

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. 10174 ]  
June 2, 1987 ]

**REPORTING OF GOVERNMENT SECURITIES BROKER OR  
DEALER ACTIVITIES BY FINANCIAL INSTITUTIONS**

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

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System advising financial institutions that act as Government securities brokers or dealers of their obligation, under the Government Securities Act of 1986, to notify their designated Federal supervisory agencies of their broker/dealer activities by July 25, 1987:

The Federal Reserve Board has announced the adoption of forms to be used by financial institutions acting as Government securities brokers or Government securities dealers to report their status under the Government Securities Act of 1986.

The Act requires all financial institutions that act as Government securities brokers or dealers to notify their Federal regulators of their broker-dealer activities. Institutions that currently act as broker-dealers must file notice (Form G-FIN) by July 25, 1987. The second notice (Form G-FINW) would be used by institutions that terminate their status as a Government securities broker or dealer.

Under the Act, the Board has the responsibility to establish the form of these notices to be used by commercial banks, foreign banks, savings banks, and savings and loan associations.

Printed on the reverse side is the text of the Board's notice in this matter, which has been reprinted from the *Federal Register* of May 26, 1987 (52 FR 19714).

Enclosed — for depository institutions in this District — is a copy of the form (G-FIN) to be used by financial institutions to advise their Federal regulators of their broker/dealer activities; also enclosed is the form (G-FINW) to be used by institutions when they want to terminate their status as a Government securities broker or dealer. Questions regarding the forms may be directed to Gerald P. Minehan, Assistant Chief Examiner (Tel. No. 212-720-5881).

\* \* \*

In a related action, the Treasury Department has published temporary regulations under the Government Securities Act of 1986, which became effective May 26, 1987, and were published in the *Federal Register* on that date (52 FR 19642). The Treasury Department has also invited comments, until June 10, on the temporary regulations; comments should be sent directly to the Treasury at the address indicated below. A copy of the Treasury's press statement, together with a summary of those temporary regulations, is also enclosed. The final regulation will be effective July 25, 1987. The complete text of that regulation and other related forms may be obtained from the Treasury Department, at the following address:

Government Securities Regulation Project  
Room 4417, Main Treasury Building  
Washington, D.C. 20220

Questions regarding the Treasury's regulations may be directed, at this Bank, to Don N. Ringsmuth, Associate General Counsel (Tel. No. 212-720-5007) or to Barbara L. Walter, Assistant Vice President (Tel. No. 212-720-5481).

E. GERALD CORRIGAN,  
*President.*

(OVER)



## FEDERAL RESERVE SYSTEM

[Docket No. R-0596]

### Financial Institutions Acting as Government Securities Brokers or Government Securities Dealers; Adoption of Forms

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

**ACTION:** Notice of adoption of forms.

**SUMMARY:** Under section 15C(a)(1)(B) of the Securities Exchange Act of 1934, 15 U.S.C. 78o-5(a)(1)(B), as amended by the Government Securities Act of 1986 (Pub. L. 99-571), all financial institutions that act as government securities brokers or government securities dealers must notify their designated Federal supervisory agencies of their broker/dealer activities, unless exempted from the notice requirement by Treasury Department regulation. The Board of Governors has the responsibility for establishing the form for this notice, as well as the form of the notice to be filed by financial institutions that are no longer acting as government securities brokers or government securities dealers. The proposed forms were published for comment on February 25, 1987, 52 FR 5724. After a review of comments, the Board has adopted Form G-FIN (notification by financial institution of status as government securities broker or dealer) and Form G-FINW (notification by financial institution of termination of status as government securities broker or dealer), substantially as proposed.

This action constitutes final approval under the Paperwork Reduction Act (Chapter 35 of 44 U.S.C.) and OMB regulations on Controlling Paperwork Burdens on the Public (5 CFR Part 1320).

**EFFECTIVE DATE:** May 26, 1987.

**FOR FURTHER INFORMATION CONTACT:** Robert S. Plotkin, Assistant Director (202-452-2782), or Susan S. Meyers, Senior Securities Regulation Analyst (202-452-2781), Division of Banking Supervision and Regulation; or, for the hearing impaired *only*:

Telecommunications Device for the Deaf (202-452-3544), Earnestine Hill or Dorothea Thompson, Board of

Governors of the Federal Reserve System. Federal Reserve Paperwork Clearance Officer: Nancy Steele, Division of Research and Statistics (202-452-3822).

