**Section 204.40 Regulations Under Subsection (c) of the Act**

a) Exemption of certain securities from subsection (c) of the Act

 Any security shall be exempt from the operation of subsection (c) of the Act to the extent necessary to render lawful under such subsection the execution by a broker of an order for an account in which he has no direct or indirect interest.

b) Exemption from subsection (c) of the Act of certain transactions effected in connection with a distribution

 Any security shall be exempt from the operation of subsection (c) of the Act to the extent necessary to render lawful under such subsection any sale made by or on behalf of a dealer in connection with a distribution of a substantial block of securities, upon the following conditions:

1) The sale is represented by an over-allotment in which the dealer is participating as a member of an underwriting group, or the dealer or a person acting on his behalf intends in good faith to offset such sale with a security to be acquired by or on behalf of the dealer as a participant in an underwriting, selling or soliciting-dealer group of which the dealer is a member at the time of the sale, whether or not the security to be so acquired is subject to a prior offering to existing security holders or some other class of persons; and

2) Other persons not within the purview of subsection (c) of the Act are participating in the distribution of such block of securities on terms at least as favorable as those on which such dealer is participating and to an extent at least equal to the aggregate participating at all persons exempted from the provisions of subsection (c) of the Act by this section. However, the performance of the functions of manager of a distributing group and the receipt of a bona fide payment for performing such functions shall not preclude an exemption which would otherwise be available under this section.

c) Exemption from subsection (c) of the Act of sales of securities to be acquired

1) Whenever any person is entitled, as an incident to his ownership of an issued security and without the payment of consideration, to receive another security "when issued" or "when distributed," the security to be acquired shall be exempt from the operation of subsection (c), provided that:

A) the sale is made subject to the same conditions as those attaching to the right of acquisition, and

B) such person exercises reasonable diligence to deliver such security to the purchaser promptly after his right of acquisition matures, and

C) such person reports the sale on the appropriate form for reporting transactions by persons subject to subsection (a) of the Act.

2) This subsection (c) shall not be construed as exempting transactions involving both a sale of a security "when issued" or "when distributed" and a sale of the security by virtue of which the seller expects to receive the "when issued" or "when distributed" security, if the two transactions combined result in a sale of more units than the aggregate of those owned by the seller plus those to be received by him pursuant to his right of acquisition.