

At. lin. no. 9649

Board of Governors of the Federal Reserve System

Securities Credit Transactions

Regulation G

12 CFR 207; as revised effective August 31, 1983

Regulation T

12 CFR 220; as revised effective March 31, 1984 (or any earlier date after June 20, 1983)

Regulation U

12 CFR 221; as revised effective August 31, 1983

Regulation X

12 CFR 224; as revised effective January 23, 1984



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

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

December 1983

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Regulation G

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

12 CFR 207, as revised effective August 31, 1983

SECTION 207.1—Authority, Purpose, and Scope

(a) *Authority.* Regulation G (this part*) is issued by the Board of Governors of the Federal Reserve System (the Board) pursuant to the Securities Exchange Act of 1934 (the act) (15 USC 78a et seq.).

(b) *Purpose and Scope.* This part applies to persons other than banks, brokers or dealers, who extend or maintain credit secured directly or indirectly by margin stock and who are required to register with the Board under section 207.3(a) of this part. Credit extended by such persons is regulated by limiting the loan value of the collateral securing the credit, if the purpose of the credit is to buy or carry margin stock.

SECTION 207.2—Definitions

The terms used in this part have the meanings given them in section 3(a) of the act or as defined in this section.

(a) "Affiliate" means any person who, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with the lender.

(b) "Carrying" credit is credit that enables a customer to maintain, reduce, or retire indebtedness originally incurred to purchase a stock that is currently a margin stock.

(c) "Current market value" of—

(1) a security means: (i) if quotations are available, the closing sale price of the security on the preceding business day, as appearing in any regularly published reporting or quotation service; or

(ii) if there is no closing sale price, the lender may use any reasonable estimate of the market value of the security as of the close of business on the preceding business day; or

(iii) if the credit is used to finance the purchase of the security, the total cost of purchase, which may include any commissions charged.

(2) any other collateral means a value determined by any reasonable method.

(d) "Customer" includes any person or persons acting jointly, to or for whom a lender extends or maintains credit.

(e) "Good faith" with respect to—

(1) the loan value of collateral means that amount (not exceeding 100 percent of the current market value of the collateral) which a lender, exercising sound credit judgment, would lend without regard to the customer's other assets held as collateral in connection with unrelated transactions;

(2) accepting a statement or notice from or on behalf of a customer means that the lender or its duly authorized representative is alert to the circumstances surrounding the credit, and if in possession of information that would cause a prudent person not to accept the notice or certification without inquiry, investigates and is satisfied that it is truthful.

(f) "Indirectly secured" (1) includes any arrangement with the customer under which—

(i) the customer's right or ability to sell, pledge, or otherwise dispose of margin stock owned by the customer is in any way restricted while the credit remains outstanding; or

(ii) the exercise of such right is or may be cause for accelerating the maturity of the credit.

(2) does not include such an arrangement if—

(i) after applying the proceeds of the credit, not more than 25 percent of the value of the assets subject to the arrangement, as determined by any reasonable method, are margin securities;

(ii) it is a lending arrangement that permits accelerating the maturity of the

* Code of Federal Regulations, title 12, chapter II, part 207.

credit as a result of a default or renegotiation of another credit to the customer by another creditor that is not an affiliate of the lender;

(iii) the lender holds the margin stock only in the capacity of custodian, depository, or trustee, or under similar circumstances and, in good faith, has not relied upon the margin stock as collateral; or

(iv) if the lender, in good faith, has not relied upon the margin stock as collateral in extending or maintaining the credit.

(g) "In the ordinary course of business" means occurring or reasonably expected to occur in carrying out or furthering any business purpose, or in the case of an individual, in the course of any activity for profit or the management or preservation of property.

(h) "Lender" means any person subject to the registration requirements of this part.

(i) "Margin stock" means (1) any equity security registered or having unlisted trading privileges on a national securities exchange;

(2) any OTC margin stock;

(3) any debt security convertible into a margin stock or carrying a warrant or right to subscribe to or purchase a margin stock;

(4) any warrant or right to subscribe to or purchase a margin stock; or

(5) any security issued by an investment company registered under section 8 of the Investment Company Act of 1940 (15 USC 80a-8), other than—

(i) a company licensed under the Small Business Investment Company Act of 1958, as amended (15 USC 661); or

(ii) a company which has at least 95 percent of its assets continuously invested in exempted securities (as defined in 15 USC 78c(12)).

(j) "Maximum loan value" is the percentage of current market value assigned by the Board under section 207.7 of this part to specified types of collateral. The maximum loan value of margin stock is stated as a percentage of current market value. All other collateral has good faith loan value except that puts, calls, and combinations thereof have no loan value.

(k) "OTC margin stock" means any equity

security not traded on a national securities exchange that the Board has determined has the degree of national investor interest, the depth and breadth of market, the availability of information respecting the security and its issuer, and the character and permanence of the issuer to warrant being treated like an equity security traded on a national securities exchange. An OTC stock is not considered to be an "OTC margin stock" unless it appears on the Board's periodically published list of OTC margin stocks.

(l) "Purpose credit" is credit for the purpose, whether immediate, incidental, or ultimate, of buying or carrying a margin stock.

SECTION 207.3—General Requirements

(a) *Registration; termination of registration.*

(1) Every person who, in the ordinary course of business, extends or maintains credit secured, directly or indirectly, by any margin stock shall register on Federal Reserve Form FR G-1 (OMB No. 7100-0011) within 30 days after the end of any calendar quarter during which (i) the amount of credit extended equals \$200,000 or more, or (ii) the amount of credit outstanding at any time during that calendar quarter equals \$500,000 or more.

(2) A registered lender may apply to terminate its registration, by filing Federal Reserve Form FR G-2 (OMB No. 7100-0011), if the lender has not, during the preceding six calendar months, had more than \$200,000 of such credit outstanding. Registration shall be deemed terminated when the application is approved by the Board.

(b) *Limitation on extending purpose credit.* No lender, except a plan-lender, as defined in section 207.5(a)(1) of this part, shall extend any purpose credit, secured directly or indirectly by margin stock in an amount that exceeds the maximum loan value of the collateral securing the credit, as set forth in section 207.7 of this part.

(c) *Maintaining credit.* A lender may contin-

ue to maintain any credit initially in compliance with this part, regardless of—

- (i) reduction in the customer's equity resulting from change in market prices;
- (ii) change in the maximum loan value prescribed by this part; or
- (iii) change in the status of the security (from nonmargin to margin) securing an existing purpose credit.

(d) *Arranging credit.* No lender may arrange for the extension or maintenance of any credit, except upon the same terms and conditions under which the lender itself may extend or maintain credit under this part except this limitation shall not apply with respect to the arranging by a lender for a bank to extend or maintain credit on margin stock or exempted securities.

(e) *Purpose statement.* Except for credit extended under section 207.5 of this part, whenever a lender extends credit secured directly or indirectly by any margin stock, the lender shall require its customer to execute Form FR G-3 (OMB No. 7100-0018), which shall be signed and accepted by a duly authorized representative of the lender acting in good faith.

(f) *Purpose statement for revolving credit or multiple-draw agreements.* (1) If a lender extends credit, secured directly or indirectly by any margin stock, under a revolving-credit or other multiple-draw agreement, Form FR G-3 can either be executed each time a disbursement is made under the agreement, or at the time the credit arrangement is originally established.

(2) If a purpose statement executed at the time the credit arrangement is initially made indicates that the purpose is to purchase or carry margin stock, the credit will be deemed in compliance with this part if the maximum loan value of the collateral at least equals the aggregate amount of funds actually disbursed. For any purpose credit disbursed under the agreement, the lender shall obtain and attach to the executed Form FR G-3 a current list of collateral which adequately supports all credit extended under the agreement.

(g) *Single-credit rule.* (1) All purpose credit extended to a customer shall be treated as a

single credit, and all the collateral securing such credit shall be considered in determining whether or not the credit complies with this part.

(2) A lender that has extended purpose credit secured by margin stock may not subsequently extend unsecured purpose credit to the same customer unless the combined credit does not exceed the maximum loan value of the margin stock securing the prior credit.

(3) If a lender extended unsecured purpose credit to a customer prior to the extension of purpose credit secured by margin securities, the credits shall be combined and treated as a single credit solely for the purposes of the withdrawal and substitution provision of paragraph (i) of this section.

(4) If a lender extends purpose credit secured by any margin stock and nonpurpose credit to the same customer, the lender shall treat the credits as two separate loans and may not rely upon the required collateral securing the purpose credit for the nonpurpose credit.

(h) *Mixed-collateral loans.* A purpose credit secured in part by margin stock, and in part by other collateral shall be treated as two separate loans, one secured by the margin stock and one by all other collateral. A lender may use a single credit agreement, if it maintains records identifying each portion of the credit and its collateral.

(i) *Withdrawals and substitutions.* (1) A lender may permit any withdrawal or substitution of cash or collateral by the customer if the withdrawal or substitution would not—

- (i) cause the credit to exceed the maximum loan value of the collateral; or
- (ii) increase the amount by which the credit exceeds the maximum loan value of the collateral.

(2) For purposes of this section, the maximum loan value of the collateral on the day of the withdrawal or substitution shall be used.

(j) *Exchange offers.* To enable a customer to participate in a reorganization, recapitalization, or exchange offer that is made to holders

of an issue of margin stock a lender may permit substitution of the securities received. A nonmargin nonexempted security acquired in exchange for a margin stock shall be treated as if it is margin stock for a period of 60 days following the exchange.

(k) *Renewals and extensions of maturity.* A renewal or extension of the maturity of a credit need not be considered a new extension of credit if the amount of the credit is increased only by the addition of interest, service charges, or taxes with respect to the credit.

(l) *Transfers of credit.* (1) A transfer of a credit between customers or lenders shall not be considered a new extension of credit if—

- (i) the original credit was in compliance with this part;
- (ii) the transfer is not made to evade this part;
- (iii) the amount of credit is not increased; and
- (iv) the collateral for the credit is not changed.

(2) Any transfer between customers at the same lender shall be accompanied by a statement by the transferor customer describing the circumstances giving rise to the transfer and shall be accepted and signed by a duly authorized representative of the lender acting in good faith. The lender shall keep such statement with its records of the transferee account.

(3) When a transfer is made between lenders, the transferee lender shall obtain a copy of the Form FR G-3 originally filed with the transferor lender and retain the copy with its records of the transferee account.

(m) *Action for lender's protection.* Nothing in this part shall require a lender to waive or forego any lien, or prevent a lender from taking any action it deems necessary for its protection.

(n) *Mistakes in good faith.* A mistake in good faith in connection with the extension or maintenance of credit shall not be a violation of this part.

(o) *Annual report.* Every registered lender shall, within 30 days following June 30 of ev-

ery year, file Form FR G-4 (OMB No. 7100-0011).

(p) *Where to register and file applications and reports.* Registration statements, applications to terminate registration, and annual reports shall be filed with the Federal Reserve Bank of the District in which the principal office of the lender is located.

SECTION 207.4—Credit to Broker-Dealers

No lender shall extend or maintain credit secured, directly or indirectly, by any margin stock to a creditor who is subject to part 220 of this chapter except in the following circumstances:

(a) *Emergency Loans.* Credit extended in good faith reliance upon a certification from the customer that the credit is essential to meet emergency needs arising from exceptional circumstances. Any collateral for such credit shall have good faith loan value.

(b) *Capital-contribution loans.* Credit that the Board has exempted by order upon a finding that the exemption is necessary or appropriate in the public interest or for the protection of investors, provided the Securities Investor Protection Corporation certifies to the Board that the exemption is appropriate.

SECTION 207.5—Employee Stock Option and Stock Purchase Plans

(a) *Plan-lender; eligible plan.* (1) Plan-lender means any corporation, (including a wholly owned subsidiary, or a lender that is a thrift organization whose membership is limited to employees and former employees of the corporation, its subsidiaries, or affiliates) that extends or maintains credit to finance the acquisition of margin stock of the corporation, its subsidiaries, or affiliates under an eligible plan.

(2) *Eligible plan.* An eligible plan means any employee stock option, purchase, or ownership plan adopted by a corporation and approved by its stockholders that provides for the purchase of margin stock of

the corporation, its subsidiaries, or affiliates.

(b) *Credit to exercise rights under or finance an eligible plan.* (1) If a plan-lender extends or maintains credit under an eligible plan, any margin security that directly or indirectly secures that credit shall have good faith loan value.

(2) Credit extended under this section shall be treated separately from credit extended under any other section of this part except sections 207.3(a) and 207.3(o) of this part.

SECTION 207.6—Requirements for the List of OTC Margin Stocks

(a) *Requirements for inclusion on the list.* Except as provided in paragraph (d) of this section, an OTC margin stock shall meet the following requirements:

(1) Four or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;

(2) The minimum average bid price of such stock, as determined by the Board, is at least \$5 per share;

(3) The stock is registered under section 12 of the act, is issued by an insurance company subject to section 12(g)(2)(G) of the act, is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 USC 80a-8), is an American Depositary Receipt (ADR) of a foreign issuer whose securities are registered under section 12 of the act, or is a stock of an issuer required to file reports under section 15(d) of the act;

(4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;

(5) The stock has been publicly traded for at least six months;

(6) The issuer has at least \$4 million of capital, surplus, and undivided profits;

(7) There are 400,000 or more shares of such security outstanding in addition to shares held beneficially by officers, direc-

tors, or beneficial owners of more than 10 percent of the stock;

(8) There are 1,200 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such a stock, as determined by the Board, is at least 500 shares; and

(9) The issuer or a predecessor in interest has been in existence for at least three years.

(b) *Requirements for continued inclusion on the list.* Except as provided in paragraph (d) of this section, an OTC margin stock shall meet the following requirements:

(1) Three or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;

(2) The minimum average bid price of such security, as determined by the Board, is at least \$2 per share;

(3) (1) The security is registered as specified in paragraph (a)(3) of this section;

(4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;

(5) The issuer has at least \$1 million of capital, surplus, and undivided profits;

(6) There are 300,000 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; and

(7) There continue to be 800 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares.

(c) *Removal from the list of OTC margin stocks.* The Board shall periodically remove from the list any stock that—

(1) ceases to exist or of which the issuer ceases to exist, or

(2) no longer substantially meets the pro-

visions of paragraph (b) of this section or section 207.2(k).

