FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-164
August 14, 1981

CORRECTION

REGULATIONS G, T, AND U

Proposed Amendments

TO ALL MEMBER BANKS, OTHER CREDITORS,
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

A recent circular, No. 81-149, containing material from the Board of Governors of the Federal Reserve System inviting comment on a second set of proposals to simplify and reduce the regulatory burden of its margin regulations G, T, and U included the incorrect Federal Register information.

Enclosed are copies of the Board's press release dated July 10, 1981, and the correct Federal Register information. Interested persons are invited to submit comments to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received no later than September 15, 1981. When submitting comments, please refer to Docket No. R-0362.

Any questions concerning the proposed amendments should be directed to this Bank's Legal Department, Ext. 6171.

Sincerely yours,

William H. Wallace

William H. Wallace
First Vice President

Enclosure

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

# FEDERAL RESERVE press release

For immediate release July 10, 1981

The Federal Reserve Board today requested comment on proposed revisions of its margin regulations. The Board asked for comment by September 15, 1981.

The proposals made today complete proposals being made by the Board to simplify, and to reduce the regulatory burden of compliance with, its margin regulations G, T and U. The Board proposed other amendments, in regulations T and U, in June, also for comment by September 15. Following consideration of comment received the Board will propose rewritten margin regulations.

Revision of the Board's margin regulations is part of the Board's Regulatory Improvement Project, established in 1978, in which the Board is examining all of its regulations, with the objectives of simplifying them and of reducing the burden of compliance wherever possible.

The Board proposed, in addition to the amendments suggested in June, the following further principal changes in its margin rules:

1. Regulation T would be amended to reduce the number of types of securities and other accounts subject to Regulation T from eleven to seven and to restructure the accounts along functional lines. Four of the accounts would be used for public customer transactions and three for transactions between industry members.
2. The terminology of Regulation T would be revised to prescribe the amount of margin required rather than the maximum loan value of securities used as collateral. This would conform to the terminology generally used by the securities industry.
3. The definition of "indirectly secured" margin loans in regulations U and G would be amended to achieve more objective standards. This

action would affect principally lending arrangements, by banks and insurance companies with corporate borrowers, that contain restrictions on disposition of the borrower's assets.

4. Regulation G would be amended to broaden the types of credit which may be extended by lenders subject to that regulation, chiefly insurance companies and credit unions.

The Board's proposal is attached.

## FEDERAL RESERVE SYSTEM

### 12 CFR Parts 207, 220, and 221

[Docket No. R-0362; Regulations G, T, and U]

### Securities Credit by Persons Other Than Banks, Brokers, or Dealers; Credit by Brokers and Dealers; Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Proposed amendments.

**SUMMARY:** The Board of Governors is inviting comment on a second set of proposals to simplify and reduce the regulatory burden of its margin regulations, Regulations T, U and G (12 CFR 220, 221 and 207). The first group of proposed amendments was published for comment in the **Federal Register** on June 24, 1981 (46 FR 32592). In this second group of amendments the following changes are proposed:

1. Amend Regulation T to reduce the number of accounts and restructure them along functional lines; increase types of firms that may offer certain accounts; permit dealers in OTC margin securities to obtain credit from other broker/dealers and make special provision for jointly-owned clearing firms.

2. Change the terminology of Regulation T when referring to the amount of credit that can be extended by a broker/dealer to "margin/equity" from "maximum loan value/adjusted debit balance."

3. Revise the definition of "indirectly secured" in Regulations U and G to incorporate more objective standards.

4. Amend Regulation G to permit G-lenders to extend both regulated and nonregulated credit to the same borrower. This action would remove restrictions which are no longer believed to be necessary and would parallel more lenient restrictions applicable to banks under Regulation U. In addition, Regulations G and U would be amended to permit consolidation of loans secured by convertible bonds with other regulated loans. This action would parallel a previously announced consolidation proposal for Regulation T.

