

FEDERAL RESERVE BANK  
OF NEW YORK

Circular No. 9576  
October 31, 1983

**BORROWERS OF SECURITIES CREDIT**  
**Proposed Revision of Regulation X**

*To All Depository Institutions in the Second  
Federal Reserve District, and Others Concerned:*

The following statement was issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has requested comment on a proposal to completely revise Regulation X, which applies to borrowers who obtain credit for the purpose of purchasing or carrying securities (margin credit). The Board requested comment by November 30, 1983.

The proposed revision of Regulation X is part of the Board's Regulatory Improvement Project in which the Board is reviewing and revising all its regulations to update them, simplify their language, eliminate obsolete or unneeded language or provisions and lighten the burden of compliance. The Board has previously, under this project, completely revised Regulations G, T and U, which apply to lenders (as distinguished from borrowers under Regulation X) who give credit for purchasing or carrying securities.

The major substantive changes to Regulation X would be the exclusion of purely domestic borrowings, which are already regulated by margin rules applicable to lenders, and an increase in the exemption for margin credit obtained by U.S. persons residing abroad from \$5,000 to \$100,000.

In addition, the Board proposed a number of technical revisions to the Regulation and the elimination of the Board's requirement for borrowers to file form X-1.

Printed on the reverse side is a summary of the Board's proposal. The full text of the proposed revision of Regulation X has been published in the *Federal Register* of October 25; copies will also be furnished upon request directed to our Circulars Division. Comments on the proposal should be submitted by November 30, 1983, and may be sent to our Regulations Division.

ANTHONY M. SOLOMON,  
*President.*

(Over)

**12 CFR Part 224**

[Docket No. R-0487]

**Borrowers of Securities Credit;  
Complete Revision and Simplification  
of Regulation X**

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

**ACTION:** Proposed rule.

**SUMMARY:** The Board proposes to revise, in its entirety, Regulation X, which governs borrowers who obtain credit for the purpose of purchasing or carrying securities. The proposed Regulation X is written in simplified language, organized in a logical fashion and reduced in regulatory burden.

The major substantive change proposed for Regulation X is the exclusion from regulation of purely domestic borrowings. Credit involved in such transactions is already regulated by margin rules applicable to lenders. In addition, the proposed revision would increase the exemption for purpose credit obtained by U.S. persons residing abroad from \$5,000 to \$100,000.

**DATE:** Comments should be received on or before November 30, 1983.

**ADDRESS:** Comments, which should refer to Docket No. R-0487, may be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., 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.

**FOR FURTHER INFORMATION CONTACT:**  
Laura Homer, Securities Credit Officer,  
or Robert Lord, Attorney, Division of  
Banking Supervision and Regulation  
(202) 452-2781.

**SUPPLEMENTARY INFORMATION:**

Regulation X, governing borrowers who obtain credit to purchase securities, is being revised in its entirety. The proposed revision follows the format of the recently revised Regulations G, T, and U in that it has been reorganized in a logical fashion, its language has been simplified and obsolete provisions have been removed. Definitions which are in the applicable lender regulation have been eliminated as superfluous because the borrower must look to the applicable lender regulation in any event.

The major substantive change proposed for Regulation X is the exclusion from regulation of purely domestic borrowings. Credit involved in such transactions is already regulated by margin rules applicable to lenders. In addition, the proposed revision would increase the exemption for purpose credit obtained by U.S. persons residing abroad from \$5,000 to \$100,000.

The section providing for an exemption for borrowings made in connection with clearing, market-making, or arbitrage transactions in certain offshore debt securities, the purchase of which gave rise to federal tax liability, has been removed in its entirety. It is believed that this exemption is no longer necessary in light of its very limited application and the repeal of the Interest Equalization Tax (see Pub. L. 94-455) which created the aforementioned tax liability.

Although credit extended to a U.S. person by a foreign branch of a U.S. broker/dealer will still be subject to Regulation T, the provision that applied the same treatment to credit extended by a subsidiary of a broker/dealer (even when that subsidiary is a merchant bank) has been removed. This will parallel the structure in Regulation U concerning bank lending abroad where a U.S. borrower is subject to Regulation

U only if the person borrows from a branch of a U.S. bank. If this change is adopted, purpose credit extended to United States persons by a foreign subsidiary of a broker/dealer would be subject to the credit limitations of Regulation G.

The "aiding and abetting" clause of Regulation X (12 CFR 224.6(b)) is proposed to be deleted because such liability is already implied in the general body of securities law.

Finally, under the proposed revision, the Form X-1 would no longer be required. Experience has not demonstrated that a requirement to use the form is necessary to effect compliance with the Regulation. In any event, the information required to be maintained on the form could be obtained through legal process.

**Initial Regulatory Flexibility Analysis**

The changes proposed pursuant to this action are part of a program to simplify all of the Board's regulations and to reduce specific administrative and regulatory burdens. The Board certifies for purposes of 5 U.S.C. 605(b)), therefore, that the proposed simplification of Regulation X is not expected to have any adverse impact on a substantial number of small businesses.

Federal Reserve System

Regulation X

(12 CFR 224)

[Docket No. R-0487]

BORROWERS OF SECURITIES CREDIT

Complete Revision and Simplification of Regulation X

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed Rule.

SUMMARY: The Board proposes to revise, in its entirety, Regulation X, which governs borrowers who obtain credit for the purpose of purchasing or carrying securities. The proposed Regulation X is written in simplified language, organized in a logical fashion and reduced in regulatory burden.

DATE: Comments should be received on or before November 30, 1983.

