

Board of Governors of the Federal Reserve System

Regulation T

Credit by Brokers and Dealers

12 CFR 220; as amended effective April 1, 1998



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creditor from imposing additional requirements or taking action for its own protection.

(3) This part does not apply to—

(i) financial relations between a customer and a creditor to the extent that they comply with a portfolio margining system under rules approved or amended by the SEC;

(ii) credit extended by a creditor based on a good faith determination that the borrower is an exempted borrower;

(iii) financial relations between a customer and a broker or dealer registered only under section 15C of the act; and

(iv) financial relations between a foreign branch of a creditor and a foreign person involving foreign securities.

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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 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 certain securities transactions.

(b) *Scope.*

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

(2) This part does not preclude any exchange, national securities association, or

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

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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 as follows:

Affiliated corporation means a corporation of which all the common stock 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.

Cash equivalent means securities issued or guaranteed by the United States or its agencies, negotiable bank certificates of deposit, banker's acceptances issued by banking institutions in the United States and payable in the United States, or money market mutual funds. *Covered option transaction* means any transaction involving options or warrants in which the customer's risk is limited and all elements of the transaction are subject to contemporaneous exercise if—

(1) the amount at risk is held in the account in cash, cash equivalents, or via an escrow receipt; and

(2) the transaction is eligible for the cash account by the rules of the registered national securities exchange authorized to trade the option or warrant or by the rules of the creditor's examining authority in the case of an unregistered option, provided that all such rules have been approved or amended by the SEC.

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

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.

Current market value of—

(1) a security means—

(i) throughout the day of the purchase or sale of a security, the security's total cost of purchase or the net proceeds of its sale including any commissions charged; or

(ii) at any other time, 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 sale 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.

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

Customer excludes an exempted borrower and 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.

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

Delivery against payment, payment against delivery, or a COD 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.

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.

Escrow agreement means any agreement issued in connection with a call or put option under which a bank or any person designated as a control location under paragraph (c) of SEC Rule 15c3-3 (17 CFR 240.15c3-3(c)), holding the underlying asset or required cash or cash equivalents, 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 asset or required cash or cash equivalent against payment of the exercise price upon exercise of the call or put.

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Examining authority means—

(1) the national securities exchange or national securities association of which a creditor is a member; or

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

Exempted borrower means a member of a national securities exchange or a registered broker or dealer, a substantial portion of whose business consists of transactions with persons other than brokers or dealers, and includes a borrower who—

(1) maintains at least 1000 active accounts on an annual basis for persons other than brokers, dealers, and persons associated with a broker or dealer;

(2) earns at least \$10 million in gross revenues on an annual basis from transactions with persons other than brokers, dealers, and persons associated with a broker or dealer; or

(3) earns at least 10 percent of its gross revenues on an annual basis from transactions with persons other than brokers, dealers, and persons associated with a broker or dealer.

Exempted securities mutual fund means any security issued by an investment company registered under section 8 of the Investment Company Act of 1940 (15 USC 80a-8), provided the company has at least 95 percent of its assets continuously invested in exempt securities (as defined in section 3(a)(12) of the act).

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Foreign margin stock means a foreign security that is an equity security that—

(1) appears on the Board's periodically published list of foreign margin stocks; or

(2) is deemed to have a "ready market" under SEC Rule 15c3-1 (17 CFR 240.15c3-1) or a "no-action" position issued thereunder.

Foreign person means a person other than a United States person as defined in section 7(f) of the act.

Foreign security means a security issued in a jurisdiction other than the United States.

Good faith with respect to—

(1) margin means the amount of margin which a creditor would require in exercising sound credit judgment;

(2) making a determination or accepting a statement concerning a borrower means that the creditor is alert to the circumstances surrounding the credit, and if in possession of information that would cause a prudent person not to make the determination or accept the notice or certification without inquiry, investigates and is satisfied that it is correct.

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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.

Margin deficiency means the amount by which the required margin exceeds the equity in the margin account.

Margin equity security means a margin security that is an equity security (as defined in section 3(a)(11) of the act).

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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 220.12 (the supplement).

