the customer under which the customer's right or ability to sell, pledge, or otherwise dispose of stock owned by the customer is in any way restricted so long as the credit remains outstanding, or under which the exercise of such right, whether by written agreement or otherwise, is 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 stock, or (2) if the bank in good faith has not relied upon such stock as collateral in the extension or maintenance of the particular credit: *And provided further,* That the foregoing shall not apply to stock held by the bank only in the capacity of custodian, depositary, or trustee, or under similar circumstances, if the bank in good faith has not relied upon such stock as collateral in the extension or maintenance of the particular credit.

(d) **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 subjecting such stock to the requirements of this part.

(2) The Board will from time to time publish a list of OTC margin stocks as to which the Board has made the determination described in subparagraph (1) of this paragraph (d). Except as provided in subparagraph (4) of this paragraph (d) such stocks shall meet the requirements of § 221.4(d) (the Supplement to Regulation U).

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

(i) Exist or of which the issuer ceases to exist, or

(ii) Meet substantially the provisions of subparagraph (1) of this paragraph (d) and of § 221.4(e) (the Supplement to Regulation U).

(4) The foregoing notwithstanding, the Board may 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 bank 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 in an 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) **Renewals and extensions of maturity.** 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 in respect to the credit or of taxes on transactions in connection with the credit.

(f) **Transfers.** A bank may, without following the requirements of this part as to the extension of a credit,

(1) Permit the transfer of a credit from one customer to another, or to others: *Provided,* That a statement by the transferor, describing the circumstances giving rise to the transfer, is accepted in good faith [5] and signed by an officer of the bank as having been so accepted, and kept with each such transferee account, or

(2) Accept the transfer of a credit originally extended in conformity with the requirements of this part directly from another bank: *Provided,* That the statement of purpose, executed by the customer in connection with the original extension of credit and accepted in good faith and signed by an officer of the bank originally extending such credit in conformity with the requirements of § 221.3(a), is obtained and kept with each such transferee account: *And provided further,* That any transfer pursuant to this paragraph is made as a *bona fide* incident to a transaction not undertaken for the purpose of avoiding the requirements of this part, the amount of the credit is not increased, and the collateral for the credit is not changed; and, after such transfer, a bank may permit such withdrawals and substitutions of collateral as are permitted in respect to a credit it extends subject to this part.

(g) **Reorganizations and recapitalizations.** Nothing in this part shall be construed to prevent a bank from permitting withdrawals or substitutions of securities to enable a customer to participate in a reorganization or recapitalization.

(h) **Mistakes in good faith.** No mistake made in good faith in connection with the extension or maintenance of a credit shall be deemed to be a violation of this part.

(i) **Action for bank's own protection.** Nothing in this part shall be construed as preventing a bank from taking such action as it shall deem necessary in good faith for its own protection.

(j) **Reports.** Every bank, and every person engaged in the business of extending credit who, in the ordinary course of business, extends credit for the purpose of purchasing or carrying margin stock shall make such reports as the Board of Governors of the Federal Reserve System may require to enable it to perform the functions conferred upon it by the Securities Exchange Act of 1934 (15 U.S.C. 78).

(k) **Definitions.** For the purposes of this part, 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)), except that the term "bank" does not include a bank which is a member of a national securities exchange.

(*l*) **Stock.** The term "stock" includes any security commonly known as a stock; any voting trust certificate or other instrument representing such a security; and any security convertible, with or without consideration, presently or in the future, 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; or any other security which the Securities and Exchange Commission shall deem to be of similar nature and consider necessary or appropriate, by such rules and regulations as it may prescribe in the public interest or for the protection of investors, to treat as an equity security such as any certificate of interest or participation in any profit-sharing agreement, preorganization certificate, or subscription, transferable share, limited partnership interest, interest in a joint venture, or certificate of interest in a business trust; or any put, call, straddle, or other option or privilege of buying such a security from or selling such a security to another without being bound to do so.

(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 made to a person described in paragraph (q) of this section), (2) extended for the purpose of purchasing or carrying any margin stock, and (3) not excepted by § 221.1(a)(2) or § 221.2.

(n) **Segregation of collateral.** (1) The bank shall identify all the collateral used to meet the requirements of § 221.1 (the entire credit being considered a single credit and collateral being similarly considered, as required by § 221.1(d)) and shall not cancel the identification of any portion thereof except in circumstances that would permit the withdrawal of that portion. Such identification may be made by any reasonable method.

(2) Only the collateral required to be so identified shall have loan value for purposes of § 221.1

[5] As described in § 221.3(a).

or be subject to the restrictions therein specified with respect to withdrawals and substitutions; and

(3) For any credit extended to the same customer that is not subject to § 221.1 (other than a credit described in § 221.2(b), (d), (f), (g), or (h)), the bank shall in good faith require as much collateral not so identified as the bank would require (if any) if it held neither the indebtedness subject to § 221.1 nor the identified collateral. This shall not be construed, however, to require the bank, after it has extended any credit, to obtain any collateral therefor because of any deficiency in collateral already existing at the opening of business on June 15, 1959, or any decline in the value or quality of the collateral or in the credit rating of the customer.

(4) Nothing in this part shall require a bank to waive or forego any lien, and nothing in this part shall apply to a credit extended to enable the customer to meet emergency expenses not reasonably foreseeable, provided the extension of credit is supported by a statement executed by the customer and accepted in good faith and signed by an officer of the bank as having been so accepted in conformity with the requirements of § 221.3(a). For this purpose, such emergency expenses shall include expenses arising from circumstances such as the death or disability of the customer, or some other change in his circumstances involving extreme hardship, not reasonably foreseeable at the time the credit was extended. The opportunity to realize monetary gain is not a "change in his circumstances" for this purpose.

