

**Supporting Statement for the Margin 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, without revision, the following six mandatory reports related to extensions of credit secured by margin stock:

- 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),
- 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),
- Annual Report (FR G-4; OMB No. 7100-0011),
- 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).

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 annual burden for these reports is estimated to be 245 hours and would remain unchanged.

## **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. Borrowers of Securities Credit (Regulation X) does not contain any information collection requirements. The other two regulations cover lenders:

- Credit by Brokers and Dealers (Regulation T) and

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

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.

## **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 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)), respectively. Confidentiality determinations must be made on a case by case basis. Because the FR T-4, FR U-1, and FR G-3 are not submitted to the Federal Reserve System, and the 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 October 17, 2014, the Federal Reserve published a notice in the *Federal Register* (79 FR 62442) requesting public comment for 60 days on the extension, without revision, of the

Margin Credit Reports. The comment period for this notice expired on December 16, 2014. The Federal Reserve received one comment letter from a banker. The commenter recommended revising the FR U-1 report to remove the attestation requirement in Part III when the response to Question #2 of Part I “Will any part of this credit be used to purchase or carry margin stock?” is “No.” The Federal Reserve believes the commenter misunderstands Question #2 of Part I, which asks the purpose of the loan, not whether the loan is secured by margin stock. A completed and signed FR U-1 is only required when the loan is secured, directly or indirectly, by margin stock. The Federal Reserve will extend the information collections for three years, without revision, as proposed. On January 21, 2015, the Federal Reserve published a final notice in the *Federal Register* (80 FR 2932).

### Estimate of Respondent Burden

The total annual burden for these reports is estimated to be 245 hours, as shown in the following table, and would remain unchanged. 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 85 hours. The purpose statements are used by lenders only as an internal documentation tool and are not submitted to the Board. The estimated numbers of respondents for the FR G-3, FR T-4, and FR U-1 are based on the actual number of FR G-4 reporting forms received in 2013. 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 160 hours. The number of respondents is based on the actual number of reporting forms received in 2013. 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<br/>number of<br/>respondents</i> | <i>Estimated<br/>annual<br/>frequency</i> | <i>Estimated<br/>average hours<br/>per response</i> | <i>Estimated<br/>annual<br/>burden hours</i> |
|-----------------------------------|--|---|---|--|
| 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 recordkeeping burden</i> |  |   |   | 85   |
| FR G-1                            | 52   | 1   | 2.50  | 130  |
| FR G-2                            | 25   | 1   | 0.25  | 6  |
| FR G-4                            | 12   | 1   | 2.00  | <u>24</u>                                    |
| <i>Total reporting burden</i>     |  |   |   | 160  |
| <i>Total burden</i>               |  |   |   | 245  |

The total annual cost to the public for the six information collections is estimated to be \$12,471.<sup>1</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 annual cost to the Federal Reserve System for processing these forms is negligible.

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<sup>1</sup> 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 at \$18, 45% Financial Managers at \$61, 15% Lawyers at \$63, and 10% Chief Executives at \$86). The 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 2013*, published April 1, 2014, [www.bls.gov/news.release/ocwage.nr0.htm](http://www.bls.gov/news.release/ocwage.nr0.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).