index options. The Board proposes to adopt generic language permitting the extension of good faith credit for permitted offsets, provided the position has been designated as a permitted offset under SEC-approved rules of the appropriate SRO.

B. OTC Options

In 1991, Board staff raised no objection to a broker-dealer that sought to ''arrange'' for its customer to write an OTC option on foreign securities.[3] This position would be codified by the proposed amendments to the arranging section concerning foreign securities. The Board is not proposing to extend this position to OTC options on securities which are publicly traded in the United States. Allowing broker-dealers to arrange for customers to write OTC options without collecting margin would not be consistent with the requirements of the organized options exchanges. Rules of the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD) both provide that margin is required for the ''issuance, guarantee or sale (other than a 'long' sale) for a customer of a put or call.'' The Board is proposing to add the word ''sell'' to the language in the cash account to make clear that the Board's rules cover the same situations covered by NYSE and NASD rules.

C. Employee Stock Options and Other Benefit Plans

Section 220.3(e)(4) of Regulation T was added in 1988 to allow creditors to help customers with valuable employee stock options exercise their options by providing short-term financing of the exercise price. The short-term loan is either paid off from the sale of the securities received pursuant to the employee stock option or replaced with a conventional margin loan extended against those securities. This practice has come to be known in the industry as ''cashless exercise.'' Over the last five years, Board staff has not objected to the expansion of the application of § 220.3(e)(4) to other types of securities customers receive under employee benefit plans, such as certain employee stock warrants. In addition, Board staff has allowed brokers to temporarily finance withholding taxes due on stock received under employee benefit plans. New language is being proposed to reflect these staff opinions. The new language would also allow the use of § 220.3(e)(4) for outside directors and consultants who are eligible to participate in employee benefit plans under SEC rules.

II. International Transactions

A. Foreign Broker-Dealers

Any entity required to register as a broker or dealer with the SEC under section 15(a) of the Securities Exchange Act of 1934 (the Act) is a creditor under Regulation T. Although the definitions of ''broker'' and ''dealer'' in the Act do not refer to nationality, the SEC's policy is to require registration of foreign broker-dealers only when they are physically operating in the United States.[4] The Board generally follows the SEC in this area and does not consider foreign broker-dealers not required to register with the SEC as creditors under Regulation T.

Although the commenters were mixed on whether the definition of creditor should be amended to include or exclude foreign broker-dealers, there was general agreement that U.S. broker-dealers purchasing securities from or selling securities to a foreign broker-dealer on a DVP basis should be able to effect the trades on a broker-to-broker basis. Proposed language is being added to the Broker-Dealer Credit Account that will make clear that foreign broker-dealers may use this account for DVP transactions with U.S. broker-dealers.

B. Foreign Currency

Since 1990, creditors have been able to extend margin credit denominated in foreign currency if it is secured by foreign margin securities denominated or traded in the same foreign currency. If a customer has securities of various denominations, margin subaccounts (and, if desired, SMA subaccounts) are set up so that credit computed in U.S. dollars and each separate currency can be isolated. Under the current rule, an increase in the value of securities used to support specific foreign currency-denominated debt cannot be used to offset a deficiency in another margin subaccount. At the request of commenters, the Board is proposing to delete this limitation and permit margin requirements denominated in any currency to be offset by equity in any marginable security or a foreign currency deposit made in connection with a security denominated in that currency. Creditors would be free to retain the current system of separate SMAs for each foreign currency denomination.

Another comment concerning foreign currency comes from the Securities Industry Association (SIA), which believes that any freely convertible currency should be able to be treated at its U.S. dollar equivalent for all purposes of Regulation T. Under the current version of Regulation T, foreign currency received in connection with the purchase, sale or loan of a security denominated in that currency may be accounted for in that currency or at its U.S. dollar equivalent. If there is no security denominated in that currency, creditors should convert the currency into its U.S. dollar equivalent upon receipt. The conversion can be effected in a customer's cash or margin account, with the resulting balance maintained in U.S. dollars.

C. Foreign Securities

1. Arranging

In 1990, the Board added an exception concerning foreign stocks to the arranging section of Regulation T which permits a creditor to arrange for its customer to receive more credit than the creditor could extend when its customer is purchasing a foreign security with credit from a foreign lender. The exception, found in section 220.13(d), was based on the theory that transactions involving foreign securities do not require the same strictness of regulation because they do not have a substantial effect on the U.S. securities market. Commenters have asked for the Board to expand the foreign stock exception to cover short sales as well. The Board agrees that equal treatment in the arranging area should be afforded to both long and short sales.

In gaining experience with the 1990 amendment, however, it has been noticed that there is an increasing trend for corporations that have issued stock abroad to list the securities for trading in the United States. Therefore, the Board is proposing a somewhat more restricted definition of what constitutes a foreign security for purposes of this section to assure equal treatment of foreign and domestic securities that are publicly traded in the United States. For example, the German conglomerate Daimler-Benz recently listed its shares on the New York Stock Exchange, thereby enabling U.S. broker-dealers to extend 50 percent credit against the stock. Under the current arranging exception for foreign securities, a creditor can arrange for its customer to borrow more than 50 percent on Daimler-Benz stock if the credit is extended by a foreign lender (often a foreign affiliate of the creditor). In contrast, a creditor may not arrange for its customer to buy AT&T stock with less than 50 percent margin, even if the credit were extended by a foreign

[3] Staff Opinion of October 22, 1991, *FRRS* 5–666.27.

[4] SEC Release No. 34–27017; 54 FR 30013 (July 18, 1989).