INVESTMENT COMPANY INSTITUTE

MEMO# 7867

May 15, 1996

POSSIBLE COMMENTS ON PROPOSED AMENDMENTS TO REGULATION T

1 See Memorandum to Closed-End Fund Members No. 10-96, SEC Rules Members No. 24-96 and Unit Investment Trust Members No. 14-96, dated May 13, 1996. 2 Some non-equity securities already are eligible for "good faith" loan value under Regulation T. In addition to "exempted securities" (which encompass government and municipal securities, among other things), these include debt securities listed on a U.S. securities exchange, investment grade debt securities and debt securities rated less than investment grade that are registered with the SEC and have an original principal amount of not less than $25 million. May 15, 1996 TO: CLOSED-END FUND COMMITTEE No. 14-96 SEC RULES COMMITTEE No. 41-96 UNIT INVESTMENT TRUST COMMITTEE No. 23-96 RE: POSSIBLE COMMENTS ON PROPOSED AMENDMENTS TO REGULATION T ____ The Federal Reserve Board recently adopted amendments to Regulation T, which governs extensions of credit by brokers and dealers. Among other things, the amendments increase the amount of credit that a broker or dealer may extend to customers holding securities issued by certain registered investment companies.1 Specifically, as the Institute had recommended in a 1992 submission to the Board, the amendments allow brokers and dealers to give "good faith" loan value to securities issued by an "exempted securities mutual fund" (defined as any registered investment company that has at least 95% of its assets continuously invested in "exempted securities," as defined in Section 3(a)(12) of the Securities Exchange Act of 1934). Previously, while "exempted securities" were eligible for "good faith" loan value, all investment company securities were treated as "margin equity securities," with a loan value of the greater of 50% of their market value or the amount set by the regulatory authority where the trade occurred. The recent amendments thus eliminated a disparity that had existed between the amount that a customer owning "exempted securities" could borrow from a broker or dealer and the amount that a customer owning an interest in a pool of the same securities (i.e., an investment company) could borrow. At the same time as it adopted the recent amendments to Regulation T, the Board proposed additional amendments to Regulations T, U (extensions of credit by banks) and G (extensions of credit by lenders other than banks and broker-dealers). A copy of the proposing release is attached. One of the proposed amendments to Regulation T would provide that all non-equity securities are eligible for "good faith" loan value.2 This proposal could present an opportunity for the Institute to recommend that securities issued by a registered investment company that has at least 95% of its assets continuously invested in any type(s) of non-equity securities (i.e., not just exempted securities) also should receive "good faith" loan value. Comments on the proposed amendments must be filed by July 1, 1996. If you would like the Institute to consider making a recommendation along the lines noted above, please call me at (202) 326-5822 by Wednesday, May 29th. Frances M.

Stadler Associate Counsel Attachment