



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT
AND CHIEF OPERATING OFFICER

DALLAS, TEXAS 75222

September 4, 1987

Circular 87-63

TO: The Chief Executive Officer of all member banks, bank holding companies and others concerned in the Eleventh Federal Reserve District

SUBJECT

Regulation T (Margin Credit by Brokers and Dealers)

DETAILS

The Board of Governors of the Federal Reserve System has approved a final amendment to Regulation T which revises the definition of OTC margin bonds to include any "mortgage related security." The amendment permits a broker-dealer to give "good faith" loan value in a margin account to any "mortgage related security" that is privately placed. The amendment is effective August 24, 1987.

In a separate action, the Board proposed an amendment to Regulation T to permit broker-dealers to aid in the exercise of employee owned stock options.

Comments on the proposed amendment should be received by the Board by September 28, 1987.

ATTACHMENTS

Notices of the Board's actions as published in the Federal Register are attached.

MORE INFORMATION

For further information, please contact this Bank's Legal Department at (214) 651-6228. If you wish to receive additional copies of this circular, please contact our Public Affairs Department at 651-6289.

Sincerely yours,

A handwritten signature in cursive script that reads "William H. Wallace".

For additional copies of any circular please contact the Public Affairs Department at (214) 651-6289. Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank (800) 442-7140 (intrastate) and (800) 527-9200 (interstate).

FOR FURTHER INFORMATION CONTACT:

Laura Homer, Securities Credit Officer, Division of Banking Supervision and Regulation, (202) 452-2781, or Carolyn Davis, Economist, Division of Research and Statistics, (202) 452-3633; or for any user of a Telecommunication Device for the Deaf (TDD), Ernestine Hill or Dorothea Thompson, (202) 452-3244.

SUPPLEMENTARY INFORMATION:

In October of 1984 the SMMEA amended the Securities Exchange Act of 1934 and the statutes governing investments by depository institutions to provide preferential treatment for securities meeting a new legal definition, "mortgage-related securities." The amendments were designed to facilitate a liquid market in mortgage securities issued by non-governmental entities that would be competitive with the existing market in securities issued by United States government agencies such as GNMA and FNMA. The ultimate goal was to facilitate private sector participation in the secondary market for mortgages.

A vast number of "mortgage related securities" are presently eligible for "good faith" loan value in a margin account because they come within the existing definition of an "OTC margin bond." An increasing number are outside the definition of "OTC margin bond" because they are privately placed and do not meet one criterion in that definition—a requirement for Securities and Exchange Commission registration and reporting. The SMMEA, however, grants preferential treatment in many areas to any "mortgage related security" whether it is publicly offered or privately placed. This amendment will permit similar margin treatment for securities sold either way.

Final Regulatory Flexibility Analysis

The Board's Initial Regulatory Flexibility Analysis indicated that this amendment, if adopted, was not expected to have a significant economic impact on a substantial number of small entities. Comments were invited on the statement; no comments to the contrary were received. The Board, therefore, certifies for the purposes of 5 U.S.C. 605(b), that the amendment is not expected to have any adverse impact on a substantial number of small businesses. The amendment imposes no additional information collection requirements.

The requirement of 5 U.S.C. 553d with respect to deferred effective date is not being followed in connection with this amendment because the amendment relieves a restriction previously imposed.

List of Subjects in 12 CFR Part 220

Banks, Banking, Brokers, Credit, Federal Reserve System, Margin, Margin requirements, Investments, Reporting and recordkeeping requirements, Securities.

For the reasons set out in this notice, and pursuant to the Board's authority under sections 3, 7, 8, 17 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78c, 78g, 78h, 78q, and 78w), the Board amends 12 CFR Part 220 as follows:

PART 220—[AMENDED]

1. The authority citation for Part 220 continues to read as follows:

Authority: 15 U.S.C. 78c, 78g, 78h, 78q and 78w.

2. Section 220.2(r) is amended by removing the period and adding ";or" at the end of paragraph (r)(2)(iii) and adding a new paragraph (r)(3) as set forth below. The introductory text of paragraph (r)(3) is republished.

§ 220.2 Definitions.

* * * * *

(r) "OTC margin bond" means: * * *
(3) A "mortgage related security" as defined in section 3(a)(41) of the act.

* * * * *

By order of the Board of Governors of the Federal Reserve System, August 20, 1987.

William W. Wiles,

Secretary of the Board.

