

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 82-61
June 1, 1982

MARGIN REGULATIONS

Amendments

TO ALL MEMBER BANKS,
OTHER CREDITORS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has amended its margin regulations to include the following:

- (1) To broaden the types of collateral in Regulation T against which brokers and dealers may borrow and lend securities. This is effective May 17, 1982.
- (2) To change the criteria for inclusion on the Board's list of stocks traded over the counter. This is effective June 12, 1982.

Enclosed are copies of the press releases and Federal Register material for each set of amendments. Questions concerning the amendments should be directed to Dean A. Pankonien of this Bank's Legal Department, Ext. 6171.

Additional copies of this circular and enclosure may be obtained upon request to the Department of Communications, Financial and Community Affairs, Ext. 6289.

Sincerely yours,



William H. Wallace
First Vice President

Enclosure

FEDERAL RESERVE press release



For immediate release

May 13, 1982

The Federal Reserve Board has amended its Regulation T (extension of credit on securities by brokers and dealers) to broaden the types of collateral against which brokers and dealers may borrow and lend securities.

The revision would permit brokers and dealers to use as collateral letters of credit issued by Federally insured banks, United States government securities, certain bank certificates of deposit and bankers acceptances and letters of credit from foreign banks that have filed a specified agreement with the Board.

The Board acted after consideration of comment received on proposals published last November. The new authority becomes effective May 17, 1982. Until now, brokers and dealers have been able to borrow and lend securities only against cash collateral.

The Board's notice in this matter is attached.

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Attachment

FEDERAL RESERVE SYSTEM

Regulation T

(12 CFR Part 220)

[Docket No. R - 0370]

CREDIT BY BROKERS AND DEALERS

Deposit Required for Borrowing and Lending Securities

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: On November 10, 1981, the Board published for comment a proposal to amend section 220.6(h) Regulation T to permit brokers and dealers to borrow and lend securities against letters of credit issued by banks insured by the Federal Deposit Insurance Corporation and against U.S. government securities (46 Fed. Reg. 55533). The existing rule requires a deposit of cash.

The Board has adopted a modified version of its November 10, 1981 proposal. The amendment will permit, in addition to cash, the use of securities issued or guaranteed by the United States government or its agencies, certain letters of credit, bank CD's and bankers acceptances, as permissible collateral in stock lending and borrowing transactions. The amendment will also permit foreign banks to issue letters of credit in such transactions if they have filed with the Board agreements to comply with the same rules and regulations applicable to member banks in securities credit transactions.

EFFECTIVE DATE: May 17, 1982.

FOR FURTHER INFORMATION CONTACT: Laura Homer, Securities Credit Officer or Robert Lord, Attorney, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, Washington, D.C. (202) 452-2781.

SUPPLEMENTAL INFORMATION: The Board's November 10, 1981 proposal to amend section 220.6(h) of Regulation T would have expanded acceptable kinds of collateral in stock lending transactions to include letters of credit and U.S. government securities. Many commenters believed the Board's proposed limitation with respect to acceptable kinds of collateral was too restrictive. These commenters suggested that CD's, bankers acceptances, commercial

In order to give brokers and service bureaus time to adjust their programs to reflect changes in the OTC List, the Board will hereafter publish the OTC List two weeks in advance of its effective date. This change was suggested by many commenters.

The Board wishes to make clear that no existing OTC margin stock which ceases to meet new OTC List criteria will be immediately removed from the OTC List as a result of these amendments; the Board intends to "grandfather" such stocks for two years. Interested persons should also be aware that special consideration for inclusion on the List will be given to companies which voluntarily file an application to delist their securities from a national exchange and are trading in NASDAQ. Such a procedure will prevent any interruption in the marginability of certain securities.

EFFECTIVE DATE: June 12, 1982.

FOR FURTHER INFORMATION CONTACT: Jamie Lenoci, Financial Analyst, or Robert Lord, Attorney, Division of Banking Supervision and Regulation (202) 452-2781.

SUPPLEMENTARY INFORMATION: In July 1969, pursuant to the Over the Counter Market Act of 1968, (Pub. L. 90-437), the Board adopted criteria which, if met by issuers of over-the-counter stocks, would result in the stocks being placed on the OTC List and hence afforded the same treatment as exchange listed stocks for purposes of the Board's margin rules. This meant that once on the OTC List, over-the-counter stocks were eligible for margin trading. In addition to criteria for initial eligibility for the OTC List, criteria for continued eligibility for inclusion on the OTC List were also established by the Board in 1972.

