FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 9098
July 1, 1981]

MARGIN REGULATIONS

—Comment Invited on Proposed Alternative Amendments to Regulation T to Establish Margin Requirements for Options Trading on Exempted Debt Securities

—Comment Invited on Proposal to Amend Regulations T and U for the Purpose of Simplifying and Modernizing the Margin Regulations

—Amendment to Regulation T Prohibiting the Use of Foreign Currency in a Margin Account

To All Banks, Brokers and Dealers, Members of National Securities Exchanges, and Persons Extending Securities Credit, in the Second Federal Reserve District:

The Board of Governors has (1) invited comment on two alternative proposals to amend its Regulation T, "Credit by Brokers and Dealers," regarding the establishment of margin requirements for the trading of options on Government and Government agency debt securities; (2) invited comment on a proposal to amend both Regulation T and Regulation U, "Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks," intended as an initial step by the Board in the eventual simplification and modernization of each of its margin regulations; and (3) issued an amendment to Regulation T in order to prohibit the use of foreign currency in a margin account.

The following is quoted from the statements issued by the Board of Governors in announcing these actions:

Options trading

The Securities and Exchange Commission recently approved trading on the Chicago Board Options Exchange (CBOE) in options contracts[1] on Government National Mortgage Association (GNMA) securities. The New York Stock Exchange, the American Stock Exchange and the CBOE have proposed trading in options contracts on Treasury bills, notes and bonds.

The proposed amendments to Regulation T—on which the Board asked for comment by August 3, 1981—would affect margin requirements in options contracts on such securities.

Under one proposed amendment to Regulation T, the Board would permit brokers and dealers to give "good faith" loan value to an option which has been purchased and would permit a "good faith" margin when an option contract is written. Since all of the securities exchanges proposing the trading of option contracts would have maintenance margin requirements applicable to their members, the exchanges' requirements —which are subject to review by the SEC—would be expected to apply.

Under an alternate proposed amendment the Board would set a uniform margin requirement of 130 percent of the option premium,[2] plus $1,000, for the initial writing of all uncovered option contracts on exempt debt securities. Under this amendment no option contract would be permitted to have loan value. Exchanges would continue to be free to set maintenance margin requirements.

Under either proposal, no margin would be required where the option is covered; that is, where the security that can be delivered upon exercise of the option or an offsetting option position is held in the option writer's account. The proposed amendments specify what the Board regards as adequate cover.

In the absence of an amendment, the Board's current margin rules relating to options on corporate equity securities would apply to options on government debt issues. The current margin requirement—30 percent of the value of the underlying security with additional adjustment for unrealized losses and gains—would impair the usefulness of these contract markets, since the underlying securities can be purchased, under current industry practice, on a much lower margin.

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1 An option contract gives the holder of the contract the right to buy or sell the security which is the subject of the contract at a specified price at any time during the life of the contract.

2 A fee paid by an option buyer to the writer of an option contract.

In addition to soliciting general comment on the proposed alternative amendments, the Board asked specifically for comment on the following questions:

(1) If the Board adopts a "good faith" approach, is it likely that the exchanges would set different margin requirements on the same or similar option contracts? If so, would this cause serious difficulties?

(2) Even if the Board should provide a good faith requirement for the writing of options, should it (as is now provided for options on equity securities) deny any loan value to a long contract? In this connection, it should be noted that an option, unlike the underlying security, is a disappearing asset that ceases to exist on its expiration date.

(3) Would Board specification of an initial margin requirement be an unnecessary regulatory burden or an aid in the development of these new option contracts?

(4) Is the level of margin proposed by the Board appropriate for options on all exempt debt securities, regardless of maturities or likelihood of exercise, or are adjustments to the basic formula necessary? If they are necessary, how can they be designed to minimize the complexity of the regulation?

Simplification of margin regulations

The Board requested comment by September 15, 1981.

The proposed amendments to Regulation T (Credit by Brokers and Dealers) and Regulation U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks) are the first steps in a review by the Board of its margin regulations. The review is intended to simplify and modernize all Federal Reserve margin regulations. This review is part of the Board's Regulatory Improvement Project established in 1978 in which the Board is examining all of its regulations to simplify them and reduce the burden of regulatory compliance wherever possible.

