

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-183
July 9, 1974

AMENDMENTS TO REGULATIONS G, T, AND U
(Changes in Listing Criteria for OTC Margin Stocks)

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

Following is the text of a statement issued June 24, 1974, by
the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System amended, effective July 25, 1974, the criteria that over-the-counter (OTC) stocks must meet and continue to meet to be included on its List of OTC Margin Stocks. The amendments adopted today are substantially the same as those which were published for comment on April 16, 1974.

The criteria employed in selecting OTC stocks for inclusion on the List of OTC Margin Stocks were announced on July 8, 1969. More than 600 stocks are now on the list and subject to the Board's margin requirements.

The Board's action, which makes the criteria somewhat less restrictive, reflects the many changes that have occurred in the OTC market since 1969, particularly the impact of the National Association of Securities Dealers Automated Quotation System (NASDAQ).

Enclosed are copies of the amendments and supplements to margin Regulations G, T, and U, effective July 25, 1974, which reflect the Board of Governors' action. Additional copies of the enclosures will be furnished upon request.

Yours very truly,

P. E. Coldwell,

President

Enclosures

Board of Governors of the Federal Reserve System

SECURITIES CREDIT TRANSACTIONS

AMENDMENTS TO REGULATIONS G, T, AND U

Effective July 25, 1974, subparagraph (4) of section 207.2(f) [Regulation G], of section 220.2(e) [Regulation T], and of section 221.3(d) [Regulation U], is amended to read as follows:

(4) The foregoing notwithstanding, the Board may omit or remove any stock that is not traded on a national securities exchange from or add any such stock to such list of OTC margin stocks, if in the judgment of the Board, such action is necessary or appropriate in the public interest.

Board of Governors of the Federal Reserve System
SUPPLEMENTS TO REGULATIONS G, T, AND U

SUPPLEMENT TO REGULATION G

Effective July 25, 1974

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) and any put, call or combination thereof, shall be 50 per cent of its current market value, as determined by any reasonable method. No put, call or combination thereof shall have any loan value for the purposes of this part.

(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 section 12(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g)(1)), is issued by an insurance company subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) that has at least \$1 million of capital and surplus, or is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

(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 Exchange Act of 1934 (15 U.S.C. 78e),

(3) There are 1,200 or more holders of record, as defined in SEC Rule 12g5-1 (17 C.F.R. § 240.12g5-1), 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,

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

(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; and shall meet two of the three additional requirements that:

(8) The shares described in subparagraph (7) of this paragraph have a market value of at least \$5 million,

(9) The minimum average bid price of such stock, as determined by the Board, 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.** 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 (15 U.S.C. 78l(g)(1)), or if issued by an insurance company such issuer continues to be subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) and to have at least \$1 million of capital and surplus, or if issued by a closed-end investment management company such issuer continues to be subject to registration pursuant to section 8

⁹ As defined in 15 U.S.C. 78c(a)(16).

of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

(2) Three 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 Exchange Act of 1934 (15 U.S.C. 78e),

(3) There continue to be 800 or more holders of record, as defined in SEC Rule 12g5-1 (17 C.F.R. § 240.12g5-1), 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

(6) There are 300,000 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; and shall meet two of the three additional requirements that:

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value of at least \$2.5 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.

(f) **Minimum equity ratio.** The minimum equity ratio of a credit subject to § 207.1 is 40 per cent.

SUPPLEMENT TO REGULATION T

Effective July 25, 1974

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), (c) and (f) of this section), 50 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 50 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) **Securities having no loan value in a 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 debt security account pursuant to § 220.4(j) shall have loan value only if held in the account on March 11, 1968, and continuously thereafter; and no put, call or combination thereof shall have loan value in a general account.

(g) **Account subject to section 8(g).** For purposes of the computation described in § 220.3(b)(1)(ii),

(1) The maximum loan value of a registered non-equity security held in the account on March 11, 1968, and continuously thereafter, and of a margin equity security shall be 60 per cent of the current market value of such security, and the maximum loan value of an exempted security held in the account on March 11, 1968, and continuously thereafter shall be the maximum loan value of the security as determined by the creditor in good faith.

(2) The amount to be included in the adjusted debit balance of the account pursuant to § 220.3(d)(3) as margin required for short sales of securities (other than exempted securities) shall be 40 per cent of the current market value of each security.

(h) **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 section 12(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g)(1)), is issued by an insurance company subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) that has at least \$1 million of capital and surplus, or is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

(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 Exchange Act of 1934 (15 U.S.C. 78e),

(3) There are 1,200 or more holders of record, as defined in SEC Rule 12g5-1 (17 C.F.R. § 240.12g5-1), 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,

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

(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; and shall meet two of the three additional requirements that:

(8) The shares described in subparagraph (7) of this paragraph have a market value of at least \$5 million,

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

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

(i) **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 continues to be subject to registration under section 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 section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) and to have at least \$1 million of capital and surplus, or if issued by a closed-end investment management company such issuer continues to be subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

(2) Three 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 Exchange Act of 1934 (15 U.S.C. 78e),

(3) There continue to be 800 or more holders of record, as defined in SEC Rule 12g5-1 (17 C.F.R. § 240.12g5-1), 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

⁶ As defined in 15 U.S.C. 78c(a)(16).

prices for the stock are continuously available to the general public, and

(6) There are 300,000 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; and shall meet two of the three additional requirements that:

(7) The shares described in subparagraph

(6) of this paragraph continue to have a market value of at least \$2.5 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.

SUPPLEMENT TO REGULATION U

Effective July 25, 1974

SECTION 221.4—SUPPLEMENT

(a) **Maximum loan value of stocks.** For the purpose of § 221.1, the maximum loan value of any stock except puts, calls and combinations thereof, whether or not registered on a national securities exchange, shall be 50 per cent of its current market value, as determined by any reasonable method. Puts, calls and combinations thereof shall have no loan value.

(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 section 12(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g)(1)), is issued by an insurance company subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) that has at least \$1 million of capital and surplus, or is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

(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 securi-

ties exchange that is exempted by the Securities and Exchange Commission from registration as a national securities exchange pursuant to section 5 of the Securities Exchange Act of 1934 (15 U.S.C. 78e),

(3) There are 1,200 or more holders of record, as defined in SEC Rule 12g5-1 (17 C.F.R. § 240.12g5-1), 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,

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

(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; and shall meet two of the three additional requirements that:

(8) The shares described in subparagraph (7) of this paragraph have a market value of at least \$5 million,

(9) The minimum average bid price of such stock, as determined by the Board, 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.** Except as provided in subparagraph (4) of § 221.3(d), OTC margin 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 (15 U.S.C. 78l(g)(1)), or if issued by an insurance company such issuer continues to be subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G))

⁹ As defined in 15 U.S.C. 78c(a)(16).

and to have at least \$1 million of capital and surplus, or if issued by a closed-end investment management company such issuer continues to be subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

(2) Three 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 Exchange Act of 1934 (15 U.S.C. 78e),

(3) There continue to be 800 or more holders of record, as defined in SEC Rule 12g5-1 (17 C.F.R. § 240.12g5-1), 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

(6) There are 300,000 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; and shall meet two of the three additional requirements that:

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value of at least \$2.5 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.

(f) **Minimum equity ratio.** The minimum equity ratio of a credit subject to § 221.1 is 40 per cent.