

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 68-86
April 3, 1968

AMENDMENTS TO REGULATIONS T, U, AND G

To All Banks and Others Concerned
in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System has amended its stock market credit Regulations G, T, and U, to ease the restrictions on banks, brokers, and other lenders covered by the Regulations which act as agents in handling transactions involving loans on securities. The new provisions will be effective on April 17, 1968.

Copies of the amendments are enclosed. Member banks are requested to insert the amendments in the ring binder containing the Regulations of the Board of Governors and the Bulletins of this Bank.

Also enclosed is a copy of the press release concerning the amendments.

Yours very truly,

P. E. Coldwell
President

Enclosures (4)

**CREDIT BY PERSONS OTHER THAN BANKS, BROKERS,
OR DEALERS FOR THE PURPOSE OF PURCHASING OR
CARRYING REGISTERED EQUITY SECURITIES**

AMENDMENTS TO REGULATION G

(12 CFR 207)

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Lender Acting as Agent

1. Effective immediately section 207.4(f) is revoked.
2. Effective April 17, 1968, section 207.4(f) is added as follows:

SECTION 207.4—MISCELLANEOUS PROVISIONS.

*** * ***

(f) **Acting as agent.** (1) No person shall act as agent of any lender, bank, or creditor subject to Parts 207, 220, or 221 of this Chapter (Regulations G, T, and U) in respect of any transaction which such person knows or should know is connected with an extension or maintenance of credit secured directly or indirectly by any registered equity security unless a statement signed by such lender, bank, or creditor is filed with, and accepted in good faith by such person, to the effect that such lender, bank, or creditor does not extend or maintain credit to or for customers in violation of such Parts.

(2) For the purpose of this paragraph, activities of an "agent" include, for example, but are not limited to receiving securities to be used as collateral, determining whether the market value of collateral is adequate, and requiring the deposit of additional collateral or the reduction of credit.

(3) In determining whether a transaction involves an extension of credit, whether such credit is secured directly or indirectly by any registered equity security, and whether such person can rely in good faith on the statement described in subparagraph (1) of this paragraph, such person shall (i) be alert to the circumstances surrounding the transaction, and (ii) if he has information that would cause a prudent man not to accept such statement without inquiry, must have investigated and be satisfied that the credit either is not subject to such Part or is extended and maintained in conformity with the provisions of such Part.

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**CREDIT BY BROKERS, DEALERS, AND
MEMBERS OF NATIONAL SECURITIES EXCHANGES
AMENDMENTS TO REGULATION T**

(12 CFR 220)

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Creditor Acting as Agent

1. Effective immediately section 220.7(f) is revoked.
2. Effective April 17, 1968, section 220.7(f) is added as follows:

SECTION 220.7 — MISCELLANEOUS PROVISIONS.

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(f) **Acting as agent.** (1) No creditor shall act as agent of any person in respect of any transaction which the creditor knows or should know is connected with an extension or maintenance of credit secured directly or indirectly by any registered security unless a statement signed by such person is filed with, and accepted in good faith by the creditor, to the effect that such person does not extend or maintain credit to or for customers in violation of Part 207, 220, or 221 of this Chapter (Regulations G, T, or U).

(2) For the purpose of this paragraph, activities of an "agent" include, for example, but are not limited to receiving securities to be used as collateral, determining whether the market value of collateral is adequate, and requiring the deposit of additional collateral or the reduction of credit.

(3) In determining whether a transaction involves an extension of credit, whether such credit is secured directly or indirectly by any registered security, and whether he can rely in good faith on the statement described in subparagraph (1) of this paragraph, the creditor shall (i) be alert to the circumstances surrounding the transaction, and (ii) if he has information that would cause a prudent man not to accept such statement without inquiry, must have investigated and be satisfied that the credit either is not subject to such Part or is extended and maintained in conformity with the provisions of such Part.

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**CREDIT BY BANKS FOR THE PURPOSE OF
PURCHASING OR CARRYING REGISTERED STOCKS
AMENDMENTS TO REGULATION U**

17
1700 (12 CFR 221)

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Bank Acting as Agent

1. Effective immediately, section 221.3(u) is revoked.
2. Effective April 17, 1968, section 221.3(u) is added as follows:

SECTION 221.3 — MISCELLANEOUS PROVISIONS.

