FEDERAL RESERVE BANK OF NEW YORK

[Circular No. **10479**
September 26, 1991]

MARGIN REGULATIONS

Amendments to Regulations G, T, and U
Interpretation of Regulations G and U

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 amendments effective October 11, 1991 to Regulations G and T, relating to the deposit of margin securities with regulated clearing agencies, and to Regulations G and U, regarding transfers of regulated loans between lenders subject to Regulation G and lenders subject to Regulation U. The Board of Governors has also adopted, effective October 11, 1991, an interpretation to Regulations G and U regarding the application of the single-credit rule to such transfers, where lenders and banks that purchase a loan participation have other outstanding purpose credit with the same borrower.

The amendments to Regulations G and T 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 (1) the issuance of, or guarantee of, or the clearance of transactions in any security (including options on any security, certificate of deposit, securities index or foreign currency); or (2) the guarantee of contracts for the purchase or sale of a commodity for future delivery or options on such contracts.

The amendments to Regulations G and U permit transfers of loans between lenders subject to Regulation G and lenders subject to Regulation U on the same basis as transfers between two lenders subject to the same regulation. Under the interpretation of Regulations G and U, lenders and banks need not aggregate loan participations with other unrelated purpose credit they have with the borrower, under the single-credit rule, as long as the lead lender or bank has control of the collateral, monitors the entire syndicated loan on a stand-alone basis, and does not allow withdrawals or substitutions unless sufficient collateral remains.

Enclosed — for banks, brokers and dealers, persons extending securities credit in the Second Federal Reserve District, and others who maintain sets of regulations of the Board of Governors — is a copy of the aforementioned amendments and interpretation, which have been reprinted from the *Federal Register.* Others may obtain copies at this Bank (33 Liberty Street) from the Issues Division on the first floor, or by calling the Circulars Division (Tel. No. 212-720-5215 or 5216). Questions regarding these matters may be directed to our Compliance Examinations Department (Tel. No. 212-720-5914).

E. GERALD CORRIGAN,
President.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SECURITIES CREDIT TRANSACTIONS

— AMENDMENTS TO REGULATIONS G AND T, *effective October 11, 1991*

— AMENDMENTS TO REGULATIONS G AND U, *effective October 11, 1991*

— INTERPRETATION OF REGULATIONS G AND U

FEDERAL RESERVE SYSTEM

12 CFR Parts 207 and 220

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

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

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is adopting amendments to 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 the issuance of, or guarantee of, or the clearance of transactions in, any security (including options on any security, certificate of deposit, securities index or foreign currency); or the guarantee of contracts for the purchase or sale of a commodity for future delivery or options on such contracts.

EFFECTIVE DATE: October 11, 1991.

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

SUPPLEMENTARY INFORMATION: A proposal to amend Regulations G and T to accommodate the deposit of margin securities by regulated clearing agencies was published for comment in the **Federal Register** on June 5, 1991 (56 FR 25641). Ten comments were received. All supported the Board's proposal. Two commenters suggested technical language changes to clarify the nature of the clearing agencies' responsibilities. Language in the proposal has been changed to reflect these comments.

The amended 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 gave in 1983 and 1984 to an options clearing agency (48 FR 23161, May 24, 1983 and 49 FR 9559, March 14, 1984). It will also make explicit for OCC the implicit exemption from Regulation G given in earlier years and change language to reflect products cleared by OCC that may not be called "options."

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. No comments were received on this statement.

Paperwork Reduction Act

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

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 amends 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 redesignating the text of paragraph (b) as paragraph (b)(1) and adding a new paragraph (b)(2) as follows:

§ 207.1 Authority, purpose, and scope.

* * * * *

(b) *Purpose and scope.* * * *

(2) This part does not apply to clearing agencies regulated by the Securities and Exchange Commission or the Commodity Futures Trading

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For this Regulation to be complete, retain:
1) Pamphlet dated May 1990, entitled "Securities Credit Transactions."
2) This slip sheet.

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Commission that accept deposits of margin stock in connection with:

(i) The issuance of, or guarantee of, or the clearance of transactions in, any security (including options on any security, certificate of deposit, securities index or foreign currency); or

(ii) The guarantee of contracts for the purchase or 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:

(i) Issues, guarantees performance on, or clears transactions in, any security (including options on any security, certificate of deposit, securities index or foreign currency); or

(ii) Guarantees performance of contracts for the purchase or 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, September 4, 1991.

William W. Wiles,

Secretary of the Board.

