MEMO# 6065

July 21, 1994

FEDERAL RESERVE BOARD PROPOSES CHANGES TO REG T SHORTENING PERIOD FOR CUSTOMER PAYMENT FOR SECURITIES

July 21, 1994 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 40-94 BANK BROKER/DEALER ADVISORY COMMITTEE NO. 18-94 BROKER/DEALER ADVISORY COMMITTEE NO. 16-94 CLOSED-END FUND COMMITTEE NO. 18-94 INSURANCE BROKER-DEALER ADVISORY COMMITTEE NO. 11-94 OPERATIONS COMMITTEE NO. 18-94 SEC RULES COMMITTEE NO. 82-94 SMALL FUNDS COMMITTEE NO. 9-94 TRANSFER AGENT ADVISORY COMMITTEE NO. 29-94 UNIT INVESTMENT TRUST COMMITTEE NO. 51-94 RE: FEDERAL RESERVE BOARD PROPOSES CHANGES TO REG T SHORTENING PERIOD FOR CUSTOMER PAYMENT FOR SECURITIES ____ The Board of Governors of the Federal Reserve System has published for public comment proposed changes to Regulation T, which governs extensions of credit by brokers or dealers. The changes include a requirement that customers meet margin calls or make full cash payment for securities purchased at a broker-dealer within two business days of the standard settlement period. This change is being proposed in light of adoption by the Securities and Exchange Commission of Rule 15c6-1, which shortens the standard settlement period for securities transactions from five to three business days (T+3). A copy of the proposing release is attached. Currently Regulation T requires cash payment for securities within seven business days of trade date. As proposed to be amended, the regulation would require payment within "one payment period," with "payment period" being defined as the standard settlement period in the United States plus two business days. If the changes are adopted, the amount of time brokers can give their customers to pay for securities or meet margin calls automatically will be reduced when T+3 goes into effect on June 1, 1995. In addition, with this language, future changes in the settlement period would automatically be reflected by Regulation T. Related amendments would raise the de minimis amount below which liquidation of unpaid transactions is not required from $500 to $1,000, require brokers seeking extensions of the payment period to obtain them from their designated examining authority (e.g., the NYSE or the NASD), and clarify that foreign settlement periods are used to calculate when restrictions in the cash account are applied to foreign securities. -2- The Board is also proposing to exempt most transactions involving government securities from the restrictions of Regulation T. Regulation T would exclude government securities brokers and dealers who register with the SEC under section 15C of the Securities Exchange Act of 1934 from the definition of "creditor" in Regulation T. In addition, general broker-dealers effecting customer transactions that could be effected by a section 15C broker-dealer would be able to record the transactions in a new government securities account to which the other restrictions in Regulation T would not apply. Comments on the proposed changes to Regulation T must be filed by August 15, 1994. Comment letters should refer to Docket R-0840 and should be mailed to: Mr. William Wiles Secretary Board of Governors of the Federal Reserve System 20th and Constitution Avenue, N.W. Washington, D.C. 20551 The Institute is not planning to submit a comment letter at this time; however, if there are issues you would like the Institute to consider addressing to the Federal Reserve Board, please call me at 202/326-5847 or Frances Stadler at 202/326-5822 by August 8, 1994. Diane M. Butler Director - Operations & Fund Custody Attachment

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