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(u) Bank acting as agent. (1) No bank shall act as agent of any person in respect of any transaction which the bank knows or should know is connected with an extension or maintenance of credit secured directly or indirectly by any registered equity security unless a statement signed by such person is filed with the bank, and accepted in good faith by a duly authorized officer of the bank, to the effect that such person does not extend or maintain credit to or for customers in violation of Part 207, 220, or 221 of this Chapter (Regulation G, T, or U).

(2) A bank subject to this Part (sometimes referred to herein as a "domestic bank"), may, without regard to subparagraph (1) of this paragraph, act as agent of a bank or other similar financial institution, a principal portion of the business of which consists of receiving deposits, formed under the laws of a foreign State (sometimes referred to herein as a "foreign bank"), if such foreign bank has filed with such domestic bank a statement signed by a duly authorized officer of the foreign bank, and accepted in good faith by a duly authorized officer of the domestic bank, to the effect that the foreign bank will not request the domestic bank to act as agent in respect of any transaction (i) which is connected with an extension of credit by it secured directly or indirectly by any registered equity security to any citizen or resident of the United States, or (ii) as to which the foreign bank knows or should know that any other person is extending credit in connection with such transaction to any citizen or resident of the United States secured directly or indirectly by any registered equity security.

(3) A domestic bank may also, without regard to subparagraphs (1) and (2) of this paragraph, act as agent of a foreign bank in respect of an extension of credit by such foreign bank to a citizen of the United States residing in the foreign State under whose laws such foreign bank is formed, if (i) such citizen has executed a statement in conformity with the requirements of Federal Reserve Form U-4 stating that the credit is not for the purpose of purchasing or carrying registered equity securities and affirmatively describing the purpose of the credit, (ii) the

foreign bank has forwarded such statement to the domestic bank, and (iii) the statement has been accepted by a duly authorized officer of the domestic bank. A duly authorized officer of such domestic bank may accept such statement if it is regular and complete on its face and he has no actual knowledge of facts or circumstances which would cause him not to accept the statement without inquiry. Such domestic bank shall not later than the fifteenth day of each month, furnish the Federal Reserve Bank of the District in which the head office of the domestic bank is located with a list of the names of the persons who executed statements on Federal Reserve Form U-4 received during the preceding calendar month and the dollar amount of credit extended to each such person, as set forth in such statements, and shall retain such statements in its records, in a separate file readily available to bank examiners, for at least six years after the credit is extinguished.

(4) For the purposes of this paragraph, activities of an "agent" include, for example, but are not limited to receiving securities to be used as collateral, determining whether the market value of collateral is adequate, and requiring the deposit of additional collateral or the reduction of credit.

(5) In determining whether a transaction involves an extension of credit, whether such credit is secured directly or indirectly by any registered equity security, and whether he can rely in good faith on the statements described in subparagraphs (1) and (2) of this paragraph, the officer shall (i) be alert to the circumstances surrounding the transaction, and (ii) if he has information that would cause a prudent man not to accept such statement without inquiry, must have investigated and be satisfied that the credit either is not subject to such Part or is extended and maintained in conformity with the provisions of such Part.

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FEDERAL RESERVE

press release

For immediate release.

March 29, 1968.

The Board of Governors today announced that it has amended its stock market credit Regulations G, T, and U, to ease the restrictions on banks, brokers, and other lenders covered by the regulations which act as agents in handling transactions involving loans on securities. These provisions of the regulations (section 207.4(f) of Regulation G, section 220.4(f) of Regulation T, and section 221.3(u) of Regulation U) had been temporarily suspended by the Board on February 29, 1968. The new provisions will be effective on April 17, 1968.

The amendments provide that the prohibitions of the "agency" sections only apply where the bank, broker, or other lender knows or should know that the services it performs as agent are connected with a loan secured in such a way that the agent would have had to observe the requirements of the regulation if it had itself made the loan. This change is designed to mitigate administrative burdens involved in handling a substantial volume of ministerial agency transactions.

As to banks, two further changes are designed to make the regulation more workable within the framework of existing international banking relationships. The first permits domestic banks to handle transactions as agent on behalf of foreign banks in reliance on an assurance by the foreign bank that it will not ask its U. S. agent bank to handle transactions connected with securities loans to U. S.

citizens. The second permits U. S. citizens living abroad to borrow from foreign banks against collateral consisting of registered stocks, and have the collateral handled by a U. S. bank, if the borrower files a statement corresponding to that which must be filed under similar circumstances by a borrower in the United States, showing that the purpose of the loan is not to purchase or carry registered stocks.