FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6521
April 10, 1970]

Applicability of Regulations G, T, and U to AT&T Issue of Debentures

To All Persons Extending Securities Credit in the Second Federal Reserve District:

Following is the text of a letter from the Board of Governors of the Federal Reserve System to a national securities exchange regarding the applicability to the forthcoming issue of American Telephone & Telegraph Company (AT&T) debentures of the Board's margin regulations:

> A number of questions have been raised with the Board of Governors regarding the applicability to the forthcoming issue of American Telephone & Telegraph Company (AT & T) debentures of the Board's margin regulations, Regulation G, "Securities Credit by Persons other than Banks, Brokers, or Dealers," Regulation T, "Credit by Brokers and Dealers," and Regulation U, "Credit by Banks for the Purpose of Purchasing or Carrying Margin Stock."
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> Briefly, on Monday, April 13, 1970, AT & T will issue to its stockholders rights to subscribe to one $100 debenture for each 35 shares of stock held. These rights expire on May 18, 1970. Each debenture will bear a legend certifying that the record holder is the owner of warrants to purchase two additional shares of stock which will be issued in detachable form in November 1970, to the person who was the holder of record of the debenture on October 15, 1970. The warrants may be exercised at any time between November 15, 1970 and May 15, 1975, when they expire.
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> It is expected that beginning April 13, the units (debenture plus warrants), will trade on a when-issued basis. In addition, some of the debentures may be traded without warrants ("stripped") by means of an agreement on the part of the record holder to redeliver the warrants when received in November. Thus, it can be expected that the debentures and warrants will also trade separately, initially on a when-issued basis. Rights, debentures (as a unit including warrants), debentures without warrants ("stripped") and warrants will be listed on the New York Stock Exchange and other exchanges.
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> Sections 207.1(d) of Regulation G, 220.4(j) of Regulation T, and 221.3(t) of Regulation U define a "convertible debt security" to include any margin debt security "carrying a warrant or right to subscribe to or purchase" a margin security or stock. The existence of a collateral agreement obligating the recipient to redeliver the warrants will not affect the provision of the debenture itself under which the record holder is entitled to receive warrants exchangeable for stock of AT & T, which is, of course, a margin security or stock. Accordingly, the Board of Governors considers that the debenture will continue to be a convertible debt security, whether or not such "stripping" agreement has been executed, until the debenture itself no longer carries the right to receive the warrant (record date October 15, 1970).
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> The three regulations provide that convertible debt securities pledged as collateral for credit extended under §§ 207.1(d) of Regulation G, 220.4(j) of Regulation T, or 221.3(t) of Regulation U, shall be treated as "equity securities" or "convertible debt securities" as long as continuously so held. The retention requirements of the three regulations apply to withdrawals of securities held as collateral for such credit (§§ 207.5(c) of Regulation G, 220.8(e)(3) of Regulation T, and 221.4(c) of Regulation U). Accordingly, AT & T debentures acquired as convertible debt securities and held as collateral for such credit cannot be withdrawn, even after the warrants have been detached, unless 70 per cent of the current market value of the debenture is deposited to improve the status of the credit (or such lesser amount as will suffice to bring the credit into a fully margined status).
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> Customers newly acquiring the debentures and becoming holders of record after October 15, 1970, will not be entitled to receive the warrants and can pledge the debentures as collateral for credit under § 220.4(i) of Regulation T or § 221.3(s) of Regulation U. Collateral eligible for such credit is entitled to good faith loan value. Credit extended to such customers is not "purpose credit" under Regulation G.

If you should have any further questions on the above matter, you may direct them to our Consumer Information and Securities Regulations Department (Telephone 212-732-5700, Extension 8209).

ALFRED HAYES,
President.