(d) *Discretionary authority of Board.* Without regard to the other paragraphs of this section, the Board may add to, or omit or remove from, the OTC margin stock list any equity security, if in the judgment of the Board, such action is necessary or appropriate in the public interest.

(e) *Unlawful representations.* It shall be unlawful for any lender to make, or cause to be made, any representation to the effect that the inclusion of a security on the list of OTC margin stocks is evidence that the Board or the SEC has in any way passed upon the merits of, or given approval to, such security or any transactions therein. Any statement in an advertisement or other similar communication containing a reference to the Board in connec-

tion with the list or securities on that list shall be an unlawful representation.

**SECTION 207.7—Supplement:
Maximum Loan Value of Stock and
Other Collateral**

(a) *Maximum loan value of a margin stock.* The maximum loan value of any margin stock, except options, is 50 percent of its current market value.

(b) *Maximum loan value of nonmargin stock and all other collateral.* The maximum loan value of a nonmargin stock and all other collateral except puts, calls, or combinations thereof is their good faith loan value.

(c) *Maximum loan value of options.* Whether they are margin stock or not, puts, calls, and combinations thereof have no loan value.

F.R. G-1
OMB No. 7100-0011
Approval expires (8/88)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

**Registration Statement For Persons Who Extend Credit Secured by
Margin Stock (Other Than Commercial Banks and Brokers or Dealers)
(Federal Reserve Form G-1)**

This registration statement is required by law (15 U.S.C. 78g; 12 C.F.R. 207).

The Federal Reserve Board regards the information provided by each respondent as confidential. If it should be determined subsequently that any information collected on this form must be released, respondents will be notified.

Name of registrant: _____

IRS Identification No.*

Name under which business is conducted, if different from above: _____

Address of principal place of business:
(Do not use P.O. Box No.)

Street City County

State Zip Code

Mailing address, if different from above:

Street

City State Zip Code

General Instructions and Definitions

Who must file: Section 207.3(a) of Federal Reserve Regulation G requires that F.R. Form G-1 be completed by every person (other than commercial banks, brokers or dealers) who during any calendar quarter extends a total of \$200,000 or more, or has outstanding a total of \$500,000 or more, in credit secured directly or indirectly, in whole or in part, by collateral that includes any margin stock.

When and where to file: The form should be filed within 30 days following the end of such quarter [in which credit has been extended or is outstanding in accordance with Section 207.3(a)] with the Federal Reserve Bank of the district in which the principal office of subject person is located. This registration statement will remain in effect until a F.R. Form G-2 (deregistration statement) is approved by the Board of Governors of the Federal Reserve System.

What to file: All persons subject to the registration requirements of Section 207.3(a) should (i) supply the background information specified below; (ii) complete Schedule A; and (iii) submit a copy of a balance sheet, certified by an independent public accountant, for the registrant's latest fiscal year. If the registrant is subject to supervision by a State or Federal regulatory authority, a copy of the latest balance sheet filed with such authority may be used. If neither is available, the registrant should complete Schedule B on page 4.

Definitions: Terms used in this form are explained below. Precise definitions may be found in Section 207.2 of Regulation G.

Person: Any individual, corporation, partnership, association, joint stock company, business trust, or unincorporated organization.

Purpose credit: Credit extended for the purpose of purchasing or carrying margin stock, or to reduce or retire indebtedness previously incurred for that purpose.

In the ordinary course of business: Occuring 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 the case of a person other than an individual, carrying out or in furtherance of any business purpose.

Margin stock: Includes (1) stocks registered on a national securities exchange and stocks on the Federal Reserve Board's List of OTC Margin Stocks, (2) debt securities that are convertible into, or carry a warrant or right to subscribe to or purchase margin stock, (3) any such warrant or right, and (4) shares of most mutual funds.

Indirectly secured: In general, credit is indirectly secured by margin stock if there is an understanding between the borrower and the lender (1) which is designed to make the margin stock more available to the lender in case of default than to the borrower's other creditors, or (2) which limits the borrower from exercising full dominion over the margin stock to sell, pledge, or donate them, or determining where they shall be placed physically.

* A registrant who is an individual is not required to disclose his or her Social Security number.

Registration forms will be returned to registrants for corrections if all items have not been answered in the manner required or if the forms are otherwise unacceptable for filing.

Background Information

1. Principal lines of business:

2. Registrant is: (check one)

- Sole proprietorship
- Partnership
- Corporation

Other (specify)

a. If a registrant is a sole proprietor, state full residence address:

b. If registrant is a corporation, state date and place of incorporation:

Date: _____ Place: _____

c. Person responsible for maintaining records in connection with Regulation G:

Name: _____ Title: _____

3. If any of the accounts or records of registrant are kept or maintained by anyone other than the person named in 2(c), furnish the name and address of the other individual, firm, or organization:

4. a. Does any person not named in items 2(c) or 3 above exercise or have power to exercise a controlling influence over the management or policies of registrant, directly or indirectly, through stock ownership, agreement, or otherwise?

Yes No

b. If "yes", state the name of such person and describe the agreement, arrangement, or nature of the controlling influence:

5. If registrant extends credit in connection with an employee stock option or stock purchase plan, is the credit extended pursuant to the special "plan-lender" provision set forth in Section 207.5 of Regulation G?

Yes No

Schedule A

Securities Credit

As of _____, 19____

1. "Credit Outstanding" (Column I) includes credit extended by the registrant during the quarter covered by this report, and during previous quarters, that has not been extinguished before the end of the quarter covered by this report.

2. "Credit Extended" (Column II) is credit extended by the registrant at any time during the quarter covered by this report. Column II includes new credit extended during the quarter regardless of whether such credit was extinguished at the end of the quarter. An increase in an existing loan is new credit.

	I Total credit outstanding at end of quarter (\$ Thousands)	II Credit extended during quarter (\$ Thousands)
A. Credit to Purchase or Carry Margin Stock (Purpose Loans)		
1. Secured directly by margin stock:		
a. listed stocks and OTC margin stocks		
b. debt securities convertible into margin stock		
c. mutual funds and other margin stock		
2. Secured indirectly by margin stock		
3. TOTAL (Purpose Credit)		
B. Other Credit (Nonpurpose Loans)		
1. Secured directly by margin stock:		
a. listed stocks and OTC margin stocks		
b. debt securities convertible into margin stock		
c. mutual funds and other margin stock		
2. Secured indirectly by margin stock		
3. TOTAL (Nonpurpose Credit)		

Schedule B— This schedule is to be completed only by firms not submitting corporate balance sheets certified by an independent public accountant or used to meet reporting requirements of a State or Federal regulatory authority.

Balance Sheet

As of _____, 19 ____

(\$ Thousands)

ASSETS	LIABILITIES AND NET WORTH
Cash and bank deposits _____	Short-term bank borrowings _____
Trade accounts and notes receivable (net of allowance for bad debts of _____) _____	Other notes and accounts payable _____
Other accounts and notes receivable (include credit to executives and employees) _____	Long-term debt _____
Marketable securities _____	All other liabilities _____
Inventories _____	TOTAL LIABILITIES _____
Investments in non-consolidated subsidiaries _____	Capital stock _____
Fixed assets (net of depreciation) _____	Additional paid-in capital _____
All other assets _____	Retained earnings/undivided profits _____
TOTAL ASSETS _____	Total Equity Capital ¹ _____
	TOTAL LIABILITIES AND EQUITY CAPITAL _____

Certification

The registrant filing this registration form and any attachments thereto and the person by whom it is executed represent hereby that all information contained therein is true and complete.

Date _____

Signature of sole proprietor, general partner, managing agent, or principal officer _____

Title _____

1. Registrants not reporting capital stock, additional paid-in-capital or retained earnings/undivided profits must nevertheless indicate total equity capital.

This mandatory report is needed to elicit certain background and financial information about a Regulation G lender and the types and amount of credit activities engaged in that are secured by margin stock.

**Honest, accurate, and timely statements are required by law
(15 U.S.C. § 78ff; 18 U.S.C. § 1001)**

F.R. G-2
OMB No. 7100-0011
Approval expires (8/86)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Deregistration Statement For
Persons Registered Pursuant to Regulation G
(Federal Reserve Form G-2)

A. For use by Noncorporate Registrants.

This deregistration statement is required by law (15 U.S.C. 78g; 12 C.F.R. 207).

Certificate

I (We), doing business under the name _____
_____, hereby certify that I (we)
have not, during the preceding six calendar months, had more
than \$200,000 of credit outstanding secured directly or in-
directly by margin stock.

I (We) understand that if I (we), in the future, extend a total
of \$200,000 or more during any calendar quarter, or have
outstanding at any time during a calendar quarter a total of
\$500,000 or more, in credit that is secured directly or indirectly

by collateral that includes any margin stock, I (we) shall within
30 days following the end of such calendar quarter reregister
and remain registered for at least six months with the Board
of Governors of the Federal Reserve System by filing Federal
Reserve Form G-1 with the Federal Reserve Bank of the
district in which my (our) principal office is located.

This certification is given in connection with an application
for termination of registration pursuant to Section 207.3(a)
of Regulation G of the Board of Governors of the Federal
Reserve System.

Date

Signature(s)

Print or type name(s) and title(s)

Name of firm

This mandatory report is needed to elicit certain background and financial information about a Regulation G lender and the types and amount of credit activities engaged in that are secured by margin stock.

Honest and accurate statements are required by law
(15 U.S.C. § 78ff; 18 U.S.C. § 1001)

F.R. G-2
OMB No. 7100-0011
Approval expires (8/86)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Deregistration Statement For
Persons Registered Pursuant to Regulation G
(Federal Reserve Form G-2)

B. For use by Corporate Registrants.

This deregistration statement is required by law (15 U.S.C. 78g; 12 C.F.R. 207).

Officer's Certificate

I hereby certify that _____
Name of corporation

("Corporation") has not, during the preceding six calendar months, had more than \$200,000 of credit outstanding secured directly or indirectly by margin stock.

It is understood that if the Corporation shall, in the future, extend a total of \$200,000 or more during any calendar quarter, or has outstanding at any time during a calendar quarter a total of \$500,000 or more, in credit that is secured directly or indirectly by collateral that includes any margin

stock, the Corporation shall within 30 days following the end of such calendar quarter reregister and remain registered for at least six months with the Board of Governors of the Federal Reserve System by filing Federal Reserve Form G-1 with the Federal Reserve Bank of the district in which the principal office of the Corporation is located.

This certification is given in connection with an application for termination of registration pursuant to Section 207.3(a) of Regulation G of the Board of Governors of the Federal Reserve System.

Signature of duly authorized officer

Print or type name

Title

This mandatory report is needed to elicit certain background and financial information about a Regulation G lender and the types and amount of credit activities engaged in that are secured by margin stock.

Honest and accurate statements are required by law
(15 U.S.C. § 78ff; 18 U.S.C. § 1001)

F.R. G-3
OMB No. 7100-0018
Approval expires (5/86)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Statement of Purpose for an Extension of Credit Secured by Margin Securities by a Person Subject to Registration Under Regulation G

Name of Lender _____

(Federal Reserve Form G-3)

This form is required by law (15 U.S.C. 78g and 78w; 12 CFR 207).

Instructions

- 1. This form must be completed when a lender subject to registration under Regulation G extends credit secured directly or indirectly, in whole or in part, by any margin security.
- 2. The term "margin security" is defined in Regulation G (12 CFR 207) and includes, principally: (1) stocks that are registered on a national securities exchange or that are on the Federal Reserve Board's List of OTC Margin Stocks; (2) debt securities (bonds) that are convertible into margin securities; and (3) shares of mutual funds.
- 3. Please print or type (if space is inadequate, attach separate sheet).

Part I To be completed by borrower(s)

1. What is the amount of the credit being extended? _____

2. Will any part of this credit be used to purchase or carry margin securities? Yes No

If the answer is "no," describe the specific purpose of the credit _____

I (We) have read this form and certify that to the best of my (our) knowledge and belief the information given is true, accurate, and complete.

Signed:

Signed:

Borrower's signature _____ Date _____

Borrower's signature _____ Date _____

Print or type name _____

Print or type name _____

This form should not be signed in blank.

A borrower who falsely certifies the purpose of a credit on this form or otherwise willfully or intentionally evades the provisions of Regulation G will also violate Federal Reserve Regulation X, "Rules Governing Borrowers Who Obtain Securities Credit".

Part II To be completed by lender only if the purpose of the credit is to purchase or carry margin securities (Part I(2) answered "yes")

1. List the margin securities securing this credit; do not include debt securities convertible into margin securities. The maximum loan value of margin securities is ____ per cent of its current market value under the current Supplement to Regulation G.

No. of shares	Issue	Market price per share	Date and source of valuation (See note below)	Total market value per issue

2. List the debt securities convertible into margin securities securing this credit. The maximum loan value of such debt securities is ____ per cent of the current market value under the current Supplement to Regulation G.

Principal amount	Issue	Market price	Date and source of valuation (See note below)	Total market value per issue

3. List other collateral including non-margin securities securing this credit.

Describe briefly	Market price	Date and source of valuation (See note below)	Good faith loan value

Note: Lender need not complete "Date and source of valuation" if the market value was obtained from regularly published information in a journal of general circulation.

Part III To be signed by an authorized representative of the lender in all instances

I am a duly authorized representative of the lender and understand that this credit secured by margin securities may be subject to the credit restrictions of Regulation G. I have read this form and any attachments, and I have accepted the customer's statement in Part I in good faith as required by Regulation G*; and I certify that to the best of my knowledge and belief, all the information given is true, accurate, and complete.

Signed: _____

Date _____

Authorized representative's signature _____

Title _____

Print or type name _____

* To accept the customer's statement in good faith, the authorized representative of the lender must be alert to the circumstances surrounding the credit and, in possession of any information that would cause a prudent person not to accept the statement without inquiry, must have investigated and be satisfied that the statement is truthful. Among the facts which would require such investigation are receipt of the statement through the mail or from a third party.

This form must be retained by the lender for three years after the credit is extinguished.

