

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 8394 ]  
July 24, 1978

AMENDMENT TO REGULATION T  
Subordinated Capital Loans Between Brokers and Dealers

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

The Board of Governors of the Federal Reserve System has adopted an amendment to its Regulation T, "Credit by Brokers and Dealers," that permits any broker or dealer subject to the regulation to make a subordinated capital loan to another broker or dealer. Previously, only those who were members of national securities exchanges could make such loans. The amendment, which became effective July 12, 1978, also removes certain existing restrictions on the use of such loans.

Enclosed is a copy of the amendment. Additional copies will be furnished upon request.

In addition, the Board of Governors has informed us of a correction to its interpretation of margin Regulations G and U permitting lenders to accept "purpose statements" through the mail. The interpretation was mailed to you with our Circular No. 8383, dated July 10, 1978. All references to the section number relating to the new interpretation to Regulation G should read "§ 207.110."

Questions regarding these matters may be directed to our Regulations Division (Tel. No. 212-791-5914).

PAUL A. VOLCKER,  
*President.*

Board of Governors of the Federal Reserve System

CREDIT BY BROKERS AND DEALERS

AMENDMENT TO REGULATION T

(effective July 12, 1978)

*AGENCY:* Board of Governors of the Federal Reserve System.

*ACTION:* Final Rule.

*SUMMARY:* This amendment 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 amendment removes certain restrictions on the use of the loan proceeds if the borrower has no other customer relationship with the lender. The Board is adopting this rule change under authority of sections 7 and 23 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. The amendment was published for comment on May 31, 1978 (43 F.R. 23588) and the Board adopted it on July 12, 1978, to be effective immediately.

*EFFECTIVE DATE:* July 12, 1978.

*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:* All of the comments received on the Board's proposal to relax the rule on subordinated loans between broker/dealers were favorable. The rule was adopted as proposed.

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 amends 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.

For this Regulation to be complete, retain:

- 1) Regulation T, as amended effective June 1, 1977, printed in the pamphlet "Securities Credit Transactions."
- 2) The Supplement to Regulation T, effective January 1, 1977.
- 3) Amendment effective June 15, 1978.
- 4) This slip sheet.