

Proposed Rules

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This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

FEDERAL RESERVE SYSTEM

12 CFR Part 208

[Regulation H; Docket No. R-0909]

Membership of State Banking Institutions in the Federal Reserve System; Recordkeeping and Confirmation of Certain Securities Transactions Effected by State Member Banks

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule; request for public comments.

SUMMARY: The Board of Governors of the Federal Reserve System is proposing amendments to Regulation H pertaining to the recordkeeping and confirmation of certain securities transactions. The amendments would accommodate developments in the securities markets by adding certain yield-related confirmation disclosure requirements for transactions involving debt and asset-backed securities effected by State member banks for customers, and providing for three day settlement of those transactions. The proposed amendments also would clarify that State member banks that effect *de minimis* government securities brokerage transactions and are exempt from registration under Department of the Treasury regulations, also are exempt from Regulation H. Finally, the proposed amendments address the minimum recordkeeping requirements for State member banks exempt from the paragraph, and include several new definitions and various language edits.

DATES: Comments must be submitted on or before February 28, 1996.

ADDRESSES: Comments should refer to Docket No. R-0909, and may be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, DC 20551. Comments also may be delivered to Room B-2222 of the Eccles Building between 8:45 a.m. and

5:15 p.m. weekdays, and to the guard station in the Eccles Building courtyard on 20th Street, NW (between Constitution Avenue and C Street) at any time. Comments received will be available for 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(a) of the Board's rules regarding availability of information.

FOR FURTHER INFORMATION CONTACT:

Angela Desmond, Senior Counsel, or Susan Meyers, Senior Securities Analyst, (202) 452-2781. For users of Telecommunications Device for the Deaf (TTD), please contact Dorothea Thompson, (202/452-3544), Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Section 208.8(k) of Regulation H, 12 CFR part 208, was adopted in 1979 to ensure that banks effecting securities transactions for customers conform to securities industry practices with respect to the maintenance of records, and the content and timing of confirmations and account statements.¹ Since that time, a number of market and regulatory changes have occurred that have relevance to these provisions. As a result, the Board has determined that the recordkeeping and notification requirements of Regulation H should be amended to ensure that procedures followed by State member banks continue to conform with SEC and Department of the Treasury regulations, and are consistent with principles of safe and sound banking practices. For purposes of organization, the contents of § 208.8(k) would be moved into a new § 208.24.

Comments are requested on the proposed amendments as described in more detail below. The proposed amendments are limited to new § 208.24 (current § 208.8(k)) of Regulation H and are not meant to obviate the need for the general review of the whole regulation scheduled for the latter part of 1996.² Accordingly, comments pertaining to other provisions of Regulation H should

be withheld until notice of a general review is announced.

Summary of Proposed Amendments

The provisions of § 208.8(k) would be moved to a new section (§ 208.24) at the end of subpart A of Regulation H and paragraph (k) of § 208.8 would be reserved.

§ 208.24(a) Definitions.

The draft amendments would add definitions of: asset-backed security, completion of the transaction, crossing of buy and sell orders, debt security, government security and municipal security. In general, the new definitions are based on definitions contained in the Securities Exchange Act, 15 U.S.C. 78a *et seq.*, or in the SEC's confirmation rule 10b-10, 17 CFR 240.10b-10, and are necessary for applying the proposed confirmation disclosure and the three day settlement requirements. Finally, the term *dealer bank* in the definition of *customer* would be replaced with the term *municipal securities broker or dealer* to clarify that a bank acting as a municipal securities broker is not a customer for purposes of § 208.24 of Regulation H.

§ 208.24(b) Recordkeeping.

New language would be added to clarify that § 208.24 applies to government securities transactions effected for customers by State member banks and to municipal securities transactions effected by State member banks that are *not* registered as municipal securities dealers. The amendments also would relocate all confirmation recordkeeping requirements into this section. Explanatory language at the end of the section would be moved to the first paragraph to simplify the section.

§ 208.24(c) Content and Time of Notification.

The amendments would rename the section to clarify its subject matter. Substantively, the amendments would delete the old five business day requirement for confirmation delivery in former § 208.8 (k)(3) and (k)(4) and provide that confirmations be given or sent to customers "at or by completion of the transaction," defined as the payment and delivery of the securities in § 208.24(a).

In addition, the proposed amendments would require

¹ 44 FR 43258 (July 24, 1979).

² The OCC and the FDIC are considering similar amendments to their versions of the regulation, 12 CFR Part 12, 44 FR 43252 (July 24, 1979) and 12 CFR Part 344, 44 FR 43261 (July 24, 1979) respectively. Consideration of the amendments now will ensure continued consistency among the three regulations and obtain parity with securities industry practices.