

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 70-111
May 11, 1970

NEW MARGIN REQUIREMENTS (REGULATIONS G, T AND U)
ARBITRAGE AMENDMENTS (REGULATIONS T AND U)

To All Banks, Broker/Dealers, Regulation G Registrants and
Others Concerned in the Eleventh Federal Reserve District:

On May 6, we distributed Circular 70-108 advising of the reduction of the Federal Reserve margin requirements under Regulations G, T and U. The margin requirement for stock is now 65 percent, and for convertible securities 50 percent. The retention requirement for undermargined accounts remains 70 percent. Printed copies of the new supplements to Regulations G, T and U, effective May 6, 1970, are enclosed.

In a separate action, the Board of Governors of the Federal Reserve System, on May 1, amended the arbitration provisions of Regulations T (Credit by Brokers and Dealers) and U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks). The Board's press release on this action reads in part:

"Transactions in a special arbitration account are exempt from margin requirements. One condition for the exemption is that the security purchased must be exchangeable or convertible within 90 days into the security sold in creating the arbitration. The amendment permits a 180-day exchange or conversion period when the security purchased is solely a due bill or other evidence of the right to receive the security that is sold, and the security sold is trading as a when-issued security."

Copies of these amendments are also enclosed.

For your convenience, you will find on the reverse a list of the items which should be included in current versions of Regulations G, T and U. The Regulations Department of this Bank will be pleased to supply any items necessary to bring your copies up to date.

Yours very truly,

P. E. Coldwell
President

Enclosures (5)

CURRENT VERSIONS OF REGULATIONS G, T AND U

Current versions of Regulations G, T, and U should now consist of the following items:

Regulation G

Pamphlet	Effective July 8, 1969
Supplement	Effective May 6, 1970
Amendment to section 207.4	Effective August 13, 1969

Regulation T

Pamphlet	Effective July 8, 1969
Supplement	Effective May 6, 1970
Amendment to section 220.4	Effective May 1, 1970
Amendment to section 220.7	Effective May 15, 1970

Regulation U

Pamphlet	Effective July 8, 1969
Supplement	Effective May 6, 1970
Amendment to section 221.3	Effective August 13, 1969
Amendment to section 221.2	Effective May 1, 1970

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

**CREDIT BY BANKS FOR THE PURPOSE
OF PURCHASING OR CARRYING MARGIN STOCKS**

AMENDMENT TO REGULATION U

Effective May 1, 1970, paragraph (j) of section 221.2 is amended to read as follows:

(j) Any credit extended to a member of a national securities exchange for the purpose of financing his or his customers' *bona fide* arbitrage transactions in securities. For the purposes of this paragraph, the term "arbitrage" means (1) a purchase or sale of a security in one market together with an offsetting sale or purchase of the same security in a different market at as nearly the same time as practicable, for the purpose of taking advantage of a difference in prices in the

two markets, or (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days following the date of its purchase into a second security together with an offsetting sale at or about the same time of such second security, for the purpose of taking advantage of a disparity in the prices of the two securities, except that when the security purchased is solely a due bill for, or other evidence of the right to receive, only the security that is sold, and the security that is sold is trading as a when-issued security, such period shall be 180 calendar days; and

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CREDIT BY BROKERS AND DEALERS

AMENDMENT TO REGULATION T

Effective May 1, 1970, paragraph (d) of section 220.4 is amended to read as follows:

(d) Special arbitrage account. In a special arbitrage account, a member of a national securities exchange may effect and finance for any customer *bona fide* arbitrage transactions in securities. For the purpose of this paragraph, the term "arbitrage" means (1) a purchase or sale of a security in one market together with an offsetting sale or purchase of the same security in a different market at as nearly the same time as practicable, for the purpose of taking advantage of a difference in

prices in the two markets, or (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days following the date of its purchase into a second security together with an offsetting sale at or about the same time of such second security for the purpose of taking advantage of a disparity in the prices of the two securities, except that when the security purchased is solely a due bill for, or other evidence of the right to receive, only the security that is sold, and the security that is sold is trading as a when-issued security, such period shall be 180 calendar days.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION G

Effective May 6, 1970

SECTION 207.5—SUPPLEMENT

(a) **Maximum loan value of margin securities.** For the purpose of § 207.1, the maximum loan value of any margin security, except convertible securities subject to § 207.1(d), shall be 35 per cent of its current market value, as determined by any reasonable method.