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SUPPLEMENTAL INFORMATION:

Regulation X, governing borrowers who obtain credit to purchase securities, is being revised in its entirety. The proposed revision follows the format of the recently revised Regulations G, T, and U in that it has been reorganized in a logical fashion, its language has been simplified and obsolete provisions have been removed. Definitions which are in the applicable lender regulation have been eliminated as superfluous because the borrower must look to the applicable lender regulation in any event.

The major substantive change proposed for Regulation X is the exclusion from regulation of purely domestic borrowings. Credit involved in such transactions is already regulated by margin rules applicable to lenders. In addition, the proposed revision would increase the exemption for purpose credit obtained by U.S. persons residing abroad from \$5,000 to \$100,000.

[Ref. Cir. No. 9576]

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Although credit extended to a U.S. person by a foreign branch of a U.S. broker/dealer will still be subject to Regulation T, the provision that applied the same treatment to credit extended by a subsidiary of a broker/dealer (even when that subsidiary is a merchant bank) has been removed. This will parallel the structure in Regulation U concerning bank lending abroad where a U.S. borrower is subject to Regulation U only if the person borrows from a branch of a U.S. bank. If this change is adopted, purpose credit extended to United States persons by a foreign subsidiary of a broker/dealer would be subject to the credit limitations of Regulation G.

The "aiding and abetting" clause of Regulation X (12 CFR 224.6(b)) is proposed to be deleted because such liability is already implied in the general body of securities law.

Finally, under the proposed revision, the Form X-1 would no longer be required. Experience has not demonstrated that a requirement to use the form is necessary to effect compliance with the Regulation. In any event, the information required to be maintained on the form could be obtained through legal process.

#### INITIAL REGULATORY FLEXIBILITY ANALYSIS:

The changes proposed pursuant to this action are part of a program to simplify all of the Board's regulations and to reduce specific administrative and regulatory burdens. The Board certifies for purposes of 5 U.S.C. 605(b)), therefore, that the proposed simplification of Regulation X is not expected to have any adverse impact on a substantial number of small businesses.

#### List of Subjects in 12 CFR Part 224

Banks, Banking, Borrowers, Brokers, Credit, Federal Reserve System, Margin, Margin Requirements.

Accordingly, pursuant to sections 3, 7, 8, 17 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. §§ 78c, 78g, 78h, 78q, and 78w) the Board proposes to replace Regulation X in its entirety with a completely revised Regulation X which will read as follows:

12 CFR Part 224 -- BORROWERS OF SECURITIES CREDIT

Section 224.1 -- AUTHORITY, PURPOSE, AND SCOPE

(a) Authority and purpose. Regulation X (this part) is issued by the Board of Governors of the Federal Reserve System (the Board) under the Securities Exchange Act of 1934, as amended (the Act)(15 U.S.C. 78a et seq.). This part implements section 7(f) of the Act (15 U.S.C. 78g(f)), the purpose of which is to require that credit obtained within or outside the United States complies with the limitations of the Board's Margin Regulations G, T, and U (12 CFR 207, 220, and 221, respectively).

(b) Scope and exemptions. The Act and this part apply the Board's margin regulations to United States persons and foreign persons controlled by or acting on behalf of or in conjunction with United States persons (borrowers), who obtain credit outside the United States to purchase or carry United States securities, or within the United States to purchase or carry any securities (both types of credit are hereinafter referred to as purpose credit). The following borrowers are exempt from the Act and this part:

(1) any borrower who obtains credit within the United States that is subject to Regulation G, T, or U;

(2) any borrower whose permanent residence is outside the United States and who does not obtain or have outstanding, during any calendar year, a total of more than \$100,000 in purpose credit obtained outside the United States; and

(3) any borrower who is exempt by Order upon terms and conditions set by the Board.

Section 224.2 -- DEFINITIONS

The terms used in this part have the meanings given to them in sections 3(a) and 7(f) of the Act, and in Parts 207, 220, and 221 of this Chapter (Regulations G, T, and U). Section 7(f) of the Act contains the following definitions:

(a) "United States person" includes a person which is organized or exists under the laws of any State or, in the case of a natural person, a citizen or resident of the United States; a domestic estate; or a trust in which one or more of the foregoing persons has a cumulative direct or indirect beneficial interest in excess of 50 per centum of the value of the trust.

(b) "United States security" means a security (other than an exempted security) issued by a person incorporated under the laws of any State, or whose principal place of business is within a State.

(c) "Foreign person controlled by a United States person" includes any noncorporate entity in which United States persons directly or indirectly have more than a 50 per centum beneficial interest, and any corporation in which one or more United States persons, directly or indirectly, own stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock.

Section 224.3 -- MARGIN REGULATIONS TO BE APPLIED BY NON-EXEMPTED BORROWERS

(a) Types of credit transactions. No borrower shall obtain purpose credit from outside the United States unless it conforms to the following margin regulations:

(1) Regulation T (12 CFR 220) if the credit is obtained from a foreign branch of a broker-dealer;

(2) Regulation U (12 CFR 221) if the credit is obtained from a foreign branch of a bank, except for the requirement of a purpose statement (12 CFR 221.3(a)); and

(3) Regulation G (12 CFR 207) if the credit is obtained from any other lender, except for the requirement of a purpose statement (12 CFR 207.3(a)).

(b) Inadvertent noncompliance. No borrower who inadvertently violates this part and who acts to remedy the violation as soon as practicable shall be deemed in violation of this part.

By order of the Board of Governors of the Federal Reserve System,  
October 19, 1983.

(signed) William W. Wiles

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William W. Wiles  
Secretary of the Board