

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5276]
[December 27, 1962]

Reprint of Regulation T

*To All Banks, Members of National Securities Exchanges,
and Others Interested, in the Second Federal
Reserve District:*

Enclosed is a copy of Regulation T of the Board of Governors of the Federal Reserve System, as amended effective August 7, 1961. The regulation has been reprinted to incorporate the amendment effective August 7, 1961, and to include in the statutory Appendix an excerpt from Section 12(f) of the Securities Exchange Act of 1934.

The Supplement to Regulation T, effective July 10, 1962, which sets forth the margin requirement percentages, has not been amended; your copy of the Supplement should be retained with the enclosure.

Additional copies of the enclosure will be furnished upon request.

ALFRED HAYES,
President.

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

**CREDIT BY BROKERS, DEALERS, AND
MEMBERS OF NATIONAL SECURITIES
EXCHANGES**



REGULATION T
(12 CFR 220)

As amended effective August 7, 1961



INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to a national securities exchange of which the person making the inquiry is a member or the facilities of which are used for his transactions, or, if this be not practicable, the inquiry should be addressed to the Federal Reserve bank of the district in which the inquiry arises. In the event that an official of an exchange desires information as to any such question, he should make inquiry of the Federal Reserve bank of the district in which the exchange is located.

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REGULATION T

(12 CFR 220)

As amended effective August 7, 1961

CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES *

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 (48 Stat. 886, 888; 15 U.S.C. 78g, 78h(a)), and applies to every member of a national securities exchange and to every broker or dealer who transacts a business in securities through the medium of any such member.

SECTION 220.2—DEFINITIONS

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

(a) The terms "**person**," "**member**," "**broker**," "**dealer**," "**buy**," "**purchase**," "**sale**," "**sell**," "**security**," and "**bank**" have the meanings given them in section 3(a) of the Act (48 Stat. 882; 15 U.S.C. 78c(a)).

(b) The term "**creditor**" means any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member.

(c) The term "**customer**" includes any person, or any group of persons acting jointly, (1) to or for whom a creditor is extending or maintaining any credit, or (2) who, in accordance with the ordinary usage of the trade, would be considered a customer of the creditor.

It includes, 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 includes any joint adventure 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 (49 Stat. 1375; 15 U.S.C. 781), 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 (48 Stat. 887; 15

* 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, mean Regulation T.

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) The term “**exempted security**” has the meaning given it in section 3(a) of the Act (48 Stat. 884; 150 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 (48 Stat. 887; 15 U.S.C. 78g(c)(2)) only to the extent described in paragraph (d)(3) of this section.

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 parts 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 for or with any customer shall be included in the special commodity account provided for by §§ 220.4 (a), (e). During any period when § 220.8 specifies that registered securities (other than exempted securities) shall have no loan value in a general account, any transaction consisting of a purchase of a security other than a purchase of an exempted security or a purchase of a security to reduce or close out a short position shall be effected in the special cash account provided for by § 220.4(c) or in some other appropriate special account provided for by § 220.4.

(b) **General rule.**—(1) A creditor shall not effect for or with any customer in a general account any transaction which, in combination with the other transactions effected in the account on the same day, creates an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the 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 four full business days following the date of such transaction, the deposit into the account of cash or securities in such amount that the cash deposited plus the maximum loan value of the securities deposited equals or exceeds the excess so created or the increase so caused.

(2) Except as permitted in this subparagraph, no withdrawal of cash or registered or exempted securities shall be permissible if the adjusted debit balance of the account would exceed the maximum loan value of the securities in the account after such withdrawal. The exceptions are available only in the event no cash or securities need

to be deposited in the 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 or exempted securities may be withdrawn upon the deposit in the account of cash (or registered or exempted securities counted at their maximum loan value) at least equal to the "retention requirement" of any registered or exempted securities withdrawn, or (ii) cash may be withdrawn upon the deposit in the account of registered or exempted securities having a maximum loan value at least equal to the amount of cash withdrawn, or (iii) upon the sale (other than short sale) of registered or exempted securities in the 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 those securities. The "retention requirement" of an exempted security is the same as its maximum loan value, and the "retention requirement" of a registered nonexempted security is prescribed from time to time in § 220.8(c) (the Supplement to Regulation T).