[FR Doc. 91–21588 Filed 9–10–91; 8:45 am]

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12 CFR Parts 207 and 221

[Docket No. R-0730]

RIN 7100-AA99

Securities Credit Transactions; Regulations G and U; Transfers of Credit

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is adopting amendments to Regulations G and U (12 CFR parts 207 and 221) to permit transfers of loans between lenders subject to Regulation G and lenders subject to Regulation U on the same basis as transfers between two lenders subject to the same regulation.

EFFECTIVE DATE: October 11, 1991.

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, Dorothea Thompson, Telecommunications Device for the Deaf (TDD) (202) 452-3544.

SUPPLEMENTARY INFORMATION: In May 1991, The Board proposed amendments to permit the transfer of a regulated bank loan (or a portion thereof) to a Regulation G lender or the transfer of a Regulation G loan to a bank, provided that the amount of credit is not increased, the collateral is not changed, and the transfer is not made to evade the Board's margin regulations (See 56 FR 23252; May 21, 1991).

Ten comments were received. All supported the proposed amendments without modification, although some asked for clarification of the scope of the amendments.

While the current transfer provisions in Regulation G and U require that the transferee lender obtain a copy of the "purpose statement" (FR G-3 or FR U-1) originally filed with the transferor lender, the proposed amendments allow acceptance of a written statement with the same kind of information if no purpose statement was originally filed with the transferor lender. One commenter requested clarification of the types of situations in which no purpose statement would have been filed for a loan that complied with margin regulations. One such situation involves a regulated bank loan that did not exceed $100,000, as banks are only required to obtain a purpose statement for loans in excess of this amount. Another situation in which no purpose statement would exist is the transfer of a purpose loan that was not originally subject to the margin regulations because no margin stock was originally pledged for the loan. If the loan becomes secured by margin stock, the loan would be prospectively regulated and the transfer provisions would apply even though no purpose statement was taken when the loan was first made.

Another commenter asked whether a bank could transfer a regulated loan to a non-bank, non-broker if the transferee lender was not already registered under Regulation G. The proposed amendments appear to permit this as long as the transferred loan balance is enough to cause the transferee lender to reach the registration threshold in Regulation G.

In addition, some of the commenters requested relief from the "single-credit rule" in Regulations G and U as it relates to loan participations, claiming that the proposed amendments address only part of the problems associated with transfers of regulated loans between lenders. The Board is issuing a separate interpretation to respond to these comments.

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.

Paperwork Reduction Act

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

List of Subjects

12 CFR Part 207

Banks, Banking, Credit, Federal Reserve System, Insurance companies, Margin, Margin requirements, National Market System (NMS Security), Reporting and recordkeeping requirements, Savings and loan associations, Securities.

12 CFR Part 221

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

Accordingly, pursuant to the Board's authority under sections 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78g and 78w), the Board is amending 12 CFR parts 207 and 221 (Regulations G and U) 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. In § 207.3, paragraphs (l)(1)(i), (ii), and (3) are revised to read as follows:

§ 207.3 General requirements.

* * * * *

(l) *Transfers of credit.* (1) A transfer of a credit between customers or lenders or between a lender and a bank shall not be considered a new extension of credit if:

(i) The original credit was extended by a lender in compliance with this part or was extended by a bank in a manner that would have complied with this part;

(ii) The transfer is not made to evade this part or part 221 of this chapter;

* * * * *

(3) When a transfer is made between lenders or between a lender and a bank, the transferee shall obtain a copy of the Form FR G-3 or Form FR U-1 originally filed with the transferor lender and retain the copy with its records of the transferee account. If no form was originally filed with the transferor, the transferee may accept in good faith a statement from the transferor describing the purpose of the loan and the collateral securing it.

* * * * *

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

1. The authority citation for part 221 continues to read as follows:

Authority: Secs. 3, 7, 8, and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78c, 78g, 78h and 78w).

2. In § 221.3, paragraphs (l)(1)(i), (ii) and (3) are revised to read as follows:

§ 221.3 General requirements.

* * * * *

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(i) *Transfers of credit.* (1) A transfer of a credit between customers or banks or between a bank and a lender subject to part 207 of this chapter shall not be considered a new extension of credit if:

(i) The original credit was extended by a bank in compliance with this part or by a lender subject to part 207 of this chapter in a manner that would have complied with this part;

(ii) The transfer is not made to evade this part or part 207 of this chapter;

* * * * *

(3) When a transfer is made between banks or between a bank and a lender subject to part 207 of this chapter, the transferee shall obtain a copy of the Form FR U–1 or Form FR G–3 originally filed with the transferor and retain the copy with its records of the transferee account. If no form was originally filed with the transferor, the transferee may accept in good faith a statement from the transferor describing the purpose of the loan and the collateral securing it.