**DATE:** Comments should be received on or before September 15, 1981.

**ADDRESS:** Comments, which should refer to Docket No. R-0362, may be mailed to the Secretary, Board of Governors of the Federal Reserve System, 20th Street and Consitution Avenue, NW., Washington, D.C. 20551 or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received may also be inspected at Room B-1122 between 8:45 and 5:15 p.m., except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

**FOR FURTHER INFORMATION CONTACT:** Laura Homer, Division of Banking Supervision and Regulation (202) 452-2781, or Robert Rewald, Division of Research and Statistics (202) 452-3637, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or Mindy R. Silverman (212) 791-5032 or James M. McNeil (212) 791-5914, Federal Reserve Bank of New York.

**SUPPLEMENTARY INFORMATION:** *Account consolidation.* The 11 accounts currently required by Regulation T would be consolidated into 7 accounts along functional lines. Four of these accounts would be used for public customer transactions and three for transactions between industry members. The four public customer transaction accounts would be as follows:

1. General Account. This account would consolidate the present General Account and the two bond accounts. It would contain margin stock, margin bonds, including convertible bonds, and exempted securities. Virtually all extensions of securities credit to public customers would be recorded in this consolidated General Account.

2. Segregated Equity Account. This account would contain public customer transactions currently described in one subdivision of the Special Miscellaneous Account (12 CFR 220.4(f)(6)) and commonly known as SMA transactions. The following types of credit would be permitted to be recorded in a Segregated Equity Account: (i) dividends and interest payments; (ii) deposits not required by Regulation T; (iii) net proceeds released by a sale of securities; and (iv) transfer of credit available because of the increase in loan value of securities in the General Account. Although the SMA has a long history of use for the purposes indicated, the Board questions whether, in fact, the type of credits for which it is now used could as easily be accommodated in the Cash Account. Accordingly, comment is specifically invited as to justifications for retaining the SMA account (to be renamed the Segregated Equity Account), including what, if any, adverse effects would result from its elimination. Comment is also requested as to what, if any, problems might arise if the SMA is eliminated and the previously proposed minimum level adjustment [46 FR 32953] is applied to the Cash Account.

3. Cash Account. This would be substantially identical to the present Special Cash Account (12 CFR 220.4(c)). A Cash Account is used for the purchases and sales of securities that are *bona fide* cash transactions. Credit is extended in the account only for clearing and settlement, if at all.

4. Non-securities Credit Account. This account would be used for transactions in commodities and foreign exchange and for the extension or maintenance of non-purpose credit, *i.e.* credit that is not to be used to purchase, carry, or trade in securities. Currently, commodity transactions are effected in the Special Commodity Account (12 CFR 220.4(e)) and foreign exchange transactions and non-purpose credits are effected in the Special Miscellaneous Account (12 CFR 220.4(f)).

The accounts that would be used for transactions with other brokers or dealers are as follows:

5. Market Functions Account. This account would consolidate the present provisions for special credit on transactions contributing to efficient and orderly markets. The account would combine the Specialist Account (12 CFR 220.4(g)), Special Arbitrage Account (12 CFR 220.4(d)), and the provisions in the Special Miscellaneous Account (12 CFR 220.4(f)) for extensions of credit to odd-lot dealers and the underwriting or distribution of securities. In addition, this account would include a new provision for special credit for market in OTC margin securities comparable to the provisions in Regulation U that permit such loans by banks (12 CFR 221.3(w)). The current inability of a dealer in OTC margin stock to get special credit from another broker/dealer is a burden for any dealer who clears transactions through another broker/dealer and wishes to finance the dealer inventory with the clearing broker.

6. Omnibus Account. This account would contain the same transactions as the present Special Omnibus Account (12 CFR 220.4(b)). In addition it would be amended to permit broker/dealers who are not members of exchanges to carry these accounts.

7. Broker-Dealer Credit Account. This account would be a consolidation of those provisions of the Special Miscellaneous Account that have not been incorporated into either the Market Functions Account, the Non-securities Credit Account or the Segregated Equity Account. The account would consolidate the present provisions for credit used to finance capital contributions to broker/dealers, delivery against payment transactions between broker/dealers and credit extended to broker/dealers in emergency circumstances. In addition, this account would permit financing on a special basis by a broker/dealer clearing firm which is owned jointly by a group of broker/dealers. Currently, transactions processed by a jointly-owned clearing firm for its owners are subject to the restrictions in Regulation T on credit to customers, whereas a firm that clears its own transactions is not subject to Regulation T restrictions on those transactions.

