FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-78
June 13, 1978

AMENDMENTS TO REGULATIONS G, T, AND U

OTC Listing Requirements

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 its requirements for inclusion of stocks on the Board's List of Over-the-Counter (OTC) stocks that are subject to margin requirements.

The amendments to the supplements to Regulations G, T, and U will require that dealers must submit *bona fide* bids and offers for an OTC stock to an automated quotation system if they are to be counted as market-makers in that stock for the purpose of qualifying for the Board's List of OTC Margin Stocks. The minimum market-maker requirement for a stock to be included on the list under the present rule recognizes those dealers who make "regularly published *bona fide* bids and offers for such stock." When the list was first published by the Board in 1969, the "pink sheets" of the National Quotation Bureau were the only consistent source of the required price information. Since that time an automated quotation system of the National Association of Securities Dealers (NASDAQ) has been developed to a point where price information on all stocks on the Board's list can now be obtained from it. The Board is presently using data from both the "pink sheets" and NASDAQ for its surveys.

The amendments will eliminate the necessity of reviewing data from the "pink sheets," most of which is considered duplicative, and reduce staff review and computer time.

Certain language regarding securities listed on "exempt exchanges" is being removed from the regulations at this time as no longer necessary. The Securities and Exchange Commission has notified Board staff that the last of the "exempt exchanges," the Honolulu Stock Exchange, recently ceased operations.

The present rule permits registration of stocks on "exempt exchanges" as an alternative to meeting the market-maker requirement. The Board finds that it would serve no useful purpose to follow the requirements for notice and public participation prior to eliminating the language regarding securities listed on "exempt exchanges."

Member banks and others should file the enclosed copies of the supplements to Regulations G, T, and U in their Regulations Binders. Any questions may be directed to the Bank Supervision and Regulations Department, Consumer Affairs Section, at Ext. 6171 or 6181. Additional copies will be furnished upon request to the Secretary's Office of this Bank, Ext. 6267.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosures

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION G

Effective June 15, 1978

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. 78*l*(g)(1)), is issued by an insurance company subject to section 12(g)(2)(G) (15 U.S.C. 78*l*(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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts,

(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 State[9] 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:

[9]As 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. 78*l*(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. 78*l*(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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts,

(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 additonal 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 June 15, 1978

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 nonequity 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. 78*l*(g)(1)), is issued by an insurance company subject to section 12(g)(2)(G) 15 U.S.C. 78*l*(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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts.

(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 State[6] 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. 78*l*(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. 78*l*(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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts.

(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 continues 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.

(j) **Margin required for the writing of options.** The amount to be included in the adjusted debit balance of a general account, special bond account, or special convertible debt security account pursuant to paragraphs (d)(5) and (1) of section 220.3, as the margin required for the issuance, endorsement, or guarantee of any put or call shall be 30 percent of the current market value of the underlying security with an adjustment for any applicable increase or reduction.

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

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION U

Effective June 15, 1978

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. 78*l*(g) (1)), is issued by an insurance company subject to section 12(g) (2) (G) (15 U.S.C. 78*l*(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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts,

(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 State[9] 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:

(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. 78*l*(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. 78*l*(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 pur-

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

suant to section 8 of the Investment Compay 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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts,

(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.