

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

Summary

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the Margin Credit Reports (OMB No. 7100-0011). This information collection comprises the following six reports:

- Registration Statement for Persons Who Extend Credit Secured by Margin Stock (Other Than Banks, Brokers, or Dealers) (FR G-1),
- Deregistration Statement for Persons Registered Pursuant to Regulation U (FR G-2),
- Statement of Purpose for an Extension of Credit Secured by Margin Stock by a Person Subject to Registration Under Regulation U (FR G-3),
- Annual Report (FR G-4),
- Statement of Purpose for an Extension of Credit by a Creditor (FR T-4), and
- Statement of Purpose for an Extension of Credit Secured by Margin Stock (FR U-1).

The Margin Credit Reports relate to extensions of credit secured by margin stock. The Board collects the information gathered by the Margin Credit Reports so that it may meet certain obligations under the Securities Exchange Act of 1934 (the Act).

The Board proposes to revise the Margin Credit Reports by updating the confidentiality treatment for the FR G-1 and FR G-4 reports. There are no changes being proposed to the FR G-2, FR G-3, FR T-4, or FR U-1.

The current estimated total annual burden for the Margin Credit Reports is 697 hours and would remain the same with the proposed revisions. The forms and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/ReportingForms/>.

Background and Justification

The Act authorizes the Board to regulate securities credit extended by brokers, dealers, banks, and other lenders and 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 Board has implemented its authority under the Act through three regulations. Regulation X - Borrowers of Securities Credit (12 CFR Part 224), which covers borrowers, does not contain any collections of information. The other two regulations, Regulation T - Credit by Brokers and Dealers (12 CFR Part 220) and Regulation U - Credit by Banks and Persons other than Brokers or Dealers for the Purpose of Purchasing or Carrying Margin Stocks (12 CFR Part 221), cover lenders and do contain collections of information.

The FR T-4, FR U-1, and FR G-3 are forms that implement recordkeeping requirements for brokers and dealers, banks, and other lenders, respectively. 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. 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 by Regulation U, and includes, principally (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.¹

Certain lenders, as described below, that are not brokers, dealers, or 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 FR G-1, FR G-2, and FR G-4 reporting requirements collect data used to identify lenders subject to the Board's Regulation U to verify their compliance with the regulation and to monitor margin credit.

The information collected by the FR G-1, FR G-2, FR G-3, FR G-4, FR T-4, and FR U-1 is not available from other sources.

Regulation T

Regulation T regulates extensions of credit by brokers and dealers, pursuant to section 7 of the Act (15 U.S.C. § 78g). Section 7(c) of the Act prohibits any broker, dealer, or member of a national securities exchange (member) from extending or maintaining credit or arranging for the extension or maintenance of credit to or for any customer on any security (other than an exempted security), without collateral or using any collateral other than securities, except in accordance with the rules and regulations the Board may prescribe.² The Board has implemented this provision in Regulation T. Regulation T imposes limitations on the extension of "purpose credit,"³ defined as credit for the purpose of buying, carrying, or trading in securities or buying or carrying any part of an investment contract security which shall be deemed credit for the purpose of buying or carrying the entire security.⁴ However, these limitations do not apply to credit that is not purpose credit if the creditor accepts in good faith from the customer a written statement that it is not purpose credit.⁵ Regulation T defines "good faith" to require 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,⁶ in order to ensure compliance with section 7(c) of the Act.

¹ See 12 CFR 221.2.

² 15 U.S.C. § 78g(c)(1).

³ See 12 CFR 220.6(e).

⁴ 12 CFR 220.2.

⁵ 12 CFR 220.6(e)(2).

⁶ 12 CFR 220.2.

Regulation U

Regulation U regulates extensions of margin credit by lenders (including banks) other than securities brokers and dealers, pursuant to section 7 of the Act (12 U.S.C. § 78g). Section 7(d) contains a general prohibition on persons other than brokers, dealers, and members from extending margin credit in contravention of such rules and regulations that the Board prescribes, which the statute states may be similar to those imposed on brokers, dealers, or members.⁷ Historically, the Board implemented this provision in Regulations U and G. Regulation U applied only to banks while the former Regulation G imposed similar restrictions on lenders other than brokers, dealers, and banks. However, Regulation G was merged into Regulation U in 1998.⁸ 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.