In its first group of proposed amendments to its margin regulations, the Board proposed, for Regulation T, to

1. Eliminate "equity building" devices; consolidate bond accounts with the General Account, and require in certain circumstances, an offsetting adjustment to any highly leveraged General Account by transfers from the customer's Special Miscellaneous Account.
2. Relax the restriction on the arranging of credit by customers of investment bankers to permit investment banking services that may be otherwise prohibited.

For Regulation U, the Board proposed to change the collateral test so as to exempt from quantitative limitation all bank credit not secured by margin equity securities. At the present time a purpose loan that is collateralized by any stock is subject to the margin regulation.

Use of foreign currency

The Federal Reserve Board deleted a section of its Regulation T (Credit by Brokers and Dealers) that permits foreign currency to be treated as a deposit in a securities margin account.

The Board acted after considering comment on a proposal issued in December, which it adopted without change. The deletion is effective July 13, 1981.

It had been drawn to the attention of the Board that the language of this section (220.6 paragraph (j)) might be interpreted as allowing the speculative holding of foreign currency in a margin account. Deletion of the section is intended to make it clear that this is not permissible, and that any transactions in foreign currency should be effected in accounts insulated from securities credit transactions.

Printed on the following pages is the text of the Board's proposals. Comments regarding the proposal to establish margin requirements for options trading on exempted debt securities should be submitted by *August 3*; comments on the Board's proposals to simplify Regulations T and U must be submitted by *September 15*. Your comments may be sent to our Consumer Affairs and Bank Regulations Department.

Also, enclosed is a copy of the text of the amendment to Regulation T. Questions regarding that Regulation may be directed to the Regulations Division of the Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

Title 12—Banks and Banking

Chapter II—FEDERAL RESERVE SYSTEM

SUBCHAPTER A—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

PART 220—CREDIT BY BROKERS AND DEALERS

[Docket No. R-0082]

Proposal to Amend Regulation T to Establish Margin Requirements For Options on Exempted Debt Securities

FEDERAL RESERVE SYSTEM

12 CFR Part 220

[Docket No. R-0082]

Proposal to Amend Regulation T to Establish Margin Requirements for Options on Exempted Debt Securities

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rulemaking.

SUMMARY: The Board proposes to amend Regulation T (12 CFR Part 220) to provide a separate margin requirement for options on debt securities issued or guaranteed by government entities (exempted debt securities). The Board's existing margin requirement for options was adopted to cover options written on corporate equity securities. Absent an amendment to Regulation T, it will be automatically applicable to a new type of option on exempted debt securities for which filings have been made with the Securities and Exchange Commission (SEC) by the Chicago Board Options Exchange (CBOE), the American Stock Exchange (AMEX) and the New York Stock Exchange (NYSE). It is the Board's view that the existing margin requirements would not be appropriate for this type of option contract.

Two alternative amendments are being considered by the Board. One, which will be identified herein as the "good faith proposal," would require a broker or dealer to obtain from a customer writing uncovered options on exempted debt securities the amount of margin determined by the broker or dealer "in good faith" to be adequate. This presumes that, at a minimum, the margin required would be that specified as maintenance margin in the rules of the self-regulatory organization (SRO) to which the creditor belongs. The Board's present rules for certain corporate bonds and industry practice for exempted securities use the "good faith" margin concept. The "good faith proposal" would also permit the creditor to assign good faith loan value to this new type of exchange-traded option. The second proposed amendment, identified as the "premium-based proposal," would require an initial margin deposit of 130 percent of the option premium plus $1000 for the writing of uncovered options. It would continue the Board's present policy of not granting loan value to a long position in an option.

DATE: Comments should be received on or before August 3, 1981.

ADDRESS: Comments, which should refer to Docket No. R-0082, may be mailed to the Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received may also be inspected at Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer, or Bruce Brett, Securities Regulation Analyst, 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 its Regulation T to provide a separate margin for options on exempted debt securities. Public comment is requested by August 3, 1981, on two alternative proposals, particularly with respect to issues identified in this notice.