Two accounts presently contained in Regulation T would be deleted. These are the Special Subscription Account (12 CFR 220.4(h)) and the Special Insurance Premium Funding Account (12 CFR 220.4(k)). It appears that at the present time these accounts are rarely used and may no longer be necessary. Unless there are substantial reasons for their continued existence, both of these accounts would be deleted from the regulation in the interest of simplification.

*Terminology.* The Board proposes to rewrite Regulation T to change the terminology when describing the amount of credit that can be extended by a broker/dealer to "margin/equity" from "maximum loan value/adjusted debit balance." It has been suggested that the terminology currently employed in the regulation is unnecessarily complex and confusing and is not the terminology used by the securities industry. The same regulatory effect can be achieved by placing the structure and language of the regulation in a margin/equity framework in which the regulatory status of an account would be determined by comparing the required margin to the equity (or net worth) of the account. The regulatory text to effect this recommendation will be published at a later date. However comments are requested on the proposal.

*Indirect security.* The Board is proposing amendments to Regulations U and G to narrow the definition of "indirectly secured." The present definition has caused undue regulatory burden since it is premised on a subjective standard that is difficult to interpret and administer. It is expected that many of the interpretive problems that now exist will be mooted if the Board adopts its proposal to eliminate nonmargin stock from the collateral test in Regulation U (46 F.R. 32592). However, to further reduce the complexity of interpretation engendered by the "indirect security" concept, the Board is proposing a more objective definition.

*Restrictions on Regulation G-lenders.* Lenders subject to Regulation G are currently prohibited from extending regulated loans and non-purpose loans to the same borrower if the non-purpose loan is over $5,000 and both loans are secured by the same margin securities. In addition, G-lenders are prohibited from extending purpose credit on assets other than margin equity securities concurrently with or subsequent to an extension of purpose credit secured by margin equity securities to the same borrower. The proposed amendments would permit G-lenders to extend both non-purpose and purpose credit secured by assets other than margin equity securities concurrently with the extension of regulated purpose credit. This would provide a regulatory structure comparable to that presently applicable to banks under Regulation U. In addition, the present provision of Regulation G requiring segregation of purpose loans secured by convertible bonds from other regulated loans would be eliminated. This action would parallel the Board's proposal concerning Regulation T that was published on June 24, 1981. A similar change will be made in Regulation U.

Accordingly, pursuant to sections 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78g, 78w), the Board proposes to amend Regulations T, U and G (Parts 220, 221 and 207 respectively) as follows:

## PART 220—CREDIT BY BROKERS AND DEALERS

A. Section 220.4 of Regulation T is amended as follows:

### § 220.4 Special Accounts [Amended]

1. In § 220.4 paragraphs (a) (3) and (4) are revised to read as follows:

(a) *General Rule.* * * *

(3) A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this part. If a customer has with a creditor both a general account and one or more such special accounts, the creditor shall treat each such special account as if the customer had with the creditor no general account.

(4) The only other conditions to which transactions in such special accounts shall be subject under the provisions of this part shall be such conditions as are specified in the appropriate paragaph of this section and in §§ 220.2, 220.6, 220.7, or 220.8.

* * * * *

2. Existing paragraph (b) is removed and paragraph (c) is relettered as paragraph (b) and the word "Special" is removed from the title of the account so it now reads "Cash Account."

3. Existing paragraphs (d), (e), (f) and (g) are removed and the following new paragraphs (c), (d), (e), (f) and (g) are added:

* * * * *

(c) *Segregated Equity Account.* In a segregated equity account a creditor may receive from or for any customer deposits derived from:

(1) Dividend and interest payments

(2) Cash resulting from a maintenance margin call or other requirement of a self-regulatory organization which are not required by this Part.

(3) Proceeds of a sale of securities that may be released under provisions of § 220.3.

(4) Excess loan value of securities in a general account.

or pay out to any customer or transfer to any other account any credit balance.

(d) *The Non-securities Credit Account.* In a non-securities credit account a creditor may:

(1) Effect and carry transactions in commodities.

(2) Effect and carry transactions in foreign exchange.

(3) Extend and maintain credit without collateral or on any collateral whatever for any purpose other than purchasing or carrying or trading in securities, provided that the requirements of § 220.7(c) are met.