**SUPPLEMENTARY INFORMATION:** The Board has adopted forms G-FIN and G-FINW as the vehicles for financial institutions to submit the notices of status as government securities brokers and government securities dealers required by the Government Securities Act of 1986, 15 U.S.C. 78o-5(a)(1)(B). The Board proposed these forms for comment on February 25, 1987, FR 5724. All six comments received (four from Federal Reserve Banks, two from commercial banks) generally supported the proposed forms. One bank ~~saw~~ no need to file an amendment to Form G-FIN because such amendment would merely duplicate the filings made on Forms G-FIN-4 or G-FIN-5. Amended G-FINs, however, are required by Treasury Department regulations, and the Form G-FIN is a public document while Forms G-FIN-4 and G-FIN-5 are not.

All financial institutions (generally Federal and state chartered commercial banks, foreign banks, savings banks, and savings and loan associations, but not credit unions) that act or cease to act as government securities brokers or government securities dealers are required by section 78o-5(a)(1)(B) to file these notices with their appropriate regulatory agencies unless exempted from the notice requirement by Treasury Department rule. Financial institutions that are currently acting as government securities brokers or government securities dealers and not otherwise exempt must file a notice on Form G-FIN by July 25, 1987. Financial institutions that intend to begin engaging in these activities after that date must file a notice prior to commencement of these operations. Financial institutions acting as government securities brokers or government securities dealers that cease engaging in these activities must file a notice on Form G-FINW with their appropriate regulatory agencies.

In general, the appropriate regulatory agency for national banks is the Comptroller of the Currency; for State

member banks, the Board of Governors of the Federal Reserve System; for insured non-member State banks, the Federal Deposit Insurance Corporation; for federally insured savings and loans associations, the Federal Home Loan Bank Board; and for non-federally insured financial institutions, the Securities and Exchange Commission. A foreign bank should refer to section 3(a)(34) of the Securities Exchange Act (15 U.S.C. 78c(a)(34)) as amended by section 102 of the Government Securities Act to determine its appropriate regulatory agency.

The Board estimates that for the first year, approximately 350 financial institutions will be required to file Form G-FIN and that the paperwork burden for each institution will not be greater than an average of one hour. Thus for all financial institutions, the total burden associated with these forms is estimated at 350 hours. The Board estimates that approximately 50 state member banks will be required to file such forms; thus the total burden added to the Board's information collection budget is an estimated 50 hours. The Board does not anticipate any institutions that will be filing Form G-FIN will cease to act as government securities brokers or dealers during the next year, thus the Board estimates that there will be no paperwork burden associated with Form G-FINW for this time.

In a related action the Treasury Department has adopted temporary rules under the Government Securities Act, that, among other things, establish exemptions from the notice requirement for certain classes of financial institutions. (See 17 CFR Part 401.) In addition, the Treasury Department has adopted a rule requiring the filing of an amendment to the notice if any information contained therein becomes inaccurate. (See 17 CFR 400.5(b).)

Reference to the Forms G-FIN and G-FINW will be at 17 CFR 449.1 and 449.2.

Board of Governors of the Federal Reserve System, May 21, 1987.

William W. Wiles,

Secretary of the Board.

[FR Doc. 87-12021 Filed 5-22-87; 9:46 am]

BILLING CODE 6210-01-M



# Notice By Financial Institutions of Government Securities Broker or Government Securities Dealer Activities

(This booklet includes instructions and blank forms)



**Board of Governors of the Federal Reserve System**



**Federal Deposit Insurance Corporation**



**Office of the Comptroller of the Currency**



**Federal Home Loan Bank Board**



**Securities and Exchange Commission**

## NOTICE REQUIREMENTS

This notice must be filed by all financial institutions that are government securities brokers or government securities dealers that are not exempt from the notice requirement under regulations of the Department of Treasury. Generally, a financial institution will not be required to file as a government securities broker or dealer if its only government securities activities are to: (1) Buy or sell government securities solely for investment for its own account; (2) Buy or sell government securities for fiduciary

accounts; (3) Handle savings bond transactions; (4) Submit tenders for the account of customers for purchase on original issue of U.S. Treasury securities; (5) Enter into repurchase or reverse repurchase agreements; (6) Effect fewer than 500 government securities brokerage transactions per year; (7) Effect brokerage transactions only through another government securities broker or dealer on a fully disclosed basis; or (8) Effect brokerage transactions that do not involve active solicitations.