An option contract on mortgage pass-through certificates guaranteed by the Government National Mortgage Association (GNMA options) was recently approved by the SEC for trading on the CBOE (Securities Exchange Act Release No. 17577, February 26, 1981,) and option contracts on Treasury bills, notes and bonds that have been proposed by the NYSE, Amex and CBOE are currently being considered by the SEC (Securities Exchange Act Release No. 17995, May 11, 1981). One of the SEC's requirements for the approval of trading of the GNMA option contract was that CBOE margin rules conform with the Board's margin requirements.

There are several reasons why the Board is considering a "good faith" margin for these new options. One is that the Board does not set margins for the government securities underlying the options because they are defined in section 3(a)(12) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(12)) as "exempted securities" and are, therefore, not subject to the Board's regulation. The margin which is required by rules of the self-regulatory organizations (SRO's) or industry practice for the purchase of government securities in the cash market is regarded as a "good faith" margin. In general, this "good faith" margin approximates five percent. The "good faith proposal" would permit an option margin for the derivative security comparable to that used in the cash market. This proposal would minimize constraints on market activity and appear to involve the least regulatory burden. However, the SEC has indicated its concern that having different methods of calculating margins on similar options "may constitute an inappropriate burden on market participants." The NYSE has pointed out that if different requirements for different exchanges are approved, problems will be created for brokers belonging to more than one exchange. Commenters are asked to express their views on the potential seriousness of these difficulties.

The "good faith proposal" would also allow a broker to extend "good faith" loan value on an exchange-traded option on exempted debt securities. The Board denied loan value to options in 1973 when the exchange-trading of these contracts was first started. At that time the Board noted that, unlike the underlying security, an option is a disappearing asset. The public is asked to comment separately on this part of the "good faith proposal."

The "premium based proposal" for uncovered writing of options follows the general format proposed by the three exchanges for maintenance margin for uncovered option contracts, that is, a percentage of the premium plus a fixed sum. Each exchange, however, proposed different values for each component. The percentage of premium set forth by the exchanges range from 100 percent to 130 percent; the fixed sum ranges from $1500 to $3500. Most have some additional adjustments to provide for deviations from the basic format when options are deep in or out of the money. The Board's "premium based proposal" is 130 percent of the premium plus $1000, and adjustments to the format have been avoided in order to keep the regulation as simple as possible. In addition, the Board's proposal does not take into account the maturity of the underlying securities, a component of some of the exchange proposals. Comments are requested on the absence of these specific features. If the Board's proposed rule is thought to be inappropriate for certain classes of options or in certain situations, commenters are invited to suggest the least complicated way to accomplish the desired results. The "premium based proposal" does not contemplate according loan value to long positions in options.

Under either proposal, no margin would be required where the option is covered; that is, where the security that can be delivered upon exercise of the option or an offsetting option position is held in the option writer's account. The proposed amendments specify what the Board regards as adequate cover.

Accordingly, pursuant to sections 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78g, 78w) the Board proposes to adopt either of the following amendments to § 220.4 and § 220.8 of Regulation T (12 CFR Part 220):

Good Faith Proposal

The Board proposes the following amendments to § 220.4(i) and § 220.8(b) and (j) of Regulation T (12 CFR Part 220):

1. To revise § 220.4(i) to read as follows:

§ 220.4 Special accounts.

* * * * *

(i) *Special bond accounts.* (1) In a special bond account a creditor may extend and maintain credit on any exempted security, registered non-equity security, or OTC margin bond. The maximum loan value of securities held in this account shall be as prescribed from time to time in § 220.8 (the Supplement to Regulation T). Call options may be issued, endorsed, or guaranteed in this account on any underlying equity security which is held in this account because it is an exempted security.

