FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6537
May 5, 1970]

MARGIN REQUIREMENTS LOWERED

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

The Board of Governors of the Federal Reserve System issued the following statement today:

The Board of Governors of the Federal Reserve System today lowered its margin requirement for purchasing or carrying stocks from 80 to 65 per cent, effective Wednesday (May 6).

At the same time, the Board lowered the margin requirement for purchasing or carrying convertible bonds—those that can be converted into stock—from 60 to 50 per cent, also effective Wednesday (May 6).

In making the changes, the Board cited the sharp reduction in the use of credit for stock purchases.

In the Securities Exchange Act of 1934, Congress granted the Board of Governors authority to impose margin requirements "for the purpose of preventing the excessive use of credit for the purchase or carrying of securities."

Since the last change in margin requirements, in June 1968, when they were increased from 70 to 80 per cent for stocks and 50 to 60 per cent for convertible bonds, margin credit extended by brokers has dropped from $6.7 billion to $4.5 billion in March 1970, and the number of margin accounts has dropped from 940,000 to 820,000. Meanwhile, credit extended by banks for purchasing or carrying securities has declined from a high of $2.8 billion in February 1969, to $2.4 billion in March 1970.

The action, amending the Board's regulations relating to stock market credit, will cover new extension of credit by brokers and dealers (Regulation T), and loans by banks and other lenders (Regulations U and G, respectively) for the purpose of purchasing or carrying securities registered on a national stock exchange or named in the Board's over-the-counter margin list.

No change was made in the 70 per cent "retention requirement" applicable to undermargined accounts. That requirement specifies the portion of the proceeds of a sale of securities from a margin account that must be retained in the account if the equity in that account does not match the new margin requirements.

Federal Reserve margin requirements set the minimum downpayment that must be made to purchase a stock or a convertible bond on credit. Under a 65 per cent margin requirement, a purchaser of stock is required to put up 65 per cent of the purchase price in cash (or collateral with that much "loan value" under the regulations) at the time of the transaction. He may then obtain credit for the remaining 35 per cent of the purchase price.

Enclosed are copies of Supplements, effective May 6, 1970, to Regulations G, T, and U, giving effect to the lower margin requirements (for persons who may be subject to Regulation G, only the Supplement to that regulation is enclosed). Additional copies of the enclosures will be furnished upon request.

ALFRED HAYES,
President.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION G

Effective May 6, 1970

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), shall be 35 per cent of its current market value, as determined by any reasonable method.

(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 per cent 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 per cent of its current market value, as determined by any reasonable method.

(d) **Requirements for inclusion on list of OTC margin stock.** 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 § 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 subject to §12(g)(2)(G) (15 U.S.C. 78*l*(g)(2)(G)) the issuer had at least $1 million of capital and surplus,

(2) Five 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 and Exchange Act of 1934 (15 U.S.C. 78e),

(3) There are 1,500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(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, and

(6) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;

and shall meet 3 of the 4 additional requirements that:

(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 per cent of the stock,

(8) The shares described in subparagraph (7) of this paragraph have a market value in the aggregate of at least $10 million,

(9) The minimum average bid price of such stock, as determined by the Board in the latest month, is at least $10 per share, and

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

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

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION T

Effective May 6, 1970

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) and (c) of this section), 35 per cent 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 per cent 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 65 per cent 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 per cent 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 per cent 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 per cent of its current market value.

(OVER)

(f) **Security having no loan value in 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 security account pursuant to § 220.4(j) shall have loan value only if held in the account on March 11, 1968, and continuously thereafter.

(g) **Requirements for inclusion on list of OTC margin stock.** 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 § 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 subject to § 12(g)(2)(G) (15 U.S.C. 78*l*(g)(2)(G)), the issuer had at least $1 million of capital and surplus,

(2) Five 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 Act (15 U.S.C. 78e),

(3) There are 1,500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(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, and

(6) Daily quotations for both bid and asked prices for the stocks are continuously available to the general public;
and shall meet 3 of the 4 additional requirements that:

(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 per cent of the stock,

(8) The shares described in subparagraph (7) of this paragraph have a market value in the aggregate of at least $10 million,

(9) The minimum average bid price of such stock, as determined by the Board in the latest month, is at least $10 per share, and

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

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

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION U

Effective May 6, 1970

SECTION 221.4 — SUPPLEMENT

(a) **Maximum loan value of stocks.** For the purpose of § 221.1, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 35 per cent of its current market value, as determined by any reasonable method.

(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 per cent 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 per cent of its current market value, as determined by any reasonable method.

(d) **Requirements for inclusion on list of OTC margin stock.** 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 § 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 subject to § 12(g)(2)(G) (15 U.S.C. 78*l*(g)(2)(G)) the issuer had at least $1 million of capital and surplus,

(2) Five 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 Act (15 U.S.C. 78e),

(3) There are 1,500 or more holders of record of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock,

(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, and

(6) Daily quotations for both bid and asked prices for the stock are continuously available to the general public;

and shall meet 3 of the 4 additional requirements that:

(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 per cent of the stock,

(8) The shares described in subparagraph (7) of this paragraph have a market value in the aggregate of at least $10 million,

(9) The minimum average bid price of such stock, as determined by the Board in the latest month, is at least $10 per share, and

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

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

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