(o) **Specialist.** In the case of credit extended to a member of a national securities exchange who is registered and acts as a specialist in securities on the exchange for the purpose of financing such member's transactions as a specialist in such securities, the maximum loan value of any stock (except stock that has been identified as a security held for investment pursuant to a rule of the Commissioner of Internal Revenue (Regs. section 1-1236-1(d))) shall be as determined by the bank in good faith: *Provided,* That the specialist's exchange is a national securities exchange which requires and submits to the Board of Governors of the Federal Reserve System reports suitable for supplying current information regarding specialists' use of credit pursuant to this section.

(p) **Subscriptions issued to stockholders.** An extension of credit need not comply with the other requirements of this part if it is to enable the customer to acquire a stock by exercising a right to acquire such stock which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance: *Provided,* That:

(1) Each such acquisition under this paragraph shall be treated separately, and the credit when extended shall not exceed 75 per cent of the current market value of the stock so acquired as determined by any reasonable method;

(2) After October 20, 1967, at the time credit is extended pursuant to this paragraph, the bank shall compute the amount by which the credit exceeds the maximum loan value of the collateral as prescribed by § 221.4 and the customer shall reduce the credit by an amount at least equal to one-fourth of such sum by the end of each of the 4 succeeding 3-calendar-month periods or until the credit does not exceed the current maximum loan value of the stock, whichever shall occur first, and if the bank fails to obtain the required quarterly reduction or a portion thereof with respect to a particular acquisition within 5 full business days after such reduction is due, the bank shall promptly sell a portion of the collateral so acquired and apply the proceeds of the sale to reduce the credit in an amount at least equal to twice the required payment or portion thereof for the first 2 such reductions, at least equal to the required payment or portion thereof for the third such reduction, and at least sufficient so that the remaining credit does not exceed the current maximum loan value of the remaining collateral after the fourth such reduction: *Provided,* That no such reduction need be in an amount greater than is necessary so that the remaining credit does not exceed the maximum loan value of the remaining collateral determined as of the date when the credit was extended;

(3) While the customer has any credit outstanding at the bank under this paragraph no withdrawal of cash or substitution or withdrawal of stock used as collateral for such extension of credit shall be permissible, except that when the remaining credit has become equal to or less than the maximum loan value of the remaining stock as prescribed for § 221.1 or § 221.3(t) in § 221.4 (the Supplement to Regulation U) whichever is applicable (or with respect to credit extended after October 20, 1967, the requirements of the preceding clause have been fulfilled) the remaining stock

and related credit shall thereafter be treated as subject to § 221.1 or § 221.3(t), whichever is applicable, instead of this paragraph. In order to facilitate the exercise of a right under this paragraph, a bank may permit the right to be withdrawn from a credit subject to § 221.1 without regard to any other requirement of this part.

(q) **Credit to certain lenders.** Any credit extended to a customer not subject to this part or to Part 220 of this Chapter (Regulation T) engaged principally, or as one of the customer's important activities, in the business of extending credit for the purpose of purchasing or carrying margin stocks is a credit for the purpose of purchasing or carrying such stocks unless the credit and its purposes are effectively and unmistakably separated and disassociated from any financing or refinancing, for the customer or others, of any purchasing or carrying of such stocks. Any credit extended to any such customer, unless the credit is so separated and disassociated or is excepted by § 221.2, is a credit "subject to § 221.1" regardless of whether or not the credit is secured by any stock; and no bank shall extend any such credit subject to § 221.1 to any such customer, without collateral or without the credit being secured as would be required by this part if it were secured by any stock. Any such credit subject to § 221.1 to any such customer shall be subject to the other provisions of this part applicable to credit subject to § 221.1, including provisions regarding withdrawal and substitution of collateral.

(r) **Convertible securities.** (1) If, after June 15, 1959, and prior to October 21, 1967, credit was extended for the purpose of purchasing or carrying a security convertible into a stock registered on a national securities exchange and the credit was secured by such a security, and after October 20, 1967, there is substituted any stock as direct or indirect collateral for such credit, the credit shall thereupon be treated as subject to § 221.1 or § 221.3(t), whichever is applicable. In any such case, the amount of the outstanding credit, or such amount plus any increase therein to enable the customer to acquire a stock so registered through the conversion of the security pursuant to its terms, shall not be permitted on the date of such substitution to exceed the maximum loan value of the collateral for the credit: *Provided,* That any reduction in the credit or deposit of collateral required on that date to meet this requirement may be brought about within 30 days of such substitution.

(2) Any credit extended after October 20, 1967, for the purpose of purchasing or carrying a security convertible into a stock registered on a national securities exchange, and any credit extended after July 8, 1969, for the purpose of purchasing or carrying a security convertible into margin stock, if the credit is secured, directly or indirectly, by any stock, is a credit subject to § 221.1 or § 221.3(t), whichever is applicable.

(s) **Credit secured by collateral other than stocks.** 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.

(t) **Credit on convertible debt securities.** (1) A bank may extend credit for the purpose specified in § 221.1 on collateral consisting of any debt security (i) convertible with or without consideration, presently or in the future, into a margin stock or (ii) carrying a warrant or right to subscribe to or purchase such a stock (such a 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 if it were subject to § 221.1 except: (i) the entire amount of such credit shall be considered a single credit treated separately from the single credit specified in § 221.1(d) 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 § 221.4 (the Supplement to Regulation U).

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

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

(u) **Arranging for credit.** No bank shall arrange for the extension or maintenance of any credit for the purpose of purchasing or carrying any margin stock, except upon the same terms and conditions on which the bank itself could extend or maintain such credit under the provisions of this part.