**For further information on the requirements to file this notice, please refer to the Instructions.**



# Instructions for Completing Notice of Government Securities Broker or Government Securities Dealer Activities by Financial Institutions

## GENERAL INFORMATION AND INSTRUCTIONS

### A. Terms and Abbreviations

1. "Act" refers to the Securities Exchange Act of 1934, as amended by the Government Securities Act of 1986.
2. "ARA" refers to the financial institution's appropriate regulatory agency, as defined in section 3(a)(34)(G) of the Act. See general instruction (E) below for a listing of appropriate regulatory agencies.
3. "Government securities" are defined in section 3(a)(42) of the Act. In general, this term refers to direct obligations of or obligations guaranteed as to principal or interest by the United States; securities issued or guaranteed as to principal or interest by corporations designated by statute or by the Secretary of the Treasury to constitute exempt securities; and puts, calls, straddles or options on such securities. Although not all inclusive, the following are the more common types of government securities covered by the term: U.S. Treasury bills, bonds, notes; discount notes, bonds, certain collateralized mortgage obligations, pass throughs, master notes, and other obligations, of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Student Loan Marketing Association (SLMA), Federal Home Loan Banks and Farm Credit Banks; securitized Small Business Association (SBA) loans; and FNMA stock.
4. "Government securities broker" is defined in section 3(a)(43) of the Act. In general, this term refers to a financial institution that is regularly engaged in the business of effecting transactions in government securities for the account of others.
5. "Government securities dealer" is defined in section 3(a)(44) of the Act. In general, this term refers to a financial institution engaged in the business of buying and selling government securities for its own account but does not include a financial institution insofar as it buys or sells securities for its own account but not as a part of its regular business, or in a fiduciary capacity.
6. "Financial institution" is defined in Section 3(a)(46) of the Act. In general, the term refers to any national or State chartered bank or trust company which is supervised and examined by a State or Federal bank supervisory agency, a foreign bank, and any other institution whose deposits are insured by the Federal Savings and Loan Insurance Corporation.
7. "Associated person" is defined by Treasury regulation (17 C.F.R. 400.3(c)) to mean a person directly engaged in any of the following activities in either a supervisory or non-supervisory capacity: underwriting, trading or sales of government securities; financial advisory or consultant services for issuers in connection with the issuance of government securities; other communications with public investors, or research or investment advice, other than general economic information or advice, with respect to government securities in connection with the activities described above. The term is further defined in Section 400.3(c) to cover persons engaged in the following activities in a supervisory capacity: processing and clearance activities with respect to government securities; and maintenance of records involving any of the activities described in this paragraph.

This definition does not include directors and senior officers of the financial institution who may from time to time set broad policy guidelines affecting the financial institution as a whole, but are not directly involved in the conduct of the financial institution's government securities business on a day-to-day basis. It also does not cover persons whose functions are solely clerical or ministerial, persons who are acting in a fiduciary capacity, or persons who act solely as order takers without giving investment advice or receiving transaction-based compensation.

### B. Who Must File?

Under Section 15C (a)(1)(B) of the Act, any financial institution that is a government securities broker or government securities dealer within the foregoing definitions must file with its ARA a written notice, on the form prescribed herein, except as described below.

A financial institution that buys and sells securities solely for investment for its own account or for accounts for which it acts as a fiduciary will not generally be classified as a dealer, even though such purchases and sales are made with some frequency. Virtually every financial institution purchases government securities for investment; and purchases and sales may occur to accommodate changes in the financial institution's financial position or to reflect investment decisions. The legislative history of the Act indicates that Congress did not intend to require financial institutions engaged in such investment-type activity to register as dealers.

The Department of the Treasury has exempted financial institutions that engage solely in the following activities:

- (1) Acting as issuing agent, payment agent or forward-agent for U.S. Savings Bonds (17 C.F.R. 401.1);



- (2) submission of tenders for the account of customers for purchase on original issue of U.S. Treasury securities (17 C.F.R. 401.2);
- (3) the sale and subsequent repurchase and the purchase and subsequent resale of government securities pursuant to a repurchase or reverse repurchase agreement (17 C.F.R. 401.4); or
- (4) sales or purchases in a fiduciary capacity (17 C.F.R. 401.4).

