

Supporting Statement for the 1Margin Credit Reports
(FR G-1, FR G-2, FR G-4; OMB No. 7100-0011)
(FR G-3; OMB No. 7100-0018)
(FR T-4; OMB No. 7100-0019)
(FR U-1; OMB No. 7100-0115)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with minor clarifications, three of the six mandatory reports that collect information on certain extensions of credit secured by margin stock, including the amount and purpose of such credit:

- Registration Statement for Persons Who Extend Credit Secured by Margin Stock (Other Than Banks, Brokers, or Dealers) (FR G-1; OMB No. 7100-0011),
- Statement of Purpose for an Extension of Credit Secured by Margin Stock by a Person Subject to Registration Under Regulation U (FR G-3; OMB No. 7100-0018),
- Statement of Purpose for an Extension of Credit Secured by Margin Stock (FR U-1; OMB No. 7100-0115),

This family of reports also includes the following three reports, which the Federal Reserve proposes to extend without clarification:

- Statement of Purpose for an Extension of Credit by a Creditor (FR T-4; OMB No. 7100-0019),
- Deregistration Statement for Persons Registered Pursuant to Regulation U (FR G-2; OMB No. 7100-0011), and
- Annual Report (FR G-4; OMB No. 7100-0011).

The Securities Exchange Act of 1934 ('34 Act) authorizes the Federal Reserve to regulate securities credit extended by brokers and dealers, banks, and other lenders. The purpose statements, FR U-1 and FR G-3, are recordkeeping requirements for banks and other lenders, respectively, to document the purpose of their loans secured by margin stock. Margin stock is defined as (1) stocks that are registered on a national securities exchange or any over-the-counter security designated for trading in the National Market System, (2) debt securities (bonds) that are convertible into margin stock, and (3) shares of most mutual funds. Lenders other than brokers and dealers and banks must register and deregister with the Federal Reserve using the FR G-1 and FR G-2, respectively, and they must file an annual report (FR G-4) while registered. The Federal Reserve uses the data to identify lenders subject to Regulation U, to verify their compliance with the regulation, and to monitor margin credit. The FR T-4 is a purpose statement for brokers and dealers.

The Federal Reserve proposes minor clarifications to the FR G-1, FR G-3, and FR U-1 to standardize (1) the definition of margin stock included in the instructions and (2) the lender's attestations in Part III of the two Regulation U purpose statements. The annual burden for these

reports is estimated to be 3,270 hours and would remain unchanged. A copy of the reporting instructions, marked to show the proposed clarifications, is attached.

Background and Justification

The '34 Act directs the Federal Reserve to regulate the amount of credit that can be extended on any security when the credit is used to purchase or carry securities. The Federal Reserve has implemented its authority with three regulations. Regulation X – Borrowers of Securities Credit – does not contain any information collection requirements. The other two regulations cover lenders:

- Regulation T - Credit by Brokers and Dealers
- Regulation U - Credit by Banks or Persons Other Than Brokers or Dealers for the Purpose of Purchasing or Carrying Margin Stocks.

The regulations and the information required by each recordkeeping and reporting requirement are described below.

Regulation T

Regulation T was adopted in 1934 pursuant to Section 7 of the '34 Act (15 U.S.C. § 78g) to regulate extensions of credit by and to brokers and dealers. Under the regulation, as amended, a broker or dealer is required to obtain a written declaration from a customer that a loan is a nonpurpose loan before extending any credit that is in excess of that otherwise permitted under Regulation T. Nonpurpose loans are loans for purposes other than purchasing, carrying, or trading securities.

FR T-4 Purpose Statement. Regulation T requires that the broker or dealer be aware of the circumstances surrounding the extension of credit and be satisfied that the customer's statement as to the use of the credit is truthful. This form must be completed only if the purpose of the credit being extended is not to purchase, carry, or trade in securities and the credit is in excess of that otherwise permitted under Regulation T. The information submitted on the FR T-4 provides a written record of the amount of nonpurpose credit being extended, the purpose for which the money is to be used, and a listing and valuation of collateral.