Changes in the OTC List criteria made today are the result of a review of recent developments in the securities markets, particularly the OTC market, staff experience with the administration of the OTC List and the public commentary. Each change is discussed below.

Foreign Issuers Now Eligible for OTC List Inclusion

Issuers eligible for inclusion on the OTC List will no longer have to be organized under the laws of the United States or a State. Foreign issuers were precluded from OTC List eligibility in the past because of the relative lack of access to such issuers' financial information. The strengthened disclosure rules of the Securities and Exchange Commission now make it possible to obtain comprehensive and up to date financial information on many foreign issuers. Because of these improvements, it is no longer necessary to restrict OTC List candidates to domestic issuers. Foreign as well as domestic issuers must, however, be registered or file comparable reports with the Securities and Exchange Commission in order to be eligible for inclusion on the OTC List.

Eliminating Alternate Criteria and Making Price and Capital Criteria Mandatory

Another change in OTC List criteria involves the alternative requirements with respect to the size and character of the issue and issuer. Prior to these amendments, a stock could fail one of the three criteria of a \$5.00 minimum price, \$5 million capital, or \$5 million in market value and still be placed on the OTC List. The criterion requiring an aggregate market

value of \$5 million is of limited value in determining OTC List eligibility since it only affects stocks worth between \$5 and \$10 per share. During the past two years, for example, only seven per cent of the stocks added to the OTC List failed the aggregate market value test. Accordingly, the retention of this test is no longer justified.

The remaining alternate criteria for both initial and continued inclusion on the OTC List -- relating to price per share and minimum capital -- are now made mandatory. Doing so will lessen the effect of systemic fluctuations which have indirectly been affecting the size and composition of the OTC List.

The Board originally proposed to lower the price and capital criteria for continued listing from \$3 and \$2.5 million to \$1 and \$1 million, respectively. Some public comment, however, reflected the view that the proposed criteria may encourage the use of speculative credit. The Board has decided, therefore, to adopt a higher continued listing price criterion than that proposed. The new criterion will still be lower than the criterion existing before these amendments. The capital criterion for initial and continued listing has been reduced to \$4 million and \$1 million, respectively. The initial listing price per share criterion will remain at \$5. The continued listing price per share criterion has been reduced to \$2. The initial listing publicly held share criterion has been reduced to 400,000 shares. These changes will make the Board's OTC List criteria more comparable to the listing criteria of the American Stock Exchange.

(NOTE: The remainder of this notice may be obtained from the Federal Reserve Board or the Federal Reserve Banks.)

FEDERAL RESERVE press release



For immediate release

May 13, 1982

The Federal Reserve Board today adopted amendments to its margin regulations that change the criteria for inclusion on the Board's list of stocks traded over the counter (OTC list).

Inclusion of a stock on this list makes it possible for brokers and dealers to lend on the stock in conformance to the Board's margin requirements. About 1,500 stocks are on the Board's OTC list.

Further, the Board decided that in the future changes in the OTC list, which is updated three times yearly, will become effective two weeks after publication rather than immediately.

The changes adopted by the Board, after consideration of comment received on proposals published last November, are:

1. Inclusion on this list of eligible foreign securities.
2. Setting of mandatory price and capital criteria for determining OTC list eligibility (formerly, stocks, to be eligible, could satisfy any two out of three criteria: price, capital or market value).
3. Reduction of requirements for initial listing as follows:
 - Capital requirement of \$4 million (rather than \$5 million), and
 - Requirement for the number of shares held publicly lowered to 400,000 (rather than 500,000).
4. Reduction of requirements for continued listing as follows:
 - Capital, \$1 million (rather than \$2.5 million).
 - Listed price, \$2 (rather than \$5).

Stocks that no longer meet eligibility requirements under the new criteria for listing on the Board's OTC list will be retained on the list for two years. The Board believes the revised criteria reflect changes, since the last major revision of the criteria in 1976, in stock market conditions and exchange practices.

The introduction to the Board's notice in this matter is attached. The text of the notice may be obtained from the Board or the Federal Reserve Banks.

