

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **9891**]
[July 3, 1985]

MARGIN REGULATIONS

- Amendments to Regulations G and T Regarding the Extension
of Credit for Employee Stock Option Plans**
- Amendment to Regulation T Regarding Margin Requirements
for the Writing of Options on Equity Securities**

*To All Banks, Brokers and Dealers, and Persons Extending
Securities Credit in the Second Federal Reserve District:*

The following statements were issued by the Board of Governors of the Federal Reserve System announcing amendments to its margin regulations:

Employee Stock Option Plans

The Federal Reserve Board has adopted an amendment to its Regulation G to permit persons other than banks, brokers or dealers to extend credit to trusts for employee stock option plans (ESOPs).

The amendment will permit savings and loan associations, insurance companies and finance companies to extend credit on margin stocks on the same basis as banks.

The Board also adopted an amendment to its Regulation T (Credit by Brokers and Dealers) that permits brokers-dealers to extend and to arrange credit for employee stock ownership plans (ESOPs).

The changes will become effective July 22. However, comment will be received regarding Regulation T until that date so that modifications can be made in that regulation if needed.

Writing of Options on Equity Securities

The Federal Reserve Board has adopted an amendment to its Regulation T (Credit by Brokers and Dealers) that changes the initial margin requirements for the writing of options on equity securities.

The amendment becomes effective September 30, 1985.

The amendment will permit a uniform premium-based system of margin requirements for all types of option contracts. This system will incorporate the maintenance margin required by the national securities exchanges or associations under rules approved by the Securities and Exchange Commission. This action is intended to reduce computer programming requirements for the brokerage industry because it will use one basic program for all types of options.

Enclosed is a copy of the text of the amendments to Regulations G and T, which have been reprinted from the *Federal Register* of June 26. Also enclosed — for those who maintain sets of the Board's regulations — is a revised slip sheet (dated April 1985) containing various amendments to Regulations G, T, and U, which supersede all previous amendments to the pamphlet "Securities Credit Transactions," dated December 1983.

Questions regarding these regulations may be directed to our Regulations Division (Tel. No. 212-791-5914). Comments on the Regulation T amendment may be submitted until July 22, 1985, and may be sent also to our Regulations Division.

E. GERALD CORRIGAN,
President.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SECURITIES CREDIT TRANSACTIONS

— AMENDMENTS TO REGULATIONS G AND T, *effective July 22, 1985*

— AMENDMENT TO REGULATION T, *effective September 30, 1985*

FEDERAL RESERVE SYSTEM

12 CFR Part 207

[Docket No. R-0529]

Regulation G; Securities Credit by Persons Other Than Banks, Brokers, or Dealers

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending its Regulation G (12 CFR Part 207) to permit non-bank, non-broker lenders to extend credit to trusts for employee stock option plans (ESOPs) qualified under section 401 of the Internal Revenue Code without regard to the credit limitations normally applicable under Regulation G. This will permit savings and loans and other "G-lenders" to extend such credit on margin stock on the same basis as banks are currently allowed to lend under a special exemptive provision in Regulation U. Comments have been received on this proposal which was published in the *Federal Register* on March 19, 1985 (50 FR 10972), and they were generally supportive.

EFFECTIVE DATE: July 22, 1985.

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer or Susan Meyers, Securities Regulation Analyst, Division of Banking Supervision and Regulation, (202) 452-2781, or Joy W. O'Connell, Telecommunication Device for the Deaf (TDD) (202) 452-3244.

Final Regulatory Flexibility Analysis

The Board's Initial Regulatory Flexibility Analysis of the proposal to amend Regulation G to permit G-lenders to extend, on an exempt basis, credit to

ESOPs indicated that it was not expected to have any adverse impact on a substantial number of small businesses. No comments to the contrary have been received except for one relating to small broker-dealers. The Board is simultaneously adopting an amendment to Regulation T (12 CFR Part 220) that will eliminate any problem of unequal treatment to broker-dealers. The Board, therefore, certifies for the purposes of 5 U.S.C. 605(b) that the amendment is not expected to have any adverse impact on a substantial number of small businesses.

List of Subjects in 12 CFR Part 207

Banks, Banking, Credit, Margin, Margin requirements, Reporting and recordkeeping requirements, Securities.