(3) Rules for computing the maximum loan value of the securities in a general account and the adjusted debit balance of such an 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 is the sum of the maximum loan values of the individual securities in the account, including securities (other than unissued securities) bought for the account but not yet debited thereto, but excluding securities sold for the account whether or not payment has been credited thereto.

(2) Except as otherwise provided in this paragraph, the maximum loan value of a registered security (other than an exempted security) in a general account shall be such maximum loan value as the Board shall prescribe for general accounts from time to time in § 220.8, and the maximum loan value of an exempted security shall be as determined by the creditor in good faith. No collateral other than registered securities or exempted securities shall have any loan value in a general account.

(3) A warrant or certificate which evidences only a right to subscribe to or otherwise acquire any security and which expires within ninety days of issuance shall have no loan value in a general account; but, if the account contains, in addition to such warrant or certificate, the security to the holder of which such warrant or certificate has been

issued, the current market value of such security (if the security be a registered 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 purposes of this part, the adjusted debit balance of a general account shall be calculated by taking the sum of the following items:

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

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

(3) the current market value of any securities (other than unissued securities) sold short in the account *plus*, for each such security (other than an exempted security), such amount as the Board shall prescribe from time to time in § 220.8 as the margin required for such short sales, except that such amount so prescribed in § 220.8 need not be included when there are held in the account 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 the 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 any margin customarily required by the creditor in connection with his endorsement or guarantee of any put, call or other option;

and deducting therefrom the sum of the following items:

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

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

In case the general account is the account of a partner of the creditor or the account of a joint adventure 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 220.6(b).

(e) **Liquidation in lieu of deposit.***—In any case in which the deposit required by paragraph (b) of this section, or any portion thereof, is not obtained by the creditor within the four-day period specified therein, registered nonexempted securities shall be sold (or, to the extent that there are insufficient registered nonexempted securities in the account, other liquidating transactions shall be effected in the account), prior to the expiration of such four-day period, in such amount that the resulting decrease in the adjusted debit balance of the account exceeds, by an amount at least as great as such required deposit or the undeposited portion thereof, the “retention requirement” of any registered or exempted securities sold.

(f) **Extensions of time.**—In exceptional cases, the four-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 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, provided 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.**—For the purposes of paragraph (b) of this section, the question of whether or not an excess of the adjusted debit balance of a general account over the maximum loan value of the securities in the account is created or increased on a given day shall be determined on the basis of all the transactions in the account on that day exclusive of any deposit of cash, deposit of securities, covering transaction or other liquidation that has been effected on the given day, pursuant to the requirements of paragraphs (b) or (e) of this section, in connection with a transaction on a previous day. 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 subparagraph (b)(1) of this section. 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 the account. For the purposes

* 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).

of this part (Regulation T), if a security has maximum loan value in the account under subparagraph (c) (1) of this section, a sale of the same security (even though not the same certificate) in the 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 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 registered securities held in the 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 the account: *Provided*, That no amount need be included as margin for a net short commitment in unissued securities when there are held in the 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 registered or exempted security, the creditor shall treat any payment by him for such issued security as a transaction (other than a withdrawal) which increases the adjusted debit balance of the account by the amount of the payment *minus* the amount required to be included in the adjusted debit balance of the account, at the time of and in connection with the purchase of the unissued security, as the margin required for such purchase.

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.

(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.

(b) **Special omnibus account.**—In a special omnibus account, a member of a national securities exchange may effect and finance transactions for a broker or dealer from whom the member accepts in good faith a signed statement to the effect that he is subject to the provisions of this part (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto) and 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 X-8C-1 or Rule X-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.