F.R. G-4
OMB No. 7100-0011
Approval expires 8/86

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Annual Report
(Federal Reserve Form G-4)

For the year ended June 30, 19 ____

This report is required by law (15 U.S.C. 78g; 12 C.F.R. 207).

The Federal Reserve Board regards the information provided by each respondent as confidential. If it should be determined subsequently that any information collected on this form must be released, respondents will be notified.

Name of registrant: _____
IRS Identification No.*

Address of principal office: _____
 Street _____
 City _____ County _____
 State _____ Zip Code _____

General Instructions and Definitions

Who must file: Section 207.3(o) of the Federal Reserve Regulation G requires a report on Form G-4 to be filed by every person subject to the registration requirement of Section 207.3(a) of the rule. Any person registered under the regulation may apply for termination of registration by filing F.R. Form G-2 [see Section 207.3(a)], if such person has not, during the preceding six calendar months, had more than \$200,000 of credit outstanding secured directly or indirectly by margin stock.

When and where to file: Form G-4 shall be filed, *in duplicate*, with the Federal Reserve Bank of the district in which the registrant's principal place of business is located, within 30 days following June 30 of each calendar year.

What to file: The registrant is required to file with this report a copy of the registrant's balance sheet, certified by an independent public accountant, as of the end of its most recent fiscal year. If a certified balance sheet is not available, registrant should file with this report a balance sheet in the form prescribed by Schedule B on F.R. Form G-1, or if subject to supervision by a State or federal regulatory agency, the latest balance sheet filed with such agency.

Definitions: Terms used in this form are explained below. Precise definitions may be found in Section 207.2 of Regulation G.

Person: Any individual, corporation, partnership, association, joint stock company, business trust, or unincorporated organization.

Registrant: Any person who is subject to the registration requirement of Section 207.3(a).

Purpose credit: Credit extended for the purpose of purchasing or carrying margin stock, or to reduce or retire indebtedness previously incurred for that purpose.

Margin stock: Includes (1) stocks registered on a national securities exchange and stocks on the Federal Reserve Board's List of OTC Margin Stocks, (2) debt securities that are convertible into, or carry a warrant or right to subscribe to or purchase margin stock, (3) any such warrant or right, and (4) shares of most mutual funds.

Indirectly secured: In general, credit is indirectly secured by margin stock if there is an understanding between the borrower and the lender (1) which is designed to make the margin stock more available to the lender in case of default than to the borrower's other creditors, or (2) which limits the borrower from exercising full dominion over the margin stock to sell, pledge, or donate them, or determining where they shall be placed physically.

* A registrant who is an individual is not required to disclose his or her Social Security number.

Instructions for Completing Schedule of Securities Credit

- A. Report all Purpose Credit extended during the reporting period, as well as all purpose credit outstanding as of June 30, on Part A of the Schedule of Securities Credit.
- B. Registrants reporting Purpose Credit in Part A must also complete Part B unless the total amount of Nonpurpose Credit extended by the registrant is less than 5 percent of such registrant's total receivables. In such case, registrant should check Exemption Statement number two (2) below.
- C. Registrants *not* reporting Purpose Credit in Part A must complete Part B unless (1) the total amount of Nonpurpose Credit extended by the registrant is less than 25 percent of such registrant's total assets, or (2) the total amount of Nonpurpose Credit extended by the registrant is less than 5 percent of registrant's total receivables. In such case, the registrant should check the appropriate exemption statement below.
- D. Registrants who maintain records based upon fiscal quarters that do not coincide with calendar quarters have an option of reporting credit outstanding and extended in a slightly different manner. These registrants may report the annual data required by F.R. Form G-4 as of the year ended on either April 30 or May 31. A registrant reporting in this manner should change the date in Column I of the Schedule of Securities Credit to reflect the year end date used.

Exemption Statements

Check appropriate box if statement is applicable

- 1. Registrant does not have any purpose loans outstanding at the end of the year covered by this report and has not extended any purpose loans at any time during the year, and registrant has outstanding nonpurpose loans, if any, secured directly or indirectly by margin stock, amounting to less than 25 percent of registrant's total assets.
- 2. Registrant has extended total nonpurpose credit secured directly or indirectly by margin stock amounting to less than 5 percent of registrant's total receivables.

Stock Option or Employee Stock Purchase Plan Credit

- 1. a. Is part or all of the credit extended pursuant to a stock option or employee stock purchase plan? Yes No
- b. If "yes," does the credit qualify under the special "plan-lender" provisions set forth in Section 207.5 of Regulation G? Yes No
- 2. If credit reported in Column I of the Schedule of Securities Credit includes outstanding stock option or employee stock purchase plan credit, please report the following:
 - Outstanding "plan-lender" credit pursuant to Section 207.5 \$ _____
 - Outstanding "plan-lender" credit extended pursuant to the general margin requirement Section 207.3 \$ _____

Schedule of Securities Credit

1. "Credit Outstanding" (Column I) includes credit extended by the registrant during the year covered by this report, and during previous years, that has not been extinguished before the end of the year covered by this report.

2. "Credit Extended" (Column II) is credit extended at any time during the year covered by this report. Column II includes all new credit extended during the year regardless of whether such credit was extinguished by the end of the year. An increase in an existing loan is new credit.

	I Total credit outstanding as of June 30, ____ (\$ Thousands)	II Credit extended during reporting period (\$ Thousands)
A. Credit to Purchase or Carry Margin Stock (Purpose Loans)		
1. Secured directly by margin stock:		
a. listed stocks and OTC margin stocks		
b. debt securities convertible into margin stock		
c. mutual funds and other margin stock		
2. Secured indirectly by margin stock		
3. TOTAL (Purpose Credit)		
B. Other Credit (Nonpurpose Loans)		
1. Secured directly by margin stock:		
a. listed stocks and OTC margin stocks		
b. debt securities convertible into margin stock		
c. mutual funds and other margin stock		
2. Secured indirectly by margin stock		
3. TOTAL (Nonpurpose Credit)		

Changes in Background Information

Nature of material included in background information see the second page of F.R. Form G-1 Registration Statement

Have there been any changes in background information since the previous G-4 report (G-1 report for a registrant filing its first G-4 report)?

Yes No

If yes, describe any such changes pertaining to name, address, IRS Identification No., organizational structure (e.g. a sole proprietorship becoming incorporated), name of person responsible for maintaining Regulation G records, control, or location of records.

Certification

The registrant filing this annual report and any attachment thereto and the person by whom it is executed represent hereby that all information contained therein is true and complete.

_____ Date

_____ Signature of sole proprietor, general partner, managing agent, or principal officer

_____ Print or type name and title

This mandatory report is needed to elicit certain background and financial information about a Regulation G lender and the types and amount of credit activities engaged in that are secured by margin stock.

**Honest, accurate, and timely statements are required by law
(15 U.S.C. § 78ff; 18 U.S.C. § 1001)**

Regulation T

Credit by Brokers and Dealers

12 CFR 220; revised effective March 31, 1984 (or any earlier date after June 20, 1983)

SECTION 220.1—Authority, Purpose, and Scope

(a) *Authority and purpose.* Regulation T (this part*) is issued by the Board of Governors of the Federal Reserve System (the Board) pursuant to the Securities Exchange Act of 1934 (the act) (15 USC 78a et seq.). Its principal purpose is to regulate extensions of credit by and to brokers and dealers; it also covers related transactions within the Board's authority under the act. It imposes, among other obligations, initial margin requirements and payment rules on securities transactions.

(b) *Scope.* (1) This part provides a margin account and seven special-purpose accounts in which to record all financial relations between a customer and a creditor. Any transaction not specifically permitted in a special account shall be recorded in a margin account.

(2) This part does not preclude any exchange, national securities association, or creditor from imposing additional requirements or taking action for its own protection.

SECTION 220.2—Definitions

The terms used in this part have the meanings given them in section 3(a) of the act or as defined in this section.

(a) "Credit balance" means the cash amount due the customer in a margin account after debiting amounts transferred to the special memorandum account.

(b) "Creditor" means any broker or dealer (as defined in sections 3(a)(4) and 3(a)(5) of the act), any member of a national securities exchange, or any person associated with a broker or dealer (as defined in section 3(a)(18) of the act), except for business entities controlling or under common control with the creditor.

(c) "Customer" includes: (1) any person or persons acting jointly: (i) to or for whom a creditor extends, arranges, or maintains any credit; or (ii) who would be considered a customer of the creditor according to the ordinary usage of the trade;

(2) any partner in a firm who would be considered a customer of the firm absent the partnership relationship; and

(3) any joint venture in which a creditor participates and which would be considered a customer of the creditor if the creditor were not a participant.

(d) "Debit balance" means the cash amount owed to the creditor in a margin account after debiting amounts transferred to the special memorandum account.

(e) "Delivery against payment," "payment against delivery," or a "C.O.D. transaction" refers to an arrangement under which a creditor and a customer agree that the creditor will deliver to, or accept from, the customer, or the customer's agent, a security against full payment of the purchase price.

(f) "Equity" means the total current market value of security positions held in the margin account plus any credit balance less the debit balance in the margin account.

(g) "Escrow agreement" means any agreement issued in connection with a call or put option under which a bank, holding the underlying security, foreign currency, certificate of deposit, or required cash, is obligated to deliver to the creditor (in the case of a call option) or accept from the creditor (in the case of a put option) the underlying security, foreign currency, or certificate of deposit against payment of the exercise price upon exercise of the call or put.

(h) "Examining authority" means: (1) the national securities exchange or other self-regulatory organization of which a creditor is a member; or

(2) if not a member of any such self-regulatory organization, the Regional Office of the Securities and Exchange Commission

* Code of Federal Regulations, title 12, chapter II, part 220.

(SEC) where the creditor has its principal place of business; or

(3) if a member of more than one self-regulatory organization, the organization designated by the SEC as the examining authority for the creditor.

(i) "Good faith margin" means the amount of margin which a creditor, exercising sound credit judgment, would customarily require for a specified security position and which is established without regard to the customer's other assets or securities positions held in connection with unrelated transactions.

(j) "In or at the money" means the current market price of the underlying security is not more than one standard exercise interval below (with respect to a call option) or above (with respect to a put option) the exercise price of the option.

(k) "In the money" means the current market price of the underlying security is not below (with respect to a call option) or above (with respect to a put option) the exercise price of the option.

(l) "Margin call" means a demand by a creditor to a customer for a deposit of additional cash or securities to eliminate or reduce a margin deficiency as required under this part.

(m) "Margin deficiency" means the amount by which the required margin exceeds the equity in the margin account.

(n) "Margin excess" means the amount by which the equity in the margin account exceeds the required margin. When the margin excess is represented by securities, the current value of the securities is subject to the percentages set forth in section 220.18 (the supplement).

(o) "Margin security" means any registered security, OTC margin stock, OTC margin bond, or any security issued by either an open-end investment company or unit investment trust which is registered under section 8 of the Investment Company Act of 1940 (15 USC 80a-8).

(p) "Nonexempted security" means any security other than an exempted security (as defined in section 3(a)(12) of the act).

(q) "Nonmember bank" means a bank that is not a member of the Federal Reserve System.

(r) "OTC margin bond" means: (1) A debt security not traded on a national securities exchange which meets all of the following requirements:

(i) At the time of the original issue, a principal amount of not less than \$25,000,000 of the issue was outstanding;

(ii) The issue was registered under section 5 of the Securities Act of 1933 (15 USC 77e) and the issuer either files periodic reports pursuant to section 13(a) or 15(d) of the act or is an insurance company which meets all of the conditions specified in section 12(g)(2)(G) of the act; and

(iii) At the time of the extension of credit, the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments; or

(2) A private mortgage pass-through security (not guaranteed by an agency of the U.S. government) meeting all of the following requirements:

(i) An aggregate principal amount of not less than \$25,000,000 (which may be issued in series) was issued pursuant to a registration statement filed with the SEC under section 5 of the Securities Act of 1933;

(ii) Current reports relating to the issue have been filed with the SEC; and

(iii) At the time of the credit extension, the creditor has a reasonable basis for believing that mortgage interest, principal payments and other distributions are being passed through as required and that the servicing agent is meeting its material obligations under the terms of the offering.

(s) "OTC margin stock" means any equity security not traded on a national securities exchange that the Board has determined has the degree of national investor interest, the depth and breadth of market, the availability of information respecting the security and its issuer, and the character and permanence of the issuer to warrant being treated like an equity security traded on a national securities ex-

change. An OTC stock is not considered to be an "OTC margin stock" unless it appears on the Board's periodically published list of OTC margin stocks.

(t) "Overlying option" means: (1) a put option purchased or a call option written against a long position in an underlying security in the specialist record in section 220.12(b); or

(2) a call option purchased or a put option written against a short position in an underlying security in the specialist record in section 220.12(b).

(u) "Purpose credit" means credit for the purpose of: (1) buying, carrying, or trading in securities; or

(2) buying or carrying any part of an investment contract security which shall be deemed credit for the purpose of buying or carrying the entire security.

(v) "Registered security" means any security that: (1) is registered on a national securities exchange; or

(2) has unlisted trading privileges on a national securities exchange.

(w) "Short call or short put" means a call option or a put option that is issued, endorsed, or guaranteed in or for an account.

(1) A short call obligates the customer to sell the underlying security, foreign currency, or certificate of deposit at the exercise price upon receipt of an exercise notice at any time prior to the expiration date of the option.

(2) A short put obligates the customer to purchase the underlying security, foreign currency, or certificate of deposit at the exercise price upon receipt of an exercise notice at any time prior to the expiration date of the option.

(3) A short call or a short put on stock index options obligates the customer to pay the holder of an "in the money" long put or call who has exercised the option the cash difference between the exercise price and the current assigned value of the index as established by the option contract.

(x) "Specialist joint account" means an account which, by written agreement, provides

for the commingling of the security positions of the participants and a sharing of profits and losses from the account on some predetermined ratio.

(y) "Underlying security" means the security that will be delivered upon exercise of an option.

SECTION 220.3—General Provisions

(a) *Records.* The creditor shall maintain a record for each account showing the full details of all transactions.

(b) *Separation of accounts.* Except as provided for in the margin account and the special memorandum account, the requirements of an account may not be met by considering items in any other account. If withdrawals of cash or securities are permitted under the regulation, written entries shall be made when cash or securities are used for purposes of meeting requirements in another account.