(v) The term **"margin stock"** means any stock [6] which is (1) a stock registered on a national securities exchange, (2) an OTC margin stock,[7] (3) a debt 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 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.[8]

(w) **OTC market maker exemption.** (1) In the case of credit extended to an OTC market maker, as defined in subparagraph (2) of this paragraph (w), for the purpose of purchasing or carrying an OTC margin stock in order to conduct the market-making activity of such a market maker, the maximum loan value of any OTC margin stock (except stock that has been identified as a security held for investment pursuant to a rule of the Commissioner of Internal Revenue (Regs. section 1-1236-1(d))) shall be determined by the bank in good faith: *Provided,* That in respect of each such stock the OTC market maker shall have filed with the Securities and Exchange Commission a notice of his intent to begin or continue such market-making activity (Securities and Exchange Commission Form X-17A-12(1)) and all other reports required to be filed by market makers in OTC margin stock pursuant to a rule of the Commission (Rule 17a-12 (17 CFR 240. 17a-12)), shall not have ceased to engage in such market-making activity, and shall have a reasonable average rate of inventory turnover in such stock: *And provided further,* That the bank shall obtain and retain in its records for at least 3 years after such credit is extinguished a statement in conformity with the requirements of Federal Reserve Form U-2, executed by the OTC market maker who is the recipient of such credit and executed and accepted in good faith [9] by a duly authorized officer of the bank prior to such extension. In determining whether or not an extension of credit is for the purpose of conducting such market-making activity, a bank may rely on such a statement if executed and accepted in accordance with the requirements of this paragraph (w) and paragraph (a) of this section.

(2) An OTC market maker with respect to an OTC margin stock is a dealer who has and maintains minimum net capital, as defined in a rule of the Securities and Exchange Commission (Rule 15c3-1 (17 CFR 240.15c3-1)) or in the capital rules of an exchange of which he is a member if the members thereof are exempt therefrom by Rule 15c3-1(b)(2) of the Commission (17 CFR 240.15c3-1(b)(2)), of $25,000 plus $5,000 for each such stock in excess of 5 in respect of which he has filed and not withdrawn the notice on Commission Form X-17A-12(1) (but in no case does this subparagraph (2) require net capital of more than $250,000), who is in compliance with such rule of the Commission or exchange and who, except when such activity is unlawful, meets all of the following conditions with respect to such stock: (i) he regularly publishes *bona fide,* competitive bid and offer quotations in a recognized inter-dealer quotation system, (ii) he furnishes *bona fide,* competitive bid and offer quotations to other brokers and dealers on request, (iii) he is ready, willing, and able to effect transactions in reasonable amounts, and at his quoted prices, with other brokers and dealers, (iv) he has a reasonable average rate of inventory turnover.

(3) If all or a portion of the credit extended pursuant to this paragraph (w) ceases to be for the purpose specified in subparagraph (1) or the dealer to whom the credit is extended ceases to be an OTC market maker as defined in subparagraph (2), the credit or such portion thereof shall thereupon be treated as "a credit subject to § 221.1."

(x) **Combined purchase of mutual funds and insurance.** (1) An extension of purpose credit provided for in a plan, program, or investment contract that is registered with the Securities and Exchange Commission under the Securities Act of 1933 (15 U.S.C. 77) and provides for the acquisi-

[6] As defined in § 221.3(*l*).
[7] As defined in § 221.3(d).
[8] As defined in 15 U.S.C. 78c(a)(12).
[9] As described in paragraph (a) of this section.

tion both of a security issued by an investment company described in paragraph (v)(5) of this section and an insurance policy or contract shall be subject to all the provisions of this Part, except that, where the credit is secured by the security and does not exceed the premium on such policy (plus any applicable interest), the maximum loan value of such security shall be 40 per cent of its current market value, as determined by any reasonable method.

(2) Sections 221.1 and 221.3(t) of this Part shall not apply to any credit extended to a person registered pursuant to § 207.1(a) of this Chapter (Regulation G) who extends credit pursuant to § 207.4(f)(1) of this Chapter, *Provided*, That:

(i) the credit extended pursuant to this subparagraph is secured by securities that are issued by an investment company described in paragraph (v)(5) of this section, and are carried for the account of one or more customers under a plan, program, or investment contract described in subparagraph (1) of this paragraph (and the bank receives written notice from the recipient of the credit to this effect); and

(ii) the provisions of such plan, program, or investment contract conform to the provisions of Rule 15c2-1 of the Securities and Exchange Commission concerning hypothecation of customers' securities (17 CFR 240.15c2-1).

(y) **Third-market maker exemption.** (1) In the case of credit extended to a third-market maker, as defined in subparagraph (2) of this paragraph (y), for the purpose of purchasing or carrying a stock that is registered on a national securities exchange (other than a convertible debt security described in paragraph (t)(1) of this section) in order to conduct the market-making activity of such a market maker, the maximum loan value of any stock (except (i) a convertible debt security described in paragraph (t)(1) of this section, and (ii) stock that has been identified as a security held for investment pursuant to a rule of the Commissioner of Internal Revenue (Regs. section 1-1236-1(d))) shall be determined by the bank in good faith: *Provided*, That in respect of each such stock he shall, at least five full business days prior to such extension of credit, have filed with the Securities and Exchange Commission a notice of his intent to begin or continue such market-making activity, and thereafter all other reports required to be filed by third-market makers pursuant to a rule of the Securities and Exchange Commission and, except when such activity is unlawful, shall not have ceased to engage in such market-making activity: *And provided further*, That the bank shall obtain and retain in its records for at least 3 years after such credit is extinguished a statement in conformity with the requirements of Federal Reserve Form U-3, executed by the third-market maker who is the recipient of such credit and executed and accepted in good faith [10] by a duly authorized officer of the bank prior to such extension. In determining whether or not an extension of credit is for the purpose of conducting such market-making activity, a bank may rely on such a statement, if executed and accepted in accordance with the requirements of this paragraph (y) and paragraph (a) of this section.

(2) A third-market maker with respect to a stock that is registered on a national securities exchange is a dealer who has and maintains net capital, as defined in a rule of the Securities and Exchange Commission (Rule 15c3-1 (17 CFR 240.15c3-1)), or in the capital rules of an exchange of which he is a member if the members thereof are exempt therefrom by Rule 15c3-1(b)(2) of the Commission (17 CFR 240-15c3-1(b)(2)), of $100,000 plus $20,000 for each stock in excess of five in respect of which he has filed and not withdrawn a notice with the Securities and Exchange Commission (but in no case does this subparagraph (2) require net capital of more than $500,000) who is in compliance with such rule of the Commission and who, except when such activity is unlawful, meets all the following conditions with respect to such stock: (i) He furnishes *bona fide*, competitive bid and offer quotations to other brokers and dealers, in the stocks for which he makes a market, at all times on request, (ii) he is ready, willing, and able to effect transactions for his own account in reasonable amounts, and at his quoted prices, with other brokers and dealers, and (iii) he has a reasonable average rate of inventory turnover in the stock.