(b) **Maximum loan value of convertible debt securities subject to § 207.1(d).** For the purpose of § 207.1, the maximum loan value of any security against which credit is extended pursuant to § 207.1(d) shall be 50 per cent of its current market value, as determined by any reasonable method.

(c) **Retention requirement.** For the purpose of § 207.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the "retention requirement" of a margin security and of a security against which credit is extended pursuant to § 207.1(d) shall be 70 per cent of its current market value, as determined by any reasonable method.

(d) **Requirements for inclusion on list of OTC margin stock.** Except as provided in subparagraph (4) of § 207.2(f), such stock shall meet the requirements that:

(1) The stock is subject to registration under § 12(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g)(1)), or if issued by an insurance company subject to § 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) the issuer had at least \$1 million of capital and surplus,

(2) Five or more dealers stand willing to, and do in fact, make a market in such stock including making regularly published *bona fide* bids and

offers for such stock for their own accounts, or the stock is registered on a securities exchange that is exempted by the Securities and Exchange Commission from registration as a national securities exchange pursuant to section 5 of the Securities and Exchange Act of 1934 (15 U.S.C. 78e),

(3) There are 1,500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(4) The issuer is organized under the laws of the United States or a State⁹ and it, or a predecessor in interest, has been in existence for at least 3 years,

(5) The stock has been publicly traded for at least 6 months, and

(6) Daily quotations for both bid and asked prices for the stock are continuously available to the general public; and shall meet 3 of the 4 additional requirements that:

(7) There are 500,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(8) The shares described in subparagraph (7) of this paragraph have a market value in the aggregate of at least \$10 million,

(9) The minimum average bid price of such stock, as determined by the Board in the latest month, is at least \$10 per share, and

(10) The issuer had at least \$5 million of capital, surplus, and undivided profits.

⁹ As defined in 15 U.S.C. 78c(a)(16).

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION T

Effective May 6, 1970

SECTION 220.8—SUPPLEMENT

(a) **Maximum loan value for general accounts.** The maximum loan value of securities in a general account subject to § 220.3 shall be:

(1) of a registered non-equity security held in the account on March 11, 1968, and continuously thereafter, and of a margin equity security (except as provided in § 220.3(c) and paragraphs (b) and (c) of this section), 35 per cent of the current market value of such securities.

(2) of an exempted security held in the account on March 11, 1968, and continuously thereafter, the maximum loan value of the security as determined by the creditor in good faith.

(b) **Maximum loan value for a special bond account.** The maximum loan value of an exempted security and of a registered non-equity security pursuant to § 220.4(i) shall be the maximum loan value of the security as determined by the creditor in good faith.

(c) **Maximum loan value for special convertible debt security account.** The maximum loan value of a margin security eligible for a special convertible security account pursuant to § 220.4(j) shall be 50 per cent of the current market value of the security.

(d) **Margin required for short sales.** The amount to be included in the adjusted debit balance of a general account, pursuant to § 220.3(d)(3), as margin required for short sales of securities (other than exempted securities) shall be 65 per cent of the current market value of each security.

(e) **Retention requirement.** In the case of an account which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, pursuant to § 220.3(b)(2):

(1) The "retention requirement" of an exempted security held in the general account on March 11, 1968, and continuously thereafter, shall be equal to its maximum loan value as determined by the creditor in good faith, and the "retention requirement" of a registered non-equity security held in such account on March 11, 1968, and continuously thereafter, and of a margin security, shall be 70 per cent of the current market value of the security.

(2) In the case of a special bond account subject to § 220.4(i), the retention requirement of an exempted security and of a registered non-equity security shall be equal to the maximum loan value of the security.

(3) In the case of a special convertible security account subject to § 220.4(j) which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, the retention requirement of a security having loan value in the account shall be 70 per cent of the current market value of the security.

