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FEDERAL RESERVE BANK
OF NEW YORK

February 19, 1969

Proposed Amendment of Regulation G

To Lenders Other Than Banks, Brokers, and Dealers in the Second Federal Reserve District:

Printed below is an excerpt from the *Federal Register* of February 15, containing the text of the proposed amendment of margin Regulation G of the Board of Governors of the Federal Reserve System, which would extend the regulation to cover certain securities that are not registered on a national securities exchange.

Comments on the proposed amendment may be submitted by March 17, 1969 and should be sent to our Bank Examinations Department. Additional copies of the texts of the proposed amendments of this regulation and of the Board's margin Regulations T and U will be furnished upon request.

ALFRED HAYES,
President.

FEDERAL RESERVE SYSTEM

[12 CFR Part 207]

[Reg. G]

REGISTERED EQUITY SECURITIES

**Credit by Persons Other Than Banks,
Brokers, or Dealers**

Pursuant to the authority contained in the Securities Exchange Act of 1934 (15 U.S.C. 78g), as amended by the Act of July 29, 1968 (Public Law 90-437; 82 Stat. 452), the Board of Governors of the Federal Reserve System is considering amending Part 207 (Regulation G) as set forth below in order to regulate the amount of credit that may be extended with respect to certain securities that are not registered on a national securities exchange.

Public Law 90-437 broadens the Board's authority over stock market credit to cover "over-the-counter" (OTC) stocks. The legislation leaves to the Board the timing and selection of criteria for the implementation of OTC margin requirements.

The proposed amendments to Regulation G are principally designed to include in the regulation the criteria under which the Board will select OTC stocks which would be subject to the margin and other requirements of the regulation. Initially, such "OTC margin stock" would be stocks, not traded on a national securities exchange, which the Board has determined to have the degree of national investor interest, the depth and breadth of market, the availability of information respecting such stocks and their issuers, and the character and permanence of the issuers to warrant treatment similar to stocks that are registered on such exchanges.

The proposal would also introduce to the regulation the term "regulated equity security", which would encompass registered equity securities, OTC margin stock, shares of most investment companies registered pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8), "equity funding" plans or programs, and debt secu-

rities convertible into or carrying warrants or rights to subscribe to or purchase a regulated equity security. With the exception of OTC margin stock and equity funding plans or programs, virtually all of these securities have hitherto been included within the definition of "registered equity security." A proposal to include "equity funding" plans or programs within the coverage of the regulation was published for comment in the *FEDERAL REGISTER* on December 17, 1968 (33 F.R. 18629). Accordingly, the term "regulated equity security" would be substituted where appropriate for the term "registered equity security" throughout this part, with corresponding conforming changes.

The proposal would amend the regulation to include a definition of "stock" substantially similar to that contained in Regulation U (12 CFR Part 221). In addition it would clarify that for the purpose of Part 207 it is immaterial whether a debt security is convertible, with or without consideration, presently or in the future, into a regulated equity security.

In a change unrelated to the implementation of Public Law 90-437, the provisions regarding stock options and employee stock purchase plans would be amended to clarify that an increase in the current market value of the collateral may be taken into consideration in determining whether its maximum loan value is equal to the outstanding credit owing pursuant to the withdrawal requirements of § 207.4(a)(2)(iii)(B) and to make the provisions of § 207.4(a)(3) conform to the parallel provision in Regulation U (12 CFR 221.2(b)). In other unrelated changes, the definition of "indirectly secured" would be clarified to indicate that credit is indirectly secured if there is any arrangement that may accelerate the maturity of the credit, and, to ease record retention burdens, the time for retaining Federal Reserve Form G-3 (the "purpose statement" required pursuant to § 207.1(e)) would be reduced from 6 to 3 years.

This notice is published pursuant to section 553(b) of title 5, United States

Code, and § 262.2(a) of the rules of procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2(a)).

To aid in the consideration of this matter by the Board, interested persons are invited to submit, in writing, relevant data, views, or arguments. Such material should be submitted to any Federal Reserve Bank, to be received not later than March 17, 1969. Under the Board's rules regarding availability of information (12 CFR 261), such materials will be made available for inspection and copying to any person upon request unless the person submitting the material requests that it be considered confidential.