By order of the Board of Governors of the Federal Reserve System, September 4, 1991.

William W. Wiles,

Secretary of the Board.

[FR Doc. 91–21587 Filed 9–9–91; 8:45 am]

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FEDERAL RESERVE SYSTEM

12 CFR Parts 207 and 221

Securities Credit Transactions; Regulations G and U

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Interpretation.

SUMMARY: The Board is adopting an interpretation to Regulations G and U (12 CFR parts 207 and 221) to indicate circumstances under which lenders and banks who acquire a regulated loan by transfer (i.e. purchase of a loan participation) and have other purpose credit with the borrower need not aggregate the two credits under the single-credit rule.

EFFECTIVE DATE: October 11, 1991.

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, Dorothea Thompson, Telecommunications Device for the Deaf (TDD) (202) 452–3544.

SUPPLEMENTARY INFORMATION: On May 16, 1991, the Board proposed amendments to permit the transfer of a regulated bank loan (or a portion thereof) to a Regulation G lender or the transfer of a Regulation G loan to a bank, provided that the amount of credit is not increased, the collateral is not changed, and the transfer is not made to evade the Board's margin regulations. The amendments were published for public comment on May 21, 1991 (56 FR 23252). Ten comments were received; all supported the proposed amendments without modification.

In addition, some of the commenters requested relief from the "single-credit rule" in Regulations G and U as it relates to loan participations, claiming that the proposed amendments address only part of the problems associated with transfers of regulated loans between lenders. The Board is issuing this interpretation to respond to these comments.

List of Subjects in 12 CFR

Part 207

Banks, banking, Credit, Federal Reserve System, Margin, Margin requirements, National Market System (NMS Security), Reporting and recordkeeping requirements, Securities.

Part 221

Banks, banking, Credit, Federal Reserve System, Margin, Margin requirements, National Market System (NMS Security), Reporting and recordkeeping requirements, Securities.

Accordingly, pursuant to the Board's authority under sections 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78g and 78w), the Board is amending 12 CFR parts 207 and 221 (Regulation U) 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 207.113 is added to read as follows:

§ 207.113 Application of the single-credit rule to loan participations.

(a) Amendments to parts 207 and 220, effective October 11, 1991, amended § 207.3(l) of Regulation G and § 221.3(i) of Regulation U of this chapter to permit transfers of loans between different types of lenders. In connection with that rulemaking, comments were received asking the Board to consider the application of the single-credit rule to the purchase of loan participations by lenders and banks who have other outstanding purpose credit with the same borrower.

(b) The single-credit rule (§ 207.3(g) of Regulation G and § 221.3(d) of Regulation U of this chapter), provides in part that "[a]ll purpose credit extended to a customer shall be treated as a single credit, and all the collateral securing such credit shall be considered in determining whether or not the credit complies with this part." If a lender or bank extends purpose credit to a borrower and then purchases a participation in a loan to the same borrower that represents purpose credit secured by margin stock, the single-credit rule requires the aggregation of the two credits. If the borrower pays off one of the two loans, the participating lender or bank is prohibited under the withdrawal and substitutions provision (§ 207.3(i) of Regulation G and § 221.3(f) of Regulation U of this chapter) from allowing the lead lender or bank to release the pro rata share of the collateral pledged for that participation unless the other loan is secured by collateral with sufficient maximum loan value. In addition, the lead lender or bank cannot allow any withdrawals of collateral during the course of the loan without contacting each participant to check on the status of any unrelated purpose credit to that borrower. These administrative burdens discourage the syndication and transfer of purpose loans.

(c) A version of the single-credit rule was incorporated in Regulation U when it was first issued in 1936. The rule assumed a direct relationship between the borrower and the bank. The modern practice of syndication or subsequent resale of participations severs the direct relationship between the borrower and the lender and presents difficulties, as described above, in the further administration of the loans for compliance with the margin regulations.

(d) The Board is of the view that as long as the lead lender or bank has control of the collateral, monitors the entire syndicated loan on a stand-alone basis, and does not allow withdrawals or substitutions unless sufficient collateral remains, participating lenders and banks need not aggregate participations with other unrelated purpose credit they have with the borrower under the single-credit rule.

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

1. The authority citation for part 221 continues to read as follows:

Authority: Secs. 3, 7, 8, and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78c, 78g, 78h, and 78w).

2. Section 221.124 is added to read as follows:

§ 221.124 Application of the single-credit rule to loan participations.

For text of this interpretation, see § 207.113 of this chapter.

By order of the Board of Governors of the Federal Reserve System, September 4, 1991.

William W. Wiles,

Secretary of the Board.

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