

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7297]
[December 18, 1973]

CREDIT IN CONNECTION WITH INVESTMENT CONTRACTS

Amendment to Regulation T, Effective June 21, 1974

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 December 14 by the Board of Governors of the Federal Reserve System:

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.

In submitting the amendment for publication in the *Federal Register*, the Board of Governors made the following additional statement:

On page 18690 of the *Federal Register* of July 13, 1973, the Board of Governors proposed, pursuant to authority of Section 7 of the Securities Exchange Act of 1934 (15 U.S.C. 78g), to add paragraph (1) to §220.6 of Regulation T. Interested persons were given 28 days in which to submit written data, views, or arguments concerning the proposal. On page 26009 of the *Federal Register* of September 17, 1973, such time for comment was extended to September 25, 1973.

This amendment provides uniform treatment, for credit purposes, of every security as an indivisible whole.

This amendment negates 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), when they sold investment contracts which included credit extended solely on the real estate or chattel part of the contract. The Board has stated its view that a broker/dealer who sells certain programs including an installment feature is arranging for the extension of credit to purchase the programs (12 CFR §120.124 (1973)). That is, the broker/dealer is regarded as having "arranged" credit by the act of selling an investment contract security including a credit feature. Regulation T would not apply, of course, unless the subject of the sale were a security.

* * *

Enclosed is a copy of the amendment; additional copies will be furnished upon request.

ALFRED HAYES,
President.

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 a new paragraph (1) thereto, to read as follows:

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.

PRINTED IN NEW YORK