Margin security means—

(1) any security registered or having unlisted trading privileges on a national securities exchange;

(2) after January 1, 1999, any security listed on the Nasdaq Stock Market;

(3) any nonequity security;

(4) 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);

(5) any foreign margin stock;

(6) any debt security convertible into a margin security;

(7) until January 1, 1999, any OTC margin stock; or

(8) until January 1, 1999, any OTC security designated as qualified for trading in the national market system under a designation plan approved by the Securities and Exchange Commission (NMS security).

Money market mutual fund means any security issued by an investment company registered under section 8 of the Investment Company Act of 1940 (15 USC 80a-8) that is considered a money market fund under SEC Rule 2a-7 (17 CFR 270.2a-7).

Nonequity security means a security that is not an equity security (as defined in section 3(a)(11) of the act).

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

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OTC margin stock means any equity security traded over the counter 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.

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Payment period means the number of business days in the standard securities-settlement cycle in the United States, as defined in paragraph (a) of SEC Rule 15c6-1 (17 CFR 240.15c6-1(a)), plus two business days.

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.

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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 that is not cash-settled obligates the customer to sell the underlying asset at the exercise price upon receipt of a valid exercise notice or as otherwise required by the option contract.
- (2) A short put that is not cash-settled obligates the customer to purchase the underlying asset at the exercise price upon receipt of a valid exercise notice or as otherwise required by the option contract.
- (3) A short call or a short put that is cash-settled obligates the customer to pay the holder of an in-the-money long put or long call who has, or has been deemed to have, exercised the option the cash difference between the exercise price and the current assigned value of the option as established by the option contract.

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Underlying asset means—

- (1) the security or other asset that will be delivered upon exercise of an option; or
- (2) in the case of a cash-settled option, the securities or other assets which comprise the index or other measure from which the option's value is derived.

5-403**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*.

(1) *In general*. The requirements of one account may not be met by considering items in any other account. If withdrawals of cash or securities are permitted under this part, written entries shall be made when cash or securities are used for purposes of meeting requirements in another account.

(2) *Exceptions*. Notwithstanding paragraph (b)(1) of this section—

- (i) for purposes of calculating the required margin for a security in a margin account, assets held in the good faith account pursuant to section 220.6(e)(1)(i) or
- (ii) may serve in lieu of margin;
- (ii) transfers may be effected between the margin account and the special memorandum account pursuant to sections 220.4 and 220.5.

(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.

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(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 securities 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.

(4) To temporarily finance a customer's receipt of securities pursuant to an employee benefit plan registered on SEC Form S-8 or the withholding taxes for an employee stock award plan, a creditor may accept, in lieu of the securities, a properly executed exercise notice, where applicable, and instructions to the issuer to deliver the stock to the creditor. Prior to acceptance, the creditor must verify that the issuer will deliver the securities promptly and the customer must designate the account into which the securities are to be deposited.

5-405

(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) *Arranging for loans by others.* A creditor may arrange for the extension or maintenance of credit to or for any customer by any person, provided the creditor does not willfully arrange credit that violates parts 221 or 224 of this chapter.

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(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) *Foreign currency.*

(1) Freely convertible foreign currency may be treated at its U.S. dollar equivalent, provided the currency is marked to market daily.

(2) A creditor may extend credit denominated in any freely convertible foreign currency.

(j) *Exempted borrowers.*

(1) A member of a national securities exchange or a registered broker or dealer that has been in existence for less than one year may meet the definition of exempted borrower based on a six-month period.

(2) Once a member of a national securities exchange or registered broker or dealer ceases to qualify as an exempted borrower, it shall notify its lender of this fact before obtaining additional credit. Any new extensions of credit to such a borrower, including rollovers, renewals, and additional draws on existing lines of credit, are subject to the provisions of this part.

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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 cleared by separate creditors; or

(iii) provide one or more accounts over

which the creditor or a third-party investment adviser has investment discretion.

5-407.1

(b) *Required margin.*

(1) *Applicability.* The required margin for each long or short position in securities is set forth in section 220.12 (the supplement) and is subject to the following exceptions and special provisions.

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

(3) *When-issued securities.* The required margin on a net long or net short commitment in a when-issued security is the margin that would be required if the security were an issued margin security, plus any unrealized loss on the commitment or less any unrealized gain.

(4) *Stock used as cover.*

(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 (b)(1) 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) *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.

5-407.2

(6) *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 exten-

sion of credit to the joint account and shall be margined as such.

