

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 72-88
May 11, 1972

AMENDMENTS TO REGULATIONS G, T, AND U
(OTC Margin Stock Delisting Criteria)
(Proposed Amendments Concerning Same-Day
Substitution Rule)

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

The Board of Governors of the Federal Reserve System issued, effective May 15, 1972, the 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 were announced on July 9, 1969. The delisting criteria are substantially the same as those previously forwarded to you under Circular No. 72-43, dated February 29, 1972.

The new criteria are represented in amendments to the supplements to Regulations G, T and U, which are reprinted in their entirety. Please note, however, that there are no changes in present maximum loan values or retention requirements.

In addition, the Board proposed on April 28, 1972, a technical change in the margin regulations designed to improve the quality of certain types of stock market credit. The proposed change would strengthen the equity position of low-margin accounts whenever offsetting sales and purchases of stock collateral are made on the same day. Comments on this matter should be submitted to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551 to be received not later than June 2, 1972. A copy of the proposal is enclosed.

A current version of the margin regulations consists of the pamphlet containing Regulations G, T, U and X, dated November, 1971, and the enclosed amendments and supplements to Regulations G, T and U, effective May 15, 1972.

Yours very truly,

P. E. Coldwell,

President

Enclosures

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

AMENDMENTS

REGULATION G

Effective May 15, 1972, paragraph (f) of section 207.2 is amended as follows:

SECTION 207.2 — DEFINITIONS

For the purpose of this part, unless the context otherwise requires:

* * * * *

(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).

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REGULATION T

Effective May 15, 1972, paragraph (e) of section 220.2 is amended as follows:

SECTION 207.2 — DEFINITIONS

For the purposes of this part, unless the context otherwise requires:

* * * * *

(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).

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REGULATION U

Effective May 15, 1972, paragraph (d) of section 221.3 is amended as follows:

SECTION 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).

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION G

Effective May 15, 1972*

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 45 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 § 5 of the Securities 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.

(e) **Requirements for continued inclusion on list of OTC margin stocks.**

(1) The stock continues to be 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 such issuer continues to be subject to § 12(g) (2) (G) (15

⁹ As defined in 15 U.S.C. 78c(a) (16).

*Effective date of addition of Paragraph (e). There have been no changes in maximum loan values or retention requirement since December 6, 1971.

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U.S.C. 78l(g) (2) (G)) and has at least \$1 million of capital and surplus.

(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 § 5 of the Securities 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.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION T

Effective May 15, 1972*

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), 45 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 55 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 nonequity 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 exchange pursuant to § 5 of the Act (15 U.S.C. 78e),

*Effective date of addition of Paragraph (h). There have been no changes in maximum loan values or retention requirement since December 6, 1971.

(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; 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.

(h) Requirements for continued inclusion on list of OTC margin stock.

(1) The stock continues to be 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 such issuer continues to be subject to § 12(g) (2) (G) (15 U.S.C. 78l(g) (2) (G)) and has at least \$1 million of capital and surplus.

(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 § 5 of the Securities 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.

⁶ As defined in 15 U.S.C. 78c(a) (16).

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION U

Effective May 15, 1972*

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 45 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) **Requirements 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 § 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.

(e) **Requirements for continued inclusion on list of OTC margin stock.**

(1) The stock continues to be 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 such issuer continues to be subject to § 12(g) (2) (G) (15 U.S.C. 78l(g) (2) (G)) and has at least \$1 million of capital and surplus.

(2) Four or more dealers stand willing to, and do in fact, make a market in such stock including

⁹ As defined in 15 U.S.C. 78c(a) (16).

*Effective date of addition of Paragraph (e). There have been no changes in maximum loan values or retention requirement since December 6, 1971.

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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 § 5 of the Securities 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.