(e) *Omnibus Account.* In a special omnibus account, a creditor may effect and finance transactions for a member of a national securities exchange or a broker or dealer registered with the Securities and Exchange Commission under section 15 of the Securities Exchange Act of 1934 (15 U.S.C. 78o) from whom the member receives (1) written notice, pursuant to a rule of the Securities and Exchange Commission concerning the hypothecation of customers' securities by brokers or dealers (Rule 8c–1 (17 CFR 240.8c–1) or Rule 15c2–1 (17 CFR 240.15c2–1)), to the effect that all securities carried in the account will be carried for the account of the customers of the broker or dealer and (2) written notice that any short sales effected in the account will be short sales made in behalf of the customers of the broker or dealer other than his partners.

(f) *Broker-dealer Credit Account.* In a broker-dealer credit account, a creditor may:

(1) With the approval of any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, extend and maintain credit to meet the emergency needs of any creditor;

(2)(i) Extend and maintain credit, (A) to or for any partner of a firm which is a member of a national securities exchange to enable such partner to make a contribution of capital to such firm, or to purchase stock in an affiliated corporation of such firm, or (B) to or for any person who is or will become the holder of stock of a corporation which is a member of a national securities exchange to enable such person to purchase stock in such corporation, or to purchase stock in an affiliated corporation of such corporation; provided the lender as well as the borrower is a partner in such member firm or a stockholder in such member corporation, or the lender is a firm or a stockholder in such member corporation, or the lender is a firm or corporation which is a member of a national securities exchange and the borrower is a partner in such firm or a stockholder in such corporation;

(ii) Extend and maintain subordinated credit to another creditor for capital purposes: Provided, That

(A) Either the lender or the borrower is a firm or corporation which is a member of a national securities exchange or national securities association, the other party to the credit is an affiliated corporation of such firm or corporation, the credit is not in contravention of any rule of the exchange or association and the credit has the approval of appropriate committees of the exchange or association, or

(B) The lender as well as the borrower is a creditor as defined in § 220.2(b), the subordinated loan agreement has the approval of the appropriate Examining Authority as defined in Securities and Exchange Commission Rule 15c3–1(c)(12) (12 CFR 240.15c3–1(c)(12)) and such examining authority is satisfied, in the case of a borrower who would be considered a customer of the lender apart from the subordinated loan, that the loan will not be used to increase the amount of dealing in securities for the account of the borrower, his firm or corporation or an affiliated corporation of such firm or corporation.

(iii) For the purpose of paragraphs (f)(2) (i) and (ii) of this section, the term "affiliated corporation" means a corporation all the common stock of which is owned directly or indirectly by the member firm or general partners and employees of the firm, or by the member corporation or holders of voting stock and employees of the corporation and an appropriate committee of the exchange has approved the member firm's or member corporation's affiliation with such affiliated corporation.

(3) Purchase any security from any customer who is a member of a national securities exchange or a broker or dealer registered with the Securities and Exchange Commission under section 15 of the Securities Exchange Act of 1934 (15 U.S.C. 78o), or sell any security to such customer: *Provided,* That the creditor acting in good faith purchases or sells the security for delivery, against full payment of the purchase price, as promptly as practicable in accordance with the ordinary usage of the trade;

(4) If the creditor is a clearing and servicing broker/dealer, owned jointly or individually by other creditors, effect and finance transactions of any of its owners.

(g) *The Market Functions Account.* In a market functions account a creditor may:

(1) Effect and finance for any customer bona fide arbitrage transactions in securities. For the purpose of this paragraph, the term "arbitrage" means (i) 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 (ii) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days following the date of its purchase into a second security together with an offsetting sale at or about the same time of such second security for the purpose of taking advantage of a disparity in the prices of the two securities, except that when the security purchased is solely a due bill for, or other evidence of the right to receive only the security that is sold, and the security that is sold is trading as a when-issued security, such period shall be 180 calendar days.

(2) Clear and finance for a specialist who is a member of a national securities exchange such member's securities transactions or transactions of any joint account in which all participants, or all participants other than the creditor, are registered and act as specialists.