(3) If all or a portion of the credit extended pursuant to this paragraph (y) ceases to be for the purpose specified in subparagraph (1) of this paragraph or the dealer to whom the credit is extended ceases to be a third-market maker as defined in subparagraph (2) of this paragraph, the

[10] As described in paragraph (a) of this section.

credit or such portion thereof shall thereupon be treated as "a credit subject to § 221.1."

(z) **Block positioner exemption.** (1) In the case of credit extended to a block positioner, as defined in subparagraph (2) of this paragraph (z), for the purpose of financing the activity of block positioning, the maximum loan value of any margin stock obtained in the ordinary course of the activity of block positioning as described in subparagraph (2) of this paragraph (z) (except (i) a convertible debt security described in paragraph (t) (1) of this section and (ii) stock that has been identified as a security held for investment pursuant to a rule of the Commissioner of Internal Revenue (Regs. section 1-1236-1(d))) shall be determined by the bank in good faith: *Provided,* That in respect of such activity he shall have filed with the Securities and Exchange Commission a notice of undertaking such activity as prescribed by the Commission, and all reports required to be filed by block positioners: *And provided further,* That the bank shall obtain and retain in its records for at least 3 years after such credit is extinguished a statement in conformity with the requirements of Federal Reserve Form U-5 and paragraph (a) of this section, executed by the block positioner who is the recipient of such credit and executed and accepted in good faith [11] by a duly authorized officer of the bank prior to such extension. In determining whether or not an extension of credit is for the purpose of conducting such block positioning activity, a bank may rely on such a statement if executed and accepted in accordance with the requirements of this paragraph (z) and paragraph (a) of this section. In determining whether or not an extension of time has been granted pursuant to subparagraph (4) of this paragraph (z) and whether or not such extension of time is commensurate with the circumstances, the bank may rely on a statement executed by an officer of the exchange or association on behalf of the committee in conformity with the requirements of Federal Reserve Form U-6 and paragraph (a) of this section.

(2) A block positioner is a dealer who (i) is registered with the Securities and Exchange Commission under section 15 of the Securities Exchange Act of 1934 (15 U.S.C. 78o) and has a minimum net capital, as defined in a rule of the Securities and Exchange Commission (Rule 15c3-1 (17 CFR 240.15c3-1)) or in the capital rules of an exchange of which he is a member if the members thereof are exempt therefrom by Rule 15c3-1(b)(2) of the Commission (17 CFR 240.15c3-1(b)(2)), of $1 million, (ii) engages in the activity of purchasing long or selling short as principal, from time to time, from or to a customer (other than a partner or a joint venture or other entity in which a partner of the dealer, or the dealer itself, participates or a person "associated with" such dealer as defined in section 3(a)(18) of the Securities Exchange Act of 1934) a block of stock (other than a convertible debt security as described in paragraph (t)(1) of this section) with a current market value of $200,000 or more in a single transaction or in several transactions at approximately the same time from a single source to facilitate a sale or purchase by such customer, (iii) certifies to the lending bank that he has determined in the exercise of reasonable diligence that the block could not be sold to or purchased from others on equivalent or better terms, and (iv) sells the shares comprising such block as rapidly as possible commensurate with the circumstances. In the case where a block positioner acquires a block from a broker who acts as agent for several sellers, such acquisition shall be deemed for purposes of this section to be an acquisition from a single source.

(3) No credit shall be extended or maintained pursuant to this paragraph (z) in respect of any such block of stock or portion thereof which the block positioner has held continuously for more than 20 business days, and any credit extended pursuant to this paragraph (z) shall be extinguished or brought into conformity with the initial margin requirements of §§ 221.1 and 221.4 before the expiration of such 20-day period. For the purposes of this subparagraph, a block or portion thereof shall be treated as not having been held continuously only to the extent that there has been a net sale (or in the case of short positions, net purchase) of such securities (whether or not represented by the same certificate) during such 20-day period.

[11] As described in paragraph (a) of this section.

(4) In exceptional cases the 20-day period specified in subparagraph (3) of this paragraph (z) may on the application of the block positioner, be extended for one or more periods limited to 5 business days each commensurate with the circumstances by any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which the block positioner is a member or through which his block transaction was effected, or by a committee of a national securities association, if effected in the over-the-counter market: *Provided,* That such committee is satisfied that the block positioner is acting in good faith in making the application and that the circumstances in fact warrant such treatment.

[SECTION 221.4—SUPPLEMENT, containing maximum loan values, retention requirement, and requirements for inclusion on list of OTC margin stock, is printed separately.]

F.R. Form U-1
Rev. 12/76
Exp. 12/79

SPECIMEN ONLY

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF PURPOSE OF A STOCK-SECURED EXTENSION OF CREDIT BY

_____
(Name of Bank)

(FEDERAL RESERVE FORM U-1)

A FALSE OR DISHONEST STATEMENT ON THIS FORM MAY BE PUNISHABLE BY FINE OR IMPRISONMENT (U.S. CODE, TITLE 15, SECTION 78ff AND TITLE 18, SECTIONS 1001, 1005 AND 1014). A BORROWER WHO FALSELY CERTIFIES THE PURPOSE OF A CREDIT ON THIS FORM OR OTHERWISE WILLFULLY OR INTENTIONALLY EVADES THE PROVISIONS OF REGULATION U WILL ALSO VIOLATE FEDERAL RESERVE REGULATION X, "RULES GOVERNING BORROWERS WHO OBTAIN SECURITIES CREDIT".