Dated at Washington, D.C., this 10th day of February 1969.

By order of the Board of Governors.

[SEAL] ROBERT P. FORRESTAL,
Assistant Secretary.

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

- Sec.
207.1 General rule.
207.2 Definitions.
207.3 Reports and records.
207.4 Miscellaneous provisions.
207.5 Supplement.

AUTHORITY: The provisions of this Part 207 issued under sec. 7 of the Securities Exchange Act of 1934 (15 U.S.C. 78g) as amended by Public Law 90-437 (82 Stat. 452).

§ 207.1 General rule.

(a) *Registration.* Every person who, in the ordinary course of his business,¹ during any calendar quarter ended after October 20, 1967, extends or arranges for the extension of a total of \$50,000 or more or has outstanding at any time during the calendar quarter, a total of \$100,000 or more, in credit, secured directly or indirectly, in whole or in part, by collateral that includes any regulated equity securities, unless such person is subject to Part 220 (Regulation T) or Part 221 (Regulation U) of this chapter, is subject to the registration requirements of this paragraph and shall, within

¹ See § 207.2(b).

30 days following the end of the calendar quarter during which the person becomes subject to such registration requirements, register with the Board of Governors of the Federal Reserve System by filing a statement in conformity with the requirements of Federal Reserve Form G-1 with the Federal Reserve Bank of the district in which the principal office of such person is located.

(b) *Termination of registration.* Any person so registered who has not, during the preceding 6 calendar months, extended or maintained or arranged for the extension or maintenance of any credit secured directly or indirectly, in whole or in part, by collateral that includes any regulated equity securities may apply for termination of such registration by filing Federal Reserve Form G-2 with the Federal Reserve Bank of the district in which the principal office of such person is located.

(c) *Definition of lender and applicability of margin requirements.* Any person subject to the registration requirements of paragraph (a) of this section who, in the ordinary course of his business, extends or maintains or arranges for the extension or maintenance of any credit for the purpose of purchasing or carrying any regulated equity security² (hereinafter called "purpose credit"), if such credit is secured directly or indirectly³ in whole or in part by collateral that includes any such security, is a "lender" subject to this part and shall not after February 1, 1968, except as provided in § 207.4(a), extend or arrange for the extension of any purpose credit in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for regulated equity securities in § 207.5 (the Supplement to Regulation G), or as determined by the lender in good faith for any collateral other than regulated equity securities: *Provided*, That any collateral consisting of convertible securities described in paragraph (d) of this section shall have loan value only as provided in paragraph (d) of this section.

(d) *Credit on convertible debt securities.* (1) A lender may extend credit for the purpose specified in paragraph (c) of this section on collateral consisting of any debt security (i) convertible with or without consideration, presently or in the future, into a regulated equity security or (ii) carrying any warrant or right to subscribe to or purchase such a regulated equity security (such a convertible debt security is sometimes referred to herein as a "convertible security").

(2) Credit extended under this paragraph shall be subject to the same conditions as any other credit subject to this section except: (i) The entire amount of such credit shall be considered a single credit treated separately from the single credit specified in paragraph (g) of this section and all the collateral securing such credit shall be considered

in determining whether or not the credit complies with this part, and (ii) the maximum loan value of the collateral shall be as prescribed from time to time in § 207.5(b) (the Supplement to Regulation G).

(3) Any convertible security originally eligible as collateral for 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 regulated equity security other than a convertible security is substituted for a convertible security held as collateral for a credit extended under this section, such regulated equity security and any credit extended on it in compliance with this part shall thereupon be treated as subject to paragraph (c) of this section and not to this paragraph and the credit extended under this paragraph shall be reduced by an amount equal to the maximum loan value of the security withdrawn.