(4) For the purpose of effecting a transfer from a general account to a special convertible security account subject to § 220.4(j), the retention requirement of a security described in § 220.4(j), shall be 70 per cent of its current market value.

(f) **Security having no loan value in general account.** No securities other than an exempted security or registered non-equity security held in the account on March 11, 1968, and continuously thereafter, and a margin security, shall have any loan value in a general account except that a margin security eligible for the special convertible security account pursuant to § 220.4(j) shall have loan value only if held in the account on March 11, 1968, and continuously thereafter.

(g) **Requirements for inclusion on list of OTC margin stock.** Except as provided in subparagraph (4) of § 220.2(e), OTC margin stock shall meet the requirements that:

(1) The stock is subject to registration under § 12(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g)(1)), or if issued by an insurance company subject to § 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)), the issuer had at least \$1 million of capital and surplus,

(2) Five or more dealers stand willing to, and do in fact, make a market in such stock including making regularly published *bona fide* bids and offers for such stock for their own accounts, or the stock is registered on a securities exchange that is exempted by the Securities and Exchange Commission from registration as a national securities ex-

change pursuant to section 5 of the Act (15 U.S.C. 78e),

(3) There are 1,500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(4) The issuer is organized under the laws of the United States or a State⁶ and it, or a predecessor in interest, has been in existence for at least 3 years,

(5) The stock has been publicly traded for at least 6 months, and

(6) Daily quotations for both bid and asked prices for the stocks are continuously available to the general public;

⁶ As defined in 15 U.S.C. 78c(a)(16).

and shall meet 3 of the 4 additional requirements that:

(7) There are 500,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(8) The shares described in subparagraph (7) of this paragraph have a market value in the aggregate of at least \$10 million,

(9) The minimum average bid price of such stock, as determined by the Board in the latest month, is at least \$10 per share, and

(10) The issuer had at least \$5 million of capital, surplus, and undivided profits.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION U

Effective May 6, 1970

SECTION 221.4 — SUPPLEMENT

(a) **Maximum loan value of stocks.** For the purpose of § 221.1, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 35 per cent of its current market value, as determined by any reasonable method.

(b) **Maximum loan value of convertible debt securities subject to § 221.3(t).** For the purpose of § 221.3(t), the maximum loan value of any security against which credit is extended pursuant to § 221.3(t) shall be 50 per cent of its current market value, as determined by any reasonable method.

(c) **Retention requirement.** For the purpose of § 221.1, in the case of a credit which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the "retention requirement" of a stock, whether or not registered on a national securities exchange, and of a convertible debt security subject to § 221.3(t), shall be 70 per cent of its current market value, as determined by any reasonable method.

(d) **Requirement for inclusion on list of OTC margin stock.** Except as provided in subparagraph (4) of § 221.3(d), OTC margin stock shall meet the requirements that:

(1) The stock is subject to registration under § 12(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g)(1)), or if issued by an insurance company subject to § 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) the issuer had at least \$1 million of capital and surplus,

(2) Five or more dealers stand willing to, and do in fact, make a market in such stock including making regularly published *bona fide* bids and

offers for such stock for their own accounts, or the stock is registered on a securities exchange that is exempted by the Securities and Exchange Commission from registration as a national securities exchange pursuant to section 5 of the Act (15 U.S.C. 78e),

(3) There are 1,500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(4) The issuer is organized under the laws of the United States or a State⁹ and it, or a predecessor in interest, has been in existence for at least 3 years.

(5) The stock has been publicly traded for at least 6 months, and

(6) Daily quotations for both bid and asked prices for the stock are continuously available to the general public; and shall meet 3 of the 4 additional requirements that:

(7) There are 500,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(8) The shares described in subparagraph (7) of this paragraph have a market value in the aggregate of at least \$10 million,

(9) The minimum average bid price of such stock, as determined by the Board in the latest month, is at least \$10 per share, and

(10) The issuer had at least \$5 million of capital, surplus, and undivided profits.

⁹ As defined in 15 U.S.C. 78c(a)(16).