

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 82-14
February 3, 1982

REGULATIONS G, T AND U

Securities Credit Transactions

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 adopted amendments to its Regulations G, T, and U. The amendments are designed to simplify and clarify the securities margin requirement rules.

Enclosed are copies of the Board's press release dated January 18, 1982, and the material as submitted for publication in the Federal Register which more fully explain the Board's action.

Questions regarding the Regulations should be directed to this Bank's Legal Department, Ext. 6171.

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

Sincerely yours,



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

January 18, 1982

The Federal Reserve Board today announced adoption of several amendments to simplify and clarify its securities margin requirement rules.

The Board's action was part of a general overhaul of its margin regulations aimed at bringing them up to date with current circumstances in the securities markets, reducing regulatory burden, and simplifying and clarifying the language. This is part of the Board's Regulatory Improvement Program under which the Board is reviewing all of its regulations with similar objectives.

The Board adopted amendments to Regulation G (Securities credit extended by persons other than banks, brokers or dealers), T (Securities credit extended by brokers and dealers) and U (Credit extended by banks for the purpose of purchasing or carrying margin stocks), after considering comment received on proposed revisions of the margin regulations published in June and July.

The Board will not complete the rewriting of its margin regulations for some time, but adopted amendments at this time--in the interests of lightening regulatory burdens and providing flexibility along the lines proposed by the Board--where comments disclosed no substantial disagreement. The effects of the amendments are:

--Regulation G: Permit lenders subject to this regulation (chiefly insurance companies and credit unions) to extend the scope of their lending, give them more flexibility with respect to collateral, and clarify the definition of indirect security for loans.

--Regulation T: Relax restrictions on the arranging of credit by brokers and dealers to permit investment banking services that may otherwise be prohibited.

--Regulation U: Revise the applicability of the regulation so as to exempt bank credit not secured by margin equity securities, and clarify the definition of indirect security credit, as in Regulation G.

--Regulations G, T & U: Remove some restrictions on transactions in highly leveraged margin accounts, thereby giving these account holders greater flexibility in reallocating portfolios.

The amendments are effective February 15, with exception of a provision in Regulation U concerning collateral, which will be effective March 31.

The Board's notice, detailing changes in its margin requirements, is attached.

Attachment

FEDERAL RESERVE SYSTEM

Regulations G, T and U

[12 CFR 207, 220 and 221]

[Docket No. R-0362]

SECURITIES CREDIT TRANSACTIONS

Revision and Simplification of the Margin Regulations

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: Comments have been received on a major revision of the Board's margin rules published in the Federal Register on June 24, 1981 and July 21, 1981 (46 F.R. 32592 and 46 F.R. 37516). Although the complete rewriting of the regulations in simplified language cannot be completed for some months, the Board has decided to amend the existing rules at this time to grant relief and flexibility in areas where the comments disclosed no substantial disagreement with the Board's proposals and the amendments can be adopted without substantial modification of the wording of the existing regulations. The Board is therefore: (1) amending Regulation G to permit G-lenders to extend both regulated and non-regulated credit to the same borrower and to permit mixed collateral loans. These changes parallel existing rules in Regulation U. In addition the definition of "indirectly secured" in Regulation G will be changed to provide a narrower and more explicit definition than the one in the present rule; (2) amending Regulation T to permit brokers and dealers to arrange credits that they cannot presently extend when those arrangements are part of investment banking functions; (3) amending Regulation U to exclude from quantitative limitation bank credit which is not secured by margin stock and to define the term "indirectly secured" in a more objective manner than in the present regulation. This definition will be the same as that in Regulation G; (4) removing the equity building devices in Regulations G, T and U.

EFFECTIVE DATE: February 15, 1982 except for the amendment to Regulation U to exempt from quantitative limitation bank credit which is not secured by margin stock. The effective date of that amendment is March 31, 1982.

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202) 452-2781 or Mindy Silverman, Assistant Counsel, Federal Reserve Bank of New York (212) 791-5032.

SUPPLEMENTAL INFORMATION:

Indirect security in Regulations G and U. The Board is amending Regulations G and U 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 under Regulation U will be mooted as the Board is also adopting its proposal to eliminate nonmargin stock from the collateral test in Regulation U. However, to further reduce the complexity of interpretation engendered by the "indirect security" concept, the Board is adopting a more objective definition under both regulations.

In response to comments that were received, two changes were made in the definition that was published for comment. First, subsection (1) was revised to refer to "value of the assets . . . as determined by any reasonable method" rather than "fair market value"; second, subsection (2) was amended to make clear that cross default provisions relating to agreements between the borrower and an unaffiliated lender would not be construed as creating indirect security.

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 Board is amending Regulation G to 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 will provide a regulatory structure comparable to that presently applicable to banks under Regulation U.

The collateral test in Regulation U. The Board is amending Regulation U so that only purpose loans secured by any margin stock will be subject to the margin restrictions and only loans secured by any margin stock will require the execution of a Form U-1. The Form U-1 has been changed to reflect this amendment and to reduce compliance burdens. A copy of the new form is being filed with the Office of the Federal Register as part of this document and copies of the new form will be available from the Federal Reserve Banks prior to the effective date of the amendment.