PART 207—SECURITIES CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS

Accordingly, the Board amends 12 CFR Part 207 (Regulation G) in the following manner:

1. The authority citations for 12 CFR 207 continues to read as follows:

Authority: Secs. 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).

2. Section 207.5 is amended by revising the heading and adding a new paragraph (c) as follows:

§ 207.5 Employee Stock Option, Purchase and Ownership Plans.

* * * * *

(c) Credit to ESOPs

A lender may extend and maintain purpose credit without regard to the provisions of this part, except for §§ 207.3(a) and 207.3(o), if such credit is extended to an employee stock ownership plan (ESOP) qualified under section 401 of the Internal Revenue Code, as amended (26 U.S.C. 401).

By order of the Board of Governors of the Federal Reserve System, June 19, 1985.

William W. Wiles,

Secretary of the Board.

[FR Doc. 85-15360 Filed 6-25-85; 8:45 am]

12 CFR Part 220

[Docket No. R-0529]

Regulation T; Credit by Brokers and Dealers; Employees Stock Ownership Plans

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending Regulation T to permit broker-dealers to extend and to arrange credit for employee stock ownership plans qualified under section 401 of the Internal Revenue Code. Although the changes are being made effective July 22, 1985, comments will be received until that date and appropriate modifications, if any are deemed necessary, will be made in response to comments.

DATE: Comments should be received by July 22, 1985.

ADDRESSES: Comments, which should refer to Docket No. R-0529, 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 the C Street entrance between 8:45 a.m. and 5:15 p.m. weekdays. Comments may be inspected weekdays from 8:45 a.m. to 5:15 p.m. in Room B-1122.

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer or Susan Meyers, Securities Regulation

PRINTED IN NEW YORK, FROM *FEDERAL REGISTER*, VOL. 50, NO. 123

For this Regulation to be complete, retain:

- 1) Pamphlet dated December 1983, entitled "Securities Credit Transactions."
- 2) Various amendments (*included in slip sheet, dated April 1985*).
- 3) This slip sheet.

[Enc. Cir. No. 9891]

Analyst, Division of Banking Supervision and Regulation, (202) 452-2781, or Joy W. O'Connell, Telecommunication Device for the Deaf (TDD) (202) 452-3244.

SUPPLEMENTARY INFORMATION: In the 1983 revision to Regulation U, the Board exempted credit extended by banks to employee stock ownership plans from the margin requirements (48 FR 35074, August 3, 1983). In 1985, the Board proposed extending this exemption to lenders subject to Regulation G and asked for comment as to whether Regulation T should also be amended to provide a comparable exception for brokers and dealers. (50 FR 10933, March 19, 1985). Comments received were overwhelmingly in favor of such an amendment to Regulation T.

Final Regulatory Flexibility Analysis

The Board's amendment to Regulation T is not expected to have any adverse impact on a substantial number of small businesses. For the purposes of 5 U.S.C. 605(b), the Board so certifies.

List of Subject in 12 CFR Part 220

Banks, Banking, Brokers, Credit, Margin, Margin requirements, Investments, Reporting and recordkeeping requirements, Securities.

PART 220—CREDIT BY BROKERS AND DEALERS

Accordingly, the Board amends 12 CFR Part 220 (Regulation T) as set forth below:

1. The authority citation for 12 CFR Part 220 is revised to read as follows:

Authority: Secs. 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).

2. Section 220.9 is amended by revising the heading and by adding a new paragraph (a)(4) as set forth below:

§ 220.9 Nonsecurities Credit and Employee Stock Ownership Account.

(a) * * *

(4) Extend and maintain credit to employee stock ownership plans without regard to the other sections of this part.

* * * * *
By order of the Board of Governors of the Federal Reserve System, June 19, 1985.

William W. Wiles,

Secretary of the Board.

[FR Doc. 85-15359 Filed 6-25-85; 8:45 am]

12 CFR Part 220

[Docket No. R-0538]

Regulation T; Credit by Brokers and Dealers

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending Regulation T (23 CFR Part 220, Credit by Brokers and Dealers) in order to continue the Board's present policy of requiring an initial margin for the writing of options that is identical to the maintenance margin required by exchange or association rules that have been approved by the Securities and Exchange Commission ("SEC"). The amendment states that the initial margin shall be the amount specified by the rules of the national securities exchanges or association authorized to trade the option if the SEC has approved the rules. It will no longer specify what that amount is for options on equity securities and will consolidate the existing provisions for different option products into a single rule. A further provision is added to cover options not effected on exchanges or association facilities.