(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 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.

(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, may (i) 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 registered or exempted security, authorize transfer of the transaction to a general account or special omnibus account and completion of the 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 during the preceding 90 days, 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: *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 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.

(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, make and maintain loans to meet the emergency needs of any creditor;

(2)(i) Make loans, and may maintain loans, (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 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) Make and maintain subordinated loans to another creditor for capital purposes, provided:

(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 loan 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 loan is not in contravention of any rule of the exchange, the loan has the approval of such committee, or

(b) The lender as well as the borrower is a member of such exchange, the loan has the approval of an appropriate committee of the exchange, and the committee, in addition to being satisfied that the loan is not in contravention of any rule of the exchange, is satisfied that the loan 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 loan 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 broker or dealer, or sell any security to any such customer, provided 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 an 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 adventure 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 adventure 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 distributing of all or part of an issue of securities (i) not through 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) receive 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 other than purchasing or carrying or trading in securities.

(9) **Specialist's account.**—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 adventure 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. 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, in addition to the other requirements applicable to specialists, is designated by the Board of Governors of the Federal Reserve System as requiring reports suitable for supplying current information regarding specialists' use of credit pursuant to this paragraph, the requirements of § 220.6(b) regarding joint adventures shall not apply to such account and the maximum loan value of a registered security in such account 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 registered 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) The creditor shall not permit any withdrawal of cash or securities from the account so long as there is a debit balance in the account, except that when the debit connected with a given acquisition of securities in the account has become equal to or less than the maximum loan value of such securities as prescribed for general accounts, such securities may be transferred to the general account together with any remaining portion of such debit; and

(3) No security may be acquired in the account at any time when the account contains any security which has been held therein more than nine months without becoming eligible for transfer to the general account.

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.

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 (48 Stat. 888; 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 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 adventure.**—In case a general account is the account of a joint adventure in which the creditor participates, the adjusted debit balance of the account shall include, in addition to the items specified in § 220.3(d), any amount by which the creditor's contribution to the joint adventure 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 adventure.

(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 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 the account in connection with any transaction that has been effected in the 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 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 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 the 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 registered or exempted security in a general account for the purpose of participating in a reorganization or recapitalization in which the security is involved: *Provided*, That if an unregistered nonexempted 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 the customer's account except to the extent that such security or proceeds could be withdrawn if the security were a registered 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, communication charges with respect to transactions in the 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 the 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 the account.

(2) A creditor may permit interest, dividends or other distributions received by the creditor with respect to securities in a general account to be withdrawn from the account only on condition that the adjusted debit balance of the account does not exceed the maximum loan value of the securities in the 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 the 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 any cash or securities that are distributed with respect to any security in the account shall, except to the extent that withdrawal would be permitted under the preceding sentence, be deemed to be a transaction in the 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 maximum loan value of securities 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 registered or

unregistered) 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 or through an agency organized or employed by the members of a national securities exchange 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 mistake made in good faith in executing a transaction, recording, determining, or calculating any loan, balance, market price or loan value, or other similar matter, the creditor shall not be deemed guilty of a violation of this part if promptly after the discovery of the mistake he takes whatever action may be practicable in the circumstances to remedy the mistake.

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 with respect to the arranging by a creditor for a bank subject to Part 221 of this chapter (Regulation U) to extend or maintain credit on registered securities or exempted securities.

(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 registered 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 unregistered securities.

(c) **Declaration as to purpose of loan.**—Every extension of credit on a registered security (other than an exempted security) shall be deemed to be for the purpose of purchasing or carrying or trading in securities, unless the customer shall file with the creditor a written declaration signed by the customer which shall state the use to be made of such credit and which shall state specifically that such credit is neither for the purpose of purchasing or carrying or trading in securities nor for the purpose of evading or circumventing the provisions of this part. In connection with any extension of credit, a creditor may rely upon such a written declaration unless he knows the statement to be false or has information which would put a prudent man upon inquiry and if investigated with reasonable diligence would lead to the discovery of the falsity of the statement.