(7) *Transfer of accounts.*

(i) 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.

(ii) 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.

(8) *Sound credit judgment.* In exercising sound credit judgment to determine the margin required in good faith pursuant to section 220.12 (the supplement), the creditor shall make its determination for a specified security position without regard to the customer’s other assets or securities positions held in connection with unrelated transactions.

5-408

(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 so created or increased.

(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 secu-

rities, exempted securities, or any combination thereof.

(3) *Time limits.*

(i) A margin call shall be satisfied within one payment period after the margin deficiency was created or increased.

(ii) The payment period may be extended for one or more limited periods upon application by the creditor to its examining authority unless the examining authority 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 payment period or the expiration of 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.

5-409

(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 \$1,000 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 (§ 220.5) by making a single entry to that account which will represent a debit to the margin account and a credit to the special memorandum account.

(3) If a creditor does not receive a distribu-

tion 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 (e), a withdrawal transaction shall be deemed to have occurred on the day the distribution is payable.

5-410

(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.

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SECTION 220.5—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.

5-418

(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); and
- (4) margin excess transferred from the margin account under section 220.4(e)(2).

5-419**SECTION 220.6—Good Faith Account**

In a good faith account, a creditor may effect or finance customer transactions in accordance with the following provisions:

- (a) *Securities entitled to good faith margin.*
- (1) *Permissible transactions.* A creditor may effect and finance transactions involving the buying, carrying, or trading of any security entitled to "good faith" margin as set forth in section 220.12 (the supplement).
 - (2) *Required margin.* The required margin is set forth in section 220.12 (the supplement).
 - (3) *Satisfaction of margin.* Required margin may be satisfied by a transfer from the special memorandum account or by a deposit of cash, securities entitled to "good faith" margin as set forth in section 220.12 (the supplement), any other asset that is not a security, or any combination thereof. An asset that is not a security shall have a margin value determined by the creditor in good faith.

5-420

(b) *Arbitrage.* A creditor may effect and finance for any customer bona fide arbitrage transactions. For the purposes 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 practicable for the purpose of taking advantage of a difference in prices in the two markets; or
- (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days 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.

(c) *"Prime broker" transactions.* A creditor may effect transactions for a customer as part of a "prime broker" arrangement in conformity with SEC guidelines.

(d) *Credit to ESOPs.* A creditor may extend and maintain credit to employee stock ownership plans without regard to the other provisions of this part.

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(e) *Nonpurpose credit.*

- (1) A creditor may—
 - (i) effect and carry transactions in commodities;
 - (ii) effect and carry transactions in foreign exchange;
 - (iii) extend and maintain secured or unsecured nonpurpose credit, subject to the requirements of paragraph (e)(2) of this section.
- (2) Every extension of credit, except as provided in paragraphs (e)(1)(i) and (e)(1)(ii) 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.

5-422**SECTION 220.7—Broker-Dealer Credit Account**

(a) *Requirements.* In a broker-dealer credit account, a creditor may effect or finance transactions in accordance with the following provisions.

(b) *Purchase or sale or security against full payment.* A creditor may purchase any security from or sell any security to another creditor or person regulated by a foreign securities authority under a good faith agreement to promptly deliver the security against full payment of the purchase price.

(c) *Joint back office.* A creditor may 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.

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(d) *Capital contribution.* A creditor may 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.

(e) *Emergency and subordinated credit.* A creditor may extend and maintain, with the approval of the appropriate examining authority—

(1) credit to meet the emergency needs of any creditor; or

(2) subordinated credit to another creditor for capital purposes, if the other creditor—

(i) is an affiliated corporation or would not be considered a customer of the lender apart from the subordinated loan; or

(ii) 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.

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(f) *Omnibus credit.*

(1) 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—

(i) all securities will be for the account of customers of the broker or dealer; and

(ii) any short sales effected will be short sales made on behalf of the customers of the broker or dealer other than partners.

(2) The written notice required by paragraph (f)(1) of this section shall conform to any SEC rule on the hypothecation of customers' securities by brokers or dealers.