The arranging of credit by a broker or dealer in Regulation T. Section 220.7(a) of Regulation T presently restricts a broker or dealer in arranging credit. The Board is amending the section to permit investment banking services which involve the arranging of credit. In response to comments on the original proposal, the language proposed in June, 1981 has been modified to make it clear that the types of permissible investment banking services listed are illustrative only and are not intended to be the only permissible investment banking services which may be undertaken.

Equity-building features. The equity-building features in Regulations G,T and U serve to force investors to retire indebtedness faster than they might otherwise choose as the price of effecting reallocation of assets in their portfolios. The retention requirement is presently 70 per cent while the initial margin is 50 per cent. When a security is sold, 70 per cent of the proceeds must be retained. The 20 per cent differential is one equity-building feature. The other equity-building feature prohibits the daily netting out of all transactions in highly-leveraged accounts. Because sales and purchases on a given day cannot be netted out before the margin is computed, the margin required for accounts with less than 30 per cent equity is presently greater

than for other accounts, thereby building up the customers' equity. The substance of this proposal will be put into effect by lowering the retention requirement from 70 to 50 per cent and by changing the minimum equity ratio to zero. When the three regulations are completely rewritten at a later date the needed language changes throughout the regulations will be made.

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

A. § 207.1 of Regulation G is amended by replacing paragraphs (h) and (i).

§ 207.1 -- GENERAL RULE

* * * * *

Existing paragraphs (h) and (i) are removed and the following new paragraphs (h) and (i) are added:

(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.

B. § 207.2 of Regulation G is amended by revising § 207.2(i) 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 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 value of the assets subject to the arrangement, as determined by any reasonable method, are margin securities;

(2) to a lending arrangement that permits acceleration of the maturity of the credit as a result of a default under, or the renegotiation of the terms of, another credit to the same customer by another lender that is not an affiliate */ of the G-lender; or

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

* * *

C. § 207.5 -- SUPPLEMENT is amended by changing the existing 70 per cent retention requirement to 50 per cent in § 207.5(c) and changing the existing 30 per cent minimum equity ratio to zero per cent in § 207.5(f).

D. § 220.7 of Regulation T is amended by revising § 220.7(a) to read as follows:

§ 220.7 -- MISCELLANEOUS PROVISIONS

(a) Arranging for loans by others. A creditor may not arrange for the extension or maintenance of credit to or for any customer by any person upon terms and conditions other than those upon which the creditor may himself extend or maintain under the provisions of this Part, except that this limitation shall not apply to credit arranged for a customer which does not violate Parts 207 and 221 of this Chapter and results solely from:

(1) investment banking services, provided by the creditor to the customer, including, but not limited to underwritings, private placements, and advice and other services in connection with exchange offers, mergers and acquisitions, except for underwritings that involve the public distribution of an equity security with installment or other deferred payment provisions; or

(2) the sale of non-margin securities with installment or other deferred payment provisions if the sale is exempted from the registration requirements of the Securities Act of 1933 under section 4(2) or section 4(6) of the Act (15 U.S.C. §§ 77(d)(2) and (6)).

* * *

*/ 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.

E. § 220.8 -- SUPPLEMENT is amended by changing the existing 70 per cent retention requirement to 50 per cent in § 220.8(e) (1), (3) and (4) and by changing the existing 70 per cent maximum loan value to 100 per cent in § 220.8(g)(1) and the existing 30 per cent margin to zero per cent margin in § 220.8(q)(2).

F. §§ 221.1, 221.3 and 221.4 are amended by adding the word "margin" before the word "stock" in the following paragraphs:

§§ 221.1(a), (b) and (c); 221.3(a), (m), (p), (q), (r)(2), (s) and (t)(4); 221.4(a) and (c) of Regulation U are amended by adding the word "margin" before the word "stock" in every place that it appears.

G. § 221.3 of Regulation U is amended by revising § 221.3(c) to read as follows:

SECTION 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 stock 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 value of the assets subject to the arrangement, as determined by any reasonable method, are margin stock;

(2) to a lending arrangement that permits acceleration of the maturity of the credit as a result of a default under, or the renegotiation of the terms of, another credit to the same customer by another lender that is not an affiliate */ of the bank; or

(3) if the margin stock is held by the bank only in the capacity of custodian, depository, or trustee, or under similar circumstances, and the bank in good faith has not relied upon such margin stock as collateral in the extension or maintenance of the particular credit.

* * *

*/ 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).

H. § 221.4 -- SUPPLEMENT is amended by changing the existing 70 per cent retention requirement to 50 per cent in § 221.4(c) and changing the existing 30 per cent minimum equity ratio to zero per cent in § 221.4(f).

REGULATORY FLEXIBILITY ANALYSIS:

The Board of Governors of the Federal Reserve System has received comments on the two sets of proposed changes to its margin regulations that were published for comment in June and July of 1981. Because some of these proposed changes received overwhelmingly favorable comments from the public and can be put into effect without substantial modification in the wording of the existing Regulations, implementation of these changes need not await completion of the thorough rewrite of the Regulations.