(i) A specialist in options is permitted to establish in this account on a share-for-share basis a long or short position in the securities underlying the options in which the specialist makes a market, and a specialist in securities other than options is permitted to purchase or write options overlying the securities in which the specialist makes a market, only under one or more of the following conditions (such positions are referred to in this paragraph as "permitted offset positions"):

(A) The account holds a short options position which is "in or at the money" and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money;"

(B) The account holds a long option position which is "in or at the money" and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money;"

(C) The account held a short option position against which an exercise notice was tendered;

(D) The account held a long option position which was exercised;

(E) The account holds a net long position in a security (other than an option) in which the specialist makes a market; or,

(F) The account holds a net short position in a security (other than an option) in which the specialist makes a market.

(ii) The maximum loan value of securities which may be used as collateral in the account shall be:

(A) No more than 100 percent of the current market value of any long position in a security in which the specialist makes a market, a wholly-owned margin security, or an exempted security issued by the United States Government or an agency thereof;

(B) 75 percent of the current market value of any permitted offset position that is purchased and held in the account under the terms of paragraph (g)(2) of this section;

(C) The maximum loan value prescribed by the Board in § 220.8 (the Supplement to Regulation T) when a security purchased and held in the account does not qualify as a specialist or permitted offset position.

(iii) The amount to be included in the adjusted debit balance of the account shall be:

(A) Not less than 100 percent of the current market value of either a security sold short or an option written where such position qualifies as a specialist transaction;

(B) 125 percent of the current market value of any permitted offset position sold short or written in the account under the terms of paragraph (g)(2) of this section;

(C) The amount prescribed by the Board in § 220.8 (the Supplement to Regulation T) when a security sold short in the account does not qualify as a specialist or permitted offset position plus, for a short position in a security other than an option, the current market value of the security sold short.

(iv) Except as required by paragraph (g)(2)(vi) of this section, on any day when additional margin is required as a result of transactions in the account, the creditor shall issue a call for a deposit of cash or securities having loan value and may allow the specialist a maximum of five full business days to make a deposit sufficient to meet the call. To prevent "free-riding" in the account, a creditor who has not obtained this deposit (and is therefore required to liquidate sufficient securities to meet the call) is prohibited for a 15 day period from extending any further credit in the account to finance transactions in securities in which the specialist is not registered to make a market. The acquisition or liquidation of a permitted offset position shall not be subject to this "free-riding" penalty. The restriction on "free-riding" shall not apply to any national securities exchange adopting a "free-riding" rule applicable to specialists which has been approved by the Securities and Exchange Commission.

(v) On any day when a specialist requests a withdrawal of cash or securities from the account, the creditor shall compute the status of the account for non-specialist securities positions in accordance with the provisions of § 202.8 (the Supplement to Regulation T), permitted offset positions in accordance with the provisions of paragraphs (g)(2)(ii) and (g)(2)(iii), and specialist positions on a "good faith" basis. Withdrawals shall be permitted to the extent that the adjusted debit balance in the account would not exceed the total value of all of the collateral held in the account after the withdrawal has been made.

(vi) On any day when the account would liquidate to a deficit, the creditor shall not extend any further credit in the account, and shall issue a call for additional cash or collateral which shall be met by noon of the following business day. In the event sufficient cash or collateral is not deposited the creditor shall liquidate existing positions in the account.

(vii) The provisions of this paragraph are available to a specialist who is a member of a national securities exchange which submits to the Board of Governors of the Federal Reserve System reports suitable for supplying current information regarding the use of specialist credit.

(viii) For the purpose of this paragraph:

(A) The term "joint account" means an account in which the creditor may participate and which by written agreement permits the commingling of the security positions of the participants and provides for a sharing of profits and losses from the account on some predetermined ratio;

(B) The term "underlying security" means the security which will be delivered upon exercise of the option and does not include a security convertible into the underlying security;

(C) The term "overlying option" means (*1*) a put option purchased or a call option written against an existing long position in a specialist's or market-maker's account, or (*2*) a call option purchased or a put option written against a short position in a specialist's or market-maker's account.

(D) The term "in or at the money", with respect to a call option, indicates that the current market price of the underlying security is not more than one standard exercise interval below the exercise price of the option, and, with respect to a put option, that the current market price of the underlying security is not more than one standard exercise interval above the exercise price of the option.

