

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-347
December 20, 1974

NOTICE POSTPONING EFFECTIVE DATE OF 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 on December 18, 1974 postponed until March 3, 1975, the effective date of a regulatory amendment that will withdraw permission for brokers or dealers to sell certain kinds of investment contract securities on credit.

The action was taken to provide time for the Securities and Exchange Commission to complete action to amend its regulations governing the same type of securities.

The Board's amendment, which was to become effective January 2, 1975, was first announced on December 14, 1973 and provides uniform treatment of every security, making an extension of credit on any part of a covered investment contract an extension of credit on the entire contract. The amendment relates primarily to the arrangement of credit by brokers or dealers in the sale of investment contract securities such as a program to own and rent a condominium unit or to own and feed cattle.

The Board has held that securities brokers and dealers generally are not permitted 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 was connected only with the property.

The amendment removes that exception, and makes the extension of credit on any part of such an investment an extension of credit on the whole. This prevents securities brokers and dealers from arranging for such credit unless collateral is supplied meeting regulatory requirements. Others may continue to sell such investment programs on credit.

The attached amendment to Section 220.6 replaces the amendment dated January 2, 1975, which was mailed to you under our Circular No. 74-159 dated June 13, 1974.

Yours very truly,

Ernest T. Baughman

President

Attachment

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CREDIT BY BROKERS AND DEALERS

AMENDMENT TO REGULATION T†

Effective March 3, 1975, 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 retain the following:

- 1) Printed pamphlet containing Regulations G, T, U, and X dated November 1971.
- 2) Amendments effective: (one sheet)
 - May 15, 1972, Section 220.2(e)
 - September 5, 1972, Section 220.4(k)
 - September 18, 1972, Section 220.3(a), (b)(1), (d)(3), and (g)
 - September 18, 1972, Section 220.4(j)
 - September 18, 1972, Section 220.8(g) and Section 220.2(e)
 - October 16, 1972, Section 220.4(g)
 - January 2, 1973, Section 220.4(c)(8)
 - May 23, 1973, Section 220.3(b)(2) and Section 220.3(d)(5)
- 3) Amendment effective July 25, 1974, Section 220.2(e)
- 4) Supplement effective July 25, 1974, Section 220.8
- 5) Supplement effective November 5, 1974, Section 220.8
- 6) This slip sheet.