In general, government securities activities that may bring a financial institution within the definition of government securities dealer include the following: (1) underwriting or participating in a selling group for the sale of government securities; (2) advertising or otherwise holding itself out to other dealers or investors as a dealer in government securities; or (3) quoting a market for government securities, and in connection with such quotations, standing ready to purchase or sell government securities.

The Department of the Treasury also has exempted (17 C.F.R. 401.3) any financial institution from the definition of government securities broker unless it (1) holds itself out as a government securities broker or interdealer broker; or (2) actively solicits individual purchases or sales of government securities on an agency basis. In addition, a financial institution will be exempt if it (a) effects less than 500 brokerage transactions per year or (b) except for U.S. Savings Bonds and submissions of tenders for U.S. Treasury securities (as described above), effects all brokerage transactions through a government securities broker or dealer who is clearly identified as the entity providing the brokerage services, and who meets the other conditions of the exemption.

A branch or agency of a foreign bank that engages in government securities transactions solely with non-U.S. citizens that are resident outside the United States is also exempt (17 C.F.R. 401.6).

#### C. When to file

A financial institution that is acting as a government securities broker or government securities dealer on July 25, 1987, must file a notice with its ARA on or before that date and any financial institution that proposes to act as a government securities broker or government securities dealer after that date shall file the notice before it commences operations.

#### D. Amendments

In the event any of the information previously submitted on this notice becomes incomplete, inaccurate or no longer applicable, the notice must be amended. This amendment must be filed within 30 calendar days of the notice becoming inaccurate (17 C.F.R. 400.5(b)).

Items 1, 2, 3 and 7 of the notice shall be completed for each amendment. Otherwise, only those items which are being amended need to be completed.

#### E. How and where to file: Number of copies

Each financial institution must file two copies of the notice and each amendment with its ARA, one of which will be sent by the ARA to the SEC. Retain one exact copy for your records. A financial institution may determine the name and address of its ARA from the following:

1. A national bank, a bank operating in the District of Columbia that is examined by the Comptroller of the Currency, or a Federal branch or Federal agency of a foreign bank, files with the:

Office of the Comptroller of the Currency  
Administrator of National Banks  
Division of Investment Securities  
Washington, D.C. 20219

2. A State member bank of the Federal Reserve System, a foreign bank, a State branch or a State agency of a foreign bank, or a commercial lending company owned or controlled by a foreign bank, files with the:

Board of Governors of the  
Federal Reserve System  
Division of Banking Supervision & Regulation  
Securities Regulation Section  
Washington, D.C. 20551

3. A bank insured by the Federal Deposit Insurance Corporation (other than a bank which is a member of the Federal Reserve System or a Federal savings bank) files with the:

Federal Deposit Insurance Corporation  
Division of Bank Supervision  
Securities Analysis Unit  
Washington, D.C. 20429

4. A Federal savings and loan association, Federal savings bank, or an institution insured by the Federal Savings and Loan Insurance Corporation, files with the:

Federal Home Loan Bank Board  
Office of the General Counsel  
Corporate and Securities Division  
1700 G Street, N.W.  
Washington, D.C. 20552

5. A State chartered bank or a State chartered trust company that is not a member of the Federal Reserve System and whose deposits are not insured by the Federal Deposit Insurance Corporation, or any other financial institution not described in the preceding paragraphs, files with the:

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549



**F. Privacy Act Notice**

Collection of the information to be supplied on this form is authorized by section 15C(a)(1)(B) of the Securities Exchange Act of 1934, 15 U.S.C. 78o-5(a)(1)(B). Disclosure is mandatory for all financial institutions that act as government securities brokers or government securities dealers that are not exempted from filing under Treasury Department regulations (see 17 C.F.R. Part 401). The principal purpose of this notice is to identify to the appropriate regulatory agencies those financial institutions that act as government securities brokers or government securities dealers and are subject

to regulation under the Act. Information supplied on this form will be included routinely in the public files of the appropriate regulatory agencies and will be available for inspection by any interested person. In addition, the Securities and Exchange Commission will maintain copies of all G-FIN notices in the public files, and will make them available for public inspection by any interested person. Financial institutions that do not provide the information solicited on this form may not lawfully act as government securities brokers or government securities dealers unless exempt from the notice requirement by Treasury Department regulation (17 C.F.R. Part 401).



