

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7188 ]  
July 18, 1973

PROPOSED AMENDMENT TO REGULATION T

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

Following is the text of a statement issued July 5 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today a proposed amendment to its Regulation T—extension of credit on securities by brokers or dealers—that would withdraw permission for brokers or dealers to sell certain kinds of investment contracts on credit.

The programs in question involve sales of property together with a separate management contract. Examples include sales of shares in cattle herds, citrus groves and a type of resort condominium where the purchaser buys a hotel room but agrees to rent it for part of each year, through centralized management. Both the property purchase and the management services may involve credit in these arrangements. The Board has held that, in most cases, where the credit feature of such sales is an integral part of a “program” of investment, broker/dealers may not arrange such credit under Regulation T. However, the Board has previously interpreted its rule as not applying where a property sale and the management contract were separate items, and any credit involved is connected with the property and not with the contract.

The proposed amendment, if adopted, would have the effect of negating that interpretation, and would provide that credit extended on any part of such a program would be deemed to have been extended on the whole program. This would make it impermissible for securities brokers or dealers to arrange such credit, although issuers of the investment program who are not brokers or dealers could continue to sell the programs on credit.

The Board invited comment, to be sent to the Secretary of the Board, up to August 10, 1973.

Printed below is the text of the proposed amendment to Regulation T. Comments thereon should be submitted by August 10, and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,  
*President.*

(Reg. T)

CREDIT BY BROKERS AND DEALERS

Credit in Connection with Investment Contracts

Pursuant to authority of section 7 of the Securities Exchange Act of 1934 (15 U.S.C. 78g) notice is hereby given that the Board of Governors proposes to add paragraph (1) to §220.6 of Regulation T, “Credit by Brokers and Dealers” (12 CFR 220.6) to provide that credit extended on any part of an investment contract will be deemed to be extended on the whole security. The proposed new paragraph is set forth below:

SECTION 220.6—CERTAIN TECHNICAL  
DETAILS

\* \* \*

(1) **Investment contract securities.** Credit for the purpose of purchasing or carrying any part of an investment contract security (for example, 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) shall be deemed to be credit on the entire security.

The purpose of the proposed amendment is to negate previous Board interpretations which stated that broker/dealers would not be deemed to be arranging credit which they could not extend, as prohibited by §220.7(a)

of this Part, when they sold investment contracts which included credit extended solely on the real estate or chattel part of the contract.

If adopted, this amendment will provide uniform treatment, for credit purposes, of every security as an indivisible whole in a manner consistent with that followed by the Securities and Exchange Commission in its area of regulation.

Interested persons are invited to submit relevant data, views, or arguments concerning this proposal. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than August 10, 1973. Such material will be made available for inspection and copying upon request, except as provided in §261.6(a) of the Board’s Rules Regarding Availability of Information.

This notice is published pursuant to section 553(b) of Title 5, United States Code, and §262.2(a) of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2(a)).

By order of the Board of Governors, July 3, 1973.