

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-1
January 4, 1974

AMENDMENT TO REGULATION T
(Credit in Connection with Investment Contracts)

To All Banks, Brokers/Dealers and Others Concerned
in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System announced on December 14, 1973, that its Regulation T, "Credit By Brokers and Dealers", was being amended to withdraw permission for brokers or dealers to sell certain kinds of investment contract securities on credit.

The amendment was published for comment on July 5, 1973, inviting comment through August 10, 1973. The period for comment was thereafter extended through September 25, 1973.

Please refer to the attached press release for further details.

A copy of the amendment, to become effective June 21, 1974, is attached for insertion in your regulations binder.

Yours very truly,

P. E. Coldwell,

President

Enclosures



FEDERAL RESERVE

press release

For Immediate Release

December 14, 1973

The Board of Governors of the Federal Reserve System today announced an amendment to its Regulation T -- extension of credit on securities by brokers or dealers -- withdrawing permission for brokers or dealers to sell certain kinds of investment contract securities on credit.

The amendment, to become effective June 21, 1974, would provide uniform treatment of every security, for credit purposes, as an indivisible whole. The amendment was published for comment July 5, 1973.

The amendment relates to, but is not limited to, the arrangement for credit by securities brokers or dealers in the sale of investment contract securities such as a program to own and feed cattle, or to own and rent, through a related rental arrangement, a condominium unit. In general, it is the combination, in one package, of both property ownership and provision for services such as cattle feeding or rental management, that makes the product a "security" subject to securities credit regulation.

The Board has held that, in most cases, securities brokers and dealers are not permitted, under Regulation T, to arrange credit for the sale of such investment contract securities, but it had made an exception where the property sale and the management contract were separate items and the credit involved is connected only with the property.

The amendment negates that exception, and makes the extension of credit on any part of such an investment an extension of credit on the whole. This makes it impermissible for securities brokers and dealers to arrange for such credit unless collateral is supplied meeting the requirements of the Regulation. Others may continue to sell such investment programs on credit.

A copy of the Board's rule in this matter is attached.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CREDIT BY BROKERS AND DEALERS

AMENDMENT TO REGULATION T†

Effective June 21, 1974, Section 220.6 is amended by adding the following paragraph:

SECTION 220.6 — CERTAIN TECHNICAL
DETAILS

* * * * *

(1) **Credit related to Portion of a Security.** Credit for the purpose of purchasing or carrying any part of an investment contract security (for example, but not limited to, the cattle ownership portion of a program to own and feed cattle, or the condominium ownership part of a program to own and rent a unit through a rental pool or otherwise) shall be deemed to be credit on the entire security.

† For this Regulation to be complete as amended December 14, 1973, retain:

- 1) Printed pamphlet containing Regulations G, T, U, and X dated November 1971.
- 2) Amendment effective May 15, 1972, Section 220.2, Definitions.
- 3) Amendment effective September 5, 1972, Section 220.4(k), Special Accounts.
- 4) Amendment effective September 18, 1972, Section 220.3(a), (b)(1), (d)(3) and (g), General Accounts, and Section 220.4(j)(4) and (5), Special Accounts.
- 5) Amendment effective October 16, 1972, Section 220.4(g), Special Accounts.
- 6) Amendment effective January 2, 1973, Section 220.4(c)(8).
- 7) Supplement effective May 23, 1973.
- 8) Amendment effective May 23, 1973.
- 9) This slip sheet.