(2) Put and call options on exempted non-equity securities may be issued, endorsed, or guaranteed in this account provided the amount of margin for such options as prescribed by the Board from time to time in § 220.8 (the Supplement to Regulation T) is included in the adjusted debit balance of this account. The amount of margin need not be included in the adjusted debit balance where there is held in the account any of the following:

(i) The underlying security in the case of a call or a short position in the underlying security in the case of a put;

(ii) An agreement under which a bank, which is holding the underlying security or the required cash, is obligated to deliver, in the case of a call, or accept, in the case of a put, the underlying security against payment of the exercise price upon exercise of the option;

(iii) A long position in a call for the same nominal principal amount of the same underlying security which does not expire before the expiration date of the call issued, endorsed, or guaranteed: *Provided,* That there is also added to the adjusted debit balance the amount, if any, by which the exercise price of such long position exceeds the exercise price of the call issued, endorsed, or guaranteed or, in the case of GNMA options, such additional amount as required by exchange rules.

(iv) A long position in a put on the same nominal principal amount of the same underlying security which does not expire before the expiration date of the put issued, endorsed, or guaranteed: *Provided,* That there is also added to the adjusted debit balance the amount, if any, by which the exercise price of the put issued, endorsed, or guaranteed exceeds the exercise price of such long position or, in the case of GNMA options, such additional amount as required by exchange rules.

(3) When a security held in the account serves in lieu of the margin required for a call, such security shall be valued at no greater than the exercise price of the call.

(4) A short position may be held in this account to serve in lieu of the margin required for a put. The amount to be added to the adjusted debit balance in respect of such short sale shall be increased by any unrealized loss on the position.

(5) When both a put and a call are issued, endorsed or guaranteed in this account on the same nominal principal amount of the same underlying security, the amount of margin required shall be the margin on either the put or the call, whichever is greater, plus any unrealized loss on the other option.

(6) Any security position held in the account which serves in lieu of the margin required for a put or a call shall be unavailable to support any other option transaction in the account.

(7) The customer may either designate at the time the option order is entered which security position held in the account is to serve in lieu of the margin required or have a standing agreement with the creditor as to the method to be used for making the determination on any given day as to which security position will be used in lieu of the margin to support an option transaction.

(8) For the purposes of this paragraph a security shall be deemed to be an "underlying security" if it may be delivered in satisfaction of an exercise notice.

2. To revise § 220.8(b) and (j) to read as follows:

§ 220.8 Supplement.

* * * * *

(b) *Maximum loan value for a special bond account.* The maximum loan value of an exempted security, a put or call on a non-equity exempted security, an OTC margin bond, or a registered non-equity security shall be determined by the creditor in good faith.

* * * * *

(j) *Margin required for the writing of options.* (1) The amount to be included in the adjusted debit balance of a general account, special bond account, or special convertible debt security account pursuant to paragraphs (d)(5) and (i) of § 220.3, as the margin required for the issuance, endorsement, or guarantee of any put or call on an equity security shall be 30 pre cent of the current market value of the underlying security with an adjustment for any applicable increase or reduction.

(2) The amount to be included in the adjusted debit balance of an account pursuant to § 220.4(i) as the margin required for the issuance, endorsement, or guarantee of any put or call on an exempted debt secuity shall be as determined by the creditor in good faith.

Premium-Based Proposal

The Board proposes the following amendments to § 220.4(i) and § 220.8(b) and (j) of Regulation T (12 CFR Part 220):

1. To revise § 220.4(i) to read as follows:

§ 220.4 Special accounts.

* * * * *

(i) *Special Bond Accounts.* (1) In a special bond account a creditor may extend and maintain credit on any exempted security, registered non-equity security, or OTC margin bond. The Maximum loan value of Securities held in this account shall be as prescribed from time to time in § 220.8 (the Supplement to Regulation T). Call options may be issued, endorsed, or guaranteed in this account on any underlying equity security which is held in this account because it is an exempted security.

(2) Put and call options on exempted non-equity securities may be issued, endorsed, or guaranteed in this account provided the amount of margin for such options as prescribed by the Board from time to time in § 220.8 (the Supplement to Regulation T) is included in the adjusted debit balance of this account. The amount of margin need not be included in the adjusted debit balance where there is held in the account any of the following:

(i) The underlying security in the case of a call or a short position in the underlying security in the case of a put;

(ii) An agreement under which a bank, which is holding the underlying security or the required cash, is obligated to deliver, in the case of a call, or accept, in the case of a put, the underlying security against payment of the exercise price upon exercise of the option;

(iii) A long position in a call for the same nominal principal amount of the same underlying security which does not expire before the expiration date of the call issued, endorsed, or guaranteed: *Provided,* That there is also added to the adjusted debit balance the amount, if any, by which the exercise price of such long position exceeds the exercise price of the call issued, endorsed, or guaranteed or, in the case of GNMA options, such additional amount as required by exchange rules.