Instructions:

(1) Section 221.3(a) of Regulation U requires that a statement of purpose must be obtained in connection with any extension of credit by a bank secured directly or indirectly by any stock. The term "stock" is defined in section 221.3(*l*) and includes any security commonly known as a stock; any voting trust certificate; any security convertible, with or without consideration, into such security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right.
(2) Part I (3) and (4) need be filled in only if the purpose of the credit described in Part I (1) is other than to purchase or carry margin stock. The term "margin stock" is defined in section 221.3(v) and generally means (1) stocks that are registered on a national securities exchange and stocks that are on the Federal Reserve Board's List of OTC Margin Stocks, (2) debt securities (bonds) that are convertible into such stocks and (3) shares of most mutual funds.
(3) Part II "Date and source of valuation" need be filled in only if such source is other than regularly published information in a journal of general circulation.
(4) Part II, except for the certification by the officer of the bank, need not be completed in the case of a credit of $5,000 or less which is not for the purpose of purchasing or carrying margin stock. However, in such cases, Part I must be completed.
(5) Please print or type (if space is inadequate attach separate sheet).

PART I ***To be completed by borrower(s)***

		YES	NO
(1)	Is this credit in the amount of $....., or any part thereof, for the purpose of purchasing or carrying margin stock? If "no", describe the specific purpose.....	☐	☐
	.....		
	.....		
(2)	In addition to this credit, do you have any other outstanding credit that has been extended by this bank, or has this bank agreed to extend additional credit to you?	☐	☐
(3)	Is any of the collateral listed in tables (1) and (2) of Part II to be delivered, or has any such collateral been delivered, from a bank, broker, dealer or person other than you?	☐	☐
	If "yes", from whom? ..... Against payment to deliverer?	☐	☐
(4)	Has any of the collateral listed in Part II been owned less than 30 days?	☐	☐

The undersigned has (have) read this form and any attachments thereto and hereby certifies and affirms that to the best of my (our) knowledge and belief the information contained therein is true, accurate and complete. Furthermore, to the best of my (our) knowledge, the securities listed as collateral in Part II are authentic, genuine, unaltered, and not stolen, forged or counterfeit.

SIGNED..... SIGNED.....
(Borrower's signature) (Date) (Borrower's signature) (Date)

....
(Print or type name) (Print or type name)

THIS FORM SHOULD NOT BE SIGNED IN BLANK

PART II ***To be completed by bank***

(1) Collateral consisting of stock, other than debt securities convertible into margin stock. The maximum loan value of such stock under the current Supplement to Regulation U is.....per cent of its current market value.

No. of shares	Issue	Market price per share	Date and source of valuation	Total market value per issue

(2) Collateral consisting of debt securities convertible into margin stock. The maximum loan value of such debt securities under the current Supplement to Regulation U is..... per cent of the current market value.

Principal amount	Issue	Market price	Date and source of valuation	Total market value per issue

(3) Other collateral.

Describe briefly	Market price	Source of valuation	Good faith loan value

The undersigned, a duly authorized officer of the bank, (i) is aware that this stock-secured credit may be subject to the credit restrictions of Regulation U, (ii) has read this form and any attachments thereto, (iii) has accepted the customer's statement in Part I in good faith as required by Regulation U*, and (iv) hereby certifies and affirms that, to the best of the officer's knowledge and belief, all the information contained herein is true, accurate and complete. ***If any of the securities described above in tables 1 and 2 that directly secure the credit have been or will be physically delivered to the bank,*** **the undersigned officer further certifies that he or she (a) has examined, or will examine, the physical aspects of such securities and performed, or will perform, such validation procedures as are required by bank policy and government regulations promulgated under section 17(f) of the Securities Exchange Act of 1934, as amended, or has been informed that another employee of the bank has performed or will perform such functions, (b) if any of such securities are not or will not be registered in the name of the borrower or its nominee, has examined the written consent of the registered owner to pledge such securities, and (c) is satisfied to the best of the officer's knowledge and belief that such securities are genuine and not stolen or forged and their faces have not been altered.**

Date..... SIGNED.....
(Bank officer's signature)

....
(Title) (Print or type name)

*To accept this statement in good faith, the officer of the bank (1) must be alert to the circumstances surrounding the credit and (2) if the officer has any information which would cause a prudent person not to accept the statement without inquiry, must have investigated and be satisfied that the statement is truthful. Among the facts which would require such investigation are receipt of the statement through the mail or from a third party.

THIS FORM MUST BE RETAINED BY THE BANK FOR AT LEAST THREE YEARS AFTER THE CREDIT IS EXTINGUISHED

STATUTORY APPENDIX

SECURITIES EXCHANGE ACT OF 1934

Act of June 6, 1934 (48 Stat. 881)
(U.S. Code, Title 15, Sec. 78)

Definitions

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

(1) The term **"exchange"** means any organization, association, or group of persons, whether incorporated or unincorporated, which constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities or for otherwise performing with respect to securities the functions commonly performed by a stock exchange as that term is generally understood, and includes the market place and the market facilities maintained by such exchange.

* * *

(3)(A) The term **"member"** when used with respect to a national securities exchange means (i) any natural person permitted to effect transactions on the floor of the exchange without the services of another person acting as broker, (ii) any registered broker or dealer with which such a natural person is associated, (iii) any registered broker or dealer permitted to designate as a representative such a natural person, and (iv) any other registered broker or dealer which agrees to be regulated by such exchange and with respect to which the exchange undertakes to enforce compliance with the provisions of this title, the rules and regulations thereunder, and its own rules. For purposes of sections 6(b)(1), 6(b)(4), 6(b)(6), 6(b)(7), 6(d), 17(d), 19(d), 19(e), 19(g), 19(h), and 21 of this title, the term "member" when used with respect to a national securities exchange also means, to the extent of the rules of the exchange specified by the Commission*, any person required by the Commission to comply with such rules pursuant to section 6(f) of this title.

(B) The term **"member"** when used with respect to a registered securities association means any broker or dealer who agrees to be regulated by such association and with respect to whom the association undertakes to enforce compliance with the provisions of this title, the rules and regulations thereunder, and its own rules.