(e) *Statements as to purpose of credit.* In connection with any extension of credit secured directly or indirectly, in whole or in part, by collateral that includes any regulated equity security, every person who is subject to the registration requirement of paragraph (a) of this section shall, prior to such extension, obtain a statement in conformity with the requirements of Federal Reserve Form G-3 executed by the customer and executed and accepted in good faith by such person. Such person shall retain such statement in his records for at least 3 years after such credit is extinguished. In determining whether credit is "purpose credit", such person may rely on the statement executed by the customer if accepted in good faith. To accept the customer's statement in good faith, such person must (1) be alert to the circumstances surrounding the credit and (2) if he has any further information which would cause a prudent man not to accept the statement without inquiry, have investigated and be satisfied that the customer's statement is truthful. Circumstances which could indicate that such person has not exercised reasonable diligence in so acquainting himself and so investigating would include, but are not limited to, facts such as that (3) the proceeds of the credit were paid to a broker or to a bank in connection with contemporaneous delivery of regulated equity securities, whether or not payment was made against delivery, (4) there were frequent substitutions of regulated equity securities serving as collateral for the credit, or (5) the amount of the credit was disproportionate, or the terms inappropriate, to the stated purpose.

(f) *Credit extended to person subject to Regulation T.* (1) No lender shall extend or maintain any credit for the purpose of purchasing or carrying any regulated equity security to any customer who is subject to Part 220 of this chapter (Regulation T) without collateral or on

collateral consisting of regulated securities (other than exempted securities⁴). Where the credit is to be used in the ordinary course of business of such customer, such credit is presumed to be for the purpose of purchasing or carrying regulated equity securities unless the lender has in his records a statement to the contrary obtained and executed in conformity with the requirements of paragraph (e) of this section.

(2) The prohibition of this paragraph (f) shall not apply to a credit which is unsecured or secured by collateral other than regulated equity securities, and which is (i) made to a dealer (as defined in § 220.2(a) of Regulation T) to aid in the distribution of securities to customers not through the medium of a national securities exchange, or (ii) subordinated to the claims of general creditors by a subordination agreement approved by an appropriate committee of a national securities exchange or by a "satisfactory subordination agreement" as defined in paragraph (e)(7) of Rule 240-15c3-1 of the Securities and Exchange Commission.

(g) *Combining purpose credit extended to the same customer.* For the purpose of this part, except for a credit subject to paragraph (d) of this section, the aggregate of all outstanding purpose credit extended to a customer by a lender after February 1, 1968, shall be considered a single credit and, except as provided in paragraphs (d) and (i) of this section, all the collateral securing such a credit, whether directly or indirectly, in whole or in part, shall be considered in determining whether the credit complies with this part.

(h) *Purpose and nonpurpose credit extended to the same person.* No lender shall after February 1, 1968, extend or arrange for the extension of any purpose credit, or maintain or arrange for the maintenance of any purpose credit extended after February 1, 1968, if the credit is secured directly or indirectly, in whole or in part, by collateral that includes any regulated equity security which also secures, directly or indirectly, in whole or in part, any other credit in excess of \$5,000 extended to the same customer after February 1, 1968; and no lender shall have outstanding at the same time to the same customer both such purpose credit and any such other credit: *Provided*, That the prohibitions of this paragraph shall not apply to (1) credit extended for the purpose of purchasing, constructing, maintaining, or improving a dwelling which is occupied or to be occupied by the customer as his principal residence, and is secured by a first lien on such dwelling; or (2) to credit secured by a share account or other claim acquired by the customer from the lender independently of the credit and payable (or entitling the holder to a loan thereon) in a dollar amount determined without regard to the market value of the assets supporting the claim.

(i) *Purpose credit secured by both regulated equity securities and by other*

² See § 207.2(d).

³ See § 207.2(g)(i).

⁴ As defined in 15 U.S.C. 78c(a)(12).

collateral. In the case of any purpose credit extended or arranged after February 1, 1968, secured, directly or indirectly, in whole or in part, by any regulated equity security, no other collateral shall have any loan value in respect to such credit for the purpose of this part: *Provided, however,* That a share account or other claim acquired by the customer from the lender independently of the credit and payable (or entitling the holder to a loan thereon) in a dollar amount determined without regard to the market value of the assets supporting the claim shall have a maximum loan value as determined by the lender in good faith.

(j) *Withdrawals and substitutions of collateral*—(1) *General rule.* Except as permitted by the next subparagraph and by § 207.4(a), while a lender maintains any purpose credit extended after February 1, 1968, the lender shall not at any time permit any withdrawal or substitution of collateral unless either (i) the credit would not exceed the maximum loan value of the collateral after such withdrawal or substitution, or (ii) the credit is reduced by at least the amount by which the maximum loan value of any collateral deposited is less than the “retention requirement” of any collateral withdrawn. The retention requirement of collateral other than regulated equity securities is the same as its maximum loan value and the retention requirement of collateral consisting of regulated equity securities or debt securities convertible into regulated equity securities is prescribed from time to time in § 207.5 (the Supplement to Regulation G).

