

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8364]
June 1, 1978

PROPOSED AMENDMENT TO REGULATION T
Subordinated Capital Loans Between Brokers and Dealers

To All Brokers and Dealers Extending Securities Credit,
and Others Concerned, in the Second Federal Reserve District:

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System regarding a proposed amendment to its Regulation T, "Credit by Brokers and Dealers," to permit brokers or dealers to extend and maintain subordinated credit for capital purposes:

The Board of Governors of the Federal Reserve System today [May 25, 1978] proposed for comment an amendment to its Regulation T (margin requirements for brokers and dealers) that would permit any broker or dealer subject to the regulation to make a subordinated capital loan to another broker or dealer. At present, only those who are members of national securities exchanges may make such loans.

The proposal would also remove certain existing restrictions on the use of such loans.

The Board asked for comment by June 28.

The Board asked specifically for comment as to any potential conflict of interest, control or restraint-of-trade problems that might develop if the amendment is adopted.

Printed below is the text of the Board of Governors' proposal. Comments should be submitted by June 28, 1978, and may be sent to our Regulations Division.

PAUL A. VOLCKER,
President.

[Regulation T ; Docket No. R-0165]

CREDIT BY BROKERS AND DEALERS

[12 CFR 220]

Subordinated Credit Extended for Capital Purposes

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule.

SUMMARY: This proposal will relax the rule covering subordinated loans between brokers and dealers so as to permit any individual or firm subject to Regulation T to extend and maintain subordinated credit to another broker or dealer for capital purposes. The present rule limits these loans to intra-company loans and loans between members of the same exchange. In addition, the proposal removes certain restrictions on the use of the loan proceeds if the borrower has no other customer relationship with the lender. The Board is proposing this rule change under authority of section 7 of the Securities Exchange Act of 1934 in order to improve the capital-raising ability of the entire industry and, by removing existing requirements related to exchange membership, to provide equal treatment for all brokers and dealers.

DATE: Comments must be received on or before June 28, 1978.

ADDRESS: Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. All material should be in writing and should include the docket number R-0165.

FOR FURTHER INFORMATION CONTACT: Theodore W. Prush, Securities Regulations Analyst, Securities Regulation Section, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-2781).

SUPPLEMENTARY INFORMATION: The Board of Governors proposes to amend Regulation T (12 CFR 220) to permit brokers and dealers who are not members of an exchange to extend and maintain subordinated credit to other brokers and dealers for capital purposes. The proposal will permit individuals and firms who are

(OVER)

not members of a national securities exchange, but who are nonetheless subject to Regulation T (e.g., brokers and dealers in the over-the-counter market and certain individuals associated with member firms of a national securities exchange), to make subordinated loans.

Under the Board's existing rule a creditor is prohibited from using the proceeds of any subordinated credit received from another creditor for the purpose of increasing the security dealings of his firm or any of its corporate affiliates. The Board's proposal would allow a creditor receiving subordinated credit from another creditor to use the proceeds of such loans in the ordinary course of his business, provided that he has no other financial relationships that might make him a customer of the broker. The loans would be subject to the approval of the national securities exchange, national securities association or regional office of the SEC, whichever is the borrower's appropriate Examining Authority.

To aid in the consideration of this material by the Board, interested persons are invited to submit relevant data, views, comments, or arguments. The Board is specifically requesting comments as to any potential conflict-of-interest, control or restraint-of-trade problems that might develop if the amendment is adopted. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 to be received not later than June 28, 1978. All material submitted should include the docket number R-0165. Such information will be made available for inspection and copying upon request except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

Accordingly, pursuant to sections 7 and 23 of the Securities Exchange Act of 1934, as amended (15

U.S.C. 78g and w) the Board proposes to amend 12 CFR part 220 as follows:

SECTION 220.4—SPECIAL ACCOUNTS

* * *

(f) **Special miscellaneous account.** In a special miscellaneous account, a creditor may:

* * *

(2) ***

(ii) Extend and maintain a subordinated loan to another creditor for capital purposes. *Provided, That*

(a) Either the lender or the borrower is a firm or corporation which is a member of a national securities exchange or national securities association, the other party to the credit is an affiliated corporation of such firm or corporation, the credit is not in contravention of any rule of the exchange or association and the credit has the approval of appropriate committees of the exchange or association, or

(b) The lender as well as the borrower is a creditor as defined in section 220.2(b), the subordinated loan agreement has the approval of the appropriate Examining Authority as defined in Securities and Exchange Commission Rule 15c3-1(c)(12) (12 CFR 240.15c3-1(c)(12)) and such Examining Authority is satisfied, in the case of a borrower who would be considered a customer of the lender apart from the subordinated loan, that the loan will not be used to increase the amount of dealing in securities for the account of the borrower, his firm or corporation or an affiliated corporation of such firm or corporation.

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