

**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 that collect information on certain extensions of credit secured by margin stock, including the amount and purpose of such credit:

- Statement of Purpose for an Extension of Credit by a Creditor (FR T-4; OMB No. 7100-0019),
- Statement of Purpose for an Extension of Credit Secured by Margin Stock (FR U-1; OMB No. 7100-0115),
- 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),
- 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 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 T-4, FR U-1, and FR G-3, are recordkeeping requirements for brokers and dealers, 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 annual burden for these reports is estimated to be 109,123 hours.

## **Background and Justification**

The '34 Act authorizes the Federal Reserve to regulate margin credit, that is, the amount of credit that can be extended on any security. The Federal Reserve has implemented its authority with two regulations for 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 form are described below.

### **Regulation T**

Regulation T was adopted in 1934 pursuant to Sections 7 and 8(a) of the '34 Act (15 U.S.C. § 78g and 78h(a)) to regulate extensions of credit by and to brokers and dealers. Under the regulation, 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 does not comply with the margin requirements. 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 in 1968 to impose similar restrictions on lenders other than brokers and dealers and banks. Limitations on the type of lenders who could extend margin credit to brokers and dealers contained in section 8(a) of the '34 Act led the Federal Reserve to adopt a separate regulation from Regulation U. In September 1987, the Federal Reserve adopted an amendment to Regulation U that exempts banks from the requirement of obtaining the FR U-1 Purpose Statement from the borrower(s) when banks make loans of \$100,000 or less secured by margin stock. The National Securities Markets Improvement Act of 1996 repealed section 8(a) of the '34 Act, eliminating the need for separate regulations, and 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 SEC.

**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, Farm Credit Administration, or Office of Thrift Supervision.

**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 registration 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 and thus aid the Federal Reserve in administering margin regulations pursuant to the '34 Act. Additionally, this information aids Federal Reserve Banks in monitoring any trends that may emerge.

## **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; savings and loan associations; 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, credit unions, and savings banks.

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, 2007, 602 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 IRS 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. The information is collected on credit outstanding and extended during the previous year beginning July 1. 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, that is, all FR G-1 respondents, are required to file these reports pertaining to their lending activities secured by margin stock collateral.

## **Time Schedule for Information Collection**

The FR U-1, FR T-4, and FR G-3 forms 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 thirty 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 staff 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 filers 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 thirty 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 authorized by Section 220.6 of Regulation T (12 C.F.R. 220.6), the FR U-1 is authorized 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 authorized 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 December 21, 2007, the Federal Reserve published a notice in the *Federal Register* (72 FR 72725) requesting public comment for sixty days on the extension, without revision, of the six reports that collect information on certain extensions of credit secured by margin stock, including the amount and purpose of such credit. The comment period for this notice expired on February 19, 2008. The Federal Reserve did not receive any comments. On February 29, 2008, the Federal Reserve published a final notice in the *Federal Register* (73 FR 11116).

### **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 109,123 hours, as shown in the following table, and represents approximately 2.5 percent of total burden for all Federal Reserve System reports. 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 107,757 hours. The purpose statements are used by creditors 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 forms 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 2006. 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 1,366 hours. The number of respondents is based on the actual number of reporting forms received in 2006.

	<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	602	20	.17	2,047
FR T-4	5,100	20	.17	17,340
FR U-1	6,931	75	.17	<u>88,370</u>
<i>Total recordkeeping burden</i>				107,757
FR G-1	61	1	2.50	153
FR G-2	36	1	0.25	9
FR G-4	602	1	2.00	<u>1,204</u>
<i>Total reporting burden</i>				1,366
<i>Total burden</i>				<u>109,123</u>

The total annual cost to the public for the six information collections is estimated to be \$3,185,300.<sup>1</sup>

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

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

---

<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: 92% - Clerical @ \$25, 5% - Managerial or Technical @ \$55, 2% - Senior Management @ \$100, and 1.0% - Legal Counsel @ \$144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, new release.