(c) *Maintenance of credit.* Except as prohibited by this part, any credit initially extended in compliance with this part may be maintained regardless of—

(1) reductions in the customer's equity resulting from changes in market prices;

(2) any security in an account ceasing to be margin or exempted; or

(3) any change in the margin requirements prescribed under this part.

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

(e) *Receipt of funds or securities.* (1) A creditor, acting in good faith, may accept as immediate payment—

(i) cash or any check, draft, or order payable on presentation; or

(ii) any security with sight draft attached.

(2) A creditor may treat a security, check or draft as received upon written notification from another creditor that the specified security, check, or draft has been sent.

(3) Upon notification that a check, draft, or order has been dishonored or when secu-

rities have not been received within a reasonable time, the creditor shall take the action required by this part when payment or securities are not received on time.

(f) *Exchange of securities.* (1) To enable a customer to participate in an offer to exchange securities which is made to all holders of an issue of securities, a creditor may submit for exchange any securities held in a margin account, without regard to the other provisions of this part, provided the consideration received is deposited into the account.

(2) If a nonmargin, nonexempted security is acquired in exchange for a margin security, its retention, withdrawal, or sale within 60 days following its acquisition shall be treated as if the security is a margin security.

(g) *Valuing securities.* The current market value of a security shall be determined as follows:

(1) Throughout the day of the purchase or sale of a security, the creditor shall use the security's total cost of purchase or the net proceeds of its sale including any commissions charged.

(2) At any other time, the creditor shall use the closing sale price of the security on the preceding business day, as shown by any regularly published reporting or quotation service. If there is no closing price, the creditor may use any reasonable estimate of the market value of the security as of the close of business on the preceding business day.

(h) *Innocent mistakes.* If any failure to comply with this part results from a mistake made in good faith in executing a transaction or calculating the amount of margin, the creditor shall not be deemed in violation of this part if, promptly after the discovery of the mistake, the creditor takes appropriate corrective action.

(i) *Variable-annuity contracts issued by insurance companies.* Any insurance company that issues or sells variable-annuity contracts or engages in a general securities business as a broker or dealer shall be subject to this part only for transactions in connection with those

activities. Extensions of credit associated with conventional lending practices of insurance companies are subject to part 207 of this chapter.

SECTION 220.4—Margin Account

(a) *Margin transactions.* (1) All transactions not specifically authorized for inclusion in another account shall be recorded in the margin account.

(2) A creditor may establish separate margin accounts for the same person to:

(i) clear transactions for other creditors where the transactions are introduced to the clearing creditor by separate creditors; or

(ii) clear transactions through other creditors if the transactions are effected by separate creditors; or

(iii) provide one or more accounts over which the creditor or a third-party investment adviser has investment discretion.

(b) *Required margin.* The required margin for each position in securities is set forth in section 220.18 (the supplement) and is subject to the exceptions and special provisions contained in section 220.5 (Margin Account Exceptions and Special Provisions).

(c) *When additional margin is required.*

(1) *Computing deficiency.* All transactions on the same day shall be combined to determine whether additional margin is required by the creditor. For the purpose of computing equity in an account, security positions are established or eliminated and a credit or debit created on the trade date of a security transaction. Additional margin is required on any day when the day's transactions create or increase a margin deficiency in the account and shall be for the amount of the margin deficiency.

(2) *Satisfaction of deficiency.* The additional required margin may be satisfied by a transfer from the special memorandum account or by a deposit of cash, margin securities, exempted securities, or any combination thereof.

(3) *Time limits.* (i) A margin call shall be satisfied within seven business days after the margin deficiency was created or increased.

(ii) The seven-day period may be extended for one or more limited periods upon application by the creditor to a self-regulatory organization or national securities association unless the organization or association believes that the creditor is not acting in good faith or that the creditor has not sufficiently determined that exceptional circumstances warrant such action. Applications shall be filed and acted upon prior to the end of the seven-day period or the expiration of any subsequent extension. However, applications filed by firms having no direct electronic access to the organization or association may be accepted as timely filed if post-marked by midnight of the last day of the seven-day period, or any subsequent extension.

(4) *Satisfaction restriction.* Any transaction, position, or deposit that is used to satisfy one requirement under this part shall be unavailable to satisfy any other requirement.

(d) *Liquidation in lieu of deposit.* If any margin call is not met in full within the required time, the creditor shall liquidate securities sufficient to meet the margin call or to eliminate any margin deficiency existing on the day such liquidation is required, whichever is less. If the margin deficiency created or increased is \$500 or less, no action need be taken by the creditor.

(e) *Withdrawals of cash or securities.* (1) Cash or securities may be withdrawn from an account, except if:

(i) additional cash or securities are required to be deposited into the account for a transaction on the same or a previous day; or

(ii) the withdrawal, together with other transactions, deposits, and withdrawals on the same day, would create or increase a margin deficiency.

(2) Margin excess may be withdrawn or may be transferred to the special memorandum account (section 220.6) by making a single entry to that account which will rep-

resent a debit to the margin account and a credit to the special memorandum account.

(3) If a creditor does not receive a distribution of cash or securities which is payable with respect to any security in a margin account on the day it is payable and withdrawal would not be permitted under this paragraph, a withdrawal transaction shall be deemed to have occurred on the day the distribution is payable.

(f) *Interest, service charges, etc.* (1) Without regard to the other provisions of this section, the creditor, in its usual practice, may debit the following items to a margin account if they are considered in calculating the balance of such account:

(i) interest charged on credit maintained in the margin account;

(ii) premiums on securities borrowed in connection with short sales or to effect delivery;

(iii) dividends, interest, or other distributions due on borrowed securities;

(iv) communication or shipping charges with respect to transactions in the margin account; and

(v) any other service charges which the creditor may impose.

(2) A creditor may permit interest, dividends, or other distributions credited to a margin account to be withdrawn from the account if—

(i) the withdrawal does not create or increase a margin deficiency in the account; or

(ii) the current market value of any securities withdrawn does not exceed 10 percent of the current market value of the security with respect to which they were distributed.

SECTION 220.5—Margin Account Exceptions and Special Provisions

(a) *Unissued securities.* (1) The required margin on a net long or net short commitment in an unissued security is the margin that would be required if the security were an issued margin security, plus any unreal-

ized loss on the commitment or less any unrealized gain.

(2) Margin is not required on a net short commitment in unissued securities when the account contains the related issued securities, nor for any net short or net long position in unissued exempted securities.

(b) *Short sales.*

(1) The required margin for the short sale of a security shall be the amount set forth in section 220.18 (the supplement).

(2) A short sale "against the box" shall be treated as a long sale for the purpose of computing the equity and the required margin.

(c) *Options.*

(1) *Margin or cover for options on exempted debt securities, certificates of deposit, stock indices, or securities exchange traded options on foreign currencies.* The required margin for each transaction involving any short put or short call on an exempted debt security, certificate of deposit, stock index, or foreign currency (if the option is traded on a securities exchange), shall be the amount or positions in lieu of margin set forth in section 220.18 (the supplement).

(2) *Margin for options on equity securities.* The required margin for each transaction involving any short put or short call on an equity security shall be the amount set forth in section 220.18 (the supplement), plus any unrealized loss on the commitment or minus any unrealized gain. However, the required margin may not exceed the current market value of the underlying security in the case of a call, or the exercise price in the case of a put.

(3) *Cover or positions in lieu of margin.* No margin is required for an option written on an equity security position when the account holds any of the following:

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

(ii) securities immediately convertible into or exchangeable for the underlying security without the payment of money in the case of a short call, if the right to

convert or exchange does not expire on or before the expiration date of the short call;

(iii) an escrow agreement for the underlying security or foreign exchange (in the case of a short call) or cash (in the case of a short put);

(iv) a long call on the same number of shares of the same underlying security if the long call does not expire before the expiration date of the short call, and if the amount (if any), by which the exercise price of the long call exceeds the exercise price of the short call is deposited in the account;

(v) a long put on the same number of shares of the same underlying security if the long put does not expire before the expiration date of the short put, and if the amount (if any), by which the exercise price of the short put exceeds the exercise price of the long put is deposited in the account;

(vi) a warrant to purchase the underlying security, in the case of a short call, if the warrant does not expire on or before the expiration date of the short call, and if the amount (if any), by which the exercise price of the warrant exceeds the exercise price of the short call is deposited in the account. A warrant used in lieu of the required margin under this provision shall contribute no equity to the account.

(4) *Adjustments.* (i) When a short position held in the account serves in lieu of the required margin for a short put, the amount prescribed by paragraph (c)(2) of this section as the amount to be added to the required margin in respect of short sales shall be increased by any unrealized loss on the position.

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

(5) *Straddles.* When both a short put and a short call are in a margin account on the same number of shares of the same underlying security, the required margin shall be the margin on either the short put or the

short call, whichever is greater, plus any unrealized loss on the other option.

(6) *Exclusive designation.* The customer may designate at the time the option order is entered which security position held in the account is to serve in lieu of the required margin, if such service is offered by the creditor; or the customer may have a standing agreement with the creditor as to the method to be used for determining on any given day which security position will be used in lieu of the margin to support an option transaction. Any security held in the account which serves in lieu of the required margin for a short put or a short call shall be unavailable to support any other option transaction in the account.

(d) *Accounts of partners.* If a partner of the creditor has a margin account with the creditor, the creditor shall disregard the partner's financial relations with the firm (as shown in the partner's capital and ordinary drawing accounts) in calculating the margin or equity of the partner's margin account.

(e) *Contribution to joint venture.* If a margin account is the account of a joint venture in which the creditor participates, any interest of the creditor in the joint account in excess of the interest which the creditor would have on the basis of its right to share in the profits shall be treated as an extension of credit to the joint account and shall be margined as such.

(f) *Transfer of accounts.* (1) A margin account that is transferred from one creditor to another may be treated as if it had been maintained by the transferee from the date of its origin, if the transferee accepts, in good faith, a signed statement of the transferor (or, if that is not practicable, of the customer), that any margin call issued under this part has been satisfied.

(2) A margin account that is transferred from one customer to another as part of a transaction, not undertaken to avoid the requirements of this part, may be treated as if it had been maintained for the transferee from the date of its origin, if the creditor accepts in good faith and keeps with the transferee account a signed statement of the

transferor describing the circumstances for the transfer.

SECTION 220.6—Special Memorandum Account

(a) A special memorandum account (SMA) may be maintained in conjunction with a margin account. A single entry amount may be used to represent both a credit to the SMA and a debit to the margin account. A transfer between the two accounts may be effected by an increase or reduction in the entry. When computing the equity in a margin account, the single entry amount shall be considered as a debit in the margin account. A payment to the customer or on the customer's behalf or a transfer to any of the customer's other accounts from the SMA reduces the single entry amount.

(b) The SMA may contain the following entries:

- (1) dividend and interest payments;
- (2) cash not required by this part, including cash deposited to meet a maintenance margin call or to meet any requirement of a self-regulatory organization that is not imposed by this part;
- (3) proceeds of a sale of securities or cash no longer required on any expired or liquidated security position that may be withdrawn under section 220.4(e) of this part; and
- (4) margin excess transferred from the margin account under section 220.4(e)(2) of this part.

SECTION 220.7—Arbitrage Account

In an arbitrage account a creditor may effect and finance for any customer bona fide arbitrage transactions. For the purpose of this section, the term "bona fide 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 practi-

cable 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 of the purchase into a second security together with an offsetting sale of the second security at or about the same time, for the purpose of taking advantage of a concurrent disparity in the prices of the two securities.

SECTION 220.8—Cash Account

(a) *Permissible transactions.* In a cash account, a creditor may—

(1) buy for or sell to any customer any security if: (i) there are sufficient funds in the account; or (ii) the creditor accepts in good faith the customer's agreement that the customer will promptly make full cash payment for the security before selling it and does not contemplate selling it prior to making such payment;

(2) buy from or sell for any customer any security if: (i) the security is held in the account; or (ii) the creditor accepts in good faith the customer's statement that the security is owned by the customer or the customer's principal, and that it will be promptly deposited in the account;

(3) issue, endorse, or guarantee an option for any customer if—

(i) in the case of a call option, the underlying security (or a security immediately convertible into the underlying security, without the payment of money) is held in or purchased for the account on the same day, and the option premium is held in the account until cash payment for the underlying or convertible security is received; or

(ii) in the case of a put option, the creditor obtains cash in an amount equal to the exercise price or holds in the account any of the following instruments with a current market value at least equal to the exercise price and with one year or less to maturity: securities issued or guaranteed by the United States or its agencies, nego-

tiable bank certificates of deposit, or bankers acceptances issued by banking institutions in the United States and payable in the United States.

(4) use an escrow agreement in lieu of the cash or underlying security position if—

(i) in the case of a call or a put, the creditor is advised by the customer that the required securities or cash are held by a bank and the creditor independently verifies that an appropriate escrow agreement will be delivered by the bank promptly; or

(ii) in the case of a call issued, endorsed, or guaranteed on the same day the underlying security is purchased in the account and the underlying security is to be delivered to a bank, the creditor verifies that an appropriate escrow agreement will be delivered by the bank promptly.

(b) *Time periods for payment; cancellation or liquidation.*

(1) *Full cash payment.* A creditor shall obtain full cash payment for customer purchases within seven business days of the date—

(i) any nonexempted security was purchased;

(ii) any unissued security was made available by the issuer for delivery to purchasers;

(iii) any "when-distributed" security was distributed under a published plan;

(iv) a security owned by the customer has matured or has been redeemed and a new refunding security of the same issuer has been purchased by the customer, provided:

(A) the customer purchased the new security no more than 35 calendar days prior to the date of maturity or redemption of the old security;

(B) the customer is entitled to the proceeds of the redemption; and

(C) the delayed payment does not exceed 103 percent of the proceeds of the old security.

(2) *Delivery against payment.* If a creditor purchases for or sells to a customer a security in a delivery against payment transaction, the creditor shall have up to 35 calen-

dar days to obtain payment if delivery of the security is delayed due to the mechanics of the transaction and is not related to the customer's willingness or ability to pay.

(3) *Shipment of securities, extension.* If any shipment of securities is incidental to consummation of a transaction, a creditor may extend the seven-business-day period by the number of days required for shipment, but not by more than seven business days.