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(g) *Special-purpose credit.* A creditor may extend the following types of credit with good faith margin:

(1) credit to finance the purchase or sale of securities for prompt delivery, if the credit is to be repaid upon completion of the transaction;

(2) credit to finance securities in transit or surrendered for transfer, if the credit is to be repaid upon completion of the transaction;

(3) 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;

(4) credit to an exempted borrower;

(5) credit to a member of a national securities exchange or registered broker or dealer to finance its activities as a market maker or specialist; and

(6) credit to a member of a national securities exchange or registered broker or dealer to finance its activities as an underwriter.

5-426**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 or other asset 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 or asset before selling it and does not contemplate selling it prior to making such payment;

(2) buy from or sell for any customer any security or other asset 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, or sell an option for any customer as part of a covered option transaction; and

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

- (i) in the case of a short call or a short put, the creditor is advised by the customer that the required securities, assets, or cash are held by a person authorized to issue an escrow agreement and the creditor independently verifies that the appropriate escrow agreement will be delivered by the person promptly; or
- (ii) in the case of a call issued, endorsed, guaranteed, or sold on the same day the underlying asset is purchased in the account and the underlying asset is to be delivered to a person authorized to issue an escrow agreement, the creditor verifies that the appropriate escrow agreement will be delivered by the person promptly.

5-427

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

(1) *Full cash payment.* A creditor shall obtain full cash payment for customer purchases—

- (i) within one payment period of the date—
 - (A) any nonexempted security was purchased;
 - (B) any when-issued security was made available by the issuer for delivery to purchasers;
 - (C) any when-distributed security was distributed under a published plan;
 - (D) 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—

(I) the customer purchased the new

security no more than 35 calendar days prior to the date of maturity or redemption of the old security;

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

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

(ii) In the case of the purchase of a foreign security, within one payment period of the trade date or within one day after the date on which settlement is required to occur by the rules of the foreign securities market, provided this period does not exceed the maximum time permitted by this part for delivery-against-payment transactions.

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(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 calendar 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 payment period by the number of days required for shipment, but not by more than one additional payment period.

(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 \$1,000.

5-429

(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 secu-

rity. 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 the period specified in paragraph (b)(1) of this section, 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.

5-430

(d) *Extension of time periods; transfers.*

- (1) Unless the creditor's examining authority 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 payment period, or in the case of the purchase of a foreign security within the period specified in paragraph (b)(1)(ii) of this section, or the expiration of any subsequent extension.

5-436

SECTION 220.9—Clearance of Securities, Options, and Futures

(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 securi-

ties exchange or association or through any clearing agency registered with the SEC.

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

- (1) the clearing agency—
 - (i) issues, guarantees performance on, or clears transactions in, any security (including options on any security, certificate of deposit, securities index, or foreign currency); or
 - (ii) guarantees performance of contracts for the purchase or sale of a commodity for future delivery or options on such contracts;
- (2) the clearing agency is registered with the Securities and Exchange Commission or is the clearing agency for a contract market regulated by the Commodity Futures Trading Commission; and
- (3) the deposit consists of any margin security and complies with the rules of the clearing agency that have been approved by the Securities and Exchange Commission or the Commodity Futures Trading Commission.

5-439

SECTION 220.10—Borrowing and Lending Securities

(a) 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. If a creditor reasonably anticipates a short sale or fail transaction, such borrowing may be made up to one standard settlement cycle in advance of trade date.

(b) A creditor may lend foreign securities to a foreign person (or borrow such securities for the purpose of relending them to a foreign person) for any purpose lawful in the country in which they are to be used.

(c) A creditor that is an exempted borrower

may lend securities without regard to the other provisions of this part and a creditor may borrow securities from an exempted borrower without regard to the other provisions of this part.

5-440

SECTION 220.11—Requirements for the List of Marginable OTC Stocks and the List of Foreign Margin Stocks

(a) *Requirements for inclusion on the list of marginable OTC stocks.* Except as provided in paragraph (f) 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 \$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 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 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.

5-441

(b) *Requirements for continued inclusion on the list of marginable OTC stocks.* Except as provided in paragraph (f) 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 \$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.