(4) The term **"broker"** means any person engaged in the business of effecting transactions in securities for the account of others, but does not include a bank.

(5) The term **"dealer"** means any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise, but does not include a bank, or any person insofar as he buys or sells securities for his own account, either individually or in some fiduciary capacity, but not as a part of a regular business.

(6) The term **"bank"** means (A) a banking institution organized under the laws of the United States, (B) a member bank of the Federal Reserve System, (C) any other banking institution, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under section 11 (k) of the Federal Reserve Act, as amended, and which is supervised and examined by State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of this title, and (D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B), or (C) of this paragraph.

* * *

(8) The term **"issuer"** means any person who issues or proposes to issue any security; except that with respect to certificates of deposit for securities, voting-trust certificates, or collateral-trust certificates, or with respect to certificates of interest or shares in an unincorporated investment trust not having a board of directors or of the fixed, restricted management, or unit type, the term "issuer" means the person or persons performing the acts and assuming the duties of depositor or manager pursuant to the provisions of the trust or other agreement or instrument under which such securities are issued; and except that with respect to equipment-trust certificates or like securities, the term "issuer" means the person by whom the equipment or property is, or is to be, used.

* As used here and elsewhere in the Securities Exchange Act of 1934, "Commission" means the Securities and Exchange Commission.

(9) The term **"person"** means a natural person, company, government, or political subdivision, agency, or instrumentality of a government.

(10) The term **"security"** means any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit, for a security, or in general, any instrument commonly known as a "security"; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

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

(12) The term **"exempted security"** or **"exempted securities"** includes securities which are direct obligations of, or obligations guaranteed as to principal or interest by, the United States; such securities issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury as necessary or appropriate in the public interest or for the protection of investors; municipal securities, as defined in section 3(a)(29) of this title: *Provided, however,* That municipal securities shall not be deemed to be "exempted securities" for purposes of sections 15, 15A (except subsections (b)(6), (b)(11), and (g)(2) thereof), and 17A of this title; any interest or participation in any common trust fund or similar fund maintained by a bank exclusively for the collective investment and reinvestment of assets contributed thereto by such bank in its capacity as trustee, executor, administrator, or guardian; any interest or participation in a collective trust fund maintained by a bank or in a separate account maintained by an insurance company which interest or participation is issued in connection with (A) a stock bonus, pension, or profit-sharing plan which meets the requirements for qualification under section 401 of the Internal Revenue Code of 1954, or (B) an annuity plan which meets the requirements for the deduction of the employer's contribution under section 404(a)(2) of such Code, other than any plan described in clause (A) or (B) of this paragraph which covers employees some or all of whom are employees within the meaning of section 401(c)(1) of such Code, and such other securities (which may include, among others, unregistered securities, the market in which is predominantly intrastate) as the Commission may, by such rules and regulations as it deems consistent with the public interest and the protection of investors, either unconditionally or upon specified terms and conditions or for stated periods, exempt from the operation of any one or more provisions of this title which by their terms do not apply to an "exempted security" or to "exempted securities."

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

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

* * *

(16) The term **"State"** means any State of the United States, the District of Columbia, Puerto Rico, the Canal Zone, the Virgin Islands, or any other possession of the United States.

* * *

SEC. 3. (b) The Commission and the Board of Governors of the Federal Reserve System, as to matters within their respective jurisdictions, shall have power by rules and regulations to define technical, trade, accounting, and other terms used in this title, consistently with the provisions and purposes of this title.

* * *

[U.S.C., title 15, sec. 78c.]

National securities exchanges

SEC. 6. (a) An exchange may be registered as a national securities exchange under the terms and conditions hereinafter provided in this section and in accordance with the provisions of

section 19(a) of this title, by filing with the Commission an application for registration in such form as the Commission, by rule, may prescribe containing the rules of the exchange and such other information and documents as the Commission, by rule, may prescribe as necessary or appropriate in the public interest or for the protection of investors.

(b) An exchange shall not be registered as a national securities exchange unless the Commission determines that—

(1) Such exchange is so organized and has the capacity to be able to carry out the purposes of this title and to comply, and (subject to any rule or order of the Commission pursuant to section 17(d) or 19(g)(2) of this title) to enforce compliance by its members and persons associated with its members, with the provisions of this title, the rules and regulations thereunder, and the rules of the exchange.

* * *

(6) The rules of the exchange provide that (subject to any rule or order of the Commission pursuant to section 17(d) or 19(g)(2) of this title) its members and persons associated with its members shall be appropriately disciplined for violation of the provisions of this title, the rules or regulations thereunder, or the rules of the exchange, by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, being suspended or barred from being associated with a member, or any other fitting sanction.

* * *

[U.S.C., title 15, sec. 78f.]

Margin requirements

SEC. 7. (a) For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Board of Governors of the Federal Reserve System shall, prior to the effective date of this section and from time to time thereafter, prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security). For the initial extension of credit, such rules and regulations shall be based upon the following standard: An amount not greater than whichever is the higher of—

(1) 55 per centum of the current market price of the security, or

(2) 100 per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than 75 per centum of the current market price.

Such rules and regulations may make appropriate provision with respect to the carrying of undermargined accounts for limited periods and under specified conditions; the withdrawal of funds or securities; the substitution or additional purchases of securities; the transfer of accounts from one lender to another; special or different margin requirements for delayed deliveries, short sales, arbitrage transactions, and securities to which paragraph (2) of this subsection does not apply; the bases and the methods to be used in calculating loans, and margins and market prices; and similar administrative adjustments and details. For the purposes of paragraph (2) of this subsection, until July 1, 1936, the lowest price at which a security has sold on or after July 1, 1933, shall be considered as the lowest price at which such security has sold during the preceding thirty-six calendar months.

(b) Notwithstanding the provisions of subsection (a) of this section, the Board of Governors of the Federal Reserve System, may, from time to time, with respect to all or specified securities or transactions, or classes of securities, or classes of transactions, by such rules and regulations (1) prescribe such lower margin requirements for the initial extension or maintenance of credit as it deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the general credit situation of the country, and (2) prescribe such higher margin requirements for the initial extension or maintenance of credit as it may deem necessary or appropriate to prevent the excessive use of credit to finance transactions in securities.