(4) *Cancellation; liquidation; minimum amount.* A creditor shall promptly cancel or otherwise liquidate a transaction or any part of a transaction for which the customer has not made full cash payment within the required time. A creditor may, at its option, disregard any sum due from the customer not exceeding \$500.

(c) *90-day freeze.* (1) If a nonexempted security in the account is sold or delivered to another broker or dealer without having been previously paid for in full by the customer, the privilege of delaying payment beyond the trade date shall be withdrawn for 90 calendar days following the date of sale of the security. Cancellation of the transaction other than to correct an error shall constitute a sale.

(2) The 90-day freeze shall not apply if: (i) within 7 business days of the trade date, full payment is received or any check or draft in payment has cleared and the proceeds from the sale are not withdrawn prior to such payment or check clearance; or (ii) the purchased security was delivered to another broker or dealer for deposit in a cash account which holds sufficient funds to pay for the security. The creditor may rely on a written statement accepted in good faith from the other broker or dealer that sufficient funds are held in the other cash account.

(d) *Extension of time periods; transfers.* (1) Unless a self-regulatory organization or association believes that the creditor is not acting in good faith or that the creditor has not sufficiently determined that exceptional circumstances warrant such action, it may, upon application by the creditor—

(i) extend any period specified in paragraph (b) of this section;

(ii) authorize transfer to another account of any transaction involving the purchase of a margin or exempted security; or

(iii) grant a waiver from the 90-day freeze.

(2) Applications shall be filed and acted upon prior to the end of the seven-day period or the expiration of any subsequent extension. However, an application filed from firms having no direct electronic access to the exchange or association may be accepted as timely filed if it is postmarked no later than midnight of the last day of the seven-day period or any subsequent extension.

SECTION 220.9—Nonsecurities Credit Account

(a) In a nonsecurities credit account a creditor may—

(1) effect and carry transactions in commodities;

(2) effect and carry transactions in foreign exchange;

(3) extend and maintain secured or unsecured nonpurpose credit, subject to the requirements of paragraph (b) of this section.

(b) Every extension of credit, except as provided in paragraphs (a)(1) and (2) of this section, shall be deemed to be purpose credit unless, prior to extending the credit, the creditor accepts in good faith from the customer a written statement that it is not purpose credit. The statement shall conform to the requirements established by the Board. To accept the customer's statement in good faith, the creditor shall be aware of the circumstances surrounding the extension of credit and shall be satisfied that the statement is truthful.

SECTION 220.10—Omnibus Account

(a) In an omnibus account, a creditor may effect and finance transactions for a broker or dealer who is registered with the SEC under

section 15 of the act and who gives the creditor written notice that—

- (1) all securities will be for the account of customers of the broker or dealer; and
- (2) any short sales effected will be short sales made on behalf of the customers of the broker or dealer other than partners.

(b) The written notice required by paragraph (a) shall conform to any SEC rule on the hypothecation of customers' securities by brokers or dealers.

SECTION 220.11—Broker-Dealer Credit Account

(a) *Permissible transactions.* In a broker-dealer credit account, a creditor may—

- (1) Purchase any security from or sell any security to another creditor under a good faith agreement to promptly deliver the security against full payment of the purchase price.
- (2) Effect or finance transactions of any of its owners if the creditor is a clearing and servicing broker or dealer owned jointly or individually by other creditors.
- (3) Extend and maintain credit to any partner or stockholder of the creditor for the purpose of making a capital contribution to, or purchasing stock of, the creditor, affiliated corporation, or another creditor.
- (4) Extend and maintain, with the approval of the appropriate examining authority:
 - (i) credit to meet the emergency needs of any creditor; or
 - (ii) subordinated credit to another creditor for capital purposes, if the other creditor—
 - (A) is an affiliated corporation; or
 - (B) will not use the proceeds of the loan to increase the amount of dealing in securities for the account of the creditor, its firm or corporation or an affiliated corporation.

(b) For purposes of paragraph (a)(3) and (4) of this section "affiliated corporation" means a corporation all the common stock of which is owned directly or indirectly by the firm or general partners and employees of the

firm, or by the corporation or holders of the controlling stock and employees of the corporation and the affiliation has been approved by the creditor's examining authority.

SECTION 220.12—Market Functions Account

(a) *Requirements.* In a market functions account, a creditor may effect or finance the transactions of market participants in accordance with the following provisions. A separate record shall be kept for the transactions specified for each category described in paragraphs (b) through (e) of this section. Any position in a separate record shall not be used to meet the requirements of any other category.

(b) *Specialists.*

(1) *Applicability.* A creditor may clear or finance specialist transactions for any specialist, or any specialist joint account, in which all participants, or all participants other than the creditor, are registered as specialists on a national securities exchange that requires regular reports on the use of specialist credit from the registered specialists.

(2) *Permitted offset positions.* A specialist in options may establish, on a share-for-share basis, a long or short position in the securities underlying the options in which the specialist makes a market, and a specialist in securities other than options may purchase or write options overlying the securities in which the specialist makes a market, if the account holds the following permitted offset positions:

- (i) a short option position which is "in or at the money" and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money";
- (ii) a long option position which is "in or at the money" and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money";

- (iii) a short option position against which an exercise notice was tendered;
 - (iv) a long option position which was exercised;
 - (v) a net long position in a security (other than an option) in which the specialist makes a market; or
 - (vi) a net short position in a security (other than an option) in which the specialist makes a market.
- (3) *Required margin.* The required margin for a specialist's transactions shall be—
- (i) good faith margin for any long or short position in a security in which the specialist makes a market;
 - (ii) good faith margin for any wholly owned margin security or exempted security;
 - (iii) the margin prescribed by section 220.18 (the supplement) when a security purchased or sold short in the account does not qualify as a specialist or permitted offset position.
- (4) *Additional margin; restriction on "free-riding."* (i) Except as required by paragraph (b)(5) of this section, the creditor shall issue a margin call on any day when additional margin is required as a result of specialist transactions. The creditor may allow the specialist a maximum of seven business days to satisfy a margin call.
- (ii) If a specialist fails to satisfy a margin call within the period specified in this paragraph (and the creditor is required to liquidate securities to satisfy the call), the creditor shall be prohibited for a 15-calendar-day period from extending any further credit to the specialist to finance transactions in nonspecialty securities.
 - (iii) The restriction on "free-riding" shall not apply to—
 - (A) any specialist on a national securities exchange that has an SEC-approved rule on "free-riding" by specialists; or
 - (B) the acquisition or liquidation of a permitted offset position.
- (5) *Deficit status.* On any day when a specialist's separate record would liquidate to a deficit, the creditor shall not extend any further specialist credit in the account and shall issue a margin call at least as large as

the deficit. If the call is not met by noon of the following business day, the creditor shall liquidate positions in the specialist's account.

- (6) *Withdrawals.* Withdrawals may be permitted to the extent that the equity exceeds the margin requirements specified in paragraph (b)(3) of this section.
- (c) *Underwritings and distributions.* A creditor may effect or finance for any dealer or group of dealers transactions for the purpose of facilitating the underwriting or distribution of all or a part of an issue of securities with a good faith margin.
- (d) *OTC market makers and third-market makers.* (1) A creditor may clear or finance with a good faith margin, market-making transactions for an OTC market maker or a third-market maker who—
- (i) is in compliance with any applicable SEC rule, including minimum net capital rules;
 - (ii) regularly submits bona fide competitive bid and offer quotations to a recognized interdealer quotation system;
 - (iii) is ready, willing, and able to effect transactions in reasonable amounts with other brokers and dealers at the quoted prices; and
 - (iv) has a reasonable average rate of inventory turnover.
- (2) If the credit extended to a market maker ceases to be for the purpose of market making, or the dealer ceases to be a market maker for an issue of securities for which credit was extended, the credit shall be subject to the margin specified in section 220.18 (the supplement).
- (e) *Odd-lot dealers.* A creditor may clear and finance odd-lot transactions for any creditor who is registered as an odd-lot dealer on a national securities exchange with a good faith margin.

SECTION 220.13—Arranging for Loans by Others

A creditor may not arrange for the extension or maintenance of credit to or for any custom-

er by any person upon terms and conditions other than those upon which the creditor may itself extend or maintain credit under the provisions of this part, except that this limitation shall not apply to credit arranged for a customer which does not violate parts 207 and 221 of this chapter and results solely from—

(a) investment banking services, provided by the creditor to the customer, including, but not limited to, underwritings, private placements, and advice and other services in connection with exchange offers, mergers, or acquisitions, except for underwritings that involve the public distribution of an equity security with installment or other deferred-payment provisions; or

(b) the sale of nonmargin securities (including securities with installment or other deferred-payment provisions) if the sale is exempted from the registration requirements of the Securities Act of 1933 under section 4(2) or section 4(6) of the act.

SECTION 220.14—Clearance of Securities

(a) *Credit for clearance of securities.* The provisions of this part shall not apply to the extension or maintenance of any credit that is not for more than one day if it is incidental to the clearance of transactions in securities directly between members of a national securities exchange or association or through any clearing agency registered with the SEC.

(b) *Deposit of securities with options clearing agency.* The provisions of this part shall not apply to the deposit of securities with an options-clearing agency for the purpose of meeting its deposit requirements if—

- (1) the clearing agency issues options on securities;
- (2) the clearing agency is registered with the SEC;
- (3) the deposit consists of any underlying securities for classes of option contracts outstanding at the time of the deposit; and
- (4) the deposit complies with the rules of the clearing agency which have been approved by the SEC.

SECTION 220.15—Borrowing by Creditors

(a) *Restrictions on borrowing.* A creditor may not borrow in the ordinary course of business as a broker or dealer using as collateral any registered nonexempted security, except—

- (1) from or through a member bank of the Federal Reserve System; or
- (2) from any nonmember bank that has filed with the Board an agreement as prescribed in paragraph (b) of this section, which agreement is still in effect; or
- (3) from another creditor if the loan is permissible under this part.

(b) *Agreements of nonmember banks.*

(1) A nonmember bank shall file an agreement that conforms to the requirements of section 8(a) of the act (see Form FR T-2) if—

- (i) its principal place of business is in a territory or insular possession of the United States; or
- (ii) it has an office or agency in the United States and its principal place of business is outside the United States.

(2) Any other nonmember bank shall file an agreement that conforms to the requirements of section 8(a) of the act (see Form FR T-1).

(3) Any nonmember bank may terminate its agreement if it obtains the written consent of the Board.

SECTION 220.16—Borrowing and Lending Securities

Without regard to the other provisions of this part, a creditor may borrow or lend securities for the purpose of making delivery of the securities in the case of short sales, failure to receive securities required to be delivered, or other similar situations. Each borrowing shall be secured by a deposit of one or more of the following: cash, securities issued or guaranteed by the United States or its agencies, negotiable bank certificates of deposit and bankers acceptances issued by banking institutions in the United States and payable in the United States, or irrev-

ocable letters of credit issued by a bank insured by the Federal Deposit Insurance Corporation or a foreign bank that has filed an agreement with the Board on Form FR T-2. Such deposit made with the lender of the securities shall have at all times a value at least equal to 100 percent of the market value of the securities borrowed, computed as of the close of the preceding business day.

SECTION 220.17—Requirements for List of OTC Margin Stocks

(a) *Requirements for inclusion on the list.* Except as provided in paragraph (d) of this section, OTC margin stock shall meet the following requirements:

- (1) Four or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;
- (2) The minimum average bid price of such stock, as determined by the Board, is at least five dollars per share;
- (3) The stock is registered under section 12 of the act, is issued by an insurance company subject to section 12(g)(2)(G) of the Act, is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 USC 80a-8), is an American Depository Receipt (ADR) of a foreign issuer whose securities are registered under section 12 of the act, or is a stock of an issuer required to file reports under section 15(d) of the act;
- (4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;
- (5) The stock has been publicly traded for at least six months;
- (6) The issuer has at least \$4 million of capital, surplus, and undivided profits;
- (7) There are 400,000 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;
- (8) There are 1,200 or more holders of rec-

ord, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock as determined by the Board, is at least 500 shares; and

(9) The issuer or a predecessor in interest has been in existence for at least three years.

(b) *Requirements for continued inclusion on the list.* Except as provided in paragraph (d) of this section, OTC margin stock shall meet the following requirements:

- (1) Three or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;
- (2) The minimum average bid price of such stocks, as determined by the Board, is at least two dollars per share;
- (3) The stock is registered as specified in paragraph (a)(3) of this section.
- (4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;
- (5) The issuer has at least \$1 million of capital, surplus, and undivided profits;
- (6) There are 300,000 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; and
- (7) There continue to be 800 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares.

(c) *Removal from the list.* The Board shall periodically remove from the list any stock that—

- (1) ceases to exist or of which the issuer ceases to exist, or
- (2) no longer substantially meets the provisions of paragraph (b) of this section or section 220.2(s).

(d) *Discretionary authority of Board.* With-

out regard to the other paragraphs of this section, the Board may add to, or omit or remove from the OTC margin stock list, any equity security, if in the judgment of the Board, such action is necessary or appropriate in the public interest.

(e) *Unlawful representations.* It shall be unlawful for any creditor to make, or cause to be made, any representation to the effect that the inclusion of a security on the list of OTC margin stocks is evidence that the Board or the SEC has in any way passed upon the merits of, or given approval to, such security or any transactions therein. Any statement in an advertisement or other similar communication containing a reference to the Board in connection with the list or stocks on that list shall be an unlawful representation.

SECTION 220.18—Supplement: Margin Requirements

The required margin for each security position held in a margin account shall be as follows:

- (a) *Margin security except for (b) below:* 50 percent of the current market value of the security.
- (b) *Exempted security, registered nonconvertible debt security or OTC margin bond:* the margin required by the creditor in good faith.
- (c) *Short put or short call on an equity security:* 30 percent of the current market value of the underlying security, but not less than \$250, adjusted or waived in accordance with section 220.5(c).
- (d) *Short sale of nonexempted security:* 150 percent of the current market value of the se-

curity or 100 percent of the current market value if a security exchangeable or convertible within 90 calendar days without restriction other than the payment of money into the security sold short is held in the account.