Regulation U

Regulation U was adopted in 1936 pursuant to Section 7 of the '34 Act to regulate extensions of margin credit by banks. The former Regulation G was adopted pursuant to section 7 of the '34 Act in 1968 to impose similar restrictions on lenders other than brokers and dealers and banks. Regulation G was merged into Regulation U in 1998. The FR G-1, FR G-2, FR G-3, and FR G-4 reporting forms for nonbank lenders maintain the G designation even though Regulation G was merged into Regulation U.

FR U-1 Purpose Statement. The FR U-1 purpose statement is useful to banks to enable them to comply with the requirements of Regulation U without having to design their own compliance forms or to write memoranda to substantiate loans exempt from the margin

requirements. This form must be completed when a bank extends credit in excess of \$100,000 secured directly or indirectly, in whole or in part, by any margin stock. The information submitted on the FR U-1 provides a written record of the amount of credit being extended, the purpose for which the money is to be used, and a listing and valuation of collateral.

FR G-3 Purpose Statement. Any nonbank lender subject to the registration requirements of Regulation U must complete an FR G-3 purpose statement for each extension of credit secured directly or indirectly, in whole or in part, by any margin stock. The purpose statement is intended to ensure that a lender does not extend credit to purchase or carry margin stock in excess of the amount permitted by the Federal Reserve pursuant to Regulation U. The FR G-3 reporting form collects the same information as the FR U-1 reporting form.

The three purpose statements discussed above can be used in the event a question arises concerning particular transactions. The purpose statements serve as a compliance tool for Regulation T and U lenders, a means to verify compliance and, as necessary, an evidentiary or enforcement tool for use by the Justice Department or the Securities and Exchange Commission.

FR G-1 Registration Statement. The registration statement is required to enable the Federal Reserve to identify those nonbank lenders subject to Regulation U. In addition, registered nonbank lenders can be subject to periodic review by the Federal Reserve Board, National Credit Union Administration, and Farm Credit Administration.

FR G-2 Deregistration Statement. The FR G-2 deregistration statement is used by nonbank lenders to withdraw from regulation if their margin credit activities no longer exceed the regulatory threshold. Under section 221.3(b)(2) of Regulation U, a registered nonbank lender may apply to terminate its registration if the lender has not, during the preceding six calendar months, had more than \$200,000 of such credit outstanding.

FR G-4 Annual Report. The information submitted on the annual report is required pursuant to Regulation U to enable the Federal Reserve to monitor the amount of credit secured by margin stock extended by nonbank Regulation U lenders.

Description of Information Collections

Purpose Statements (FR T-4, FR U-1, and FR G-3)

Lenders that extend credit pursuant to the Federal Reserve's margin requirements are sometimes required to obtain purpose statements from their customers. The FR T-4 purpose statement is used for extensions of credit by brokers and dealers, the FR U-1 is used for extensions of credit by banks, and the FR G-3 for extensions of credit by other lenders.

Both the borrower and the lender complete the purpose statement. Each purpose statement consists of three parts. The borrower completes Part I of the reporting form and is required to do the following: state the amount of the loan and whether the purpose of the loan is to purchase, carry, or trade in securities (pursuant to Regulation T) or purchase or carry margin stock (pursuant to Regulation U) and, if not, describe the specific purpose of the loan. FR T-4

respondents must also answer a question as to whether the securities serving as collateral will be delivered against payment. The borrower must sign and date the reporting form. The lender completes Part II, which may entail listing and valuing any collateral. The lender then signs and dates Part III of the reporting form, acknowledging that the customer's statement is accepted in good faith. The lender is required to hold the reporting forms for at least three years after the credit is extinguished. The Federal Reserve System does not collect or process this information.