(E) The term "in the money", with respect to a call option, indicates that the current market price of the underlying security is not below the

exercise price of the option and, with respect to a put option, that the current market price of the underlying security is not above the exercise price of the option.

(3) Effect and finance, for any member of a national securities exchange who is registered and acts as an odd-lot dealer in securities on the exchange, such member's transactions as an odd-lot dealer in such securities, or effect and finance, for any joint venture in which the creditor participates, any transactions in any securities of an issue with respect to which all participants, or all participants other than the creditor, are registered and act on a national securities exchange as odd-lot dealers;

(4) Effect transactions for and finance any joint venture or group in which the creditor participates and in which all participants are dealers (whether such participants be acting jointly or severally), or any member thereof or participant therein, for the purpose of facilitating the underwriting or distributing of all or part of an issue of securities (i) not through the medium of a national securities exchange, or (ii) the distribution of which has been approved by the appropriate committee of a national securities exchange;

* * * * *

4. Paragraphs (h), (i), (j) and (k) are removed.

## PART 221—CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING MARGIN STOCKS

B. Section 221.3 of Regulation U is amended as follows:

1. Section 221.3(c) is revised to read as follows:

**§ 221.3 Miscellaneous provisions.**

* * * * *

(c) *Indirectly secured.* The term "indirectly secured" includes any arrangement with the customer under which the customer's right or ability to sell, pledge, or otherwise dispose of margin equity securities owned by the customer is in any way restricted as long as the credit remains outstanding or under which the exercise of such right is or may be cause for acceleration of the maturity of the credit.

The foregoing shall not apply:

(1) If, following application of the proceeds of the credit, not more than 25 percent of the fair market value of the assets subject to the arrangement are margin equity securities;

(2) To a lending arrangement that permits acceleration of maturity of the credit as a result of a specified event of default or the renegotiation of the terms of another credit to the same customer by another lender that is not an affiliate[1] of the bank; or

(3) If the margin equity securities are held by the bank only in the capacity of custodian, depositary, or trustee, or under similar circumstances, and the bank in good faith has not relied upon such margin equity securities as collateral in the extension or maintenance of the particular credit.

* * * * *

2. Existing paragraphs (r) and (t) are removed; existing paragraph (s) is redesignated as paragraph (r); and existing paragraphs (u) through (z) are redesignated as paragraphs (s) through (x).

**§ 221.1 [Amended]**

C. Section 221.1(a) is amended by removing all the words at the end of paragraph (a)(1) following the words "as described in § 221.3(s),". Section 221.2 is amended by removing the phrase "or in § 221.3(t)" (and the commas before and after the phrase) in the introductory sentence of the section after the words "the limitations prescribed therein."

## PART 207—SECURITIES CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS

D. Section 207.1 of Regulation G is amended as follows:

**§ 207.1 General rule. [Amended]**

1. Paragraph (c) is amended to remove all words at the end of the paragraph after the words "or as determined by the lender in good faith for any collateral other than margin securities:" and beginning with "*Provided,* That."

2. Paragraph (d) is removed in its entirety and paragraphs (e) and (f) are redesignated as (d) and (e) respectively.

3. Paragraph (g) is redesignated as paragraph (f) and revised to read as follows:

* * * * *

(f) *Combining purpose credit extended to the same customer.* For the purpose of this part, except for a credit subject to § 207.4(a)(2), the aggregate of all outstanding purpose credit extended to a customer by a lender shall be considered a single credit and all the collateral securing such a credit, whether directly or indirectly, in whole or in part, shall be considered in determining whether the credit complies with this part.

4. Existing paragraphs (h) and (i) are removed and paragraph (j) is redesignated as paragraph (g) and revised to read as follows:

* * * * *

(g) *Withdrawals and substitutions of collateral.* Except as permitted by § 207.4(a), a lender shall not at any time permit any withdrawal or substitution of collateral, if, after completion of the transaction, there would be any increase in the amount by which the credit exceeded the maximum loan value of the collateral.

