

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

**Summary**

The Board of Governors of the Federal Reserve System (Board), under delegated authority by the Office of Management and Budget (OMB), has extended for three years, with revision, the Registration Statement for Persons Who Extend Credit Secured by Margin Stock (Other Than Banks, Brokers, or Dealers) (FR G-1; OMB No. 7100-0011), 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 Board also has extended for three years, without revision, the 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 by a Creditor (FR T-4; OMB No. 7100-0019), and Statement of Purpose for an Extension of Credit Secured by Margin Stock (FR U-1; OMB No. 7100-0115). These six mandatory collections of information are collectively known as the Margin Credit Reports and relate to extensions of credit secured by margin stock.

The Securities Exchange Act of 1934 (the Act) authorizes the Board to regulate securities credit extended by brokers, dealers, banks, and other lenders. The FR T-4, FR U-1, and FR G-3 are recordkeeping requirements for brokers and dealers, banks, and other lenders, respectively. The FR G-3 and FR U-1 document the purpose of loans secured by margin stock. For purposes of these forms, 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 such stocks, and (3) shares of most mutual funds. The FR T-4 documents the purpose of credit being extended when that credit is not to purchase, carry, or trade in securities and the credit is in excess of that otherwise permitted under Regulation T, Credit by Brokers and Dealers.

Lenders that are not brokers, dealers, and banks making loans secured by margin stock must register and deregister with the Federal Reserve using the FR G-1 and FR G-2, respectively, and must file an annual report (FR G-4) while registered. The Federal Reserve uses the data collected by the FR G-1, FR G-2, and FR G-4 to identify lenders subject to the Board's Regulation U (Credit by Banks or Persons other than Brokers or Dealers for the Purpose of Purchasing or Carrying Margin Stocks) to verify their compliance with the regulation, and to monitor margin credit.

The Board has revised the instructions for the FR G-1, FR G-2, and FR G-4 to require respondents to submit Portable Document Format (PDF) versions of the reporting forms and attachments to a designated Board e-mail address. The Board made these revisions in an effort to improve clarity, as the current instructions do not contain explicit guidance on the form of submission for the reports. The Board also has consolidated all six Margin Credit Reports under one OMB control number, 7100-0011, which currently only includes the FR G-1, FR G-2, and FR G-4. This change is aimed at simplifying the tracking and clearance process for the

Margin Credit Reports. This change would not modify the reporting or recordkeeping requirements of the reports in any way. The revisions will be implemented as proposed, except that they will be effective July 1, 2018, instead of April 1, 2018. The annual burden for these reports is estimated to be 245 hours and would remain unchanged with the proposed revisions.

## **Background and Justification**

The 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 under the Act through three regulations. Regulation X (Borrowers of Securities Credit), which covers borrowers, does not contain any collections of information. The other two regulations (Regulation T and Regulation U), which do contain collections of information, cover lenders. 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 Act (15 U.S.C. 78g) to regulate extensions of credit by and to brokers and dealers. Regulation T requires that a broker or dealer be aware of the circumstances surrounding an extension of credit and be satisfied that the customer's statement as to the use of the credit is truthful, in order to ensure compliance with section 7(c) of the Act, which prohibits the extension of "purpose credit" by a creditor if the credit is unsecured, secured by collateral other than securities, or secured by any security (other than an exempted security). Under Regulation T an extension of credit made by a broker or dealer, other than an extension of credit to effect and carry transactions in commodities or foreign exchange, shall be deemed to be purpose credit unless, prior to extending the credit, the creditor accepts in good faith from the customer a written statement that it is not purpose credit.

**Statement of Purpose for an Extension of Credit by a Creditor (FR T-4).** 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 (nonpurpose credit). The information captured on 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 Act to regulate extensions of margin credit by banks. The former Regulation G was adopted pursuant to section 7 of the Act in 1968 to impose similar restrictions on lenders other than brokers, 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.