FR G-1 Registration Statement

Section 221.3(b)(1) of Regulation U requires that the FR G-1 be submitted by every person (other than banks, brokers, or dealers) not currently registered when the amount of credit extended equals \$200,000 or more, or the amount of credit outstanding at any time during that calendar quarter equals \$500,000 or more, in credit secured directly or indirectly by collateral that includes any margin stock. Information collected on the registration statement consists of certain background questions, information regarding the credit being extended, and dollar amounts of margin credit.

Respondents include federal and state credit unions; insurance companies; commercial and consumer credit organizations; production credit associations; small businesses; insurance premium funding plans; plan-lenders (a company or its affiliate that extends credit to employees to purchase company stock under an eligible employee stock option or stock purchase plan); lenders to Employee Stock Ownership Plans (ESOPs), thrift plans, and broker-dealer affiliates; and other lenders not identified above. The bulk of regulated credit is extended by plan-lenders and lenders to ESOPs, insurance companies, broker-dealer affiliates, and credit unions.

The registration statement remains in effect until an eligible nonbank lender submits a deregistration statement that is approved by a Federal Reserve Bank acting under delegated authority. Many lenders wish to remain registered even if they no longer meet the requirements. As of June 30, 2010, 567 lenders were registered.

FR G-2 Deregistration Statement

A registered nonbank lender may apply to deregister under section 221.3(b)(2) of Regulation U if the lender has not, during the preceding six months, had more than \$200,000 of margin-stock-secured credit outstanding. The deregistration statement solicits only six items, including the name and phone number of the registrant, the firm's Internal Revenue Service Identification Number (registrants that are natural persons are not required to disclose their Social Security number), the authorizing officer's signature and title, and the date. A nonbank lender who has deregistered must reregister if subsequent lending volume exceeds the Regulation U thresholds.

FR G-4 Annual Report

The annual report requires nonbank lenders to provide the total amount of credit outstanding secured directly or indirectly by margin stock as of June 30, and the amount of credit extended secured directly or indirectly by margin stock during the year. Lenders are required to indicate whether the loans involved are purpose or nonpurpose and to disclose whether credit is used to fund employee stock option, purchase, or ownership plans. Those lenders funding stock option, purchase, and ownership plans must specify whether such credit was extended pursuant to the special provisions set forth in section 221.4 of Regulation U, which authorizes employers to extend credit to employees and ESOPs without regard to the margin requirements. All nonbank lenders registered pursuant to Regulation U, must file an Annual Report (FR G-4), any new registrants are required to file the annual report for the year following their registration date.

Proposed Clarifications

The Federal Reserve proposes minor clarifications to the FR G-1, FR G-3, and FR U-1 for consistency purposes. First, the definition of margin stock included in the instructions would be standardized. This would eliminate the confusion as to what securities could be defined as margin stock. Second, the lender's attestation in Part III of the FR G-3 would be modified to more closely parallel the FR U-1 attestation.

Time Schedule for Information Collection

The FR U-1, FR T-4, and FR G-3 are recordkeeping requirements retained by the lender for three years after the credit is extinguished. The Federal Reserve System does not collect or process the information.

The FR G-1 is event generated and must be filed within 30 days following the end of the calendar quarter during which the nonbank lender becomes subject to the registration requirements. It is filed with the Federal Reserve Bank of the district in which the principal office of the lender is located. The Reserve Bank sends a copy to the Board.

A nonbank lender applies to deregister by sending the FR G-2 to the Federal Reserve Bank in the district in which its principal office is located. Upon receipt of the FR G-2, the Reserve Bank confirms that the registrant is eligible to deregister. The Reserve Bank then approves the deregistration under delegated authority from the Board and notifies the Board and the institution of its action.

All FR G-1 registrants are required to file the FR G-4, an annual report on their loans secured by margin stock collateral. The registrant files the FR G-4 annual report with the Federal Reserve Bank of the district in which the principal office of the lender is located within 30 days of the June 30 date.