OFFICIAL USE

**Notice of Government Securities Broker or Government Securities Dealer Activities  
To Be Filed by a Financial Institution Under Section 15C(a)(1)(B)  
of the Securities Exchange Act of 1934**

1. Appropriate regulatory agency (check one):

- |  |  |
|--|--|
| A. <input type="checkbox"/> Comptroller of the Currency                      | D. <input type="checkbox"/> Federal Home Loan Bank Board       |
| B. <input type="checkbox"/> Board of Governors of the Federal Reserve System | E. <input type="checkbox"/> Securities and Exchange Commission |
| C. <input type="checkbox"/> Federal Deposit Insurance Corporation            |  |

2. Filing status of notice (check as applicable):

- |   |                                       |
|---|---------------------------------------|
| A. <input type="checkbox"/> Government Securities Broker            | D. <input type="checkbox"/> Notice    |
| B. <input type="checkbox"/> Government Securities Dealer            | E. <input type="checkbox"/> Amendment |
| C. <input type="checkbox"/> Government Securities Broker and Dealer |                                       |

3. A. Full name of the Financial Institution:

\_\_\_\_\_

B. Address of principal office of Financial Institution:

\_\_\_\_\_

C. Address of principal office where government securities broker or government securities dealer activities will be conducted (if different than item (B)):

\_\_\_\_\_

D. Mailing address if different from (B) or (C):

\_\_\_\_\_

E. Name, title and telephone number of contact person with respect to this notice:

_____	_____	_____
Name	Title	Telephone

4. Does Financial Institution conduct, or will it conduct, government securities broker or government securities dealer activities at any location other than given in Question 3 above?      A.  Yes      B.  No

(If yes, provide addresses and describe activities.)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



5. Furnish the name and title of each person who is directly engaged in the management, direction or supervision of any of the financial institution's government securities broker or government securities dealer activities:

Full Name

Last	First	Middle	Title

**Note: Attach a separate Form G-FIN-4 (or, if previously filed, a copy of Form MSD-4 or Form U-4) for each person named in response to this Item 5.**

6. Has any "associated person" (see definition in paragraph A.7. of the Instructions) responded "yes" to any question in Item 17 of Form G-FIN-4, or "yes" to one or more questions in Items 23 through 26 of Form MSD-4 or Item 22 on Form U-4?

A.  Yes

B.  No

(If yes, attach a copy of Form G-FIN-4, Form MSD-4, or Form U-4 for all such persons with this Notice.)

**Note: The financial institution and the person executing this form are responsible for making an inquiry of all other employers of any associated person during the immediately preceding three years for the purpose of verifying the accuracy of the information furnished on Form G-FIN-4. (See 17 C.F.R. 400.4(c)). Similar requirements are applicable to Form MSD-4 and Form U-4.**

7. The financial institution submitting this notice and the person executing it represent that all of the information contained herein is true, current and complete.

Please print name and title of person executing this notice:

First	Middle	Last	Title

Manual Signature

Date



OFFICIAL USE

**Notice of Government Securities Broker or Government Securities Dealer Activities  
To Be Filed by a Financial Institution Under Section 15C(a)(1)(B)  
of the Securities Exchange Act of 1934**

1. Appropriate regulatory agency (check one):

- |  |  |
|--|--|
| A. <input type="checkbox"/> Comptroller of the Currency                      | D. <input type="checkbox"/> Federal Home Loan Bank Board       |
| B. <input type="checkbox"/> Board of Governors of the Federal Reserve System | E. <input type="checkbox"/> Securities and Exchange Commission |
| C. <input type="checkbox"/> Federal Deposit Insurance Corporation            |  |

2. Filing status of notice (check as applicable):

- |   |                                       |
|---|---------------------------------------|
| A. <input type="checkbox"/> Government Securities Broker            | D. <input type="checkbox"/> Notice    |
| B. <input type="checkbox"/> Government Securities Dealer            | E. <input type="checkbox"/> Amendment |
| C. <input type="checkbox"/> Government Securities Broker and Dealer |                                       |