* * * * *

5. New paragraphs (h) and (i) are added to read as follows:

* * * * *

(h) *Purpose and nonpurpose credit extended to the same customer.*

(1) The lender shall identify all the collateral used to meet the requirements of § 207.1(c) (the entire credit being considered a single credit and collateral being similarly considered) and shall not cancel the identification of any portion thereof except in circumstances that would permit the withdrawal of that portion. Such identification may be made by any reasonable method.

(2) For any credit extended to the same customer that is not subject to § 207.1(c) the lender shall in good faith require as much collateral not so identified as would be required (if any) if the lender held neither the indebtedness subject to § 207.1(c) nor the identified collateral.

(i) *Purpose credit secured by margin securities and other collateral.* A lender may extend credit for the purpose of purchasing or carrying margin securities secured by collateral other than margin securities, and, in the case of such credit, the maximum loan value of the collateral shall be as determined by the lender in good faith.

E. Section 207.2(i) is revised to read as follows:

**§ 207.2 Definitions.**

* * * * *

(i) *Indirectly secured.* The term "indirectly secured" includes any arrangement with the customer under which the customer's right or ability to sell, pledge, or otherwise dispose of margin equity securities owned by the customer is in any way restricted as long as the credit remains outstanding or under which the exercise of such right is or may be cause for acceleration of the maturity of the credit.

The foregoing shall not apply:

[1] For this purpose the term "affiliate" shall mean a bank holding company of which the bank is a subsidiary within the meaning of the Bank Holding Company Act of 1956, as amended, or any other subsidiary of such bank holding company, or any other corporation, business trust, association or other similar organization which is an affiliate as defined in section 2(b) of the Banking Act of 1933 (12 U.S.C. 221a).

(1) if, following application of the proceeds of the credit, not more than 25 percent of the fair market value of the assets subject to the arrangement are margin equity securities;

(2) to a lending arrangement that permits acceleration of muturity of the credit as a result of a specified event of default or the renegotiation of the terms of another credit to the same customer by another lender that is not an affiliate [2] of the lender; or

(3) if the margin equity securities are held by the lender only in the capacity of custodian, depositary, or trustee, or under similar circumstances, and the lender in good faith has not relied upon such margin equity secruities as collateral in the extension of maintenance of the particular credit.

* * * * *

**Initial Regulatory Flexibility Analysis**

The Board of Governors of the Federal Reserve System is requesting comment on additional proposed changes to its margin regulations. These changes are the second part of a planned package of proposed amendments intended to simplify margin regulations, generally, and to reduce specific administrative and regulatory burdens imposed upon lenders by Regulation T (broker lending), Regulation U (bank lending), and Regulation G (lending by persons other than brokers or banks).

The simplification of margin regulations that is being proposed at this time will provide benefits in the form of overall clarity and consistency of treatment across margin lenders. For example, two basic changes have been proposed for Regulation T: one calling for consolidation and reorganization of the entire structure of margin accounts that the Board requires and the other recommending that the terminology employed in the Regulation be changed to correspond to existing recordkeeping practices of the brokerage industry. Also, the number of accounts is reduced from eleven to seven and, after these changes, all public customer transactions will be recorded in four new accounts and transactions between brokers and other market professionals—including credit extensions to market makers in over-the-counter margin stocks—will be recorded in three new accounts.

The two recommended changes in Regulations G and U are in the nature of clarifying or relaxing amendments. The proposed amendment that defines "indirectly secured" margin lending is expected to greatly reduce the need for corporate borrowers to seek and Board staff to issue opinions on the applicability of margin regulations to certain unsecured loan agreements. The other proposed changes to Regulations G and U involve relaxation of the Board's rules for consolidating credit by purpose and by type of security. These changes bring about parallel regulatory treatment between banks and G-lenders for purpose and nonpurpose borrowing by the same customer and, because the quantitative limitations for non-purpose loans would no longer apply, would allow G-lenders (for example, credit unions and insurance companies) to expand their nonpurpose lending activities. In addition, the proposed changes relax various collateral segregation rules to achieve comparability between provisions of Regulations G and U and the newly proposed consolidated account structure of Regulation T.

By order of the Board of Governors of the Federal Reserve System, July 8, 1981.

**James McAfee,**

*Assistant Secretary of the Board.*

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[2] For this purpose the term "affiliate" shall mean a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with the lender.