inspection in Room MP–500 of the Martin Building between 9:00 a.m. and 5:00 p.m. weekdays, except as provided in 12 CFR 261.8 of the Board's rules regarding availability of information.

FOR FURTHER INFORMATION CONTACT: Scott Holz, Senior Attorney, or Angela Desmond, Senior Counsel, Division of Banking Supervision and Regulation (202) 452–2781; for the hearing impaired only, Telecommunications Device for the Deaf (TDD), Dorothea Thompson (202) 452–3544.

SUPPLEMENTARY INFORMATION: In 1992, the Board issued an advance notice of proposed rulemaking and request for comment concerning a general review of Regulation T.[1] Comments were received from 31 respondents, some of whom commented more than once. The comments have been analyzed to help prepare proposed amendments to the regulation. These proposed amendments are consistent with the current tenor of the regulation and statutory requirements; however, the comments raised broad issues as to purposes that Regulation T serves in light of the current regulatory environment and market practices. One comment questioned the continuing need for the Regulation T requirements, noting that possible purposes for the regulation, such as broker dealer financial integrity and customer protection, also are addressed by SEC oversight of brokers and dealers by means of net capital and customer protection rules. Comments also suggested broad changes to Regulation T that the commenters believe are appropriate in the current environment. These changes included, but were not limited to: (1) Delegating all responsibility for margins and related requirements to the self-regulatory organizations under the oversight of the SEC; (2) applying the restrictions on arranging credit only to credit that otherwise violates margin rules; (3) eliminating margin requirements on loans to brokers and dealers; (4) exempting from the margin rules transactions in all exempt securities; (5) exempting transactions with sophisticated customers; (6) expansion of permissible arrangements for borrowing and lending securities; and (7) exempting transactions in investment grade securities. While the Board believes that it is important to proceed with the proposed amendments in order to address particular problems, the Board also believes regulatory structures should be reviewed continually, not merely to update them, but also to assess whether different structures would better meet regulatory objectives and even whether regulation is still necessary. Accordingly, the Board requests comments including particular proposals and supporting legal and policy rationale, not only on the specific changes to Regulation T set forth in this notice, but also on the proposals enumerated above, the continuing need for Regulation T, and appropriate changes to its scope and architecture. The supplementary information that follows explains what is being proposed and reasons therefor.

I. Options

A. Exchange-Traded Options

1. Loan Value for Long Options

All securities listed on a national securities exchange have loan value under Regulation T except for options. The Board proposes to eliminate this disparate treatment, which was adopted in the early 1970s, and allow exchange-traded options the same 50 percent loan value currently afforded other margin equity securities. In light of the successful growth of standardized options trading since the 1970s, the positive performance of the Options Clearing Corporation, and the development of new types of options, other securities and financial futures, the Board is proposing to treat long positions in exchange-traded options the same as other registered equity securities for margin purposes.

Granting 50 percent loan value to exchange-traded options would also address a disparity that has arisen in the past few years with the listing of so-called index warrants. Although index warrants resemble long-term options, the use of the word ''warrant'' to describe this product has led many broker-dealers to allow 50 percent loan value for these instruments while long-term options, such as LEAPs, are not permitted any loan value under the current regulation. Treating exchange-traded options the same as other exchange-traded equity securities would eliminate this disparity.

2. Increased Reliance on SRO Rules

When Regulation T was adopted in 1934, the amount of margin required for writing a put or call was the amount ''customarily required'' by the creditor. In the 1970s the Board adopted specific requirements based on existing rules of one of the self-regulatory organizations (SROs). Starting in the 1980s, the Board has on more than one occasion amended Regulation T to incorporate by reference SRO margin rules for options transactions. The Board is proposing to continue this process by increasing reliance on SRO options margin rules for customers and specialists.

a. Margin account. The margin account currently specifies positions which may serve in lieu of the margin required for writing an option on an equity security, while incorporating the rules of the SROs for options written on anything other than an equity security (such as a securities index). The Board proposes to allow SRO rules, which must be approved by the SEC, to prescribe appropriate cover for all short options positions.

Many commenters expressed support for a risk-based options margin system and/or a recognition of the offsetting nature of financial futures based on similar indexes, rates, or assets. Under the Board's proposal, the SROs would be able to further these goals in setting cover requirements for all types of securities options.

b. Cash account. Although the writing of an option creates a short position which is normally carried in the margin account, the cash account section was amended in the early 1980s to allow certain covered options transactions to be effected in this account. Board staff has since indicated that the cash account can be used for additional options transactions. These transactions are not ''covered'' in the sense that the account holds the underlying security. However, the transactions involve a quantifiably limited risk and the cash account in which the transaction is effected contains specified assets of sufficient value to cover this amount or an escrow receipt representing such assets.[2] The Board proposes to adopt generic language under which a ''covered option transaction'' would be eligible for the cash account under specified conditions. The Board is also adding money market mutual funds to the list of cash equivalents that may be used to cover a put written in the cash account.

c. Market functions account. Regulation T permits the extension of credit on a good faith basis to a specialist for transactions in its specialty security. In addition, options specialists can obtain good faith financing for the underlying security and other specialists can obtain good faith credit for options overlying their specialty securities. These positions are known as ''permitted offsets.'' The regulation specifies which positions must be held in the account to allow permitted offsets and does not provide for offsets in the case of specialists in

[1] 57 FR 37109, August 18, 1992.

[2] See, e.g., Staff Opinion of July 12, 1991, Federal Reserve Regulatory Service (*FRRS*) 5–666.251 and Staff Opinion of October 11, 1991, *FRRS* 5–666.26.