3. A. Full name of the Financial Institution:

\_\_\_\_\_

B. Address of principal office of Financial Institution:

\_\_\_\_\_

C. Address of principal office where government securities broker or government securities dealer activities will be conducted (if different than item (B)):

\_\_\_\_\_

D. Mailing address if different from (B) or (C):

\_\_\_\_\_

E. Name, title and telephone number of contact person with respect to this notice:

Name	Title	Telephone
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4. Does Financial Institution conduct, or will it conduct, government securities broker or government securities dealer activities at any location other than given in Question 3 above?      A.  Yes      B.  No

(If yes, provide addresses and describe activities.)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



5. Furnish the name and title of each person who is directly engaged in the management, direction or supervision of any of the financial institution's government securities broker or government securities dealer activities:

Full Name

Last	First	Middle	Title

**Note: Attach a separate Form G-FIN-4 (or, if previously filed, a copy of Form MSD-4 or Form U-4) for each person named in response to this Item 5.**

6. Has any "associated person" (see definition in paragraph A.7. of the Instructions) responded "yes" to any question in Item 17 of Form G-FIN-4, or "yes" to one or more questions in Items 23 through 26 of Form MSD-4 or Item 22 on Form U-4?

A.  Yes

B.  No

(If yes, attach a copy of Form G-FIN-4, Form MSD-4, or Form U-4 for all such persons with this Notice.)

**Note: The financial institution and the person executing this form are responsible for making an inquiry of all other employers of any associated person during the immediately preceding three years for the purpose of verifying the accuracy of the information furnished on Form G-FIN-4. (See 17 C.F.R. 400.4(c)). Similar requirements are applicable to Form MSD-4 and Form U-4.**

7. The financial institution submitting this notice and the person executing it represent that all of the information contained herein is true, current and complete.

Please print name and title of person executing this notice:

First	Middle	Last	Title

Manual Signature

Date



# Notice By Financial Institutions of Termination of Activities as a Government Securities Broker or Government Securities Dealer

(This booklet includes instructions and blank forms)



**Board of Governors of the Federal Reserve System**



**Federal Deposit Insurance Corporation**



**Office of the Comptroller of the Currency**



**Federal Home Loan Bank Board**



**Securities and Exchange Commission**



## General Instructions for Form G-FINW Termination of Activities as a Government Securities Broker or Government Securities Dealer

### 1. When to file

A financial institution that has filed a Notice of Government Securities Broker or Government Securities Dealer Activities pursuant to section 15C(a)(1)(B) of the Securities Exchange Act of 1934 must file this notice with its appropriate regulatory agency (ARA) when the financial institution ceases to act as a government securities broker or government securities dealer.

A notice to terminate activities as a Government Securities Broker or Government Securities Dealer shall become effective for all matters on the 60th day after filing this notice unless the financial institution is otherwise notified by its ARA.

### 2. How and where to file: Number of copies

Each financial institution must file two copies of the notice with its ARA, one of which will be sent by the ARA to the SEC. Both copies of this Notice filed with the ARA shall be executed with a manual signature in Item 5. The Notice shall be signed in the name of the financial institution by a principal officer who was directly engaged in the management, direction, or supervision of the financial institution's government securities broker or dealer activities.



OFFICIAL USE

**Notice by Financial Institutions of Termination of Activities as a Government Securities Broker or Government Securities Dealer**

1. Appropriate regulatory agency (check one):

- A.  Comptroller of the Currency
- B.  Board of Governors of the Federal Reserve System
- C.  Federal Deposit Insurance Corporation
- D.  Federal Home Loan Bank Board
- E.  Securities and Exchange Commission

2. (a) Full name of the Financial Institution:

\_\_\_\_\_

(b) Address of principal office of Financial Institution:

\_\_\_\_\_

(c) Mailing address if different from (b):

\_\_\_\_\_

3. Furnish the name and address of the person who has or will have custody or possession of the financial institution's books and records with respect to the financial institution's activities as a government securities broker or government securities dealer:

Full Name

Last	First	Middle
------	-------	--------

Address \_\_\_\_\_

4. Furnish the address of the place where such books and records will be located:

\_\_\_\_\_  
\_\_\_\_\_

5. The financial institution submitting this notice of termination of activities and the person executing it represent that all of the information contained herein is true, current and complete.