(e) *Short sale of an exempted security:* 100 percent of the current market value of the security plus the margin required by the creditor in good faith.

(f) *Nonmargin, nonexempted security or a long position in any option:* 100 percent of the current market value.

(g) *Short put or short call on an exempted debt security or certificate of deposit:* (1) The amount or other position specified by the rules of the national securities exchange on which the option is traded, provided that all such rules have been approved or amended by the SEC; or

(2) in the case of an over-the-counter option on an exempted debt security that the SEC has not determined to be an exempted security, an amount or other position which the creditor in good faith deems to be equivalent to the margin or cover on comparable exchange-traded options.

(h) *Short put or short call (securities exchange traded) on foreign currency:* The amount, other option position, or foreign currency position specified by the rules of the national securities exchange on which the option is traded, provided that all such rules have been approved or amended by the SEC.

(i) *Short put or short call on a stock index:* The amount or other security positions specified by the rules of the national securities exchange on which the option is traded, provided that all such rules have been approved or amended by the SEC.

F.R. Form T-1
Revised 11/08

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
Washington, D.C.

Agreement of Domestic Nonmember Banks
(Federal Reserve Form T-1)

Agreement

In order to qualify under section 8(a) of the Securities Exchange Act of 1934 as a bank from which it is lawful 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 to borrow, in the ordinary course of business as a broker or dealer, on securities (in addition to exempted securities as defined in such Act) registered on a national securities exchange, the undersigned represents and agrees as follows:

1. That it is a bank within the meaning of that term as defined in the Securities Exchange Act of 1934; that it is organized under the laws of _____; that it is not a member of the Federal Reserve System; and that it has its principal place of business at _____

2. That it will henceforth comply with all provisions of the Securities Exchange Act of 1934, the Federal Reserve Act, as amended, and the Banking Act of 1933, which are applicable to banks having membership in the Federal Reserve System 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.

3. That upon the termination of this agreement it will promptly surrender to the Board of Governors of the Federal Reserve System every certificate evidencing the filing of this agreement which shall have been issued by the said Board or any agent thereof.

4. That this agreement shall be effective at the time it is filed with the Federal Reserve bank of the district in which is situated the principal place of business of the undersigned and shall thereafter be binding upon the undersigned until terminated as provided by law.

Executed in duplicate counterparts this _____ day of _____, 19 _____

[SEAL]

By _____
Authorized officer, agent or partner—indicate title or designation

Attest:

Secretary

Resolution

(Inapplicable if qualifying bank is partnership)

Resolved that _____, the _____

of _____ (hereinafter in this resolution referred to as the "Bank") be and hereby is authorized and directed, for and in the name of the Bank, to execute and file with the Board of Governors of the Federal Reserve System an agreement in the form prescribed by said Board pursuant to the provisions of section 8(a) of the Securities Exchange Act of 1934, in order to qualify the Bank as a bank not having membership in the Federal Reserve System from which 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 may borrow, in the ordinary course of business as a broker or dealer, on securities (in addition to exempted securities as defined in such Act) registered on a national securities exchange.

Certificate

(Inapplicable if qualifying bank is partnership)

I hereby certify that the foregoing is a true and correct copy of a resolution duly adopted by the _____ of _____, at a Board of directors or other governing body—indicate title Name of bank meeting duly called and held at _____ on the _____ day of _____, 19 _____, at which meeting a quorum was present and acting throughout.

Secretary
Date _____

F.R. Form T-2
Revised 11/138

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
Washington, D.C.

Agreement of Foreign Nonmember Banks
(Federal Reserve Form T-2)

Agreement

In order to qualify under section 8(a) of the Securities Exchange Act of 1934 as a bank from which it is lawful 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 to borrow, in the ordinary course of business as a broker or dealer, on securities (in addition to exempted securities as defined in such Act) registered on a national securities exchange, the undersigned represents and agrees as follows:

1. That it is a bank within the meaning of that term as defined in the Securities Exchange Act of 1934; that it is organized under the laws of _____; that it is not a member of the Federal Reserve System; and that it has its principal place of business at _____

2. That it has no branches or agencies situated within any Federal Reserve district except as follows:

Street Number	City	State	Federal Reserve District
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

3. That it will henceforth comply with all provisions of the Securities Exchange Act of 1934, the Federal Reserve Act, as amended, and the Banking Act of 1933, which are applicable to banks having membership in the Federal Reserve System 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.

4. That upon the termination of this agreement it will promptly surrender to the Board of Governors of the Federal Reserve System every certificate evidencing the filing of this agreement which shall have been issued by the said Board or any agent thereof.

5. That this agreement shall be effective at the time it is filed with the Federal Reserve Bank of New York or with the Federal Reserve Bank of San Francisco and shall thereafter be binding upon the undersigned until terminated as provided by law.

Executed in duplicate counterparts this _____ day of _____, 19

[SEAL]

Attest:

By _____
Authorized officer, agent or partner—indicate title or designation

Secretary

Resolution

(Inapplicable if qualifying bank is partnership)

Resolved that _____, the _____

of _____
(hereinafter in this resolution referred to as the "Bank") be and hereby is authorized and directed, for and in the name of the Bank to execute and file with the Board of Governors of the Federal Reserve System an agreement in the form prescribed by said Board pursuant to the provisions of section 8(a) of the Securities Exchange Act of 1934, in order to qualify the Bank as a bank not having membership in the Federal Reserve System from which 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 may borrow, in the ordinary course of business as a broker or dealer, on securities (in addition to exempted securities as defined in such Act) registered on a national securities exchange.

Certificate

(Inapplicable if qualifying bank is partnership)

I hereby certify that the foregoing is a true and correct copy of a resolution duly adopted by the _____ of _____, at a
Board of directors or other governing body—indicate title Name of bank
_____ meeting duly called and held at _____ on the _____ day of
Regular or special
_____, 19 _____, at which meeting a quorum was present and acting throughout.

Date _____

Secretary

Part II To be completed by creditor

The following is a listing of collateral, if any, securing this credit.

1. Collateral consisting of securities with loan value under Regulation T (refer to the Supplement to Regulation T).

No. of shares or other unit	Itemize separately by issue	Market price	Date and source of valuation (See note below)	Total market value per issue

2. Collateral consisting of securities having no loan value under Regulation T.

No. of shares or other unit	Itemize separately by issue	Market price	Date and source of valuation (See note below)	Total market value per issue

3. Other collateral.

Itemize	Current market value	Date and source of valuation (See note below)	Good faith loan value

Note: Creditor need not complete "Date and source of valuation" if the market value was obtained from regularly published or disseminated information in either a journal of general circulation or an automated quotation system.

I am a duly authorized representative of the creditor. I have read this form and any attachments and have accepted the customer's statement in Part I in good faith as defined below*, and I certify that to the best of my knowledge and belief, all the information given is true, accurate, and complete.

Signed:

_____ Date

_____ Authorized representative's signature

_____ Title

_____ Print or type name

* To accept the customer's statement in good faith, the duly authorized representative of the creditor must be alert to the circumstances surrounding the credit and, if in possession of any information that would cause a prudent person not to accept the statement without inquiry, must have investigated and be satisfied that the statement is truthful. Among the facts which would require such investigation are receipt of the statement through the mail or from a third party.

This form must be retained by the creditor for three years after the credit is extinguished.

Regulation U Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks

12 CFR 221; as revised effective August 31, 1983

SECTION 221.1—Authority, Purpose, and Scope

(a) *Authority.* Regulation U (this part*) is issued by the Board of Governors of the Federal Reserve System (the Board) pursuant to the Securities Exchange Act of 1934 (the act) (15 USC 78a et seq.).

(b) *Purpose and scope.* This part imposes credit restrictions upon “banks” (as defined in section 221.2(b) of this part) that extend credit for the purpose of buying or carrying margin stock if the credit is secured directly or indirectly by margin stock. Banks may not extend more than the maximum loan value of the collateral securing such credit, as set by the Board in section 221.8 (the supplement).

SECTION 221.2—Definitions

The terms used in this part have the meanings given them in section 3(a) of the act or as defined in this section.

(a) “Affiliate” means (1) any bank holding company of which a bank is a subsidiary within the meaning of the Bank Holding Company Act of 1956, as amended (12 USC 1841(d));

(2) any other subsidiary of such bank holding company; and

(3) any other corporation, business trust, association, or other similar organization that is an affiliate as defined in section 2(b) of the Banking Act of 1933 (12 USC 221a(c)).

(b)(1) “Bank” has the meaning given to it in section 3(a)(6) of the act (15 USC 78c(a)(6)) and includes (i) any subsidiary of a bank;

(ii) any corporation organized under section 25(a) of the Federal Reserve Act (12 USC 611); and

(iii) any agency or branch of a foreign bank located within the United States.

(2) “Bank” does not include (i) any savings and loan association,

(ii) any credit union,

(iii) any lending institution that is an instrumentality or agency of the United States, or

(iv) any member of a national securities exchange.

(c) “Carrying” credit is credit that enables a customer to maintain, reduce, or retire indebtedness originally incurred to purchase a security that is currently a margin stock.

(d) “Current market value” of—

(1) a security means (i) if quotations are available, the closing sale price of the security on the preceding business day, as appearing on any regularly published reporting or quotation service; or

(ii) if there is no closing sale price, the bank may use any reasonable estimate of the market value of the security as of the close of business on the preceding business day; or

(iii) if the credit is used to finance the purchase of the security, the total cost of purchase, which may include any commissions charged.

(2) any other collateral means a value determined by any reasonable method in accordance with sound banking practices.

(e) “Customer” includes any person or persons acting jointly, to or for whom a bank extends or maintains credit.

(f) “Good faith” with respect to—

(1) the loan value of collateral, means that amount (not exceeding 100 percent of the current market value of the collateral) which a bank, exercising sound banking judgment, would lend, without regard to the customer’s other assets held as collateral in connection with unrelated transactions;

* Code of Federal Regulations, title 12, chapter II, part 221.

- (2) accepting notice or certification from or on behalf of a customer means that the bank or its duly authorized representative is alert to the circumstances surrounding the credit, and if in possession of information that would cause a prudent person not to accept the notice or certification without inquiry, investigates and is satisfied that it is truthful;
- (g) "Indirectly secured" (1) includes any arrangement with the customer under which—
- (i) the customer's right or ability to sell, pledge, or otherwise dispose of margin stock owned by the customer is in any way restricted while the credit remains outstanding; or
 - (ii) the exercise of such right is or may be cause for accelerating the maturity of the credit.
- (2) does not include such an arrangement if—
- (i) after applying the proceeds of the credit, not more than 25 percent of the value (as determined by any reasonable method) of the assets subject to the arrangement is represented by margin stock;
 - (ii) it is a lending arrangement that permits accelerating the maturity of the credit as a result of a default or renegotiation of another credit to the customer by another lender that is not an affiliate of the bank;
 - (iii) the bank holds the margin stock only in the capacity of custodian, depository, or trustee, or under similar circumstances, and, in good faith, has not relied upon the margin stock as collateral; or
 - (iv) the bank, in good faith, has not relied upon the margin stock as collateral in extending or maintaining the particular credit.
- (h) "Margin stock" means (1) any equity security registered or having unlisted trading privileges on a national securities exchange;
- (2) any OTC margin stock;
 - (3) any debt security convertible into a margin stock, or carrying a warrant or right to subscribe to or purchase a margin stock;
 - (4) any warrant or right to subscribe to or purchase a margin stock; or
 - (5) any security issued by an investment company registered under section 8 of the Investment Company Act of 1940 (15 USC 80a-8), other than—
 - (i) a company licensed under the Small Business Investment Act of 1958, as amended (15 USC 661), or
 - (ii) a company which has at least 95 percent of its assets continuously invested in exempted securities (as defined in 15 USC 78c(12)).
- (i) "Maximum loan value" is the percentage of current market value assigned by the Board under section 221.8 of this part to specified types of collateral. The maximum loan value of margin stock is stated as a percentage of its current market value. Puts, calls, and combinations thereof have no loan value except for purposes of section 221.5(c)(10) of this part. All other collateral has good faith loan value.
- (j) "OTC margin stock" is any equity security not traded on a national security exchange that the Board has determined has the degree of national investor interest, the depth and breadth of market, the availability of information respecting the security and its issuer, and the character and permanence of the issuer to warrant being treated like an equity security traded on a national securities exchange. An OTC stock is not considered to be an "OTC margin stock" unless it appears on the Board's periodically published list of OTC margin stocks.
- (k) "Purpose credit" is any credit for the purpose, whether immediate, incidental, or ultimate, of buying or carrying margin stock.

SECTION 221.3—General Requirements

- (a) *Extending, maintaining, and arranging credit.* (1) *Extending credit.* No bank shall extend any purpose credit, secured directly or indirectly by margin stock, in an amount that exceeds the maximum loan value of the collateral securing the credit. The maximum loan value of margin stock (set forth in section 221.8 of this part) is assigned by

the Board in terms of a percentage of the current market value of the margin stock. All other collateral has "good faith" loan value, as defined in section 221.2(f) of this part.

(2) *Maintaining credit.* A bank may continue to maintain any credit initially extended in compliance with this part, regardless of—

- (i) reduction in the customer's equity resulting from change in market prices;
- (ii) change in the maximum loan value prescribed by this part; or
- (iii) change in the status of the security (from nonmargin to margin) securing an existing purpose credit.

(3) *Arranging credit.* No bank may arrange for the extension or maintenance of any purpose credit, except upon the same terms and conditions under which the bank itself may extend or maintain purpose credit under this part.

(b) *Purpose statement.* (1) Except for credit extended under paragraph (c) of this section, whenever a bank extends credit secured directly or indirectly by any margin stock, the bank shall require its customer to execute Form FR U-1 (OMB No. 7100-0115), which shall be signed and accepted by a duly authorized officer of the bank acting in good faith.

(c) *Purpose statement for revolving-credit or multiple-draw agreements.*

(i) If a bank extends credit, secured directly or indirectly by any margin stock, under a revolving-credit or other multiple-draw agreement, Form FR U-1 can either be executed each time a disbursement is made under the agreement, or at the time the credit arrangement is originally established.

