

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6813
October 7, 1971

NEW REGULATION X, "RULES GOVERNING BORROWERS
WHO OBTAIN SECURITIES CREDIT"
Effective November 1, 1971

*To All Persons Obtaining Securities Credit
in the Second Federal Reserve District:*

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

The Board of Governors of the Federal Reserve System today issued a new regulation to implement legislation that requires borrowers to comply with margin regulations in securities transactions. The regulation is effective November 1.

The new regulation is entitled "Rules Governing Borrowers Who Obtain Securities Credit" and is designated Regulation X. It will carry out provisions of Title III of the Foreign Bank Secrecy Act (Public Law 91-508 enacted October 26, 1970) that relate to margin credit requirements. That Act for the first time specifically requires borrowers to comply with margin regulations in securities transactions. The regulations previously applied primarily to lenders.

Establishment of a separate regulation differs in form from the proposal issued on July 26 which would have amended the three existing margin regulations to cover borrowers.

Margin regulations are designed to prevent the excessive use of credit in financing securities transactions. Regulation T applies to all securities credit extended by brokers and dealers; Regulation U applies to credit by banks for the purpose of purchasing or carrying margin stocks, while Regulation G applies to such credit by persons other than banks, brokers, or dealers.

As in the July proposal, the new regulation will require persons borrowing in the United States to comply with the margin regulation applicable to the lender extending him credit on securities. If a U. S. person borrows abroad, he must comply with the provisions of the margin regulation that would apply if the credit were obtained in the United States.

The regulation will apply to credit extended, arranged or maintained after October 31. Commencing May 1, 1972, six months after the effective date, restrictions on substitutions and withdrawals from margin accounts will apply to credit extended after October 26, 1971, the date the legislation became law.

The new Regulation X will exempt the following from its provisions:

1. U.S. citizens permanently residing outside the United States who obtain or have outstanding abroad no more than \$5,000 in purpose credit per year.
2. Credit obtained by foreign affiliates of U.S. firms to finance clearing, market-making or arbitrage transactions in offshore debt securities that are convertible into margin securities.
3. Foreign borrowers who are controlled by or acting on behalf of U.S. persons, provided the Board determines that an exemption is warranted by exceptional circumstances and is consistent with the Securities Exchange Act of 1934 and Regulation X.

Under the new regulation, certain borrowers who obtain securities credit abroad must retain in their records for six years a statement describing the transaction.

The Board still has under consideration certain aspects of the proposals issued on July 26, particularly those relating to the application of margin regulations to foreign branches of U.S. banks and U.S. broker-dealers.

Copies of the new Regulation X will be sent to you as soon as available.

Alfred Hayes, President.