Please print name and title of person executing this notice:

First	Middle	Last	Title
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Manual Signature \_\_\_\_\_ Date \_\_\_\_\_



# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE  
May 22, 1987

CONTACT: Arthur Siddon  
566-5252

## Treasury Issues Temporary Regulations Under the Government Securities Act

The Treasury Department today released temporary regulations under the Government Securities Act of 1986. The regulations, which will become effective May 26, will be published in the Federal Register on that date. The Department is providing a 15-day comment period, ending June 10.

The temporary regulations respond to the comments and suggestions made by the affected community in response to the proposed regulations published on February 25. The basic structure of the regulations has remained unchanged. However, significant revisions have been made relating to hold-in-custody repurchase transactions and in the exemptions for financial institutions engaging in limited transactions in government securities. Revisions to the financial responsibility rules include a lowering of certain risk assessment factors ("haircuts"), addition of a net credit exposure haircut to reflect exposure to individual counterparties, new treatment of unlisted options and elimination of several cases of double counting. Clarifications have been made throughout the regulations and in the preamble, particularly with respect to Part 450 concerning custodial holdings of government securities by depository institutions. The temporary regulations include specific procedures under which persons affected by the regulations can request interpretations and exemptions.

Final regulations will be effective July 25, 1987, by which date all government securities brokers and dealers (with the exception of certain Commodity Futures Trading Commission registrants) must be registered with the SEC or have given

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[Ref. Cir. No. 10174]



notice of their status to their federal regulator. As the Department announced on May 4, 1987, however, the effective dates of portions of the regulations that require significant operational changes for compliance have been delayed to the end of October 1987.

Reprints of the regulations and related forms (one set per firm) may be obtained from the Government Securities Regulation Project, Room 4417, Main Treasury Building, Washington, D.C. 20220 or call (202) 566-2278. Written comments should be submitted to the same address. Copies of the temporary regulations and related forms will automatically be sent to those who commented on the proposed regulations, as well as to persons who have previously requested copies of either the proposed or temporary regulations.



Summary of Treasury Temporary Regulations  
Under the Government Securities Act of 1986

Coverage

The temporary regulations cover all brokers and dealers in government securities, including SEC-registered broker-dealers and financial institution brokers and dealers.<sup>1/</sup> However, exemptions and special provisions throughout the regulations are designed to lessen the burden on these already regulated entities by avoiding duplicative regulation. The government securities involved extend beyond Treasury securities to, among other things, securities issued or guaranteed by agencies and government sponsored corporations, and off-exchange options on those securities.

Dates

The temporary regulations will appear in the Federal Register on May 26. Although they are effective immediately, they are being published with a 15-day public comment period ending June 10. Final regulations will be effective on July 25, 1987. However, the effective dates for the "haircut" portion of the financial responsibility rules and most of the possession or control rules will be the last business day in October. The recordkeeping and custody requirements for financial institutions, both of which will require some operational changes, will become effective on October 31.

Although the general possession or control requirements will become effective at the end of October, disclosure and confirmation requirements for hold-in-custody repurchase transactions will become effective starting July 25. Since it was this type of transaction that gave rise to the abuses

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<sup>1/</sup> The SEC is responsible for interpreting the terms "government securities broker" and "government securities dealer," and for registering currently unregulated government securities brokers or dealers. SEC-registered broker-dealers and financial institution government securities brokers and dealers will be required to notify their regulators of their status as government securities brokers or dealers on or before July 25, 1987. The SEC adopted regulations and forms concerning registration and notice on April 21, 1987 (52 FR 16833, May 6, 1987). The Federal Reserve will publish notice of the final adoption of the form of notice for financial institutions on May 26, 1987.



that led to passage of the Government Securities Act, the Department believes that the disclosures required by the temporary regulations are urgently needed. By October 31, 1987 for new customers and January 31, 1988 for existing customers, all hold-in-custody repurchase transactions will be required to be pursuant to written agreements prominently displaying the required disclosures.