Although the proposals selected for immediate implementation require only minimal regulatory language changes, they offer substantial regulatory relief. As discussed in the "Initial Regulatory Flexibility Analysis" of the June and July Federal Register notices, these changes will relax regulatory treatment of individual and business borrowers, enhance the financing capabilities of small as well as large businesses, and increase the consistency of treatment across all lenders.

By order of the Board of Governors of the Federal Reserve System,
January 13, 1982.

(signed) William W. Wiles

Secretary of the Board

[SEAL]

This form is required by law
(15 U.S.C. 78g and 78w; 12 CFR 221).

F.R. U-1
O.M.B. No. 7100-0115
Approval expires

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF PURPOSE FOR AN EXTENSION OF CREDIT SECURED BY MARGIN STOCK

(Name of Bank)

(FEDERAL RESERVE FORM U-1)

Instructions:

- (1) This form must be completed when a bank extends credit secured directly or indirectly, in whole or in part, by any margin stock.
- (2) The term "margin stock" is defined in Regulation U (12 CFR 221) and includes, principally: (1) stocks that are registered on a national securities exchange or that are on the Federal Reserve Board's List of OTC Margin Stocks; (2) debt securities (bonds) that are convertible into margin stocks; and (3) shares of mutual funds, unless 95 per cent of the assets of the fund are continuously invested in U.S. government, agency, State, or municipal obligations.
- (3) Please print or type (if space is inadequate, attach separate sheet).

PART I To be completed by borrower(s)

- (1) What is the amount of the credit being extended?
- (2) Will any part of this credit be used to purchase
or carry margin stock? yes no

If the answer is "no," describe the specific purpose of the credit.....

.....
.....
.....

I (we) have read this form and certify that to the best of my (our) knowledge and belief the information given is true, accurate, and complete, and that the margin stock and any other securities collateralizing this credit are authentic, genuine, unaltered, and not stolen, forged, or counterfeit.

SIGNED.....
(Borrower's signature) (Date)

SIGNED.....
(Borrower's signature) (Date)

.....
(Print or type name)

.....
(Print or type name)

THIS FORM SHOULD NOT BE SIGNED IN BLANK

A BORROWER WHO FALSELY CERTIFIES THE PURPOSE OF A CREDIT ON THIS FORM OR OTHERWISE WILLFULLY OR INTENTIONALLY EVADES THE PROVISIONS OF REGULATION U WILL ALSO VIOLATE FEDERAL RESERVE REGULATION X, "RULES GOVERNING BORROWERS WHO OBTAIN SECURITIES CREDIT"

(end of page 1)

PART II To be completed by bank only if the purpose of the credit is to purchase or carry margin stock (Part I(2) answered "yes").

(1) List the margin stock securing this credit; do not include debt securities convertible into margin stock. The maximum loan value of margin stock is per cent of its current market value under the current Supplement to Regulation U.

No. of shares	Issue	Market price per share	Date and source of valuation (See note below)	Total market value per issue

(2) List the debt securities convertible into margin stock securing this credit. The maximum loan value of such debt securities is per cent of the current market value under the current Supplement to Regulation U.

Principal amount	Issue	Market price	Date and source of valuation (See note below)	Total market value per issue

(3) List other collateral including non-margin stock securing this credit.

Describe briefly	Market price	Date and source of valuation (See note below)	Good faith loan value

Note: Bank need not complete "Date and source of valuation" if the market value was obtained from regularly published information in a journal of general circulation.

(pg. 2 continued)

Part III To be signed by a bank officer in all instances

I am a duly authorized officer of the bank and understand that this credit secured by margin stock may be subject to the credit restrictions of Regulation U. I have read this form and any attachments, and I have accepted the customer's statement in Part I in good faith as required by Regulation U**, and I certify that to the best of my knowledge and belief, all the information given is true, accurate, and complete. I also certify that if any securities that directly secure the credit are not or will not be registered in the name of the borrower or its nominee, I have or will cause to have examined the written consent of the registered owner to pledge such securities. I further certify that any securities that have been or will be physically delivered to the bank in connection with this credit have been or will be examined, that all validation procedures required by bank policy and the Securities Exchange Act of 1934 (section 17(f), as amended) have been or will be performed, and that I am satisfied to the best of my knowledge and belief that such securities are genuine and not stolen or forged and their faces have not been altered.

Date..... SIGNED.....
(Bank officer's signature)

.....
(Title)

.....
(Print or type name)

**To accept the customer's statement in good faith, the officer of the bank must be alert to the circumstances surrounding the credit and, if in possession of any information that would cause a prudent person not to accept the statement without inquiry, must have investigated and be satisfied that the statement is truthful. Among the facts which would require such investigation are receipt of the statement through the mail or from a third party.

THIS FORM MUST BE RETAINED BY THE BANK FOR AT LEAST THREE YEARS
AFTER THE CREDIT IS EXTINGUISHED