(iv) A long position in a put on the same nominal principal amount of the same underlying security which does not expire before the expiration date of the put issued, endorsed, or guaranteed: *Provided,* That there is also added to the adjusted debit balance the amount, if any, by which the exercise price of the put issued, endorsed, or guaranteed exceeds the exercise price of such long position or, in the case of GNMA options, such additional amount as required by exchange rules.

(3) When a security held in the account serves in lieu of the margin required for a call, such security shall be valued at no greater than the exercise price of the call.

(4) A short position may be held in this account to serve in lieu of the margin required for a put. The amount to be added to the adjusted debit balance in respect of such short sale shall be increased by any unrealized loss on the position.

(5) When both a put and a call are issued, endorsed or guaranteed in this account on the same nominal principal amount of the same underlying security, the amount of margin required shall be the margin on either the put or the call, whichever is greater, plus any unrealized loss on the other option.

(6) Any security position held in the account which serves in lieu of the margin required for a put or a call shall be unavailable to support any other option transaction in the account.

(7) The customer may either designate at the time the option order is entered which security position held in the account is to serve in lieu of the margin required or have a standing agreement with the creditor as to the method to be used for making the determination on any given day as to which security position will be used in lieu of the margin to support an option transaction.

(8) For the purposes of this paragraph a security shall be deemed to be an "underlying security" if it may be delivered in satisfaction of an exercise notice.

2. To revise § 220.8(b) and (j) to read as follows:

§ 220.8 Supplement.

* * * * *

(b) *Maximum loan value for a special bond account.* The maximum loan value of an exempted security, an OTC margin bond, or a registered non-equity security which is not a put, call or combination thereof shall be as determined by the creditor in good faith.

* * * * *

(j) *Margin required for the writing of options.* (1) The amount to be included in the adjusted debit balance of a general account, special bond account, or special convertible debt security account pursuant to paragraphs (d)(5) and (i) of § 220.3, as the margin required for the issuance, endorsement, or guarantee of any put or call on an equity security shall be 30 per cent of the current market value of the underlying security with an adjustment for any applicable increase or reduction.

(2) The amount to be included in the adjusted debit balance of an account pursuant to § 220.4(i) as the margin required for the issuance, endorsement, or guarantee of any put or call on an exempted debt security shall be 130 percent of the premium plus $1000.

By the order of the Board of Governors of the Federal Reserve System, June 10, 1981.

James McAfee,

Assistant Secretary of Board.

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Title 12—Banks and Banking

Chapter II—FEDERAL RESERVE SYSTEM

SUBCHAPTER A—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Docket No. R-0362]

Part 220—CREDIT BY BROKERS AND DEALERS

PART 221—CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING MARGIN STOCKS

FEDERAL RESERVE SYSTEM

12 CFR Parts 220 and 221

[Docket No. R-0362]

Credit by Brokers and Dealers and Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed amendments.

SUMMARY: After a comprehensive review of the margin regulations, the Board has decided to proceed with a major simplification through a series of amendments to the regulations. In the first group of amendments the following changes are proposed for Regulation T:

1. Eliminate the "equity building" devices; consolidate the bond accounts with the General Account; and require an offsetting adjustment to any highly leveraged General Account from the Special Miscellaneous Account.

2. Relax the restriction on the arranging of credit by investment bankers.

In Regulation U the Board proposes to change the collateral test so as to exempt from quantitative limitation all bank credit not secured by margin equity securities.

DATE: Comments should be received on or before September 15, 1981.

ADDRESS: Comments, which should refer to Docket No. R-0362, may be mailed to the Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551 or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received may also be inspected at Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in § 261.6(a) of the Board's Rule Regarding Availability of Information (12 CFR 261.6(a)).