In recognition of the present uncertain status of many futures commission merchants registered with the Commodity Futures Trading Commission ("CFTC"), the Treasury has delayed until October 31 the effective date for registration of those futures commission merchants who will be required to register as government securities brokers or dealers. The Treasury hopes that this period can be used to coordinate registration and examination procedures for these entities to minimize duplicative regulation.

#### Exemptions

Many entities, particularly financial institutions, that do not hold themselves out as government securities brokers or dealers, engage in government securities transactions that would make them brokers or dealers under traditional definitions. In recognition of the fact that these institutions are already subject to governmental supervision, the regulations contain exemptions from registration and from the regulatory requirements for financial institutions whose only government securities activities are: (i) issuing or redeeming Savings Bonds or forwarding Savings Bond transactions; (ii) submitting tenders for the account of customers at Treasury auctions; (iii) transactions in a fiduciary capacity; (iv) doing repurchase and reverse repurchase transactions; and (v) doing a limited number of actively solicited brokerage transactions or doing all such transactions through a broker or dealer on a fully disclosed network basis. The temporary regulations eliminate the restriction on the number of reverse repurchase agreements that was part of the financial institution dealer exemption in the proposed regulations and clarify the applicability of the exemptions to credit unions and to branches and agencies of foreign banks. However, the temporary regulations provide that compliance with the rules concerning hold-in-custody repurchase agreements is a condition for taking advantage of the financial institution exemptions.

Other Savings Bond issuing and paying agents and forwarders are exempt if they have no other government securities business. Corporate credit unions doing repurchase transactions with other credit unions are also exempt.



### Financial Responsibility

Currently unregulated government securities brokers and dealers who register under Section 15C of the Securities Exchange Act would be required to have liquid capital in excess of 120% of measured market risk. The system for measuring market risk involves a series of risk assessment factors (called "haircuts") based on current market conditions that take into account both the risks of fixed-rate financing and risk reduction available through hedging. This standard is similar to the voluntary capital adequacy guidelines published by the Federal Reserve Bank of New York. It builds upon but is different than the SEC's Rule 15c3-1 in both the ratio requirement and the risk assessment factors.

SEC-registered broker-dealers and financial institution government securities brokers and dealers would be required only to follow the capital standards to which they are already subject. Government securities brokers or dealers who are also futures commission merchants registered with the CFTC will be required to meet the higher of CFTC or SEC capital rules.

### Possession or Control of Customer Securities

Generally, the proposal follows the SEC requirements for custody and safekeeping of customer funds and balances. The proposed regulations also contain rules dealing specifically with securities that are the subject of hold-in-custody repurchase transactions.

Under the proposed regulations, all master repurchase agreements for hold-in-custody repurchase transactions with customers will have to be in writing, with securities allocated to specific transactions (and substitutions of securities) confirmed in writing. In addition, a dealer must maintain possession or control of securities subject to hold-in-custody repurchase agreements both overnight and during the trading day unless (i) the individual repurchase transaction is for \$1,000,000 or more and (ii) the customer has specifically consented to limited possession or control. Specific disclosure language for repurchase agreements highlighting these requirements is provided in the temporary regulations. The requirements are designed to provide greater assurance for the smaller institutional or fiduciary investors, such as local governments, that securities that are the subject of hold-in-custody repurchase transactions are dealt with appropriately, while maintaining flexibility for the larger investors that are more accustomed to assessing the risks and benefits of such transactions.



### Recordkeeping and Reporting

Newly registered government securities brokers and dealers will be required to follow SEC recordkeeping and audit rules, with minor modifications relating to repurchase transactions. The reporting forms are modeled on the SEC's FOCUS reports with modifications to reflect the different capital requirements described above. Only the repurchase transaction modifications, which are identical to those proposed by the SEC in September 1986, would apply to SEC-registered broker-dealers.

For the most part, financial institution brokers and dealers would not be required to keep records other than those now required by the financial institution supervisory agencies. However, modified position records would be required, as is now the case for bank municipal securities dealers.

### Custody of Government Securities by Depository Institutions

Subchapter B of the proposed regulations implements Title II of the GSA by proposing regulations to safeguard customer securities held by a depository institution other than in a fiduciary capacity or subject to fiduciary standards.

Generally, the regulations would require that such securities be kept separate from the depository institution's proprietary securities, free from lien, that records be kept identifying the customer, and that the securities be periodically counted and the counts reconciled to bank records.