[FR Doc. 87-19607 Filed 8-26-87; 8:45 am]

BILLING CODE 6210-01-M

FEDERAL RESERVE SYSTEM**12 CFR Part 220**

[Docket No. R-0600]

Credit by Brokers and Dealers (Regulation T); Mortgage Related Securities

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending Regulation T by revising the definition of "OTC margin bond." The amended definition will now include any "mortgage related security," a term defined in the Secondary Mortgage Market Enhancement Act of 1984 (SMMEA) and in section 3(a)(41) of the Securities Exchange Act of 1934. Comments have been received on this proposal which was published in the Federal Register on April 23, 1987 (52 FR 13458) and they were all supportive. **EFFECTIVE DATE:** August 27, 1987.

Proposed Rules

Federal Register

Vol. 52, No. 165

Wednesday, August 26, 1987

FEDERAL RESERVE SYSTEM

12 CFR Part 220

[Docket No. R-0611]

Credit by Brokers and Dealers; Regulation T Exercise of Employee Stock Options

AGENCY: Board of Governors of the
Federal Reserve System.

ACTION: Proposed rule.

SUMMARY: The Board is proposing for public comment an amendment to Regulation T that will permit broker-dealers to aid in the exercise of company stock options owned by a employees of the company. In lieu of the securities to be received upon exercise, the proposed amendment will allow broker-dealers to accept a fully-endorsed employee stock option and instructions to the employer to deliver the securities to the broker-dealer.

DATE: Comments should be received on or before September 28, 1987.

ADDRESS: Comments, which should refer to Docket No. R-0611, may be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street, & Constitution Avenue NW., Washington, DC 204551, or delivered at the C Street Entrance between 8:45 a.m. and 5:15 p.m. weekdays to Room B-2223. Comments may be inspected in Room B-1122 between 8:45 a.m. and 5:15 p.m. weekdays.

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer, or Scott Holz, Attorney, Division of Banking Supervision and Regulation, (202) 452-2781. For the hearing impaired only, Telecommunications Service for the Deaf, Earnestine Hill or Dorothea Thompson, (202) 452-3544.

SUPPLEMENTARY INFORMATION: Since the complete revision of the margin regulations in 1983, the Board has reduced restrictions on employee stock ownership and option plans. Regulation G (12 CFR Part 207) has always had less

restrictive margin requirements for the financing of employee stock options, which many corporations view as a form of compensation to their employees. Broker-dealers cannot currently lend customers money to exercise these options using the option as collateral. The proposed amendment will allow the broker-dealer to accept a fully-endorsed employee stock option with instructions signed by the customer instructing the employer to deliver the securities to the broker-dealer. The customer would designate the account into which the securities should be deposited and would comply with the applicable time limits and any required payment.

Some companies that have desired to help their employees exercise company stock options in the past have established a procedure with a broker-dealer and extended unsecured credit to their employees. Under this arrangement, described in the *Federal Reserve Regulatory Service* at 5-347.14, the employee signs the option exercise form and an unsecured demand promissory note payable to the company for the exercise price of the shares. If the employee wishes to sell the shares, he requests that the shares be registered in the name of the broker-dealer and that the proceeds of the sale be sent to the company. The company deducts an amount sufficient to pay off the note and any applicable tax and remits a check for the balance to the employee. The proposed amendment will simplify the process by eliminating the need for the company to establish a procedure with a broker-dealer, including the extension of unsecured credit by the company. The broker-dealer will be able to extend secured credit by relying temporarily on the exercise notice and customer instructions in lieu of the stock itself.

Regulatory Flexibility Act

The Board believes there will be no significant economic impact on a substantial number of small entities if this proposal is adopted. Comments are invited on this statement.

Paperwork Reduction Act

No additional reporting requirements of modification to existing reporting requirements are proposed.

List of Subjects in 12 CFR Part 220

Banks, Banking, Brokers, Credit, Federal Reserve System, Margin, Margin

Requirements, Investments, Reporting and recordkeeping requirements, Securities.

For the reasons set out in this notice, and pursuant to the Board's authority under sections 3, 7, 8, 17, and 23 of the Securities Exchange Act of 1934, as amended, (15 U.S.C. 78c, 78g, 78h, 78q and 78w), the Board proposes to amend 12 CFR Part 220 by adding new § 220.3(e)(4) as follows:

PART 220—[AMENDED]

1. The authority citation for Part 220 continues to read as follows:

Authority: 15 U.S.C. 78c, 78g, 78h, 79q, and 78w.

2. The Board proposes to add § 220.3(e)(4) as follows:

§ 220.3—General provisions

* * * * *

(4) A creditor may accept, in lieu of securities, a properly executed exercise notice for a stock option issued by the customer's employer and instructions to the issuer to deliver the resulting stock to the creditor. Prior to acceptance, the creditor must verify that the employer will deliver the securities promptly and the customer must designate the account into which the securities are to be deposited.

By order of the Board of Governors of the Federal Reserve System, August 20, 1987.

William W. Wiles,
Secretary of the Board.

[FR Doc. 87-19511 Filed 8-25-87; 8:45 am]

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