

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6925
April 4, 1972

INTERPRETATION OF REGULATION T

*To All Brokers and Dealers, and Members of National Securities Exchanges,
in the Second Federal Reserve District:*

Printed below is the text of an interpretation of Regulation T, "Credit by Brokers and Dealers," adopted March 28 by the Board of Governors of the Federal Reserve System, relating to credit on shares of mutual funds having portfolios of exempted securities.

Additional copies of this circular will be furnished upon request.

Alfred Hayes,
President.

(Reg. T)

PART 220 – CREDIT BY BROKERS AND DEALERS
Credit on Mutual Fund Shares

§220.125 Extending, maintaining or arranging credit on mutual fund shares having portfolios of exempted securities.

(a) The Board of Governors has been asked whether a broker or dealer may extend, maintain, or arrange for credit in a special bond account subject to §220.4(i) on collateral consisting of shares of registered open-end investment companies whose portfolios are made up entirely or in part of exempted securities.

(b) The term "exempted securities" is defined in section 3(a)(12) of the Securities Exchange Act of 1934 (15 U.S.C. §78c(a)(12)) and generally includes federal, state, and municipal securities. Such securities are eligible as collateral for extensions of credit in §220.4(i) and are entitled to good faith loan value in an account carried pursuant to that section, under §220.8(b).

(c) Part 220 (Regulation T) provides that brokers and dealers may not extend, maintain,

or arrange for credit to purchase any securities unless the collateral for such credit consists of exempted securities or securities that are registered on a national securities exchange or appear on the Board's OTC Margin List. Shares in registered open-end investment companies are not "exempted" securities, irrespective of the composition of the portfolio of the company, nor are they registered on national securities exchanges, or included on the OTC Margin List. Accordingly, such shares do not have loan value for purposes of Part 220, nor may brokers or dealers extend credit against such shares to purchase or carry any securities under §220.4(i) of such part.

(d) The above-stated opinion is in conformity with the Board's views expressed previously in its interpretations announced in 1952 Bulletin 1105 (12 CFR 220.109) and 1955 Bulletin 267 (12 CFR 220.112) to the effect that brokers or dealers are prohibited from arranging credit to purchase unlisted shares issued by open-end investment companies.

(Interprets and applies 15 U.S.C. 78g).