FEDERAL RESERVE SYSTEM

Regulations G, T and U

[12 CFR 207, 220 and 221]

[Docket No. R-0372]

SECURITIES CREDIT TRANSACTIONS

Revision of Criteria for Initial and Continued Inclusion
on the List of OTC Margin Stocks

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: On November 24, 1981, the Board published for comment (46 Fed. Reg. 57532) a proposal to amend its criteria for initial and continued inclusion on the List of OTC Margin Stocks ("OTC List"). Brokers and dealers may not extend credit on stocks which are traded over-the-counter unless such stocks appear on the OTC List. Loans by banks and other lenders that are used to purchase stocks appearing on the OTC List are subject to the Board's margin requirements if the loans are secured by margin stock.

In its announcement, the Board proposed to revise OTC List criteria in three important respects. First, equity securities of foreign issuers and American Depositary Receipts would, for the first time, be eligible for OTC List inclusion. Second, certain alternative criteria with respect to price and capital were to be made mandatory. Third, a proposal was made to relax capital and price criteria to more closely resemble the listing requirements of major stock exchanges.

In its action today, the Board adopts revisions to OTC List criteria in substantially the same form as proposed. Specifically, the OTC List criteria are amended to (1) permit the inclusion of securities of foreign issuers registered with the Securities and Exchange Commission, (2) eliminate the alternative market value criterion and make the price and capital criteria mandatory, (3) reduce the initial listing capital and publicly-held share criteria to \$4 million and 400,000 shares, respectively, and (4) reduce the continued listing price and capital criteria to \$2 and \$1 million, respectively.

In response to public commentary, the price requirement for continued listing adopted by the Board today is higher than that originally proposed for comment but lower than that in the existing rule. The Board wishes to make clear that its action today with respect to the inclusion of foreign issuers on the OTC List is limited to those issuers who have actually registered with the Securities and Exchange Commission or file reports comparable to those filed by domestic companies.

paper and equity securities be included as permissible collateral in transactions governed by section 220.6(h). The Board has determined that certain negotiable CD's and bankers acceptances along with letters of credit and U.S. government securities, will be permitted as acceptable collateral when securities are lent or borrowed by brokers and dealers.

The Board's proposal to limit use of letters of credit in stock lending and borrowing transactions to letters issued by FDIC-insured banks was opposed by many foreign banks doing business in the United States. These banks regarded the Board proposal as discriminatory and unnecessary. The Board believes that their position is not without merit, and will permit use of foreign bank letters of credit for purposes of section 220.6(h) if such bank has filed a Form F.R. T-2 with the Board agreeing to comply with all laws relating to securities credit that are applicable to their U.S. counterparts. Only foreign banks with branches or agencies that are supervised and examined by State or Federal banking authorities are eligible to file such agreements.

In its original proposal, the Board certified for the purpose of 5 U.S.C. § 605(b) that its action would not have a significant impact on a substantial number of small entities. No comments were received which would lead the Board to conclude that the adoption of this amendment would have a significant impact on a substantial number of small entities.

List of Subject Headings in 12 CFR Part 220

Banks, banking; Brokers; Credit; Federal Reserve System; Margin; Margin Requirements; Reporting Requirements; Securities

Accordingly, pursuant to §§ 7 and 23 of the Securities Exchange Act of 1934 (15 U.S.C. §§ 78g, 78w), the Board amends § 220.6(h) of Regulation T (12 CFR Part 220) to read as follows:

"(h) Borrowing and lending securities. Without regard to the other provisions of this part, a creditor may borrow or lend securities for the purpose of making delivery of the securities in the case of short sales, failure to receive securities required to be delivered, or other similar situations. Each borrowing shall be secured by a deposit of one or more of the following: cash, securities issued or guaranteed by the United States government or its agencies, negotiable bank certificates of deposit and bankers acceptances issued by banking institutions in the United States and payable in the United States, or irrevocable letters of credit issued by a bank insured by the Federal Deposit Insurance Corporation or a foreign bank that has filed an agreement with the Board on Form F.R. T-2. Such deposit made with the lender of the securities shall have at all times a value at least equal to 100 percent of the market value of the securities borrowed, computed as of the close of the preceding business day."

OMB Control Number: Approval by OMB is pending.

Paperwork Reduction Act

In accordance with the Paperwork Reduction Act of 1980 (P.L. 96-511), the reporting or recordkeeping provisions that are included in this regulation have been or will be submitted for approval to the Office of Management and Budget (OMB).

By order of the Board of Governors of the Federal Reserve System,
May 12, 1982.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]