

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6115]
February 9, 1968]

REGULATION U

As Amended Effective March 11, 1968

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

Enclosed is a copy of Regulation U, as amended effective March 11, 1968, of the Board of Governors of the Federal Reserve System, together with the Supplement thereto, effective the same date. The regulation governs the use of credit by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange. The supplement sets forth the margin requirements on stock transactions covered by the regulation. The changes in the amended regulation and in the supplement were described in a statement issued by the Board of Governors on February 1. The text of that statement was printed in our Circular No. 6108, and changes in the effective dates of the margin requirements were set forth in our Circular No. 6110.

The amended regulation requires that banks obtain from the borrower a signed statement of the purpose of any stock-secured loan on a form prescribed by the Board. A specimen of that form (Federal Reserve Form U-1) appears on pages 20 and 21 of the regulation. A limited supply of the form is being sent to each bank under separate cover. Banks should make their own arrangements to print additional copies in the prescribed form.

Additional copies of the enclosures will be furnished upon request.

ALFRED HAYES,
President.

SUPPLEMENT TO REGULATION U

Section 221.4—SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective March 11, 1968

(a) **Maximum loan value of stocks.**—For the purpose of § 221.1, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 30 per cent of its current market value, as determined by any reasonable method.

(b) **Maximum loan value of convertible securities subject to § 221.3(t).**—For the purpose of § 221.3(t), the maximum loan value of any security against which credit is extended pursuant to § 221.3(t) shall be 50 per cent of its current market value, as determined by any reasonable method.

(c) **Retention requirement.**—For the purpose of § 221.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the “retention requirement” of a stock, whether or not registered on a national securities exchange, and of a convertible security subject to § 221.3(t), shall be 70 per cent of its current market value, as determined by any reasonable method.

**BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM**

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



**REGULATION U
(12 CFR 221)**

As Amended effective March 11, 1968



INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.

FORM

The form furnished with this copy of the Regulation has been reduced in size and is for information only. Copies of the form for actual use can be obtained from any Federal Reserve Bank.

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REGULATION U

(12 CFR 221)

As Amended effective March 11, 1968

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

SECTION 221.1—GENERAL RULE

(a) **Purpose credit secured by stock.**—No bank shall extend any credit secured directly or indirectly¹ by any stock² for the purpose of purchasing or carrying any stock registered on a national securities exchange³ (and no bank shall extend any credit described in § 221.3(q) regardless of whether or not such credit is secured by any stock) 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 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.

(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 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.** — Except as provided in § 221.3(r)(1), a bank may permit a substitution of stock

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), § 221.3(l), and § 221.3(m).

whether registered or unregistered, effected by a purchase and sale on orders executed within the same day: *Provided*, That (1) 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 (2) 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.

(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 credit extended to any customer by any bank at any time for the purpose of purchasing or carrying stocks registered on a national securities exchange shall be considered a single credit; and all the collateral securing such indebtedness shall be considered in determining whether or not the loan 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 broker or dealer 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: *Provided*, That the bank accepts in good faith⁴ from the broker or dealer a signed statement to the effect that he is subject to the provisions of Part 220 of this Chapter (Regulation T) (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto);

(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 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 purchase 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)

⁴ As described in § 221.3(a).

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; and

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

SECTION 221.3—MISCELLANEOUS PROVISIONS

(a) **Required statement as to stock-secured loan.**—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 six 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. 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 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 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 stock is for the purpose of "carrying" such a security.

(3) Credit for the purpose of purchasing or carrying 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), whose assets customarily include registered stocks, is for the purpose of purchasing or carrying such stocks.

(c) **Indirectly secured.**—The term “indirectly secured” includes any arrangement as to assets of the customer which (1) serves to protect the interest of the bank, (2) serves to make assets of the customer more readily available to the bank than to other creditors of the customer, or (3) under which the customer surrenders the right to dispose of assets so long as the credit remains outstanding: *Provided*, That the foregoing shall not apply to securities held by the bank only in the capacity of custodian, depository or trustee, or under similar circumstances, if the bank in good faith has not relied upon such securities as collateral in the extension or maintenance of the particular credit.

(d) **List of registered stocks.**—In determining whether a security is a “stock registered on a national securities exchange” or a security described in paragraph (b) (3) of this section, a bank may rely upon any reasonably current record of such securities that is published or specified in a publication of the Board of Governors of the Federal Reserve System. A bank may also rely upon such a record to determine whether a stock into which a security, warrant, or right is convertible or exchangeable is a stock registered on a national securities exchange.

(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, without following the requirements of this Part as to the extension of a credit may:

(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 faith⁶ 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,

⁶ As described in § 221.3(a).

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 securities registered on a national securities exchange, 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.**—Except as otherwise provided in this Part, 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; 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.

(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 stock registered on a national securities exchange, or any

security convertible⁶ with or without consideration into such a stock or carrying any warrant or right to subscribe to or purchase or carry such a stock, or any such warrant or right (such security, warrant or right is sometimes referred to as a "security convertible into a stock registered on a national securities exchange"), and (3) not excepted by § 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, and in the case of a credit outstanding at the opening of business on June 15, 1959, need not be made until immediately before some change in that or other indebtedness of the customer or in collateral therefore.