(2) *Same-day substitution of collateral.* Except as prohibited by § 207.4(a) a lender may permit a substitution of regulated equity securities effected by a purchase and sale on orders executed within the same day: *Provided,* That (i) if the proceeds of the sale exceed the total cost of the purchase, the credit is reduced by at least an amount equal to the retention requirement in respect to the sale less the retention requirement in respect to the purchase, or (ii) if the total cost of the purchase exceeds the proceeds of the sale, the credit may be increased by an amount no greater than the maximum loan value of the securities purchased less the maximum loan value of the securities sold. If the maximum loan value of the collateral securing the credit has become less than the amount of the credit, the amount of the credit may nonetheless be increased if there is provided additional collateral having maximum loan value at least equal to the amount of increase, or the credit is extended pursuant to § 207.4(a).

§ 207.2 Definitions.

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

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

(b) The term “in the ordinary course of his business” means occurring or reasonably expected to occur from time to

time in the course of any activity of a person for profit or the management and preservation of property or in addition, in the case of a person other than an individual, carrying out or in furtherance of any business purpose.

(c) The “purpose” of a credit is determined by substance rather than form.

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

(2) Credit to enable the customer to reduce or retire indebtedness which was originally incurred to purchase a regulated equity security is for the purpose of “carrying” such a security.

(d) Regulated equity security: The term “regulated equity security” means any equity security⁵ which is (1) a registered equity security, (2) an OTC margin stock, (3) a debt security (i) convertible with or without consideration, presently or in the future, into a regulated equity security, or (ii) carrying any warrant or right to subscribe to or purchase, presently or in the future, a regulated equity security, (4) any such warrant or right, (5) 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), unless at least 95 percent of the assets of such company are continuously invested in exempted securities⁶ and (6) a plan, program, or investment contract offered or sold after April 30, 1969, which provides for the acquisition both of any securities described in this paragraph (d) and of goods, services, other securities, or investments.

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

(f) OTC margin stock: (1) The term “OTC margin stock” means stock, not traded on a national securities exchange, which the Board of Governors of the Federal Reserve System has determined to have the degree of national investor interest, the depth and breadth of market, the availability of information respecting the stock and its issuer, and the character and permanence of the issuer to warrant such treatment.

(2) The Board will from time to time publish a list of OTC margin stocks as to which the Board has made the determinations described in subparagraph (1) of this paragraph. Except as provided in subparagraph (4) of this paragraph, such stocks shall meet the requirements that:

(i) The stock is subject to registration under section 12(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 781(g)(1)), or if issued by an insurance company subject to section 12(g)(2)(G) (15 U.S.C. 781(g)(2)(G)) the issuer had at least \$1 million of capital and surplus,

(ii) Five or more dealers, stand willing to, and do in fact, make a market in such stock including making regularly published bona fide bids and offers for such stock for their own accounts, or the stock is registered on a securities exchange that is exempted by the Securities and Exchange Commission from registration as a national securities exchange pursuant to section 5 of the Act (15 U.S.C. 78e),

(iii) There are 1,500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock,

(iv) The issuer, or a predecessor in interest, has been in existence for at least 3 years,

(v) The stock has been publicly traded for at least 6 months, and

(vi) Daily quotations for both bid and asked prices for the stock are continuously available to the general public; and shall meet three of the four additional requirements that:

(vii) There are 500,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 percent of the stock,

(viii) The shares described in subdivision (vii) of this subparagraph have a market value in the aggregate of at least \$10 million,

(ix) The minimum average bid price of such stock, as determined by the Board in the latest month, is at least \$10 per share, and

(x) The issuer had at least \$5 million of capital, surplus, and undivided profits.

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

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

(ii) Meet substantially, the provisions of subparagraphs (1) and (2) of this paragraph.

(4) The foregoing notwithstanding, the Board may, upon its own initiative, or upon application by any interested party, omit or remove any stock that is not traded on a national securities exchange from or add any such stock to such list of OTC margin stocks, if in the judgment of the Board, such action is necessary or appropriate in the public interest.