**Statement of Purpose for an Extension of Credit Secured by Margin Stock (FR U-1).** To comply with the requirements of Regulation U, a bank must complete the FR U-1 purpose

statement when it extends credit in excess of \$100,000 secured directly or indirectly, in whole or in part, by any margin stock. The information captured on 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.

**Statement of Purpose for an Extension of Credit Secured by Margin Stock by a Person Subject to Registration Under Regulation U (FR G-3).** 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 FR U-1 reporting form.

The FR T-4, FR U-1, and FR G-3 purpose statements serve as a compliance tool for Regulation T and U lenders, as well as a means by the Justice Department or the Securities and Exchange Commission to verify compliance with the Act and the Board's rules, and, as necessary, an evidentiary or enforcement tool.

**Registration Statement for Persons Who Extend Credit Secured by Margin Stock (Other Than Banks, Brokers, or Dealers) (FR G-1).** The registration statement is required to enable the Federal Reserve to identify nonbank lenders subject to Regulation U, to verify compliance with the regulation, and to monitor margin credit. In addition, registered nonbank lenders can be subject to periodic review by the Board, National Credit Union Administration, and Farm Credit Administration.

**Deregistration Statement for Persons Registered Pursuant to Regulation U (FR G-2).** FR G-2 deregistration statement is used by nonbank lenders to deregister if their margin credit activities no longer exceed the regulatory threshold found in Regulation U. 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.

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

## **Description of Information Collections**

### *Registration Statement (FR G-1)*

Section 221.3(b)(1) of Regulation U requires that the FR G-1 be submitted by every person (other than commercial banks, brokers, or dealers) not currently registered when the amount of credit extended during a calendar quarter 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 from the Board.

#### *Deregistration Statement (FR G-2)*

As noted, 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 requires six items, including the name and phone number of the registrant, the firm's Internal Revenue Service Identification Number (registrants that are individuals 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 thresholds identified in Regulation U.

#### *Annual Report (FR G-4)*

The FR G-4 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 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 with the Federal Reserve. Any new registrants are required to file the annual report for the year following their registration date.

#### *Statements of Purpose (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, FR U-1 is used for extensions of credit by banks, and 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 forms for at least three years after the credit is extinguished. The Federal Reserve System does not collect or process this information, but as noted, the information required on the form may be used by Federal Reserve examiners to assess compliance with the Act and Regulation T.

### **Proposed Revisions**

As noted, the Board proposed to revise the instructions for the FR G-1, FR G-2, and FR G-4 to require respondents to submit PDF versions of the reporting forms and attachments to a designated Board e-mail address. The Board proposed these revisions in an effort to improve instructional clarity as the current instructions do not contain explicit guidance on report submission. The Board did not propose any revisions to the FR G-3, FR T-4, or FR U-1. The Board also proposed to consolidate all six Margin Credit Reports under one OMB control number, 7100-0011, which currently only includes the FR G-1, FR G-2, and FR G-4. This change is aimed at simplifying the tracking and clearance process for the family of Margin Credit Reports. The Board has finalized these proposed revisions, and the revisions will be effective July 1, 2018.

### **Time Schedule for Information Collection**

#### *Current Process*

The FR G-1 is event-generated and must be filed within 30 calendar 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 in the district in which the principal office of the lender is located. The Reserve Bank provides a copy to the Board.

A nonbank lender applies to deregister by sending FR G-2 to the Federal Reserve Bank in the district in which its principal office is located. Upon receipt of FR G-2, the Reserve Bank confirms that the registrant is eligible to deregister. The Reserve Bank then acts on 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 FR G-4, an annual report on their loans secured by margin stock collateral. The registrant must file the FR G-4 annual report within 30 calendar days of the June 30 date, and with the Federal Reserve Bank in the district in which the principal office of the lender is located.

The FR G-3, FR T-4, and FR U-1 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.

