

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6761]
[July 12, 1971]

LOANS TO PROVIDE CAPITAL TO BROKER-DEALER FIRMS

- Revised Proposals to Amend Regulations G, T, and U
- Amendment to Regulation U, Effective July 10, 1971

*To All Persons Extending Securities Credit
in the Second Federal Reserve District;*

Following is the text of a statement issued July 9 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today issued revised proposed amendments to its Regulations G, T, and U setting forth conditions under which credit may be obtained without regard to initial margin requirements for the purpose of providing capital to broker-dealer firms.

The amendments were initially proposed on April 16, 1971, and would have become effective on July 16. Under the re-issued proposals, the amendments would become effective October 1. Comments on the revised proposals should be submitted to the Board by August 20.

The Board also revised its exemption — originally issued April 16 as an interim measure while it considers these proposals — from initial margin requirements for credit by banks for the purpose of providing capital to broker-dealer firms. The revision makes it clear that this exemption is not available to finance public trading in stock of such firms.

Regulation U applies to credit extended by banks for the purpose of purchasing or carrying margin stocks; Regulation T applies to such credit extended by brokers and dealers, while Regulation G applies to such credit extended by persons other than banks and brokers and dealers.

The Board's proposed revisions of the amendment to its regulations included the following:

(1) Elimination of the requirement that lenders hold collateral sufficient to secure a loan before they could extend credit for the purpose of providing capital to a broker-dealer. Instead, a requirement would be substituted that a committee of a stock exchange or national securities association of which the broker-dealer is a member approve the loan, on the basis of a finding that the credit will not increase the amount of the broker-dealer's trading in securities for its own account.

(2) Provide that credit extended by banks directly to broker-dealers would be subject to the same conditions as loans made to third persons for the purpose of providing capital to the broker-dealers.

Enclosed is a copy of the amendment, effective July 10, 1971, to Regulation U, which makes it clear that exempt credit is not available for public purchases of publicly traded stock in broker-dealer firms. The text of the revised proposals to amend Regulations G, T, and U will be sent to you shortly.

Additional copies of the enclosure 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 July 10, 1971, § 221.2 is amended by revising 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 for 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(c)(2)(A), (c)(4), and (c)(7)) (17

CFR 240.15c3-1(c)(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 broker or dealer which is a corporation when such stock is purchased directly from the issuer and not as part of a public distribution: *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 all of 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.

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