



American Revolution Bicentennial

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 76-109
August 3, 1976

REQUIREMENTS FOR INCLUSION AND CONTINUED INCLUSION ON THE LIST OF OTC MARGIN STOCKS

Regulations G, T, and U

TO ALL BANKS, BROKERS/DEALERS,
REGULATION G REGISTRANTS,
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has amended the requirements for a stock's inclusion and continued inclusion on the List of OTC Margin Stocks. The Board's action reflects changes that have occurred in the over-the-counter (OTC) market, particularly the increased competition among the securities markets and the impact of the National Association of Securities Dealers Automated Quotation System (NASDAQ).

The requirements for inclusion were amended as follows:

- (1) the number of required market-makers was reduced from 5 to 4;
- (2) the requirement for 1,200 or more holders of record need not be met for stocks with an average daily trading volume of at least 500 shares; and
- (3) the required average stock price was reduced from \$10 a share to \$5 a share.

The requirements for continued inclusion were amended as follows: (1) an alternative to the requirement for 800 or more holders of record would be an average daily volume of 300 shares; and (2) the required average stock price of \$5 a share was reduced to \$3 a share.

These proposals were sent to you with our Circular No. 76-41, dated March 23, 1976. All comments received on the proposals were favorable and the amendments were adopted without change.

Attached are copies of the amended supplements to Regulations G, T, and U, effective August 6, 1976. Any inquiries should be directed to our Regulations Department at (214) 651-6319 or 651-6325.

Additional copies of the supplements will be furnished upon request to the Secretary's Office of this Bank (214) 651-6267.

Sincerely yours,

T. W. Plant

First Vice President

Attachments

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION G

Effective August 6, 1976

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 percent 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 percent 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 percent of its current market value, as determined by any reasonable method.

(d) **Requirements for inclusion on List of OTC Margin Stocks.** 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) 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 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 CFR §240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 500 shares,

(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 percent 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 \$5 per share, and

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

(e) **Requirements for continued inclusion on List of OTC Margin Stocks.** 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

⁹As defined in 15 U.S.C. 78c(a)(16).

\$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 CFR §240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares,

(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 percent 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 \$3 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 30 percent. For the period November 5, 1974, through November 2, 1975, all same-day substitutions of collateral permitted by section 207.1(j)(2) for credits in which the equity ratio equals or exceeds the minimum equity ratio shall also be permitted for all credits in which the equity ratio is less than the minimum equity ratio.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION T

Effective August 6, 1976

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 percent 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 percent 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 percent 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 percent 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 percent 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 percent 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 70 percent 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 30 percent of the current market value of each security.

(3) For the period November, 5, 1974, through November 2, 1975, all transactions permitted by § 220.3(b)(1) and 220.3(g) for accounts not subject to section 8(g) shall also be permitted in accounts subject to section 8(g).

(h) Requirements for inclusion on List of OTC Margin Stocks. 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) 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 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 CFR §240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 500 shares,

(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 percent 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 \$5 per share, and

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

(i) Requirements for continued inclusion on List of OTC Margin Stocks. 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 CFR §240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares,

(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 percent 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 \$3 per share, and

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

⁹As defined in 15 U.S.C. 78c(a)(16).

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION U

Effective August 6, 1976

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 percent 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 percent 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 percent of its current market value, as determined by any reasonable method.

(d) **Requirements for inclusion on List of OTC Margin Stocks.** 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) 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 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 CFR §240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 500 shares,

(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 percent 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 \$5 per share, and

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

(e) **Requirements for continued inclusion on List of OTC Margin Stocks.** Except as provided in subparagraph (4) of §221.3(d), OTC margin stock shall meet the requirements that:

⁹As defined in 15 U.S.C. 78c(a)(16).

(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 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 CFR §240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares,

(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 percent 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 \$3 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 30 percent. For the period November 5, 1974, through November 2, 1975, all same-day transactions permitted by section 221.1(c) for credits in which the equity ratio is equal to or exceeds the minimum equity ratio shall also be permitted for those credits in which the equity ratio is less than the minimum equity ratio.