EFFECTIVE DATE: September 30, 1985.

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer or Susan Meyers, Securities Regulation Analyst, Division of Banking Supervision and Regulation, (202) 452-2781, or Joy W. O'Connell, Telecommunication Device for the Deaf (TDD) (202) 452-3244.

SUPPLEMENTARY INFORMATION: A new margining system for the writing of options has been proposed to the SEC by the exchanges that trade options. The formula for any option product would be the premium, plus a percentage of the current market value of the underlying security, index, or other instrument on which the option is based, minus the amount the option is "out of the money". A minimum amount would be established for each option. This amount and the percentage of current market value for each product has been established for existing products based upon annualized volatility studies. They reflect the risks involved for the broker or adverse price movements over a

period of time. The Board's existing rules for option products would accommodate this new system with the exception of the rule for an option on a single equity security. The Board proposed an amendment to the equity option provision (50 FR 5766, Feb. 12, 1985) in order to facilitate the industry's change to the "premium plus" system.

Comments were all favorable to the "premium plus" concept. One commenter, however, voiced concern over the delegation of authority to the SROs. Commenters and the SEC staff have asked for a delayed effective date so that computer programs can be changed to the new system. A three-month period has been provided to allow for computer program changes and for SEC action on the rule changes that will implement the new margining system.

The Board also wishes to give notice that it is considering deleting paragraph (c) (3), (4), (5), and (6) in § 220.5 of Regulation T if all of the exchanges and the NASD incorporate the substance of those provisions in the SRO rules. Each of the various national securities exchanges and the NASD should notify the Board when similar rules have been adopted.

Final Regulatory Flexibility Analysis

The Initial Regulatory Flexibility Analysis indicated that the change proposed would reduce some administrative and regulatory burdens faced by the brokerage community and was not expected to have any adverse impact on a substantial number of small businesses. No comments to the contrary were received. The Board, therefore, certifies for purposes of 5 U.S.C. 605(b) that this amendment to Regulation T will not have any adverse impact on a substantial number of small businesses.

List of Subjects in 12 CFR Part 220

Banks, Banking borrowers, Brokers, Credit, Margin, Margin requirements, Investments, Reporting and recordkeeping requirements, Securities.

PART 220—CREDIT BY BROKERS AND DEALERS

Accordingly, the Board amends 12 CFR Part 220 (Regulation T) as set forth below:

1. The authority citation for 12 CFR

Part 220 is revised to read as follows:

Authority: Secs. 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).

2. Section 220.5 (c)(2) is revised to read as set forth below:

§ 220.5 Margin Account Exceptions and Special Provisions.

* * * * *

(c) * * *

(2) *Margin for options on equity securities.* The required margin for each transaction involving any short put or short call on an equity security shall be the amount set forth in § 220.18 (the Supplement).

* * * * *

3. Section 220.18 is revised to read as follows:

§ 220.18 Supplement: Margin Requirements.

The required margin for each security position held in a margin account shall be as follows:

(a) Margin equity security, except for an exempted security or a long position in an option: 50 percent of the current market value of the security.

(b) Exempted security, registered nonconvertible debt security or OTC margin bond: The margin required by the creditor in good faith.

(c) Short sale of nonexempted security: 150 percent of the current market value of the security, or 100 percent of the current market value if a security exchangeable or convertible within 90 calendar days without restriction other than the payment of money into the security sold short is held in the account.

(d) Short sale of an exempted security: 100 percent of the current market value of the security plus the margin required by the creditor in good faith.

(e) Nonmargin, nonexempted security or a long position in any option: 100 percent of the current market value.

(f) Short put or short call on a security, certificate of deposit, securities index or foreign currency:

(1) In the case of puts and calls issued by a registered clearing corporation and listed or traded on a registered national securities exchange or a registered securities association, the amount, or other position (except in the case of an option on an equity security), specified by the rules of the registered national securities exchange or the registered securities association authorized to trade the option, provided that all such rules have been approved or amended by the SEC; or

(2) In the case of all other puts and calls, the amount, or other position (except in the case of an option on an equity security), specified by the maintenance rules of the creditor's self-regulatory organization.