Description of Information Collection

Registration Statement for Persons Who Extend Credit Secured by Margin Stock (Other Than Banks, Brokers, or Dealers) (FR G-1)

Section 221.3(b)(1) of Regulation U⁹ requires that the FR G-1 be submitted by every person (other than commercial banks, brokers, or dealers) (nonbank lenders) not currently registered when the amount of credit extended during a calendar quarter equals \$200,000 or more in credit secured directly or indirectly by collateral that includes any margin stock, 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.

The registration statement remains in effect until an eligible nonbank lender electronically submits a deregistration statement (FR G-2) to the Board, which is then sent to and approved by the Federal Reserve Bank in whose district it resides.

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)

⁷ 15 U.S.C. § 78g(d)(1). This prohibition does not apply to extensions of credit by banks on a security other than equity securities. 15 U.S.C. § 78g(d)(2)(D).

⁸ See 63 Fed. Reg. 2806 (Jan. 16, 1998).

⁹ 12 CFR 221.3(b)(1).

A registered nonbank lender may apply to deregister under section 221.3(b)(2) of Regulation U¹⁰ if the lender has not, during the preceding six calendar months, had more than \$200,000 of margin-stock-secured credit outstanding. The deregistration statement collects identification and contact information regarding the lender, as well as 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 all nonbank lenders registered pursuant to Regulation U 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 constitute purpose or nonpurpose credit and to disclose whether credit is used to fund employee stock options, purchases, or ownership plans. Those lenders funding stock options, purchases, and ownership plans must specify whether such credit was extended pursuant to the provisions set forth in section 221.4 of Regulation U,¹¹ which authorizes employers to extend credit to employees and ESOPs without regard to the margin requirements.

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.

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,¹² the FR U-1 is used for extensions of credit by banks,¹³ and the FR G-3 is used for extensions of credit by other lenders.¹⁴

Both the borrower and the lender complete portions of 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 securities (pursuant to Regulation U) and, if not, describe the specific purpose of the loan. Exclusive to the FR T-4, borrowers 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

¹⁰ 12 CFR 221.3(b)(2).

¹¹ 12 CFR 221.4.

¹² See 12 CFR 220.1(a).

¹³ See 12 CFR 221.3(c)(1)(i).

¹⁴ See 12 CFR 221.3(c)(1)(ii).

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 Board does not collect or process this information, but the information required on the form may be used by Federal Reserve examiners to assess compliance with the Act and Regulations T and U.

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.

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.

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.¹⁵ 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 requirement 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.¹⁶ 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 Board understands that respondents use information technology to comply with these provisions, including the use of electronic submission through email and electronic storage of records.

Respondent Panel

The FR G-1, FR G-2, FR G-3, and FR G-4 panels comprise lenders, other than banks, brokers, or dealers, that extend margin credit, including federal and state credit unions; insurance

¹⁵ 12 CFR 221.3(c)(1)(i).

¹⁶ 12 CFR 221.3(c)(1)(ii).

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); and lenders to Employee Stock Ownership Plans (ESOPs), thrift plans, and broker-dealer affiliates. The FR T-4 panel comprises brokers and dealers and the FR U-1 panel comprises banks.

Frequency and Time Schedule

The FR G-1, FR G-2, and FR G-3 are event generated. The FR G-1, FR G-2, and FR G-4 are sent directly to the Board as a PDF via a designated e-mail address. 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. The FR G-2 must be filed when the lender is no longer subject to the registration requirements. All FR G-1 registrants are required to file the FR G-4 annually, within 30 calendar days of the June 30 as of date. The FR G-3, FR T-4, and FR U-1 are event-generated recordkeeping requirements and should be retained for three years after the credit is extinguished.

Proposed Revisions to the FR G-1 and FR G-4

The Board proposes to revise the FR G-1 and FR G-4 by updating the confidentiality treatment, as described in the reporting instructions to state that individual respondents may request that information submitted to the Board through the FR G-1 and FR G-4 be kept confidential. The Board proposes to change the language in the directions in both forms to reflect that respondents may request confidential treatment and that the Board will evaluate whether such treatment is appropriate on a case-by-case basis. The forms currently state that the Board considers the information submitted to be confidential. The Board believes these changes more accurately reflect its obligations under the Privacy Act of 1974, 5 U.S.C. § 552a.

There are no changes being proposed to the FR G-2, FR G-3, FR T-4, or FR U-1.

Public Availability of Data

No data collected by this information collection are published.

Legal Status

The FR G-1, G-2, G-3, G-4, T-4, and U-1 are authorized by Sections 717 and 2318 of the Securities Exchange Act of 1934 which state, respectively, that the Board shall “prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security” and that “[t]he Commission, the Board of Governors

¹⁷ 15 U.S.C. § 78g.

