

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-222
November 23, 1981

REGULATION T

Proposed Amendment

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

The Board of Governors of the Federal Reserve System has proposed for public comment an amendment to its Regulation T, Credit by Brokers and Dealers.

Printed on the following pages are copies of the Board's press release dated November 5, 1981, and the material submitted for publication in the Federal Register.

Interested persons are invited to submit comments to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received no later than January 5, 1982. Please refer to Docket No. R-0370 when submitting comments.

Questions concerning the proposed amendment should be directed to this Bank's Legal Department, Extension 6171.

Additional copies of this circular will be furnished upon request to the Department of Communications, Financial and Community Affairs of this Bank, Ext. 6289.

Sincerely yours,



William H. Wallace
First Vice President

FEDERAL RESERVE press release



For immediate release

November 5, 1981

The Federal Reserve Board today proposed for public comment an amendment to its Regulation T (Credit by Brokers and Dealers) that would permit brokers or dealers to make use of U.S. Government securities or irrevocable letters of credit as collateral when they borrow or lend securities.

The regulation now requires a deposit of cash as collateral in such circumstances.

The Board requested comment by January 5, 1982.

The Board's notice is attached.

Title 12 - Banks and Banking

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A -- BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Part 220 -- Credit by Brokers and Dealers

[Docket No. R-0370]

Notice of Proposal to Permit Use of Letters of Credit
as the Required Deposit when Securities are Borrowed

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed Amendment.

SUMMARY: The Board proposes to amend § 220.6(h) of Regulation T, which regulates brokers and dealers when they borrow or lend securities. The present regulation requires a deposit of cash as collateral. The proposed amendment permits irrevocable letters of credit and United States government securities to be used, and specifies that the deposit must at all times be equal in value to the current market value of the borrowed securities. The existing limitations in the rule on the occasions when securities may be borrowed are to be retained. This action is being taken in response to requests and is intended to provide alternative types of deposits which lenders and borrowers of securities may agree to use.

DATE: Comments should be received on or before January 5, 1982.

ADDRESS: Comments, which should refer to Docket No. R-0370, may be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., 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 a.m. 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, Securities Credit Officer, or Bruce Brett, Securities Regulation Analyst, Securities Regulation Section, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-2781).

SUPPLEMENTARY INFORMATION: The Board has been requested by a major brokerage house and others to amend § 220.6(h) in order to permit the use of letters of credit as the deposit required when securities are borrowed either to complete short sales or to settle transactions where there has been a failure to receive the securities required to be delivered. It has been suggested that the use of letters of credit (1) provides a less cumbersome system than the use of cash during times of high interest rates (when the earnings of the cash are often divided between the borrower and the lender) and (2) is regarded by fiduciaries who lend securities as a safer system

in the event of failure of the borrowing broker or dealer. The proposed language also adds as an alternative deposit "United States government securities." This would codify an existing industry practice. The language has also been changed to clarify that deposits should be "marked to the market." The Board believes there will be no adverse economic consequences from the proposed amendment; and, for the purpose of 5 U.S.C. § 605(b), the Board certifies that the rule would not have significant economic impact on a substantial number of small entities.

Accordingly, pursuant to §§ 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. §§ 78g, 78w), the Board proposes to amend § 220.6(h) of Regulation T, to read as follows:

(h) Borrowing and lending securities. Without regard to the other provisions of this part, a creditor may borrow or lend securities for the purpose of making delivery of the securities in the case of short sales, failure to receive securities required to be delivered, or other similar situations. Each borrowing shall be secured by a deposit of cash, United States government securities or an irrevocable letter of credit issued by a bank insured by the Federal Deposit Insurance Corporation. Such deposit made with the lender of the securities shall have at all times a value at least equal to 100 percent of the market value of the securities borrowed.

By order of the Board of Governors of the Federal Reserve System,
November 4, 1981.

(signed) William W. Wiles

William W. Wiles

Secretary of the Board

[SEAL]