(ii) If a purpose statement executed at the time the credit arrangement is initially made indicates that the purpose is to purchase or carry margin stock, the credit will be deemed in compliance with this part if the maximum loan value of the collateral at least equals the aggregate amount of funds actually disbursed. For any purpose credit disbursed under the agreement, the bank shall obtain and attach to the executed Form FR U-1 a current list of collateral

which adequately supports all credit extended under the agreement.

(d) *Single-credit rule* (1) All purpose credit extended to a customer shall be treated as a single credit, and all the collateral securing such credit shall be considered in determining whether or not the credit complies with this part.

(2) A bank that has extended purpose credit secured by margin stock may not subsequently extend unsecured purpose credit to the same customer unless the combined credit does not exceed the maximum loan value of the collateral securing the prior credit.

(3) If a bank extended unsecured purpose credit to a customer prior to the extension of purpose credit secured by margin stock, the credits shall be combined and treated as a single credit solely for the purposes of the withdrawal and substitution provision of paragraph (f) of this section.

(4) If a bank extends purpose credit secured by any margin stock and nonpurpose credit to the same customer, the bank shall treat the credits as two separate loans and may not rely upon the required collateral securing the purpose credit for the nonpurpose credit.

(e) *Mixed-collateral loans.* A purpose credit secured in part by margin stock, and in part by other collateral shall be treated as two separate loans, one secured by margin stock and one by all other collateral. A bank may use a single credit agreement, if it maintains records identifying each portion of the credit and its collateral.

(f) *Withdrawals and substitutions.* (1) A bank may permit any withdrawal or substitution of cash or collateral by the customer if the withdrawal or substitution would not—

- (i) cause the credit to exceed the maximum loan value of the collateral; or
- (ii) increase the amount by which the credit exceeds the maximum loan value of the collateral.

(2) For purposes of this section, the maximum loan value of the collateral on the day

of the withdrawal or substitution shall be used.

(g) *Exchange offers.* To enable a customer to participate in a reorganization, recapitalization, or exchange offer that is made to holders of an issue of margin stock, a bank may permit substitution of the securities received. A nonmargin, nonexempted security acquired in exchange for a margin stock shall be treated as if it is margin stock for a period of 60 days following the exchange.

(h) *Renewals and extensions of maturity.* A renewal or extension of maturity of a credit need not be considered a new extension of credit if the amount of the credit is increased only by the addition of interest, service charges, or taxes with respect to the credit.

(i) *Transfers of credit.* (1) A transfer of a credit between customers or banks shall not be considered a new extension of credit if—

- (i) the original credit was in compliance with this part;
- (ii) the transfer is not made to evade this part;
- (iii) the amount of credit is not increased; and
- (iv) the collateral for the credit is not changed.

(2) Any transfer between customers at the same bank shall be accompanied by a statement by the transferor customer describing the circumstances giving rise to the transfer and shall be accepted and signed by an officer of the bank acting in good faith. The bank shall keep such statement with its records of the transferee account.

(3) When a transfer is made between banks, the transferee bank shall obtain a copy of the Form FR U-1 originally filed with the transferor bank and retain the copy with its records of the transferee account.

(j) *Action for bank's protection.* Nothing in this part shall require a bank to waive or forgo any lien or prevent a bank from taking any action it deems necessary in good faith for its protection.

(k) *Mistakes in good faith.* A mistake in good faith in connection with the extension or

maintenance of credit shall not be a violation of this part.

SECTION 221.4—Agreements of Nonmember Banks

(a) Banks that are not members of the Federal Reserve System shall file an agreement that conforms to the requirements of section 8(a) of the act (see Form T-1 for domestic nonmember banks and Form T-2 for all other nonmember banks) prior to extending any credit secured by any nonexempt security registered on a national securities exchange to persons subject to part 220 of this chapter, who are borrowing in the ordinary course of business.

(b) Any nonmember bank may terminate its agreement upon written notification to the Board.

SECTION 221.5—Special-Purpose Loans to Brokers and Dealers

(a) *Special-purpose loans.* A member bank, and a nonmember bank that is in compliance with section 221.4 of this part, may extend and maintain purpose credit to brokers and dealers without regard to the limitations set forth in sections 221.3 and 221.8 of this part, if the credit is for any of the specific purposes and meets the conditions set forth in paragraph (c) of this section.

(b) *Written notice.* Prior to extending credit for more than a day under this section, the bank shall obtain and accept in good faith a written notice or certification from the borrower as to the purposes of the loan. The written notice or certification shall be evidence of continued eligibility for the special credit provisions until the borrower notifies the bank that it is no longer eligible or the bank has information that would cause a reasonable person to question whether the credit is being used for the purpose specified.

(c) *Types of special-purpose credit.* The types of credit that may be extended and maintained on a good faith basis are as follows:

(1) *Hypothecation loans.* Credit secured by hypothecated customer securities that, according to written notice received from the broker or dealer, may be hypothecated by the broker or dealer under Securities and Exchange Commission (SEC) rules.

(2) *Temporary advances in payment-against-delivery transactions.* Credit to finance the purchase or sale of securities for prompt delivery, if the credit is to be repaid upon completion of the transaction.

(3) *Loans for securities in transit or transfer.* Credit to finance securities in transit or surrendered for transfer, if the credit is to be repaid upon completion of the transaction.

(4) *Intraday loans.* Credit to enable a broker or dealer to pay for securities, if the credit is to be repaid on the same day it is extended.

(5) *Arbitrage loans.* Credit to finance proprietary or customer bona fide arbitrage transactions. For the purpose of this section "bona fide arbitrage" means—

(i) 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 nearly the same time as practicable, for the purpose of taking advantage of a difference in prices in the two markets; or

(ii) purchase of a security that is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days of the purchase into a second security, together with an offsetting sale of the second security at or about the same time, for the purpose of taking advantage of a concurrent disparity in the price of the two securities.

(6) *Distribution loans.* Credit to finance the distribution of securities to customers.

(7) *Odd-lot loans.* Credit to finance the odd-lot transactions of a person registered as an odd-lot dealer on a national securities exchange.

(8) *Emergency loans.* Credit that is essential to meet emergency needs of the broker-dealer business arising from exceptional circumstances.

(9) *Capital contribution loans.* (i) Credit that the Board has exempted by order

upon a finding that the exemption is necessary or appropriate in the public interest or for the protection of investors, provided the Securities Investor Protection Corporation certifies to the Board that the exemption is appropriate; or

(ii) credit to a customer for the purpose of making a subordinated loan or capital contribution to a broker or dealer in conformity with the SEC's net capital rules and the rules of the broker's or dealer's examining authority, provided—

(A) the customer reduces the credit by the amount of any reduction in the loan or contribution to the broker or dealer; and

(B) the credit is not used to purchase securities issued by the broker or dealer in a public distribution.

(10) *Loans to specialists.* Credit extended to finance the specialty security and permitted offset positions of members of a national securities exchange who are registered and acting as specialists on the exchange, provided the credit is extended on a good faith loan value basis.

(11) *OTC-market-maker credit.* Credit to a dealer who has given written notice to the bank that it is a "qualified OTC market maker" in an OTC margin security as defined in SEC Rule 3b-8 (17 CFR 240.3b-8) and that the credit will be used solely for the purpose of financing the market-making activity, provided the credit is extended on a good faith loan value basis.

(12) *Third-market maker loans.* Credit to a dealer who has given written notice to the bank that it is a "qualified third-market maker," as defined in SEC Rule 3b-8 (17 CFR 240.3b-8), and that the credit will be used solely for the purpose of financing positions in securities assumed as a "qualified third-market maker," provided the credit is extended on a good faith loan value basis.

(13) *Block positioner credit.* Credit to a dealer who has given written notice to the bank that it is a "qualified block positioner" for a block of securities, as defined in SEC Rule 3b-8 (17 CFR 240.3b-8), and that the credit will be used to finance a position in that block, provided the credit is extended on a good faith loan value basis.

SECTION 221.6—Exempted Transactions

A bank may extend and maintain purpose credit without regard to the provisions of this part if such credit is extended—

- (a) to any bank;
- (b) to any foreign banking institution;
- (c) outside the United States;
- (d) to an employee stock ownership plan (ESOP) qualified under section 401 of the Internal Revenue Code (26 USC 401);
- (e) to any “plan lender” as defined in part 207 of this chapter to finance such a plan, provided the bank has no recourse to any securities purchased pursuant to the plan;
- (f) to any customer, other than a broker or dealer, to temporarily finance the purchase or sale of securities for prompt delivery, if the credit is to be repaid in the ordinary course of business upon completion of the transaction;
- (g) against securities in transit, if the credit is not extended to enable the customer to pay for securities purchased in an account subject to part 220 of this chapter; or
- (h) to enable a customer to meet emergency expenses not reasonably foreseeable, and if the extension of credit is supported by a statement executed by the customer and accepted and signed by an officer of the bank acting in good faith. For this purpose, emergency expenses include expenses arising from circumstances such as the death or disability of the customer, or some other change in circumstances involving extreme hardship, not reasonably foreseeable at the time the credit was extended. The opportunity to realize monetary gain or to avoid loss is not a “change in circumstances” for this purpose.

SECTION 221.7—Requirements for the List of OTC Margin Stocks

(a) *Requirements for inclusion on the list.* Except as provided in paragraph (d) of this section, an OTC margin stock shall meet the following requirements:

- (1) Four or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;
- (2) The minimum average bid price of such stock, as determined by the Board, is at least \$5 per share;
- (3) The stock is registered under section 12 of the act, is issued by an insurance company subject to section 12(g)(2)(G) of the act, is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 USC 80a-8), is an American Depository Receipt (ADR) of a foreign issuer whose securities are registered under section 12 of the act, or is a stock of an issuer required to file reports under section 15(d) of the act;
- (4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;
- (5) The stock has been publicly traded for at least six months;
- (6) The issuer had at least \$4 million of capital, surplus, and undivided profits;
- (7) There are 400,000 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;
- (8) There are 1,200 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such a stock as determined by the Board is at least 500 shares; and
- (9) The issuer or a predecessor in interest has been in existence for at least three years.

(b) *Requirements for continued inclusion on the list.* Except as provided in paragraph (d) of this section, an OTC margin stock shall meet the following requirements:

- (1) Three or more dealers stand willing to, and do in fact make a market in such stock

and regularly submit bona fide bids and offers to an automated quotations system for their own accounts;

(2) The minimum average bid price of such stocks, as determined by the Board, is at least \$2 per share;

(3) The stock is registered as specified in paragraph (a)(3) of this section;

(4) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;

(5) The issuer has at least \$1 million of capital, surplus, and undivided profits.

(6) There are 300,000 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; and

(7) There continue to be 800 or more holders of record, as defined in SEC Rule 12g5-1 (17 CFR 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares.

(c) *Removal from the list.* The Board shall periodically remove from the list any stock that—

(1) ceases to exist or of which the issuer ceases to exist, or

(2) no longer substantially meets the provisions of paragraph (b) of this section or section 221.2(j).

(d) *Discretionary authority of Board.* Without regard to the other paragraphs of this sec-

tion, the Board may add to, or omit or remove from, the OTC margin stock list any equity security, if in the judgment of the Board such action is necessary or appropriate in the public interest.

(e) *Unlawful representations.* It shall be unlawful for any bank to make, or cause to be made, any representation to the effect that the inclusion of a security on the list of OTC margin stocks is evidence that the Board or the SEC has in any way passed upon the merits of, or given approval to, such security or any transactions therein. Any statement in an advertisement or other similar communication containing a reference to the Board in connection with the list or stocks on that list shall be an unlawful representation.

SECTION 221.8—Supplement: Maximum Loan Value of Stock and Other Collateral

(a) *Maximum loan value of margin stock.* The maximum loan value of any margin stock, except options, is 50 percent of its current market value.

(b) *Maximum loan value of nonmargin stock and all other collateral.* The maximum loan value of nonmargin stock and all other collateral except puts, calls, or combinations thereof is their good faith loan value.

(c) *Maximum loan value of options.* Except for purposes of section 221.5(c)(10) of this part, puts, calls, and combinations thereof have no loan value.

F.R. U-1
O.M.B. No. 7100-0115
Approval expires March 1985

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
Statement of Purpose for an Extension of Credit
Secured By Margin Stock

Name of Bank
(Federal Reserve Form U-1)

This form is required by law (15 U.S.C. 78g and 78w; 12 CFR 221).

INSTRUCTIONS

- 1. This form must be completed when a bank extends credit secured directly or indirectly, in whole or in part, by any margin stock.
- 2. The term "margin stock" is defined in Regulation U (12 CFR 221) and includes, principally: (1) stocks that are registered on a national securities exchange or that are on the Federal Reserve Board's List of OTC Margin Stocks; (2) debt securities
- (bonds) that are convertible into margin stocks; and (3) shares of mutual funds, unless 95 per cent of the assets of the fund are continuously invested in U.S. government, agency, State, or municipal obligations.
- 3. Please print or type (if space is inadequate, attach separate sheet).

PART I. To be completed by borrower(s)

1. What is the amount of the credit being extended? _____

2. Will any part of this credit be used to purchase or carry margin stock? Yes No

If the answer is "no", describe the specific purpose of the credit _____

I (we) have read this form and certify that to the best of my (our) knowledge and belief the information given is true, accurate, and complete, and that the margin stock and any other securities col-

lateralizing this credit are authentic, genuine, unaltered, and not stolen, forged, or counterfeit.

Signed: _____
Borrower's Signature Date

Print or Type Name

Signed: _____
Borrower's Signature Date

Print or Type Name

This form should not be signed in blank.

A borrower who falsely certifies the purpose of a credit on this form or otherwise willfully or intentionally evades the provisions of Regulation U will also violate Federal Reserve Regulation X, "Rules Governing Borrowers Who Obtain Securities Credit".

PART II. To be completed by bank only if the purpose of the credit is to purchase or carry margin stock (Part II(2) answered "yes")

1. List the margin stock securing this credit; do not include debt securities convertible into margin stock. The maximum loan value of margin stock is per cent of its current market value under the current Supplement to Regulation U.

No. of shares	Issue	Market price per share	Date and source of valuation (See note below)	Total market value per issue

2. List the debt securities convertible into margin stock securing this credit. The maximum loan value of such debt securities is per cent of the current market value under the current Supplement to Regulation U.

