

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6523]
[April 15, 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:*

Our Circular No. 6521, dated April 10, contained 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. The Board has suggested that, in addition to the matters discussed in that letter, the following matters regarding the applicability of Regulations G and U to transactions in the issue of AT&T debentures be considered:

In connection with any loans made on AT&T debentures, either a special subscription loan under Section 221.3(p) of Regulation U or a convertible debt security loan under Section 221.3(t) of Regulation U or Section 207.1(d) of Regulation G, it is important for the bank or other lender to keep in mind that these debentures will be issued only in registered form and that the registered holder of record on October 15, 1970 will receive from the issuer two warrants.

The bank or other lender should be careful to arrange that it obtains the warrants issuable on any debentures it holds as collateral. (Should the borrower receive the warrants and not deposit them as the collateral for the loan, the bank or other lender might be in violation of the withdrawal provisions of Regulation U or Regulation G and, in addition, might suffer an impairment of collateral value.)

It is also important for the bank to keep in mind that both the warrants and the debentures will be "convertible debt securities" so long as they are held as collateral for either a special subscription loan under Section 221.3(p) or a convertible debt security loan under Section 221.3(t) or Section 207.1(d) and that the restrictions on withdrawals of collateral contained in those sections will apply to both the warrants and the debentures.

Lenders subject to Regulation G should keep in mind that the regulation does not provide for subscription loans subject to margin requirements different from those applicable to ordinary "purpose" loans secured by convertible debt securities.

Questions on these matters may be directed to our Consumer Information and Securities Regulations Department (Telephone 212-732-5700, Extension 8209).

ALFRED HAYES,
President.