Legal Status

The Board's Legal Division has determined that each of the reports is authorized by section 7 of the '34 Act (15 U.S.C. 78g). In addition, the FR T-4 is required by Section 220.6 of Regulation T (12 C.F.R. 220.6), the FR U-1 is required by Sections 221.3(c)(1)(i) and (2)(i) of Regulation U (12 C.F.R. 221.3(c)(1)(i) and (2)(i)), and the FR G-1, G-2, G-3, and G-4 are required by Sections 221.3(b)(1), (2), and (3), and (c)(1)(ii) and (2)(ii) of Regulation U (12 C.F.R. 221.3(b)(1), (2), and (3), and (c)(1)(ii) and (2)(ii)).

The information collected in the FR G-1 and the FR G-4 is given confidential treatment under the Freedom of Information Act (5 U.S.C. 552 (b)(4) and (6)). Confidentiality determinations would have to be made on a case by case basis. The FR G-2 does not collect confidential information. The FR T-4, FR U-1, and FR G-3 data are not submitted to the Federal Reserve System and, as such, no issue of confidentiality arises.

Consultation Outside the Agency

On October 14, 2010, the Federal Reserve published a notice in the *Federal Register* (75 FR 63181) requesting public comment for 60 days on the extension, with clarification, of three of the six mandatory reports that collect information on certain extensions of credit secured by margin stock. This family of reports also includes three additional reports, which the Federal Reserve proposes to extend without clarification. The comment period for this notice expired on December 13, 2010. The Federal Reserve did not receive any comments. The clarifications will be implemented as proposed. On December 28, 2010, the Federal Reserve published a final notice in the *Federal Register* (75 FR 81606).

Sensitive Questions

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Respondent Burden

The total annual burden for these reports is estimated to be 3,270 hours, as shown in the following table. The total burden comprises both recordkeeping and reporting burden. The total recordkeeping burden for the FR G-3, FR T-4, and FR U-1 purpose statements is estimated to be 2,063 hours. The purpose statements are used by lenders only as an internal documentation tool and are not submitted to the Federal Reserve. The estimated number of respondents for the FR T-4 and FR U-1 is derived from the 2007 U.S. Census Bureau's Statistical Abstract of the United States and information obtained from the Financial Industry Regulatory Authority. The estimated number of FR G-3 respondents is based on the actual number of FR G-4 reporting forms received in 2009. The annual frequency is based on an approximate number of new and renewed loans secured by margin stock.

The total annual reporting burden for the FR G-1, FR G-2, and FR G-4 is estimated to be 1,207 hours. The number of respondents is based on the actual number of reporting forms

received in 2009. The reporting and recordkeeping burden of these information collections represent less than 1 percent of total burden for all Federal Reserve System reports.

| | <i>Estimated number of respondents</i> | <i>Estimated annual frequency</i> | <i>Estimated average hours per response</i> | <i>Estimated annual burden hours</i> |
|-----------------------------------|--|---|---|--|
| FR G-3 | 284 | 20 | .17 | 966 |
| FR T-4 | 135 | 20 | .17 | 459 |
| FR U-1 | 50 | 75 | .17 | <u>638</u> |
| <i>Total recordkeeping burden</i> | | | | 2,063 |
| FR G-1 | 25 | 1 | 2.50 | 63 |
| FR G-2 | 40 | 1 | 0.25 | 10 |
| FR G-4 | 567 | 1 | 2.00 | <u>1,134</u> |
| <i>Total reporting burden</i> | | | | 1,207 |
| <i>Total burden</i> | | | | <u>3,270</u> |

The total annual cost to the public for the six information collections is estimated to be \$137,667.¹

Estimate of Cost to the Federal Reserve System

The annual cost to the Federal Reserve System for processing these forms is negligible.

¹ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support @ \$16, 45% Financial Managers @ \$48, 15% Legal Counsel @ \$54, and 10% Chief Executives @ \$76). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2008, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/