(c) It shall be unlawful for any member of a national securities exchange or any broker or dealer, directly or indirectly, to extend or maintain credit or arrange for the extension or maintenance of credit to or for any customer—

(1) On any security (other than an exempted security), in contravention of the rules and regulations which the Board of Governors of the Federal Reserve System shall prescribe under subsections (a) and (b) of this section;

(2) Without collateral or on any collateral other than securities, except in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may pre-

scribe (A) to permit under specified conditions and for a limited period any such member, broker, or dealer to maintain a credit initially extended in conformity with the rules and regulations of the Board of Governors of the Federal Reserve System, and (B) to permit the extension or maintenance of credit in cases where the extension or maintenance of credit is not for the purpose of purchasing or carrying securities or of evading or circumventing the provisions of paragraph (1) of this subsection.

(d) It shall be unlawful for any person not subject to subsection (c) to extend or maintain credit or to arrange for the extension or maintenance of credit for the purpose of purchasing or carrying any security, in contravention of such rules and regulations as the Board of Governors of the Federal Reserve System shall prescribe to prevent the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions of this section. Such rules and regulations may impose upon all loans made for the purpose of purchasing or carrying securities limitations similar to those imposed upon members, brokers, or dealers by subsection (c) of this section and the rules and regulations thereunder. This subsection and the rules and regulations thereunder shall not apply (A) to a loan made by a person not in the ordinary course of his business, (B) to a loan on an exempted security, (C) to a loan to a dealer to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange, (D) to a loan by a bank on a security other than an equity security, or (E) to such other loans as the Board of Governors of the Federal Reserve System shall, by such rules and regulations as it may deem necessary or appropriate in the public interest or for the protection of investors, exempt, either unconditionally or upon specified terms and conditions or for stated periods, from the operation of this subsection and the rules and regulations thereunder.

* * *

(f)(1) It is unlawful for any United States person, or any foreign person controlled by a United States person or acting on behalf of or in conjunction with such person, to obtain, receive, or enjoy the beneficial use of a loan or other extension of credit from any lender (without regard to whether the lender's office or place of business is in a State or the transaction occurred in whole or in part within a State) for the purpose of (A) purchasing or carrying United States securities, or (B) purchasing or carrying within the United States of any other securities, if, under this section or rules and regulations prescribed thereunder, the loan or other credit transaction is prohibited or would be prohibited if it had been made or the transaction had otherwise occurred in a lender's office or other place of business in a State.

(2) For the purposes of this subsection—

(A) 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.

(B) The term "United States security" means a security (other than an exempted security) issued by a person incorporated under the laws of any State, or whose principal place of business is within a State.

(C) 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.

(3) The Board of Governors of the Federal Reserve System may, in its discretion and with due regard for the purposes of this section, by rule or regulation exempt any class of United States persons or foreign persons controlled by a United States person from the application of this subsection.

[U.S.C., title 15, sec. 78g.]

Restrictions on borrowing by members, brokers, and dealers

SEC. 8. It shall be unlawful for any registered broker or dealer, member of a national securities exchange, or broker or dealer who transacts a

business in securities through the medium of any member of a national securities exchange, directly or indirectly—

(a) To borrow in the ordinary course of business as a broker or dealer on any security (other than an exempted security) registered on a national securities exchange except (1) from or through a member bank of the Federal Reserve System, (2) from any nonmember bank which shall have filed with the Board of Governors of the Federal Reserve System an agreement, which is still in force and which is in the form prescribed by the Board, undertaking to comply with all provisions of this Act, the Federal Reserve Act, as amended, and the Banking Act of 1933, which are applicable to member banks and which relate to the use of credit to finance transactions in securities, and with such rules and regulations as may be prescribed pursuant to such provisions of law or for the purpose of preventing evasions thereof, or (3) in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe to permit loans between such members and/or brokers and/or dealers, or to permit loans to meet emergency needs. Any such agreement filed with the Board of Governors of the Federal Reserve System shall be subject to termination at any time by order of the Board, after appropriate notice and opportunity for hearing, because of any failure by such bank to comply with the provisions thereof or with such provisions of law or rules or regulations; and, for any willful violation of such agreement, such bank shall be subject to the penalties provided for violations of rules and regulations prescribed under this title. The provisions of sections 21 and 25 of this title shall apply in the case of any such proceeding or order of the Board of Governors of the Federal Reserve System in the same manner as such provisions apply in the case of proceedings and orders of the Commission.

(b) In contravention of such rules and regulations as the Commission shall prescribe for the protection of investors to hypothecate or arrange for the hypothecation of any securities carried for the account of any customer under circumstances (1) that will permit the commingling of his securities without his written consent with the securities of any other customer, (2) that will permit such securities to be commingled with the securities of any person other than a *bona fide* customer, or (3) that will permit such securities to be hypothecated, or subjected to any lien or claim of the pledgee, for a sum in excess of the aggregate indebtedness of such customers in respect to such securities.

(c) To lend or arrange for the lending of any securities carried for the account of any customer without the written consent of such customer or in contravention of such rules and regulations as the Commission shall prescribe for the protection of investors.

[U.S.C., title 15, sec. 78h.]

* * *

Trading by members of exchanges, brokers, and dealers

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SEC. 11. (d) It shall be unlawful for a member of a national securities exchange who is both a dealer and a broker, or for any person who both as a broker and a dealer transacts a business in securities through the medium of a member or otherwise, to effect through the use of any facility of a national securities exchange or of the mails or of any means or instrumentality of interstate commerce, or otherwise in the case of a member, (1) any transaction in connection with which directly or indirectly, he extends or maintains or arranges for the extension or maintenance of credit to or for a customer on any security (other than an exempted security) which was a part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction: *Provided,* That credit shall not be deemed extended by reason of a *bona fide* delayed delivery of any such security against full payment of the entire purchase price thereof upon such delivery within thirty-five days after such purchase, * * *

[U.S.C., title 15, sec. 78k.]