(5) It shall be unlawful for any person to make, or cause to be made, any representation to the effect that the inclusion of a security on such list of OTC margin stocks is evidence that the Board or the Securities and Exchange Commission has in any way passed upon the merits of, or given approval to such security or any transaction therein. Any statement, advertisement, or other similar communication containing a reference to the Board in connection with such stocks or

⁵ As defined in 15 U.S.C. 78c(a)(11).

⁶ As defined in 15 U.S.C. 78c(a)(12).

such list shall constitute such an unlawful representation.

(g) (1) The term "purchase" includes any contract to buy, purchase, or otherwise acquire.

(2) The term "sale" includes any contract to sell or otherwise dispose of.

(h) The term "customer" includes any recipient of the credit to whom credit is extended directly or indirectly for the use of the customer, and also includes any person engaged in a joint venture, or as a member of a syndicate or a group, with the customer with respect to a purpose loan.

(i) The term "indirectly secured" includes, except as provided in § 207.4(a) (3), any arrangement with the customer under which the customer's right or ability to sell, pledge, or otherwise dispose of regulated equity securities owned by the customer is in any way restricted as long as the credit remains outstanding, or under which the exercise of such right, whether by written agreement or otherwise, is or may be cause-for-acceleration of the maturity of the credit: *Provided*, That the foregoing shall not apply (1) if such restriction arises solely by virtue of an arrangement with the customer which pertains generally to the customer's assets unless a substantial part of such assets consists of regulated equity securities, or (2) if the lender in good faith has not relied upon such securities as collateral in the extension or maintenance of the particular credit: *And provided further*, That the foregoing shall not apply to stock held by the lender only in the capacity of custodian, depository or trustee, or under similar circumstances, if the lender in good faith has not relied upon such securities as collateral in the extension or maintenance of the particular credit.

(j) The term "stock" includes any security commonly known as a stock; any voting trust certificate or other instrument representing such a security; any security convertible with or without consideration into such security, certificate or other instrument, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right.

§ 207.3 Reports and records.

(a) Every person who is registered pursuant to § 207.1(a) shall within ---- days following the end of each succeeding calendar quarter file a report on Federal Reserve Form G-4 with the Federal Reserve Bank of the district in which the principle office of the lender is located.

(b) Every person who has registered pursuant to § 207.1(a) shall maintain such records as shall be prescribed by the Board of Governors of the Federal Reserve System to enable it to perform the functions conferred upon it by the Securities Exchange Act of 1934 (15 U.S.C. 78)

§ 207.4 Miscellaneous provisions.

(a) *Stock option and employee stock purchase plans.* In respect to any credit extended and maintained by a corporation, by a lender wholly controlled by such corporation, or by a lender which

is a membership thrift organization whose membership is limited to employees and former employees of such corporation, its subsidiaries, or affiliates (such corporations and such lenders are both sometimes referred to as "plan-lenders"), to an officer or employee of the corporation, subsidiary or affiliate thereof to finance the exercise of rights granted such officer or employee under a stock option plan or employee stock purchase plan adopted by the corporation and approved by a majority of its stockholders to purchase regulated equity securities of such corporation, subsidiary or affiliate.

(1) Section 207.1 (c), (d), (f), (g), (h), (i), and (j) shall not apply (i) to any such credit extended to finance the exercise of such rights granted to any named officer or employee prior to February 1, 1968, and effectively exercised by such officer or employee prior to February 1, 1969, or (ii) to any credit extended prior to February 1, 1969, to a plan-lender pursuant to a bona fide written commitment in existence on February 1, 1968, to finance the exercise of such rights and by such plan-lender from the proceeds of such credit to any officer or employee to finance the exercise of rights granted pursuant to a stock purchase plan under which the exercise price does not exceed 50 percent of the market value of the stock subject to purchase, valued as of the offering date thereof.

