FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7754
November 18, 1975]

AMENDMENT TO REGULATION T

Arranging for Credit by a Broker or Dealer

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 November 13 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced it is amending its Regulation T—credit extended or arranged by brokers and dealers for securities transactions—to assist in the private placement of securities.

The amendment adopted, effective immediately, was substantially the same as that proposed for public comment last May 27.

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

On June 2, 1975, the Board of Governors published for comment in the *Federal Register* (40 F.R. 23768) a proposed amendment to section 220.7(a) of Regulation T which would relax the present rule that generally prohibits a broker or dealer from arranging credit unless it is the kind of credit a broker or dealer can extend.

The comments received were all favorable although many suggested enlarging the scope of the amendment. Some commentators suggested that the amendment be expanded to permit the arranging for credit extended in connection with securities sold pursuant to the "intra-State" exemption from registration contained in section 3(a)(11) of the Securities Act of 1933 (15 U.S.C. 77c(a)(11)). Such an expansion, however, would provide no relief for any person who acts as both a broker and a dealer in the distribution of a security because of the prohibitions of section 11(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78k(d)) and would otherwise appear to offer minimal benefit to brokers or dealers. Other suggested areas of expansion do not appear to the Board to be appropriate at this time.

Several commentators suggested changes in the language to ensure that the status of the security at the time credit for its purchase is arranged should be controlling rather than an historical or prospective status. The Board agrees, and the proposed amendment has been revised accordingly.

Other commentators asked that the Board clarify whether the amendment is intended to restrict allowable "arranging" only to those situations specified in the amendment and thereby forbids all others. In response to such comments the Board wishes to indicate that it regards the amendment as a relaxing one and an effort to provide certainty where possible in the determination of what arranging is permissible. Any situations not expressly within the provisions of section 220.7(a) are not prohibited provided they comply with standards set out in relevant judicial or administrative interpretations.

Enclosed is a copy of the amendment to Regulation T. Additional copies will be furnished upon request.

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

CREDIT BY BROKERS AND DEALERS

AMENDMENT TO REGULATION T

Effective November 13, 1975, subparagraph (a) of section 220.7 is amended to read as follows:

SECTION 220.7—MISCELLANOUS PROVISIONS

(a) **Arranging for loans by others.** A creditor may arrange for the extension or maintenance of credit to or for any customer of such creditor by any person upon the same terms and conditions as those upon which the creditor, under the provisions of this Part, may himself extend or maintain such credit to such customer, but only upon such terms and conditions, except that this limitation shall not apply to the arranging by a creditor:

(1) for a bank subject to Part 221 of this Chapter (Regulation U) to extend or maintain credit on margin securities or exempted securities, or

(2) for any person to extend or maintain credit for the purpose of purchasing or carrying a security (including sale of a security with instalment payments or other credit features) in a transaction which is exempt from the registration requirements of the Securities Act of 1933 by virtue of section 4(2) of that Act (15 U.S.C. 77d(2)) *Provided, That:*

(i) the credit to be extended or maintained will not violate the provisions of Parts 207 and 221 of this Chapter; and

(ii) the credit will not be used to purchase or carry a security that is publicly-held. For the purpose of this paragraph, a security shall be deemed to be "publicly-held" if it is (a) a security of a class that is registered, or will be required to be registered (assuming existing circumstances requiring registration continue to prevail) within 120 days after the last day of the fiscal year of the issuer, under section 12 of the Act or would be required to be registered except for the exemptions provided by paragraphs (2)(B) and (G) of subsection 12(g), or (b) a security of a class any portion of which was registered under section 5 of the Securities Act of 1933 (15 U.S.C. 77e) and in connection with which the issuer is required to file periodic reports under section 15(d) of the Act.

[Enc. Cir. No. 7754]

PRINTED IN NEW YORK