### *Proposed Process*

The revisions require the FR G-1, FR G-2, and FR G-4 to be sent directly to the Board as a PDF via a designated e-mail address. No other revisions to the time schedule for information collection are being proposed.

### **Legal Status**

The reports are authorized by section 7 of the Act (15 U.S.C. 78g). In addition, the FR T-4 is required by section 220.6 of Regulation T (12 CFR 220.6), FR U-1 is required by sections 221.3(c)(1)(i) and (2)(i) of Regulation U (12 CFR 221.3(c)(1)(i) and (2)(i)), and FR G-1, FR G-2, FR G-3, and FR G-4 are required by sections 221.3(b)(1), (2), and (3), and (c)(1)(ii) and (2)(ii) of Regulation U (12 CFR 221.3(b)(1), (2), and (3), and (c)(1)(ii) and (2)(ii)). All six reports are mandatory.

The FR G-1 and FR G-4 collect financial information, including a balance sheet, from nonbank lenders subject to Regulation U. Some of these lenders may be individuals or nonbank entities that do not make this information publicly available; release could therefore cause substantial harm to the competitive position of the respondent or result in an unwarranted invasion of personal privacy. In those cases, the information could be withheld under exemption 4 or exemption 6 of the Freedom of Information Act (5 U.S.C. 552(b)(4) and (6)). Confidentiality determinations will be made on a case-by-case basis. Because the FR G-3, FR T-4, and FR U-1 are not submitted to the Federal Reserve System and FR G-2 does not contain any information considered to be confidential, no confidentiality determination is necessary for these reports.

### **Consultation Outside the Agency**

On January 23, 2018, the Board published an initial notice in the *Federal Register* (83 FR 3146) requesting public comment for 60 days on the extension, with revision, of the FR G-1, FR G-2, and FR G-4. Within the same notice, the Board also requested comment on the extension, without revision, of the FR G-3, FR T-4, and FR U-1. The comment period for this notice expired on March 26, 2018. The Board did not receive any comments. On May 16, 2018, the Board published a final notice in the *Federal Register* (83 FR 22685). The revisions will be implemented as proposed; however, the Board will delay the effective date until July 1, 2018, rather than April 1, 2018.

### **Estimate of Respondent Burden**

As shown in the table below, the total annual burden for these reports is estimated to be 245 hours. The proposed revisions would not result in a change in burden hours. The total burden comprises both reporting and recordkeeping burden. The total annual reporting burden

for FR G-1, FR G-2, and FR G-4 is estimated to be 160 hours. The total annual recordkeeping burden for FR G-3, FR T-4, and FR U-1 purpose statements is estimated to be 85 hours. The purpose statements are used by lenders only as an internal documentation tool and are not submitted to the Board. These reporting and recordkeeping requirements represent less than one percent of total burden Federal Reserve System’s paperwork burden.

	<i>Number of respondents<sup>1</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Reporting</b>				
FR G-1	52	1	2.50	130
FR G-2	25	1	0.25	6
FR G-4	12	1	2.00	24
<b>Recordkeeping</b>				
FR G-3	6	20	0.17	20
FR T-4	4	20	0.17	14
FR U-1	4	75	0.17	<u>51</u>
<i>Total</i>				245

The estimated total annual cost to the public for the Margin Credit Reports is \$13,732.<sup>2</sup>

### **Sensitive Questions**

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

### **Estimate of Cost to the Federal Reserve System**

The estimated cost to the Federal Reserve System is negligible.

<sup>1</sup> Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) [www.sba.gov/document/support--table-size-standards](http://www.sba.gov/document/support--table-size-standards).

<sup>2</sup> Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$18, 45% Financial Managers at \$69, 15% Lawyers at \$68, and 10% Chief Executives at \$94). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2017*, published March 30, 2018, [www.bls.gov/news.release/ocwage.t01.htm](http://www.bls.gov/news.release/ocwage.t01.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).