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202) 452-2786, or Mindy R. Silverman or James N. McNeil, Federal Reserve Bank of New York (212) 791-5000.

SUPPLEMENTARY INFORMATION: The Board proposes to amend certain parts of Regulations T and U (12 CFR Parts 220 and 221) in the first phase of the regulatory simplification of the margin rules. The changes in Regulation T will eliminate the so-called "equity building" devices by (a) deleting the retention requirement and permitting withdrawals from transactions equal to the current maximum loan value of securities in the account and (b) eliminating the suspension of the same-day substitution privilege in "super-restricted" accounts. It is the Board's intention to effect the same results in Regulations U and G if these "equity building" devices are eliminated from Regulation T. The consolidation of Accounts will simplify Regulation T and permit customers greater flexibility in changing the makeup of their portfolios.

The Board has long been concerned with the existence of large credit balances in Special Miscellaneous Accounts of customers with highly-leveraged General Accounts. The proposed changes to eliminate "equity building" devices and the consolidation of the Special Bond Account and the Special Convertible Debt Security Account into the General Account could result in an even greater increase in credit balances in the Special Miscellaneous Account. Accordingly, a provision is also being added to require transfers from the Special Miscellaneous Account whenever the customer's equity in the General Account falls below 25 percent. This proposed change would not require that the customer be called to deposit additional cash or securities with the broker; it would require only the draining of Special Miscellaneous Account balances into the General Account when the General Account equity fell below 25 percent.

In publishing the SMA adjustment proposal for comment, the Board expressed concern that it might have little or no effect since there may be alternate ways to preserve buying power for customers' accounts without the use of the Special Miscellaneous Account. In particular, it has been suggested that the goal of the Board's proposal could be circumvented by daily payment to the customer or the customer's cash account of an amount representing the excess loan value in the customer's General Account. Commenters are specifically invited to comment as to whether this is likely to occur and, if so, what the effects would be. Commenters are also asked to address the question as to whether there are alternative ways of addressing the Board's concern with respect to large credit balances in Special Miscellaneous Accounts of highly leveraged customers. If so, could these alternative methods be effected with less cost than the method proposed by the Board? Estimated cost projections associated with implementing the SMA adjustment feature of the Board's proposal are also requested.

Section 220.7(a) which restricts a broker or dealer in arranging credit will be relaxed to permit investment banking services which involve arranging credit. Arranging credit which the broker or dealer cannot itself extend would continue to be prohibited in other circumstances.

The collateral test in Regulation U will be changed so that only purpose loans secured by any margin stock will be subject to the margin restrictions and only loans secured by margin stock will require the execution of a Form U-1.

Accordingly, pursuant to §§ 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78g, 78w), the Board proposes to amend Regulations T and U (Parts 220 and 221, respectively) as follows:

PART 220—CREDIT BY BROKERS AND DEALERS

A. Section 220.3 of Regulation T is revised in the following manner:

§ 220.3 [Amended]

1. Existing paragraphs (a) and (b) are removed and replaced with the following paragraphs (a) through (e):

(a) *Contents of general account.* All financial relations between a customer and a creditor, whether recorded in one record or more than one record shall be included in and be deemed part of the customer's general account with the creditor except that:

(1) Relations which § 220.4 permits to be included in any special account provided for by the section may be included in the appropriate special account; and

(2) All transactions in commodities shall be included in the special account provided by § 220.4(e).

(b) *Initial margin.* Whenever a creditor effects in a general account any transaction which, combined with other transactions effected in the account on the same day, creates or increases an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, the creditor shall obtain, as promptly as possible, but no later than the end of seven full business days following the date of such transaction, the deposit into the account of cash or securities in such amount that the cash deposited plus the loan value of the securities deposited at least equals the excess so created or the increase so caused.

(c) *Withdrawals.* A creditor may permit the withdrawal of cash or securities from a general account unless:

(1) Cash or securities are required to be deposited in connection with a transaction on the current or a previous day, or

(2) Such withdrawal would, combined with other transactions, deposits and withdrawals on the same day, create or increase an excess of the adjusted debit balance over the maximum loan value of the account.

