

MEMO# 7511

December 22, 1995

PROPOSED AMENDMENTS TO REGULATION U

1 See Memorandum to SEC Rules Committee No. 78-95, dated June 29, 1995. December 22, 1995 TO: SEC RULES COMMITTEE No. 132-95 RE: PROPOSED AMENDMENTS TO REGULATION U

The Federal Reserve Board recently issued a proposal to amend Regulation U, "Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks." Certain of the proposed amendments would conform Regulation U to changes recently proposed for Regulation T (which governs extensions of credit by brokers and dealers). One such change concerns the loan value of securities issued by a money market fund.¹ A copy of the proposal is attached. Regulation U currently provides that where a bank makes a loan that is secured by margin stock, the maximum loan value of such stock is 50 percent of its market value. The definition of "margin stock" includes (with certain exceptions) securities issued by a registered investment company. Under the proposal, the definition of margin stock would be amended to exclude securities issued by a registered investment company if it is "a money market fund in compliance with all applicable requirements of SEC Rule 2a-7." As a result, the maximum loan value of such securities would be their "good faith loan value" (typically, greater than 50 percent of market value). The proposal also would add to Regulation U the definition of "cash equivalent" in the proposed amendments to Regulation T. That definition includes, among other things, securities issued by money market funds. Comments on the proposal must be filed by February 15, 1996. If there are any issues you would like the Institute to consider addressing in a comment letter, please contact me at (202) 326-5822 by Friday, January 19. Frances M. Stadler Associate Counsel Attachment

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