

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 70-95
April 17, 1970

AMENDMENT TO REGULATION T

To All Banks, Broker/Dealers and Regulation G Registrants
in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System has announced, effective May 15, 1970, an amendment to Regulation T, which divides and allocates, along functional lines, the lending activities of certain insurance companies which are also broker-dealers. Following are explanatory comments made by the Board in connection with the amendment:

"A new paragraph (f) has been added to section 220.7 to permit life insurance companies subject to registration with the SEC under section 15 of the Securities Exchange Act of 1934 (15 U.S.C. 78o) (because they offer or sell variable annuity contracts) to extend, maintain, or arrange for credit subject to Part 207 (Regulation G), rather than this Part 220 (Regulation T), where the securities credit they extend is unrelated to transactions involving a variable annuity or a general securities business. Insurance companies subject to registration with the SEC became subject to Regulation T as a result of amendments adopted by the Board on June 2, 1969 (Federal Register of June 11, 1969 (34 F.R. 9196)). Several such companies had previously registered with the Board under Regulation G in connection with their conventional lending operations, which include loans secured by margin securities, as defined by section 207.2(d) of that regulation. The present amendment is designed to allocate the lending operations of such companies between Regulations G and T on a functional basis to clarify that extensions of credit pursuant to normal lending activities of such insurance companies are not appropriately subject to Regulation T, when distinct from any broker-dealer activity of the companies and subject to Regulation G. Extensions of credit related to transactions involving the offer or sale of the insurance companies' variable annuity contracts, or connected with the activity of the companies as a broker or dealer, are subject to Regulation T in the same manner as are the financial relations between any broker or dealer and his customers. Extensions of credit normally associated with conventional lending practices of such insurance companies, however, are governed by the provisions of Regulation G to the extent they are applicable. This functional allocation applies where an insurance company has dealings with the same customer in con-

nection with both types of activities. For example, the fact that a person is or may become a holder of a variable annuity contract issued by the company does not of itself cause credit extended to such person by the company as part of its mortgage, commercial, or industrial loan operations to become subject to Regulation T.

"In order to provide relief pending the promulgation of this amendment, the Board suspended, until April 16, 1970, the provisions of Regulation T with the purpose of making such provisions inapplicable to credit extended by insurance companies subject to registration with the SEC as broker-dealers if the credit is unrelated to transactions involving variable annuity contracts offered or sold by such insurance companies or affiliated persons thereof (34 F.R. 12132, 16629; July 14, October 13, 1969). The period of such suspension is hereby extended until May 15, 1970."

A copy of the amendment is enclosed. A current version of Regulation T now consists of the Regulation and Supplement, both dated July 8, 1969, and the current amendment. We will be pleased to supply any items necessary to bring your copy of the Regulation up to date.

Yours very truly,

P. E. Coldwell

President

Enclosure (1)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CREDIT BY BROKERS AND DEALERS

AMENDMENT TO REGULATION T

Effective May 15, 1970, the following paragraph is added to section 220.7:

(f) Credit by insurance companies that issue variable annuity contracts. (1) Except as provided in subparagraph (2) of this paragraph, Part 207 of this Chapter (Regulation G) rather than this part shall apply to any credit extended, maintained, or arranged for by a life insurance company which (i) meets the definition of "insurance company" set forth in section 2(a)(17) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(a)(17)) and (ii) is engaged in issuing or participating in the issuance of any variable annuity contract, or of any interest in a separate account established by such insurance company, registered under the Securities Act of 1933 (15 U.S.C. 77) or exempt from such registration by Rule 156 of the Securities and Exchange Commission (17 CFR 230.156).

(2) The provisions of this part shall apply to any credit extended to or maintained or arranged

for a customer by a life insurance company described in subparagraph (1) of this paragraph that has registered, or is required to register, as a broker or dealer pursuant to section 15 of the Securities Exchange Act of 1934 (15 U.S.C. 78o) in connection with its activities as such a broker or dealer, including:

(i) the offer or sale of any security or securities registered under the Securities Act of 1933 (15 U.S.C. 77) or exempt from such registration by Rule 156 of the Securities and Exchange Commission (17 CFR 230.156) issued by (a) such insurance company, or (b) an investment company registered pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8) for which the insurance company is an underwriter, investment advisor or dealer; and

(ii) those activities which are not part of the conventional lending activities of such life insurance companies and which, in accordance with the ordinary usage of the trade, would be considered part of the business of a broker or dealer.