(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 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 customers' 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.

(Section 220.8, Supplement, containing maximum loan values, margin required for short sales and retention requirements, which are changed from time to time, is printed separately.)

APPENDIX

There are printed below certain provisions of the Securities Exchange Act of 1934 (U.S.C., Title 15, sec. 78) that are pertinent to the subject matter of Regulation T:

Sec. 3. (a) * * *

(3) The term "member" when used with respect to an exchange means any person who is permitted either to effect transactions on the exchange without the services of another person acting as broker, or to make use of the facilities of an exchange for transactions thereon without payment of a commission or fee or with the payment of a commission or fee which is less than that charged the general public, and includes any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm.

(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.

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(9) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a business trust, or an unincorporated organization.

(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.

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(12) The term "exempted security" or "exempted securities" shall include 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; securities which are direct obligations of or obligations guaranteed as to principal or interest by a State or any political subdivision thereof or any agency or instrumentality of a State or any political subdivision thereof or any municipal corporate instrumentality of one or more States, 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 necessary or appropriate in the public interest or for 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.

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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, and accounting terms used in this title insofar as such definitions are not inconsistent with the provisions of this title.

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Sec. 6. (a) Any exchange may be registered with the Commission as a national securities exchange under the terms and conditions hereinafter provided in this section, by filing a registration statement in such form as the Commission may prescribe, containing the agreements, setting forth the information, and accompanied by the documents, below specified:

(1) An agreement (which shall not be construed as a waiver of any constitutional right or any right to contest the validity of any rule or regulation) to comply, and to enforce so far as is within its powers compliance by its members, with the provisions of this title, and any amendment thereto and any rule or regulation made or to be made thereunder; * * *

(b) No registration shall be granted or remain in force unless the rules of the exchange include provision for the expulsion, suspension, or disciplining of a member for conduct or proceeding inconsistent with just and equitable principles of trade, and declare that the willful violation of any provisions of this title or any rule or regulation thereunder shall be considered conduct or proceeding inconsistent with just and equitable principles of trade.

(c) Nothing in this title shall be construed to prevent any exchange from adopting and enforcing any rule not inconsistent with this title and the rules and regulations thereunder and the applicable laws of the State in which it is located.

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) registered on a national securities exchange. 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 who transacts a business in securities through the medium of any such member, 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) registered on a national securities exchange, 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 exempted securities and/or securities registered upon a national securities exchange, except in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe (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

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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 registered on a national securities exchange, 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 registered on national securities exchanges 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.

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Sec. 8. It shall be unlawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, 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) To permit in the ordinary course of business as a broker his aggregate indebtedness to all other persons, including customers' credit balances (but excluding indebtedness secured by exempted securities), to exceed such percentage of the net capital (exclusive of fixed assets and value of exchange membership) employed in the business, but not exceeding in any case 2,000 per centum, as the Commission may by rules and regulations prescribe as necessary or appropriate in the public interest or for the protection of investors.

(c) 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.

(d) To lend or arrange for the lending of any securities carried for the account of any customer without the written consent of such customer.

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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 six months 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, * * *

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Sec. 12. (f) * * * 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. * * *

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Sec. 17. (b) 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.

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Sec. 23. (a) The Commission and the Board of Governors of the Federal Reserve System shall each have power to make such rules and regulations as may be necessary for the execution of the functions vested in them by this title, and may for such purpose classify issuers, securities, exchanges, and other persons or mat-

ters within their respective jurisdictions. No provision of this title imposing any liability shall apply to any act done or omitted in good faith in conformity with any rule or regulation of the Commission or the Board of Governors of the Federal Reserve System, notwithstanding that such rule or regulation may, after such act or omission, be amended or rescinded or be determined by judicial or other authority to be invalid for any reason.

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.

Sec. 30. (a) It shall be unlawful for any broker or dealer,

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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.

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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, 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 two 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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