

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 6715 ]  
April 19, 1971

AMENDMENT TO REGULATION U

Interim Exemption For Loans to Provide Capital to  
Broker-Dealer Firms

*To All Banks, Members of National Securities Exchanges,  
and Others Interested in the Second Federal Reserve District:*

Enclosed is a copy of an amendment, effective April 16, 1971, to Regulation U of the Board of Governors of the Federal Reserve System. The amendment was announced by the Board of Governors on April 16; the text of that announcement was contained in our Circular No. 6714, which was sent to you on that date.

The amendment permits banks to extend or maintain credit for the purpose of enabling its customer to contribute capital to a broker-dealer firm whether in the form of a subordinated loan, equities in the accounts of partners, or a purchase of stock in a corporation or otherwise, without regard to the initial margin requirements of the regulation. Credit extended after April 16, 1971, and prior to the adoption of proposed amendments to Regulation U, also announced in our Circular No. 6714, would become subject upon subsequent renewal to the restrictions imposed by such amendments. This action was taken to facilitate the raising of capital by broker-dealer firms and to encourage the permanency of such capital.

Additional copies of the amendment will be furnished upon request.

ALFRED HAYES,  
*President.*

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CREDIT BY BANKS FOR THE PURPOSE  
OF PURCHASING OR CARRYING MARGIN STOCKS

AMENDMENT TO REGULATION U

Effective April 16, 1971, § 221.2 is amended by deleting “and” at the end of paragraphs (j) and (k), by deleting the period at the end of paragraph (l) and inserting in its place “; and”, and by adding a new paragraph (m) as follows:

SECTION 221.2—EXCEPTIONS TO  
GENERAL RULE

Notwithstanding the provisions of § 221.1, a bank may extend and may maintain any credit for the purpose specified in § 221.1, without regard to the limitations prescribed therein, or in § 221.3(t), if the credit comes within any of the following descriptions.

\* \* \*

(m) Any credit extended to or maintained to a customer for the purpose of making a loan or contribution of capital to a broker or dealer subject to Part 220 (Regulation T) if the 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(e)(2)(A), (c)(4), and (c)(7)) (17 CFR 240.15c3-1(e)(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 240.15c-1(b)(2)) or to purchase stock in a creditor which is a corporation: *Provided*, That any such credit extended after April 16, 1971, shall become subject upon renewal to such additional restrictions as the Board of Governors may impose by regulation concerning the conditions upon which credit may be extended for the purpose of making such loan or contribution: *And provided further*, That (i) all of the proceeds of such extension of credit are so loaned or contributed to the capital of the broker or dealer, and (ii) that the proceeds of any withdrawal of such loan or contribution of capital from the broker or dealer by the customer or redemption of such stock shall be used to reduce or retire said extension of credit.

PRINTED IN NEW YORK