5-441.1

(c) *Requirements for inclusion on the list of foreign margin stocks.* Except as provided in paragraph (f) of this section, a foreign security shall meet the following requirements before being placed on the list of foreign margin stocks:

- (1) the security is an equity security that is listed for trading on or through the facilities

of a foreign securities exchange or a recognized foreign securities market and has been trading on such exchange or market for at least six months;

(2) daily quotations for both bid and asked or last sale prices for the security provided by the foreign securities exchange or foreign securities market on which the security is traded are continuously available to creditors in the United States pursuant to an electronic quotation system;

(3) the aggregate market value of shares, the ownership of which is unrestricted, is not less than \$1 billion;

(4) the average weekly trading volume of such security during the preceding six months is either at least 200,000 shares or \$1 million; and

(5) the issuer or a predecessor-in-interest has been in existence for at least five years.

5-441.2

(d) *Requirements for continued inclusion on the list of foreign margin stocks.* Except as provided in paragraph (f) of this section, a foreign security shall meet the following requirements to remain on the list of foreign margin stocks:

(1) the security continues to meet the requirements specified in paragraphs (c)(1) and (2) of this section;

(2) the aggregate market value of shares, the ownership of which is unrestricted, is not less than \$500 million; and

(3) the average weekly trading volume of such security during the preceding six months is either at least 100,000 shares or \$500,000.

5-442

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

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

(2) no longer substantially meets the provisions of paragraphs (b) or (d) of this section or the definition of OTC margin stock.

(f) *Discretionary authority of Board.* Without regard to other paragraphs of this section, the Board may add to, or omit or remove from

the list of marginable OTC stocks and the list of foreign margin stocks an equity security if, in the judgment of the Board, such action is necessary or appropriate in the public interest.

(g) *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 marginable OTC stocks or the list of foreign 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 lists or stocks on those lists shall be an unlawful representation.

5-443

SECTION 220.12—Supplement: Margin Requirements

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

(a) *Margin equity security, except for an exempted security, money market mutual fund or exempted-securities mutual fund, warrant on a securities index or foreign currency, or a long position in an option:* 50 percent of the current market value of the security or the percentage set by the regulatory authority where the trade occurs, whichever is greater.

(b) *Exempted security, nonequity security, money market mutual fund, or exempted securities mutual fund:* the margin required by the creditor in good faith or the percentage set by the regulatory authority where the trade occurs, whichever is greater.

5-444

(c) *Short sale of a nonexempted security, except for a nonequity security:*

(1) 150 percent of the current market value of the security, or

(2) 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, provided that any long call to be used as

margin in connection with a short sale of the underlying security is an American-style option issued by a registered clearing corporation and listed or traded on a registered national securities exchange with an exercise price that does not exceed the price at which the underlying security was sold short.

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

(e) *Nonmargin, nonexempted equity security*: 100 percent of the current market value.

5-445

(f) *Put or call on a security, certificate of deposit, securities index or foreign currency,*

or a warrant on a securities index or foreign currency:

(1) in the case of puts and calls issued by a registered clearing corporation and listed or traded on a registered national securities exchange or a registered securities association and registered warrants on a securities index or foreign currency, the amount, or other position specified by the rules of the registered national securities exchange or the registered securities association authorized to trade the option or warrant, provided that all such rules have been approved or amended by the SEC; or

(2) in the case of all other puts and calls, the amount, or other position, specified by the maintenance rules of the creditor's examining authority.

Form T-4—Purpose Statement

FR T-4
 OMB No. 7100-0019
 Approval expires April 30, 2005

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

**Statement of Purpose for an Extension of Credit by a Creditor
(Federal Reserve Form T-4)**

Name of Creditor

This report is required by law (15 U.S.C. 78g and 78w; 12 CFR 220).

The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

Public reporting burden for this collection of information is estimated to average 10 minutes per response, including the time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0019), Washington, DC 20503.

Instructions

1. This form must be completed only if the purpose of the credit being extended is *not* to purchase, carry, or trade in securities *and* the credit is in excess of that otherwise permitted under Regulation T. (See § 220.6(e)(2)).
2. Please print or type (if space is inadequate, attach separate sheet).

Part I To be completed by customer(s)

1. What is the amount of the credit being extended? _____
2. The borrower acknowledges that no part of this credit will be used to purchase, carry, or trade in securities. The purpose of the credit is described in detail as follows:

3. Are any of the securities listed in Part II to be delivered, or have any such securities been delivered from a bank, broker, dealer, or other person on a "delivery against payment" basis? Yes No

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 if blank.

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

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

Title

Authorized representative's signature

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 lender for three years after the credit is extinguished.