(d) *Minimum Level Adjustment.* Whenever the adjusted debit balance of the account exceeds 150% of the maximum loan value of the account, after treating all calls for margin issued under § 220.3(b) as if they had been satisfied, the creditor shall transfer from the Special Miscellaneous Account to the General Account credit balances sufficient to decrease the adjusted debit balance of the account to 150% of the maximum loan value of the account or exhaust the credit balance of the Special Miscellaneous Account, whichever occurs first.

(e) *Modifications and exceptions.* Modifications of and exceptions to the provisions stated in this section are provided in the subsequent paragraphs of this section and in § 220.6.

2. Existing paragraphs (c) through (i) are redesignated as new paragraphs (f) through (l).

3. References throughout § 220.3 to the special convertible security account and the special bond account are removed.

4. Subparagraph (2) of redesignated paragraph (f) is revised to read as follows:

(f) * * *

(2) The maximum loan value of a security in a general account shall be such maximum loan value as the Board shall prescribe from time to time in § 220.8 (the supplement to Regulation T). No collateral other than an exempted security or a margin security shall have any loan value in a general account.

5. Redesignated paragraph (h) is revised to read as follows:

(h) *Liquidation in lieu of deposit.*[3] In any case in which the deposit required by this section, or any portion thereof, is not obtained by the creditor within the seven-day period specified therein, the creditor shall promptly sell securities or effect other liquidating transactions in the account in such amount that the resulting decrease in the adjusted debit balance of such account equals or exceeds the required deposit or the undeposited portion thereof: *Provided,* That a creditor is not required to sell securities or to effect other liquidating transactions specified by this paragraph in an amount greater than necessary to eliminate the excess of the adjusted debit balance of such account over the maximum loan value of the securities remaining in such account after such liquidation.

6. Redesignated paragraph (g) is revised to read as follows:

(g) *Transactions on given day.* (1) For the purpose of this section, the question of whether or not an excess of the adjusted debit balance of a general account over the maximum loan value of the securities in the account is created or increased on a given day shall be determined on the basis of all the transactions in the account on such day exclusive of any deposit of cash, deposit of securities, covering transactions, or other liquidation that has been effected on such day in connection with a transaction on a previous day.

(2) In any case in which an excess so created, or increase so caused, by transactions on a given day does not exceed $500, the creditor need not obtain the deposit specified therefor in this section.

(3) Any transaction which serves to meet the requirements of this section or otherwise serves to permit any offsetting transaction in an account shall, to that extent, be unavailable to permit any other transaction in such account.

(4) For the purposes of this part (Regulation T), if a security has maximum loan value under this section in a general account a sale of the same security (even though not the same certificate) in such account shall be deemed to be a long sale and shall not be deemed to be or treated as a short sale.

7. References to existing specific paragraph numbers throughout this Part will be changed to conform to these revisions

b. Section 220.7(a) of Regulation T is revised to read as follows:

§ 220.7 [Amended]

(a)—*Arranging for loans by others.* A creditor may not arrange for the extension or maintenance of credit to or for any customer by any person upon terms and conditions other than those upon which the creditor may himself extend or maintain under the provisions of this Part, except that this limitation shall not apply to credit arranged for a customer which does not violate Parts 207 and 221 of this Chapter and results solely from:

(1) Such investment banking services, provided by the creditor to the customer, as underwritings, private placement, and advice and other services in connection with exchange offers, mergers and acquisitions, except for underwritings that involve the public distribution of an equity security with installment or other deferred payment provisions; or

(2) The sale of non-margin securities with installment or other deferred payment provisions if the sale is exempted from the registration requirements of the Securities Act of 1933 under section 4(2) or section 4(6) of the Act (15 U.S.C. 77(d)(2) and (6)).

PART 221—CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING MARGIN STOCKS

C. Part 221, Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks, would be amended as follows:

[3] This requirement relates to the action to be taken when a customer fails to make the deposit required by § 220.3(b), and it is not intended to countenance on the part of customers the practice commonly known as "free-riding," to prevent which the principal national securities exchanges have adopted certain rules. See the rules of such exchanges and § 220.7(e).