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

⁶ See also § 221.3(r) and (t).

volving 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 a 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 shall be as determined by the bank in good faith: *Provided*, That the specialist's exchange, in addition to 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 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 four succeeding three-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 five 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 two 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: *And provided further*, That as to credit extended between October 20, 1967, and March 11, 1968, such four succeeding periods shall begin on March 11, 1968; and

(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 indebtedness 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 stocks registered on a national securities exchange, is a credit for the purpose of purchasing or carrying stocks so registered 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 stocks so registered. 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 on or after June 15, 1959, 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, whether or not made after June 15, 1959, 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, or by April 10, 1968, whichever is later.

(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, 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: *Provided*, That any reduction of the credit or deposit of collateral necessary to meet the requirements of § 221.4 (the Supplement to Regulation U) in respect to such credit extended before March 11, 1968, need not be brought about before April 10, 1968.

(s) **Credit secured by collateral other than stocks.**—A bank may extend credit for the purpose of purchasing or carrying a stock registered on a national securities exchange 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 securities.**—(1) A bank may extend credit for the purpose specified in § 221.1 on collateral consisting of any security convertible into a stock registered on a national securities exchange or any security carrying a warrant or right to subscribe to or purchase a stock so registered.

(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 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 less the maximum loan value of any convertible security described in subparagraph (1) of this paragraph deposited as collateral.

(u) **Bank acting as agent.**—No bank shall act as agent of any person extending credit which the bank knows or should know is secured directly or indirectly by any registered security unless the bank accepts in good faith[†] a statement signed by such person that he does not extend or maintain credit to or for customers in violation of Part 207, 220, or 221 of this Chapter (Regulations G, T, or U). For this purpose, such activities of an “agent” include, for example, receiving securities to be used as collateral for such credit, determining whether the market value of the collateral for such credit is adequate, and requiring the deposit of additional collateral or the reduction of such credit. In determining whether there has been an extension of credit subject to the provisions of such Part, and whether it can rely in good faith on the statement described herein, the bank shall (1) be alert to the circumstances surrounding the extension of credit and (2) if it has information that would cause a prudent man not to accept the statement without inquiry, must have investigated and be satisfied that the credit either is not subject to such Part or is extended or maintained in conformity with the provisions of such Part.

(v) **Arranging for credit.**—No bank shall arrange for the extension or maintenance of any credit for the purpose of purchasing or carrying any stock registered on a national securities exchange, except upon the same terms and conditions on which the bank itself could extend or maintain such credit under the provisions of this Part.

[†] As described in § 221.3(a).

APPENDIX

There are printed below certain provisions of the Securities Exchange Act of 1934: (15 U.S.C., 78) :

DEFINITIONS

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 in-

stitution or firm included in clauses (A), (B), or (C) of this paragraph.

* * *

(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.

* * *

(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.

* * *

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

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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 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.

* * *

**RESTRICTIONS ON BORROWING BY MEMBERS,
BROKERS, AND DEALERS**

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

regulation; 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 of 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.

* * *

ACCOUNTS AND RECORDS, REPORTS, EXAMINATIONS

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 en-

REGULATION U APPENDIX

able 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.

* * *

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 rights 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.

* * *

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, 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 of 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.

SPECIMEN ONLY

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

**STATEMENT OF PURPOSE OF THE PROCEEDS OF A STOCK-SECURED
EXTENSION OF CREDIT BY A BANK. (FEDERAL RESERVE FORM U-1)**

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

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

I (we), _____, have applied for an extension of credit from
(name(s))

_____ in the amount of \$ _____ secured in whole
(name of bank)
or in part by stock as follows:

Part I. Stock Collateral

Stock (list separately by issue)	Number of shares	Source of valuation	Market value (in \$)	TO BE COMPLETED BY THE BANK	
				Source of valuation	Market value (in \$)
				Maximum loan value under Regulation U \$	Total: \$

Part II. Other Collateral

List collateral (itemize where 10 per cent or more)	Source of valuation	Market value (in \$)	Source of valuation	Market value (in \$)	Good faith loan value (in \$)
Total: \$			Total: \$		Total: \$

Total amount of credit granted \$ _____.

Part III.

1. The proceeds of this credit are to be used for _____
(describe in detail)

2. I (we) have owned the stock collateral securing this credit continuously for (check one)

- six months or more less than six months.

I (WE) HAVE READ THIS FORM AND HEREBY CERTIFY AND AFFIRM THAT TO THE BEST OF MY (OUR) KNOWLEDGE AND BELIEF THE STATEMENTS REQUIRED OF ME (US) ARE TRUE, ACCURATE, AND COMPLETE.

Manual signature of customer (s):

DATE _____ (SIGNED) _____

(Print name under each signature)

(Street address)

(City, state)

Part IV.

TO BE COMPLETED BY BANK

1. State amount of any other credit extended to the customer(s) (a) secured in whole or in part, directly or indirectly, by any portion of collateral listed in Parts I and II: \$_____ and (b) unsecured credit in excess of \$5,000 in the aggregate \$_____.
2. Is the collateral listed in Part I to be delivered or has the collateral been delivered from a bank, broker, dealer, or a person other than the customer? _____ Against payment? _____

I HAVE SUPPLIED THE INFORMATION REQUIRED OF THE BANK AND ACCEPT THE CUSTOMER'S STATEMENT ON THIS FORM IN GOOD FAITH AS DEFINED BELOW.* I AM FAMILIAR WITH THE PROVISIONS OF REGULATION U.

DATE _____ (SIGNED) _____

(Print name and title of signing officer under signature)

(Name of bank)

* Regulation U requires that the customer's statement on this form be accepted by an officer of the bank acting in good faith. Good faith requires that such officer (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.

This form must be retained by the bank for at least six years after the termination of the credit.