

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7229 ]  
[ September 11, 1973 ]

CREDIT IN CONNECTION WITH INVESTMENT CONTRACTS

Extension of Time for Comment on 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 September 10 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today granted requests for additional time for comment on a proposed amendment of the Board's 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 investment programs in question involve sales of property together with a separate management contract. Examples include sales of 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.

The Board announced the proposed amendment to Regulation T on July 5, inviting comment through August 10. Extension of the period of comment was requested in a number of cases, particularly because the matter is also under consideration by the Securities and Exchange Commission.

The Board has therefore extended the period for comment through September 25, 1973.

For your convenience, the text of the proposed amendment to Regulation T, as contained in our Circular No. 7188, dated July 18, 1973, is reprinted below. Comments thereon should be submitted by September 25 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

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(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.