Principal amount	Issue	Market price	Date and source of valuation (See note below)	Total market value per issue

3. List other collateral including non-margin stock securing this credit.

Describe briefly	Market price	Date and source of valuation (See note below)	Good faith loan value

Note: Bank need not complete "Date and source of valuation" if the market value was obtained from regularly published information in a journal of general circulation.

PART III. To be signed by a bank officer in all instances

I am a duly authorized officer of the bank and understand that this credit secured by margin stock may be subject to the credit restrictions of Regulation U. I have read this form and any attachments, and I have accepted the customer's statement in Part I in good faith as required by Regulation U**, and I certify that to the best of my knowledge and belief, all the information given is true, accurate, and complete. I also certify that if any securities that directly secure the credit are not or will not be registered in the name of the borrower or its nominee, I have or will cause to have examined

the written consent of the registered owner to pledge such securities. I further certify that any securities that have been or will be physically delivered to the bank in connection with this credit have been or will be examined, that all validation procedures required by bank policy and the Securities Exchange Act of 1934 (section 17(f), as amended) have been or will be performed, and that I am satisfied to the best of my knowledge and belief that such securities are genuine and not stolen or forged and their faces have not been altered.

Date

Title

Signed: _____

Bank officer's signature

Print or type name

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

This form must be retained by the bank for at least three years after the credit is extinguished.

Regulation X Borrowers of Securities Credit

12 CFR 224; as revised effective January 23, 1984

SECTION 224.1—Authority, Purpose, and Scope

(a) *Authority and purpose.* Regulation X (this part*) is issued by the Board of Governors of the Federal Reserve System (the Board) under the Securities Exchange Act of 1934, as amended (the act) (15 USC 78a et seq.). This part implements section 7(f) of the act (15 USC 78g(f)), the purpose of which is to require that credit obtained within or outside the United States complies with the limitations of the Board's Margin Regulations G, T, and U (12 CFR 207, 220, and 221, respectively).

(b) *Scope and exemptions.* The act and this part apply the Board's margin regulations to United States persons and foreign persons controlled by or acting on behalf of or in conjunction with United States persons (hereinafter borrowers), who obtain credit outside the United States to purchase or carry United States securities, or within the United States to purchase or carry any securities (both types of credit are hereinafter referred to as purpose credit). The following borrowers are exempt from the act and this part:

(1) any borrower who obtains purpose credit within the United States, unless the borrower willfully causes the credit to be extended in contravention of Regulations G, T, or U;

(2) any borrower whose permanent residence is outside the United States and who does not obtain or have outstanding, during any calendar year, a total of more than \$100,000 in purpose credit obtained outside the United States; and

(3) any borrower who is exempt by order upon terms and conditions set by the Board.

SECTION 224.2—Definitions

The terms used in this part have the meanings

* Code of Federal Regulations, title 12, chapter II, part 224.

given to them in sections 3(a) and 7(f) of the act, and in Regulations G, T, and U. Section 7(f) of the act contains the following definitions:

(a) "United States person" includes a person which is organized or exists under the laws of any state or, in the case of a natural person, a citizen or resident of the United States; a domestic estate; or a trust in which one or more of the foregoing persons has a cumulative direct or indirect beneficial interest in excess of 50 per centum of the value of the trust.

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

(c) "Foreign person controlled by a United States person" includes any noncorporate entity in which United States persons directly or indirectly have more than a 50 per centum beneficial interest, and any corporation in which one or more United States persons, directly or indirectly, own stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock.

SECTION 224.3—Margin Regulations to Be Applied by Nonexempted Borrowers

(a) *Credit transactions outside the United States.* No borrower shall obtain purpose credit from outside the United States unless it conforms to the following margin regulations:

(1) Regulation T (12 CFR 220) if the credit is obtained from a foreign branch of a broker-dealer;

(2) Regulation U (12 CFR 221) if the credit is obtained from a foreign branch of a bank, except for the requirement of a purpose statement (12 CFR 221.3(b) and (c)); and

(3) Regulation G (12 CFR 207) if the credit is obtained from any other lender outside the United States, except for the requirement of a purpose statement (12 CFR 207.3(e) and (f)).

(b) *Credit transactions within the United States.* Any borrower who willfully causes credit to be extended in contravention of Reg-

ulations G, T, or U, and who, therefore, is not exempted by section 224.1(b)(1) of this part, must conform the credit to the margin regulation that applies to the lender.

(c) *Inadvertent noncompliance.* No borrower who inadvertently violates this part and who acts to remedy the violation as soon as practicable shall be deemed in violation of this part.

Securities Exchange Act of 1934

15 USC 78 c-hh; 48 Stat. 881; Pub. L. 73-291 (June 6, 1934)

* * * * *

SECTION 3—Definitions and Application (15 USC 78c)

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

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

* * * * *

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

(B) The term “member” when used

with respect to a registered securities association means any broker or dealer who agrees to be regulated by such association and with respect to whom the association undertakes to enforce compliance with the provisions of this title, the rules and regulations thereunder, and its own rules.

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

(5) The term “dealer” means any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise, but does not include a bank, or any person insofar as he buys or sells securities for his own account, either individual 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.

(7) The term “director” means any director of a corporation or any person performing similar functions with respect to any organization, whether incorporated or unincorporated.

(8) The term “issuer” means any person who issues or proposes to issue any security; except that with respect to certificates of

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

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

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

(11) The term "equity security" means any stock or similar security; or any security convertible, with or without consideration, into such a security, or carrying any

warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security which the Commission shall deem to be of similar nature and consider necessary or appropriate, by such rules and regulations as it may prescribe in the public interest or for the protection of investors, to treat as an equity security.

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

sion may, by such rules and regulations as it deems consistent with the public interest and the protection of investors, either unconditionally or upon specified terms and conditions or for stated periods, exempt from the operations 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 term "sale" and "sell" each include any contract to sell or otherwise dispose of.

(15) The term "Commission" means the Securities and Exchange Commission established by section 4 of this title.

(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.

* * * * *

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

[15 USC 78c. Amended by acts of Aug. 23, 1935 (49 Stat. 704); Aug. 20, 1964 (78 Stat. 565); Dec. 14, 1970 (84 Stat. 1435); Dec. 22, 1970 (84 Stat. 1499); June 4, 1975 (89 Stat. 97); May 21, 1978 (92 Stat. 274); and Oct. 13, 1982 (96 Stat. 1409). Acts of June 25, 1959 (73 Stat. 142) and July 12, 1960 (74 Stat. 412) deleted the words "Alaska" and "Hawaii," respectively, from paragraph (16). The words "Philippine Islands" were deleted from the definition of "State" in paragraph (a)(16) under authority of Proc. No. 2695, effective July 4, 1946, which recognized the independence of the Philippine Islands. The proclamation is set out as a note under 22 USC 1394.]

* * * * *

SECTION 6—National Securities Exchanges (15 USC 78f)

(a) *Registration; application.* An exchange may be registered as a national securities ex-

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

(b) *Determination by Commission requisite to registration of applicant as a national securities exchange.* An exchange shall not be registered as a national securities exchange unless the Commission determines that—

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

* * * * *

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

* * * * *

[15 USC 78f. This section became effective Sept. 1, 1934. As amended by act of June 4, 1975 (89 Stat. 104).]

SECTION 7—Margin Requirements (15 USC 78g)

(a) *Rules and regulations for extension of credit; standard for initial extension; under-*

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

- (1) 55 per centum of the current market price of the security, or
- (2) 100 per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than 75 per centum of the current market price.

Such rules and regulations may make appropriate provision with respect to the carrying of undermarginéd 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) *Lower and higher margin requirements.* 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 appro-

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

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

(2) without collateral or on any collateral other than securities, except in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may 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) *Unlawful credit extension in violation of rules and regulations; exception to application of rules, etc.* It shall be unlawful for any person not subject to subsection (c) to extend or maintain credit or to arrange for the extension or maintenance of credit for the purpose of purchasing or carrying any security, in contravention of such rules and regulations as the Board of Governors of the Federal Reserve System shall prescribe to prevent the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions of this section. Such rules and regulations may impose upon all loans

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

* * * * *

(f) *Unlawful receipt of credit; exemptions.*

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

(2) For the purposes of this subsection—
 (A) The term "United States person" includes a person which is organized or exists under the laws of any State or, in the case of natural person, a citizen or resident of the United States; a domestic estate; or a trust in which one or more of

the foregoing persons has a cumulative direct or indirect beneficial interest in excess of 50 per centum of the value of the trust.

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

(C) The term "foreign person controlled by a United States person" includes any noncorporate entity in which United States persons directly or indirectly have more than a 50 per centum beneficial interest, and any corporation in which one or more United States persons, directly or indirectly, own stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock.

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

[15 USC 78g. As amended by act of July 29, 1968 (82 Stat. 452). This section became effective Oct. 1, 1934. Paragraph (f) was added by act of Oct. 26, 1970 (84 Stat. 1124) effective Nov. 1, 1971.]

SECTION 8—Restrictions on Borrowing by Members, Brokers, and Dealers
 (15 USC 78h)

It shall be unlawful for any registered broker or dealer, member of a national securities exchange, or broker or dealer who transacts a business in securities through the medium of any member of a national securities exchange, directly or indirectly—

(a) To borrow in the ordinary course of business as a broker or dealer on any security (other than an exempted security) registered on a national securities exchange except (1) from or through a member bank of the Federal Reserve System, (2) from any nonmember

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

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

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

[15 USC 78h. As amended by act of June 4, 1975 (89 Stat. 109). This section became effective Oct. 1, 1934.]

* * * * *

SECTION 11—Trading by Members of Exchanges, Brokers, and Dealers (15 USC 78k)

* * * * *

(d) *Prohibition on extension of credit by broker-dealer.* It shall be unlawful for a member of a national securities exchange who is both a dealer and a broker, or for any person who both as a broker and a dealer transacts a business in securities through the medium of a member or otherwise, to effect through the use of any facility of a national securities exchange or of the mails or of any means or instrumentality of interstate commerce, or otherwise in the case of a member, (1) any transaction in connection with which, directly or indirectly, he extends or maintains or arranges for the extension or maintenance of credit to or for a customer on any security (other than an exempted security) which was a part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction: *Provided*, That credit shall not be deemed extended by reason of a bona fide delayed delivery of any such security against full payment of the entire purchase price thereof upon such delivery within thirty-five days after such purchase, or (2) any transaction with respect to any security (other than an exempted security) unless, if the transaction is with a customer, he discloses to such customer in writing at or before the completion of the transaction whether he is acting as a dealer for his own account, as a broker

for such customer, or as a broker for some other person.

* * * * *

[15 USC 78k. As amended by acts of Aug. 10, 1954 (68 Stat. 686) and June 4, 1975 (89 Stat. 110).]

SECTION 12—Registration Requirements for Securities (15 USC 78l)

* * * * *

(f) *Unlisted trading privileges for security originally listed on another national exchange.*

* * * * *

(6) Any security for which unlisted trading privileges are continued or extended pursuant to this subsection shall be deemed to be registered on a national securities exchange within the meaning of this title. The powers and duties of the Commission under this title shall be applicable to the rules of an exchange in respect of any such security. 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 such securities from the operation of any provision of section 13, 14, or 16 of this title.

* * * * *

SECTION 17—Records and Reports

* * * * *

(g) *Persons extending credit.* 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 of 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.

[15 USC 78q. As amended by acts of May 27, 1936 (49 Stat. 1379); June 25, 1938 (52 Stat. 1076); and June 4, 1975 (89 Stat. 137). This section, as originally enacted, became effective Oct. 1, 1934.]

* * * * *

SECTION 23—Rules, Regulations, and Orders; Annual Reports (15 USC 78w)

(a) *Power to make rules and regulations; considerations; public disclosure.*

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

* * * * *

[15 USC 78w. As amended by acts of Aug. 23, 1935 (49 Stat. 704); May 27, 1936 (49 Stat. 1379); Aug. 20, 1964 (78 Stat. 580); and June 4, 1975 (89 Stat. 155).]

* So in original. Probably should be "or any."

SECTION 26—Unlawful Representations (15 USC 78z)

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

[15 USC 78z. As amended by act of Aug. 23, 1935 (49 Stat. 704).]

* * * * *

SECTION 29—Validity of Contracts (15 USC 78cc)

(a) *Waiver provisions.* 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) *Contract provisions in violation of title.* 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 par-

ty 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: *Provided*, (A) That no contract shall be void by reason of this subsection because of any violation of any rule or regulation prescribed pursuant to paragraph (2) or (3) of subsection (c) of section 15 of this title, and (B) that no contract shall be deemed to be void by reason of this subsection in any action maintained in reliance upon this subsection, by any person to or for whom any broker or dealer sells, or from or for whom any broker or dealer purchases, a security in violation of any rule or regulation prescribed pursuant to paragraph (1) of subsection (c) of section 15 of this title, unless such action is brought within one year after the discovery that such sale or purchase involves such violation and within three years after such violation.

(c) *Validity of loans, extensions of credit, and creation of liens; actual knowledge of violation.* 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.

[15 USC 78cc. As amended by act of June 25, 1938 (52 Stat. 1076).]

SECTION 30—Foreign Securities Exchanges (15 USC 78dd)

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

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

[15 USC 78dd became effective Oct. 1, 1934.]

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SECTION 32—Penalties (15 USC 78ff)

(a) *Willful violations; false and misleading*

statements. Any person who willfully violates any provision of this title (other than section 30A 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 chapter, 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 chapter or any rule or regulation thereunder or any undertaking contained in a registration statement as provided in subsection (d) of section 15 of this title, or by any self-regulatory organization in connection with an application for membership or participation therein or to become associated with a member thereof which statement was false or misleading with respect to any material fact, shall upon conviction be fined not more than \$10,000, or imprisoned not more than five years, or both, except that when such person is an exchange, a fine not exceeding \$500,000 may be imposed; but no person shall be subject to imprisonment under this section for the violation of any rule or regulation if he proves that he had no knowledge of such rule or regulation.

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[15 USC 78ff. As amended by acts of May 27, 1936 (49 Stat. 1380); June 25, 1938 (52 Stat. 1076); Aug. 20, 1964 (78 Stat. 580); and Dec. 19, 1977 (91 Stat. 1496).]

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