

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7406]
June 11, 1974

CREDIT IN CONNECTION WITH INVESTMENT CONTRACTS
Change in Effective Date of 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 June 7 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today postponed until January 2, 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 receive and review comments on a proposal, announced today, to amend its regulations governing the same types of securities.

The Board's amendment, which was to become effective June 21, 1974, was announced last December 14 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 had 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.

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

On page 34988 of the Federal Register of December 21, 1973, the Board of Governors announced the addition, pursuant to the authority of Section 7 of the Securities and Exchange Act of 1934 (15 U.S.C. 78g), of a new paragraph (1) to § 220.6 of Regulation T.

The effective date of the amendment was to be June 21, 1974.

The Securities and Exchange Commission has announced on June 7, 1974, proposed amendments to its regulations that would exempt from Section 7 of the Securities and Exchange Act of 1934 some of the investment contracts which would be affected by the addition of paragraph (1) to § 220.6 of Regulation T. In order to provide the Commission with adequate time for review of comments received on its proposal, the Board of Governors hereby announces that the effective date of paragraph (1) § 220.6 is postponed until January 2, 1975.

Enclosed is a copy of the revised 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 January 2, 1975, 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.

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