

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 72-43
February 29, 1972

SECURITIES CREDIT TRANSACTIONS (OTC Margin Stocks Criteria)

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

The Board of Governors of the Federal Reserve System proposed criteria that over-the-counter (OTC) stocks must continue to meet in order to remain on the List of OTC Margin Stocks.

The criteria employed in selecting OTC stocks for inclusion on the List of OTC Margin Stocks were announced on July 9, 1969. The 440 stocks now on the list are subject to the Board's margin regulations.

Adoption of the proposal would mean that OTC margin stocks failing substantially to meet the criteria would be removed from the list and would no longer be subject to margin regulations. The proposed delisting criteria are less restrictive than the initial listing criteria.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relative data, views, or arguments. 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 March 24, 1972.

Attached is a copy of the proposed criteria.

Yours very truly,

P. E. Coldwell,

President

Attachment

FEDERAL RESERVE SYSTEM

[12 CFR PARTS 207, 220, and 221]

[Regs. G, T, and U]

SECURITIES CREDIT TRANSACTIONS

Requirements for Continued Inclusion on
List of OTC Margin Stocks

The Board of Governors proposes to amend Parts 207, 220, and 221 in order to implement the requirements for a stock's continued inclusion on the List of OTC Margin Stocks as follows:

1a. Section 207.2(f)(3) of Part 207, Securities Credit by Persons other than Banks, Brokers or Dealers, would be amended as set forth below:

§ 207.2 Definitions

* * * * *

(f) OTC margin stock. * * *

(3) The Board shall from time to time remove from the list described in subparagraph (2) of this paragraph (f) stocks that cease to:

(i) Exist or of which the issuer ceases to exist, or

(ii) Meet substantially the provisions of subparagraph (1) of this paragraph (f) and § 207.5(e) (the Supplement to Regulation G).

b. Paragraph (e) of section 207.5 would be added as set forth below:

§ 207.5 Supplement

* * * * *

(e) Requirements for continued 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 continues to be subject to registration under section 12(g)(1) of the Securities Exchange Act of 1934,

(2) Four 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 continue to be 1,000 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 continues to be a U.S. Corporation,

(5) 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:

(6) 400,000 or more shares of such stock remain outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value in the aggregate of at least \$5 million,

(8) The minimum average bid price of such stock, as determined by the Board, is at least \$5 per share, and

(9) The issuer continues to have at least \$2.5 million of capital, surplus, and undivided profits.

2a. Section 220.2(e)(3) of Part 220, Credit by Brokers and Dealers, would be amended as set forth below:

§ 220.2 Definitions

* * * * *

(e) OTC margin stock. * * *

(3) The Board shall from time to time remove from the list described in subparagraph (2) of this paragraph (e) stocks that cease to:

(i) Exist or of which the issuer ceases to exist, or

(ii) Meet substantially the provisions of subparagraph (1) of this paragraph (e) and of § 220.8(h) (the Supplement to Regulation T).

b. Paragraph (h) of section 220.8 would be added as set forth below:

§ 220.8 Supplement

* * * * *

(h) Requirements for continued 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 remains subject to registration under section 12(g)(1) of the Securities Exchange Act of 1934,

(2) Four 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 continue to be 1,000 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 continues to be a U.S. Corporation,

(5) 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:

(6) 400,000 or more shares of such stock remain outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value in the aggregate of at least \$5 million,

(8) The minimum average bid price of such stock, as determined by the Board, is at least \$5 per share, and

(9) The issuer continues to have at least \$2.5 million of capital, surplus, and undivided profits.

3a. Section 221.3(d)(3) of Part 221, Credit by Banks for the Purpose of Purchasing or Carrying Margin Stock set forth below:

§ 221.3 Miscellaneous Provisions

* * * * *

(d) OTC margin stock. * * *

(3) The Board shall from time to time remove from the list described in subparagraph (2) of this paragraph (d) stocks that cease to:

(i) Exist or of which the issuer ceases to exist, or

(ii) Meet substantially the provisions of subparagraph (1) of this paragraph (d) and of § 221.4(e) (the Supplement to Regulation U).

b. Paragraph (e) of section 221.4 would be added as set forth below:

§ 221.4 Supplement

* * * * *

(e) Requirements for continued 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 remains subject to registration under section 12(g)(1) of the Securities Exchange Act of 1934,

(2) Four 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 continue to be 1,000 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 continues to be a U.S. Corporation,

(5) 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:

(6) 400,000 or more shares of such stock remain outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value in the aggregate of at least \$5 million,

(8) The minimum average bid price of such stock, as determined by the Board, is at least \$5 per share, and

(9) The issuer continues to have at least \$2.5 million of capital, surplus, and undivided profits.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. 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 March 24, 1972. 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.

By order of the Board of Governors, February 17, 1972.

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

[SEAL]