

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7645]
June 3, 1975

PROPOSED AMENDMENT TO MARGIN REGULATION T
Assistance by Brokers and Dealers in Private Placement of Securities

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

The Board of Governors of the Federal Reserve System has proposed an amendment to its Regulation T, "Credit by Brokers and Dealers," that would permit brokers and dealers to assist in the private placement of securities.

Printed below is the text of the proposal. Comments thereon should be submitted by June 30 and may be sent to our Bank Regulations Department.

ALFRED HAYES,
President.

(Reg. T)

CREDIT BY BROKERS AND DEALERS

Notice of Proposed Rulemaking

Notice is hereby given that the Board of Governors proposes to amend, pursuant to authority of sections 7 and 23 of the Securities Exchange Act of 1934 (15 U.S.C. 78g and w), paragraph (a) of §220.7 of Regulation T "Credit by Brokers and Dealers" (12 CFR 220) so that the limitations that ordinarily apply to the "arranging" of credit by a broker or dealer for a customer will not apply when the credit is extended or maintained through the medium of the private placement of a security and the credit also meets certain other tests. A broker or dealer when arranging credit for a customer is at present generally limited by §220.7(a) to those terms and conditions which he is allowed to give when extending or maintaining credit to that customer. The Board has had an increasing number of requests for advice as to whether a broker or dealer may arrange for credit in circumstances which do not appear contrary to the purposes of the Act although they may be contrary to the literal application of §220.7(a). This proposed amendment codifies earlier Board interpretations and sets forth certain circumstances under which a broker or dealer may arrange for credit which he cannot extend, but which the Board views as consistent with the purposes of the Act. This amendment is intended to cover two basic types of transactions in which a broker or dealer assists in privately placing securities. In one, the security privately-placed is a debt security and the proceeds are used to purchase stock which is not publicly-held. In the other,

the security privately-placed is an investment contract with built-in instalment or other credit features.

The proposed amended paragraph is set forth below:

SECTION 220.7—MISCELLANEOUS
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 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 extended or maintained will not vi-

(OVER)

olate the provisions of Parts 207 or 221 of this Chapter ;
and

(ii) the credit will not be used to purchase or carry a security that is publicly-held, or, in the case of the refinancing of an existing debt, will not be used to carry a security that was publicly-held at any time during the past two years. For the purpose of this paragraph, a security shall be deemed to be "publicly-held" if it is either (a) a security of a class that is registered, or is required to be registered at the close of the current 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.

To aid in consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments concerning the proposed amendment. 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 June 30, 1975. 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 (12 CFR 261.6(a)).