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Registration of securities

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SEC. 12. (f) (6) Any security for which unlisted trading privileges are continued or extended pursuant to this subsection shall be deemed to be registered on a national securities exchange within the meaning of this Title. * * *

[U.S.C., title 15, sec. 78*l*.]

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Accounts and records, reports, and examinations

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SEC. 17. (g) Any broker, dealer, or other person extending credit who is subject to the rules and regulations prescribed by the Board of Governors of the Federal Reserve System pursuant to this title shall make such reports to the Board as it may require as necessary or appropriate to enable it to perform the functions conferred upon it by this title. If any such broker, dealer, or other person shall fail to make any such report or fail to furnish full information therein, or, if in the judgment of the Board it is otherwise necessary, such broker, dealer, or other person shall permit such inspections to be made by the Board with respect to the business operations of such broker, dealer, or other person as the Board may deem necessary to enable it to obtain the required information.

[U.S.C., title 15, sec. 78q.]

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Rules, regulations, and orders; annual reports

SEC. 23. (a)(1) The Commission, the Board of Governors of the Federal Reserve System, and the other agencies enumerated in section 3(a)(34) of this title shall each have power to make such rules and regulations as may be necessary or appropriate to implement the provisions of this title for which they are responsible or for the execution of the functions vested in them by this title, and may for such purposes classify persons, securities, transactions, statements, applications, reports, and other matters within their respective jurisdictions, and prescribe greater, lesser, or different requirements for different classes thereof. No provision of this title imposing any liability shall apply to any act done or omitted in good faith in conformity with a rule, regulation, or order of the Commission, the Board of Governors of the Federal Reserve System, other agency enumerated in section 3(a)(34) of this title, or any self-regulatory organization, notwithstanding that such rule, regulation, or order may thereafter be amended or rescinded or determined by judicial or other authority to be invalid for any reason.

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[U.S.C., title 15, sec. 78w.]

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Unlawful representations

SEC. 26. No action or failure to act by the Commission or the Board of Governors of the Federal Reserve System, in the administration of this title shall be construed to mean that the particular authority has in any way passed upon the merits of, or given approval to, any security or any transaction or transactions therein, nor shall such action or failure to act with regard to any statement or report filed with or examined by such authority pursuant to this title or rules and regulations thereunder, be deemed a finding by such authority that such statement or report is true and accurate on its face or that it is not false or misleading. It shall be unlawful to make, or cause to be made, to any prospective purchaser or seller of a security any representation that any such action or failure to act by any such authority is to be so construed or has such effect.

[U.S.C., title 15, sec. 78z.]

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Validity of contracts

SEC. 29. (a) Any condition, stipulation, or provision binding any person to waive compliance with any provision of this title or of any rule or regulation thereunder, or of any rule of an exchange required thereby shall be void.

(b) Every contract made in violation of any provision of this title or of any rule or regulation thereunder, and every contract (including any contract for listing a security on an exchange) heretofore or hereafter made the performance of which involves the violation of, or the continuance of any relationship or practice in violation of, any provision of this title or any rule or regulation thereunder, shall be void (1) as regards the right of any person who, in violation of any such provision, rule, or regulation, shall have made or engaged in the performance of any such contract, and (2) as regards the rights of any person who, not being a party to such contract, shall have acquired any right thereunder with actual knowledge of the facts by reason of which the making or performance of such contract was in violation of any such provision, rule or regulation: * * *

(c) Nothing in this title shall be construed (1) to affect the validity of any loan or extension of credit (or any extension or renewal thereof) made or of any lien created prior or subsequent to the enactment of this title, unless at the time of the making of such loan or extension of credit (or extension or renewal thereof) or the creating of such lien, the person making such loan or extension of credit (or extension or renewal thereof)

or acquiring such lien shall have actual knowledge of facts by reason of which the making of such loan or extension of credit (or extension or renewal thereof) or the acquisition of such lien is a violation of the provisions of this title or any rule or regulation thereunder, or (2) to afford a defense to the collection of any debt or obligation or the enforcement of any lien by any person who shall have acquired such debt, obligation, or lien in good faith for value and without actual knowledge of the violation of any provision of this title or any rule or regulation thereunder affecting the legality of such debt, obligation, or lien.

[U.S.C., title 15, sec. 78cc.]

Foreign securities exchanges

SEC. 30. (a) It shall be unlawful for any broker or dealer, directly or indirectly, to make use of the mails or of any means or instrumentality of interstate commerce for the purpose of effecting on an exchange not within or subject to the jurisdiction of the United States, any transaction in any security the issuer of which is a resident of, or is organized under the laws of, or has its principal place of business in, a place within or subject to the jurisdiction of the United States, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors or to prevent the evasion of this title.

(b) The provisions of this title or of any rule or regulation thereunder shall not apply to any person insofar as he transacts a business in securities without the jurisdiction of the United States, unless he transacts such business in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate to prevent the evasion of this title.

[U.S.C., title 15, sec. 78dd.]

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Penalties

SEC. 32. (a) Any person who willfully violates any provision of this title, or any rule or regulation thereunder the violation of which is made unlawful or the observance of which is required under the terms of this title, or any person who willfully and knowingly makes, or causes to be made, any statement in any application, report, or document required to be filed under this title or any rule or regulation thereunder or any undertaking contained in a registration statement as provided in subsection (d) of section 15 of this title or by any self-regulatory organization in connection with an application for membership or participation therein or to become associated with a member thereof, which statement was false or misleading with respect to any material fact, shall upon conviction be fined not more than $10,000, or imprisoned not more than five years, or both, except that when such person is an exchange, a fine not exceeding $500,000 may be imposed; but no person shall be subject to imprisonment under this section for the violation of any rule or regulation if he proves that he had no knowledge of such rule or regulation.

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[U.S.C., title 15, sec. 78ff.]