

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 72-257
November 9, 1972

WITHDRAWAL OF PROPOSED AMENDMENTS AND
PROPOSED TERMINATION OF RELATED PROVISIONS
REGARDING CREDIT TO PROVIDE CAPITAL TO BROKERS AND DEALERS

To All Banks, Brokers, Dealers, Regulation G Registrants
and Others Concerned in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System on November 3, 1972, withdrew proposed amendments to its Regulations G, T and U -- to have gone into effect December 1 -- setting forth the conditions under which credit may be obtained for the purpose of providing capital to broker-dealer firms without regard to initial margin requirements.

At the same time, the Board published for comment through November 20 a proposal to amend its Regulation U by terminating an exemption from initial margin requirements for credit extended by banks for the purpose of providing capital to broker-dealer firms.

The Board took these actions because of the newly adopted revisions by the Securities and Exchange Commission, the self-regulating national stock exchanges and the National Association of Securities Dealers which affect the provision of capital to brokers and dealers.

Regulation U applies margin requirements to credit extended by banks for the purpose of purchasing or carrying margin stocks; Regulation T applies to such credit when extended by brokers or dealers, while Regulation G applies to credit for purchasing or carrying margin stocks when extended by lenders other than banks, brokers or dealers.

Printed on the following pages is the Board's order.

Yours very truly,

P. E. Coldwell,

President

FEDERAL RESERVE SYSTEM

[12 CFR PARTS 207, 220 and 221]

[Regs. G, T and U]

SECURITIES CREDIT TRANSACTIONS

Withdrawal of Proposed Amendments, and
Proposed Termination of Related Provi-
sion Regarding Credit to Provide Capital
to Brokers and Dealers.

On April 16, 1971, the Board of Governors of the Federal Reserve System issued, and on July 9, 1971, it revised, proposed amendments to its Regulation G, "Securities Credit by Persons other than Banks, Brokers, or Dealers"; T, "Credit by Brokers and Dealers"; and U, "Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks" setting forth conditions under which credit may be obtained without regard to initial margin requirements for the purpose of providing capital to broker/dealer firms. The initial proposals were published in the Federal Register on April 24, 1971 (36 Federal Register 7754) and the revised proposals were published in the Federal Register on July 16, 1971 (36 F.R. 13218-13221). The original and revised proposals were intended to replace a conditional interim provision regarding such credit which was added to Regulation U, on April 16, 1971, when the proposals were initially put forth for comment.

The revised proposals were to become effective October 1, 1971, but the Board has since postponed the effective date to December 1, 1972.

After consideration of the comments and suggestions received, and in view of subsequent changes in the capital rules prescribed by the self-regulatory bodies and the Securities and Exchange Commission, The Board (1) has decided to withdraw its proposals to amend § 207.1(f) of Regulation G, § 220.4(f)(2) of Regulation T, § 221.2(m) and § 221.3(b)(4) and (q) of Regulation U, and (2) proposes to amend Regulation U by terminating the related provision in paragraph (m) of § 221.2 which was adopted as an interim measure.

The effect of the Board's actions in withdrawing the above-cited rules and terminating § 221.2(m) would be to restore the rules on this subject to those which prevailed before April 16, 1971.

Most importantly, credit extended by banks, after the effective date of the proposed termination, for the purpose of providing capital to broker/dealer firms would be subject to margin requirements if secured directly or indirectly by any stock. This would be the case regardless of whether the credit was extended directly to the firm or to a third party to enable them to contribute capital to the firm. If not so secured, such credit would not be subject to Regulation U.

Credit extended or maintained by banks pursuant to the provision in § 221.2(m) of Regulation U, prior to the effective date of its amendment including renewals or extensions of such credit after that date, would not become subject to the margin requirements of Regulation U, so long as it continued to meet the conditions specified therein.

Bank credit would continue to be available to contribute capital to broker/dealer firms under paragraph (1) of § 221.2 without regard to margin requirements in individual situations where the Board has determined, upon certification by the Securities Investor Protection Corporation, that such action is appropriate under the circumstances.

Section 221.2(m) would be amended to read as follows:

Section 221.2 - EXCEPTIONS TO GENERAL RULE

* * * * *

(m) Any credit extended to a customer, prior to the effective date of the proposed termination, and maintained continuously thereafter, for the purpose of making a loan or contribution of capital to a broker or dealer subject to Part 220 (Regulation T), or to purchase stock in such a broker which is a corporation; Provided, That

(1) such loan or contribution is in conformity with the requirements regarding satisfactory subordination agreements or equities in the accounts of partners of a rule of the Securities and Exchange Commission (Rule 15c3-1(c)(2)(A), (c)(4), and (c)(7) (17 CFR 240.15c3-1(c)(2)(A), (c)(4), and (c)(7)) or the capital rules of an exchange of which the broker or dealer is a member if the members thereof are exempt therefrom by Rule 15c3-1(b)(2) of the Commission (17 CFR 240.15c3-1(b)(2)) or such stock is purchased directly from the issuer and not as part of a public distribution, and

(2) all of the proceeds of such extension of credit are so loaned or contributed to the capital of such broker or dealer, or used to purchase such stock, and

(3) all of the net proceeds of any withdrawal of such loan or contribution of capital from such broker or dealer or redemption of such stock shall be paid to the bank and used to reduce or retire such extension of credit.

The Board is affording interested persons an opportunity to submit relevant data, views, or arguments concerning the proposed amendment. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than November 20, 1972. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

This notice is published pursuant to section 553(b) of Title 5, United States Code, and § 262.2(a) of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2(a)).

By order of the Board of Governors, November 2, 1972.

(Signed) Michael A. Greenspan

Michael A. Greenspan
Assistant Secretary

(SEAL)