

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 10461]
June 14, 1991

MARGIN REGULATIONS
Proposed Amendments to Regulations G and T
Comments Due July 15, 1991

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

The Board of Governors of the Federal Reserve System has issued for comment proposed amendments to its Regulations G and T to exclude from certain margin rules deposits of margin securities with clearing agencies regulated by the Commodity Futures Trading Commission or the Securities and Exchange Commission, provided these deposits are made in connection with action by the clearing agency to issue options or to guarantee performance on futures contracts or options on futures contracts. Printed below is the text of the proposal, as published in the *Federal Register* of June 5.

Comments on the proposal should be submitted by July 15, 1991 and may be sent to the Board, as specified in the notice, or to our Compliance Examinations Department.

E. GERALD CORRIGAN,
President.

FEDERAL RESERVE SYSTEM

12 CFR Parts 207 and 220

[Docket No. R-0732; Regulations G and T]

**Amendments to Margin Regulations
To Accommodate Deposit
Requirements of Regulated Clearing
Agencies**

May 30, 1991.

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

ACTION: Proposed rule.

SUMMARY: The Board is proposing to amend Regulation G and Regulation T to exclude from the limitations of the margin rules the deposit of margin securities with clearing agencies regulated by the Commodity Futures Trading Commission or the Securities and Exchange Commission, provided these deposits are made in connection with action by the clearing agency to issue options or to guarantee performance on futures contracts or options on futures contracts.

DATES: Comments should be received on or before July 15, 1991.

ADDRESSES: Comments, which should refer to Docket No. R-0732, may be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551, or delivered at the C Street entrance between 8:45 a.m. and 5:15 p.m. weekdays to room B-2223. Comments may be inspected in room B-1122 between 8:45 a.m. and 5:15 p.m. weekdays.

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer, or Scott Holz, Attorney, Division of Banking Supervision and Regulation (202) 452-2781; for the hearing impaired, only, Telecommunications Device for the Deaf (TDD), Dorothea Thompson, (202) 452-3544.

SUPPLEMENTARY INFORMATION: Regulation G requires registration of persons other than banks, brokers or dealers who extend or maintain credit (over prescribed minimum amounts) secured directly or indirectly by margin stock. If the credit is to purchase or carry margin stock, limitations are placed on the valuation of the stock

collateral. Regulation T prohibits a broker-dealer from borrowing in the ordinary course of business on the collateral of exchange-traded stock from any lender other than a bank. On prior occasions the Board has found guarantees and certain business relationships to involve an extension of credit. Therefore, registration of a clearing firm under Regulation G would be required under the Board's traditional view of the term if margin securities are deposited as collateral. Broker-dealers would also be prohibited from borrowing from the non-bank lenders under that reasoning.

In May, 1983, in conjunction with a completely revised and simplified Regulation T (48 FR 23161, May 24, 1983), the Board added a provision permitting clearing members of an options clearing agency to deposit certain margin stock with the clearing agency as the required margin for options transactions. No changes in Regulation G were made at that time as the persons who would make the deposit were all subject to Regulation T and it was felt that the corollary

Regulation G issue was implicitly decided. In March of 1984, the provision was expanded (49 FR 9559) in conjunction with an SEC action on the issue. The present rule provides that the provisions of Regulation T do not apply to the deposit of securities with an options clearing agency registered with the SEC provided the deposit complies with the rules approved by the SEC.

Options and futures exchanges trade standardized contracts and the clearing agency guarantees settlement. A person wishing to offset an obligation or take a profit in these markets does not need to search for the original counterparty to the contract as the clearing agency has been substituted for both sides. This fungibility of contracts and substitution enables a person to pay the price or receive the profit at any time as long as someone is willing to take similar action on the other side of the contract. The deposit, changed daily at both futures and options clearing agencies, reflects the current value of the underlying product, security or index established by trades on the exchange.

The proposed rule will eliminate the need for registration and regulation under Regulation G of clearing agencies for the regulated futures markets, provided the deposit complies with rules of the CFTC. It will accord the clearing arm of the CME and other futures clearing agencies the same exemptive treatment in performing the clearing function that the Board has given to an options clearing agency.

Regulatory Flexibility Act

The Board believes there will be no significant economic impact on a substantial number of small entities if this proposal is adopted. Comments are invited on this statement.

Paperwork Reduction Act

No additional reporting requirements or modifications to existing reporting requirements are proposed.

List of Subjects

12 CFR Part 207

Banks, Banking, Brokers, Credit, Federal Reserve System, Investment companies, Investments, Margin, Margin requirements, National Market System (NMS Security), Reporting and recordkeeping requirements, Securities.

12 CFR Part 220

Banks, Banking, Bonds, Brokers, Commodity futures, Credit, Federal Reserve System, Foreign currencies, Investment companies, Investments, Margin, Margin requirements, National Market System (NMS Security), Reporting and recordkeeping requirements, Securities.

For the reasons set out in this notice, and pursuant to the Board's authority under 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 amend 12 CFR parts 207 and 220 as follows:

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

1. The authority citation for part 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 207.1 is amended by adding a new sentence at the end of paragraph (b):

§ 207.1 Authority, purpose, and scope.

(b) Purpose and scope. * * * This part does not apply to clearing agencies regulated by the Securities and Exchange Commission or the Commodity Futures Trading Commission that accept deposits of margin stock in connection with the issuance of options on any security, certificate of deposit, securities index or foreign currency or the guarantee of

contracts of sale of a commodity for future delivery or options on such contracts.

PART 220—CREDIT BY BROKERS AND DEALERS

1. The authority citation for part 220 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. In § 220.14 the section heading and paragraph (b) are revised to read as follows:

§ 220.14 Clearance of Securities, Options, and Futures.

(b) *Deposit of securities with a clearing agency.* The provisions of this part shall not apply to the deposit of securities with an options or futures clearing agency for the purpose of meeting the deposit requirements of the agency if:

(1) The clearing agency issues options on any security, certificate of deposit, securities index or foreign currency or guarantees performance of contracts of sale of a commodity for future delivery or options on such contracts;

(2) The clearing agency is registered with the Securities and Exchange Commission or is the clearing agency for a contract market regulated by the Commodity Futures Trading Commission; and

(3) The deposit consists of any margin security and complies with the rules of the clearing agency that have been approved by the Securities and Exchange Commission or the Commodity Futures Trading Commission.

By order of the Board of Governors of the Federal Reserve System, May 30, 1991.

William W. Wiles,
Secretary of the Board.

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