(2) The restrictions imposed by § 207.1 (c) and (d) and § 207.5 (the Supplement to this part) on the maximum loan value of regulated equity securities serving as collateral for purpose credit shall not apply to securities purchased, and serving as direct or indirect collateral for credit extended, pursuant to such a plan: *Provided*, That—

(i) The entire amount of credit extended to any officer or employee pursuant to this subparagraph (2) in connection with the exercise of rights under such plan or plans shall be considered a single credit;

(ii) At the time when credit is extended under a plan subject to this subparagraph, (a) the plan-lender computes the amount by which the credit exceeds the maximum loan value of the collateral as prescribed by § 207.5 (the Supplement to Regulation G), (the "deficiency"), and (b) the agreement under which the credit is extended provides that except as permitted by the proviso in subdivision (iii) of this subparagraph the officer or employee shall, in respect to such deficiency, make equal repayments to the plan-lender at least quarterly and equivalent to at least 20 percent of such deficiency per annum, or such lesser amount as the Board of Governors, upon application, may permit, for at least 3 years from the extension of the credit;

(iii) The officer or employee is not permitted under such plan or agreement to sell, withdraw, pledge, or otherwise dispose of all or any part of such collateral until (a) all repayments have been made for at least the 3-year period provided in subdivision (ii) of this sub-

paragraph and the deficiency has been repaid, or (b) as a result of the repayments described in subdivision (ii) of this subparagraph, or of a change in the current market value of the collateral, the maximum loan value of the collateral, as prescribed by § 207.5 (the Supplement to Regulation G), is at least equal to the credit which remains owing from the officer or employee to the plan-lender, whichever shall occur first: *Provided*, That this restriction need not apply where such collateral is required to be sold to meet emergency expenses arising from circumstances not reasonably foreseeable at the time of the extension of the credit (for this purpose such emergency expenses shall include the death, disability, or involuntary termination of employment of the officer or employee or some other change in his circumstances, involving extreme hardship, not reasonably foreseeable at the time the credit is extended. The opportunity to realize monetary gain is not a "change in his circumstances" for this purpose); and

(iv) At such time as either of the conditions with respect to sale, withdrawal, pledge, or other disposition of collateral specified in subdivision (iii) of this subparagraph are satisfied the credit is thereafter treated as a credit subject to all the requirements of this part.

(3) No extension of credit to a plan-lender to finance such a plan shall be deemed to be indirectly secured by a regulated equity security purchased pursuant to the plan: *Provided*, That such security is not repledged by the plan-lender to secure such extension of credit to the plan-lender and in no event does the person extending such credit have recourse to such security: *And provided further*, That the amount of the credit does not exceed the total amount of credit currently extended by such plan-lender pursuant to such plan.

(b) *Extensions and renewals.* The renewal or extension of maturity of a credit need not be treated as the extension of a credit if the amount of the credit is not increased except by the addition of interest or service charges on the credit or of taxes on transactions in connection with the credit.

(c) *Reorganization or recapitalization.* Nothing in this part shall be construed to prohibit withdrawal or substitution of securities to enable a customer to participate in a reorganization or recapitalization.

(d) *Mistakes in good faith.* Failure to comply with this part due to a mechanical mistake made in good faith in determining, recording, or calculating any credit, balance, market price, or loan value, or other similar mechanical mistake, shall not constitute a violation of this part if promptly after discovery of the mistake the lender takes whatever action is practicable to remedy the noncompliance.

(e) *Arranging for credit.* A lender may arrange for the extension or maintenance of credit by any person upon the same terms and conditions as those upon which the lender, under the provisions

of this part, may himself extend or maintain such credit, but only upon such terms and conditions, except that this limitation shall not apply with respect to the arranging by a lender for a bank subject to Part 221 of this chapter (Regulation U) to extend or maintain credit on regulated equity securities or exempted securities.

§ 207.5 Supplement.

(a) *Maximum loan value of regulated equity securities.* For the purpose of

§ 207.1, the maximum loan value of any regulated equity security, except convertible securities subject to § 207.1(d), shall be 20 percent of its current market value, as determined by any reasonable method.

(b) *Maximum loan value of convertible debt securities subject to § 207.1(d).* For the purpose of § 207.1, the maximum loan value of any security against which credit is extended pursuant to § 207.1(d) shall be 40 percent of its current market value, as determined by any reasonable

method.

(c) *Retention requirement.* For the purpose of § 207.1, 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 regulated equity security and of a security against which credit is extended pursuant to § 207.1(d) shall be 70 percent of its current market value, as determined by any reasonable method.

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