By order of the Board of Governors of the Federal Reserve System, June 19, 1985.

William W. Wiles,

Secretary of the Board.

[FR Doc. 85-15358 Filed 6-25-85; 8:45 am]

Amendments to Regulations G, T, and U Securities Credit Transactions April 1985*

1. *Effective November 13, 1984, section 207.2(i) of Regulation G is amended by adding a new paragraph (3) and renumbering paragraphs (3), (4), and (5) to (4), (5), and (6). The new paragraph (3) reads as follows:*

(3) any OTC security designated as qualified for trading in the National Market System under a designation plan approved by the Securities and Exchange Commission (NMS Security);

2. *Effective April 19, 1985, section 207.2(i)(6) of Regulation G is amended (1) by deleting the period and substituting “; or” at the end of subparagraph (ii) and (2) by adding a new subparagraph (iii):*

(iii) a company which issues face-amount certificates as defined in 15 USC 80a-2(a)(15), but only with respect of such securities.

The parenthetical cite in subparagraph (ii) is corrected to read “15 USC 78c(a)(12)”.

3. *Effective November 13, 1984, section 207.3 of Regulation G is amended by adding a new paragraph (q) to read as follows:*

(q) *Lack of notice of NMS security designation.* Failure to treat an NMS security as a margin stock in connection with an extension of credit shall not be deemed a violation of this part if the designation is made between quarterly publications of the

Board's list of OTC margin stocks and the lender does not have actual notice of the designation.

4. *Effective November 13, 1984, section 220.2(o) of Regulation T is amended by numbering the listed items and adding an item (paragraph (4)). Subsection (o) now reads as follows:*

(o) “Margin security” means (1) any registered security;

(2) any OTC margin stock;

(3) any OTC margin bond;

(4) any OTC security designated as qualified for trading in the National Market System under a designation plan approved by the Securities and Exchange Commission (NMS security); or

(5) any security issued by either an open-end investment company or unit investment trust which is registered under section 8 of the Investment Company Act of 1940 (15 USC 80a-8).

5. *The last sentence of section 220.4(c)(1) of Regulation T is corrected to read as follows:*

Additional margin is required on any day when the day's transactions create or increase a margin deficiency in the account and shall be for the amount of the margin deficiency so created or increased.

6. *Effective April 19, 1985, section 220.13 of Regulation T is amended by adding a new paragraph (c):*

(c) a subsequent loan or advance on a face-amount certificate as permitted under 15 USC 80a-28(d).

* The Board's margin regulations, as amended effective April 19, 1985, consist of—

- the Securities Credit Transactions pamphlet dated December 1983 (see inside cover) and
- this slip sheet.

7. *Section 220.14(b)(2) of Regulation T is corrected by adding the word "and" after the semicolon.*

8. *Effective April 13, 1984, section 220.14(b)(3) of Regulation T is amended to read as follows:*

(3) the deposit consists of any margin security and complies with the rules of the clearing agency which have been approved by the SEC.

9. *Effective November 13, 1984, section 221.2(h) of Regulation U is amended by adding a new paragraph (3) and renumbering paragraphs (3), (4), and (5) to (4), (5), and (6). The new paragraph (3) reads as follows:*

(3) any OTC security designated as qualified for trading in the National Market System under a designation plan approved by the Securities and Exchange Commission (NMS security);

10. *Effective April 19, 1985, section 221.2(h)(6) of Regulation U is amended (1) by deleting the period and substituting "; or" at the end of subparagraph (ii) and (2) by adding a new subparagraph (iii):*

(iii) a company which issues face-amount certificates as defined in 15 USC 80a-2(a)(15), but only with respect of such securities.

The parenthetical cite in subparagraph (ii) is corrected to read "15 USC 78c(a)(12)".

11. *Effective November 13, 1984, section 221.3 of Regulation U is amended by adding a new paragraph (1) to read as follows:*

(1) *Lack of notice of NMS security designation. Failure to treat an NMS security as a margin stock in connection with an extension of credit shall not be deemed a*

violation of this part if the designation is made between quarterly publications of the Board's list of OTC margin stocks and the bank does not have actual notice of the designation.

12. *The mandatory effective date for compliance with the revised Regulation T is June 30, 1984.*