¹⁸ 15 U.S.C. § 78w.

of the Federal Reserve System, and the other agencies enumerated in section 78c(a)(34) of this title shall each have power to make such rules and regulations as may be necessary or appropriate to implement the provisions of this chapter for which they are responsible or for the execution of the functions vested in them by this chapter, and may for such purposes classify persons, securities, transactions, statements, applications, reports, and other matters within their respective jurisdictions, and prescribe greater, lesser, or different requirements for different classes thereof.” All six reports are mandatory.

As proposed, individual respondents would be permitted to request that information submitted to the Board through the FR G-1 and FR G-4 be kept confidential. If a respondent requests confidential treatment, the Board will determine whether the information is entitled to confidential treatment on a case-by-case basis. To the extent a respondent submits nonpublic commercial or financial information, which is both customarily and actually treated as private by the respondent, the respondent may request confidential treatment pursuant to exemption 4 of the Freedom of Information Act (FOIA).¹⁹ To the extent a respondent submits personnel, medical, or similar files, the disclosure of which would constitute an unwarranted invasion of privacy, the respondent may request confidential treatment pursuant to exemption 6 of the FOIA.²⁰

Because the FR T-4, FR U-1, and FR G-3 are maintained at each banking organization, FOIA would only be implicated if the Board obtained such records as part of the examination or supervision of a banking organization. In the event the records are obtained by the Board as part of an examination or supervision of a financial institution, this information would be considered confidential pursuant to exemption 8 of the FOIA, which protects information contained in “examination, operating, or condition reports” obtained in the bank supervisory process.²¹ Information collected through the FR G-2 is not considered to be confidential.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Public Comments

On February 16, 2024, the Board published an initial notice in the *Federal Register* (89 FR 12324) requesting public comment for 60 days on the extension, with revision, of the FR G-1, FR G-2, FR G-3, FR G-4, FR T-4, and FR U-1. The comment period for this notice expires on April 16, 2024.

¹⁹ 5 U.S.C. § 552(b)(4).

²⁰ 5 U.S.C. § 552(b)(6).

²¹ 5 U.S.C. § 552(b)(8).

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the Margin Credit Reports is 697 hours, and would stay the same with the proposed revisions. The total burden comprises both reporting and recordkeeping burden. The total number of respondents is based on the number of filing submissions to the central mailbox in the previous year. The burden estimate was produced using the standard Board burden calculation methodology. The total annual reporting burden for the FR G-1, FR G-2, and FR G-4 is estimated to be 314 hours. The total annual recordkeeping burden for the FR G-3, FR T-4, and FR U-1 purpose statements is estimated to be 383 hours. These reporting and recordkeeping requirements represent less than 1 percent of the Board's total paperwork burden.

| | <i>Estimated number of respondents</i> 22 | <i>Estimated annual frequency</i> | <i>Estimated average hours per response</i> | <i>Estimated annual burden hours</i> |
|----------------------|--|---|---|--|
| Reporting | | | | |
| FR G-1 | 25 | 1 | 1.65 | 41 |
| FR G-2 | 12 | 1 | 0.53 | 6 |
| FR G-4 | 129 | 1 | 2.07 | 267 |
| Recordkeeping | | | | |
| FR G-3 | 10 | 20 | 0.25 | 50 |
| FR T-4 | 14 | 20 | 0.25 | 70 |
| FR U-1 | 14 | 75 | 0.25 | <u>263</u> |
| <i>Total</i> | | | | 697 |

The estimated total annual cost to the public for the Margin Credit Reports is \$46,176 and would stay the same with the proposed revisions.²³

Sensitive Questions

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

²² Of these respondents to this information collection, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$850 million in total assets)

<https://www.sba.gov/document/support--table-size-standards>.

²³ Total cost to the responding public is estimated using the following formula: total burden hours, multiplied by the cost of staffing, where the cost of staffing is calculated as a percent of time for each occupational group multiplied by the group's hourly rate and then summed (30% Office & Administrative Support at \$22, 45% Financial Managers at \$80, 15% Lawyers at \$79, and 10% Chief Executives at \$118). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor Statistics (BLS), Occupational Employment and Wages, May 2022, published April 25, 2023 <https://www.bls.gov/news.release/ocwage.t01.htm#>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>. <https://www.bls.gov/news.release/ocwage.t01.htm#>.

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing these information collections is negligible