1. All references to "stock" throughout Regulation U (when the term refers to collateral and is not part of a definition) will be changed to "margin stock."

Initial Regulatory Flexibility Analysis

The Board of Governors of the Federal Reserve System is requesting comment on changes to its margin regulations. These changes are the first part of a planned series of amendments intended to simplify margin regulations, generally, and to reduce specific administrative and recordkeeping requirements imposed upon lenders by Regulation T (broker lending), Regulation U (bank lending), and Regulation G (lending by other than brokers or banks).

In addition to the widespread benefits associated with the simplification, the proposed changes would relax regulatory treatment of individual and business borrowers in a number of instances. For example, most of the changes to Regulation T will reduce restrictions applied to portfolio realignment for all margin customers—benefiting customers with small as well as large margin account holdings to the same degree. Also, the modification of the credit arranging provision in Regulation T will permit brokers to provide additional investment banking services— including the arranging of unsecured loans—for business customers. Competition between brokers will be dependent upon investment banking expertise and not upon financial lending capacity—thereby, providing an opportunity for small brokers to compete effectively with large brokers for this business. Furthermore, when seeking capital, business firms of all sizes should derive some benefit from the effects of augmented competition that will result from increased direct broker participation in investment banking activities. Finally, the amendment to the collateral test in Regulation U will allow nonmargin stock (typically, Stock issued by small or privately-held corporations) to be used as collateral for bank loans without, any longer, a regulatory requirement that the borrower state the purpose for which the loan proceeds are to be used. The effect thereby, would be to exempt nonmargin equity security loans from the margin limitations and to reduce the overall reporting burden imposed by the current regulatory provisions.

By order of the Board of Governors of the Federal Reserve System, June 17, 1981.

James McAfee,
Assistant Secretary of the Board.

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Board of Governors of the Federal Reserve System

CREDIT BY BROKERS AND DEALERS

AMENDMENT TO REGULATION T

(effective July 13, 1981)

FEDERAL RESERVE SYSTEM

12 CFR Part 220

[Docket No. R-0250]

Amendment To Delete Provision Permitting Use of Foreign Currency in a Margin Account

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: This amendment to Regulation T (12 CFR Part 220) will delete the paragraph permitting the use of foreign currency in a margin account. It has been called to the Board's attention that the existing language of § 220.6, paragraph (j) may permit the speculative holding of foreign currency and securities in a margin account. By deleting § 220.6, paragraph (j), the Board clarifies that such a possibility is prohibited and that such transactions in foreign currency should be effected in the Special Commodities Account or the Special Miscellaneous Account, since in either case, they would be insulated from securities credit transactions. The amendment was published for comment on December 19, 1980 (45 FR 83510).

EFFECTIVE DATE: July 13, 1981.

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer, or Bruce Brett, Securities Regulation 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 delete § 220.6, paragraph (j), which permits foreign currency to be treated as a credit to an account were generally favorable.

One commenter requested an interpretation which would clarify that foreign currency can be received in a margin account if it is immediately converted into United States currency. It is the Board's intention to clarify that the deletion of this paragraph will not affect the ability to receive foreign currency into an account for immediate exchange, and a letter to that effect will be sent to the commenter.

§ 220.6 [Amended]

Accordingly, pursuant to sections 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78g, 78w), the Board removes § 220.6, paragraph (j) of Regulation T in its entirety and redesignates paragraphs (k) and (l) as paragraphs (j) and (k) respectively.

By order of the Board of Governors of the Federal Reserve System, June 9, 1981.

James McAfee,

Assistant Secretary of the Board.

[FR Doc. 81-17701 Filed 6-12-81; 8:45 am]

BILLING CODE 6210-01-M

[Enc. Cir. No. 9098]

For this Regulation to be complete, retain:

1) Regulation T, as amended effective June 1, 1977, printed in the pamphlet "Securities Credit Transactions."
2) Supplement to Regulation T (section 220.8) dated October 1978, effective October 30, 1978.
3) Amendments effective July 12, 1978, October 30, 1978, June 2, 1980, August 11, 1980, and November 3, 1980.
4) This slip sheet.

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