FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7150
May 24, 1973]

MARGIN REGULATIONS

Amendments to Regulations G, T, and U; Proposed Amendment to Regulation T

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

Following is the text of a statement issued May 15 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today issued the attached amendment to its margin regulations designed to prevent the excessive use of credit in connection with the sale of puts and calls, which are options to sell or buy stocks.

The amendments will:

— Deny loan value to all puts and calls, including those registered on a national securities exchange.

— Include puts and calls within the definition of equity security, effective June 16, for purposes of Regulation U (securities credit by banks) to make it clear that bank loans on puts and calls are subject to the regulation. This prohibits banks from making a loan collateralized by put and call contracts for the purpose of purchasing or carrying margin stocks.

— State that any margin required in connection with the writing, endorsement or guarantee of a put and call must not be used in a margin account to purchase other securities.

The Board issued for comment through June 1 a proposed amendment to Regulation T (securities credit by brokers and dealers) to ensure that margin requirements in connection with the issuance, endorsement or guarantee of a put or call will be uniform. At the outset, this requirement would be based on the minimum requirements of the major stock exchanges for puts and calls. Generally, the New York Stock Exchange requires a 25 per cent margin for a put and 30 per cent for a call.

Enclosed are copies of documents reflecting the changes in the Board's margin regulations. In addition, printed below is the text of the proposed amendment to Regulation T. Comments thereon should be submitted by June 1 and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,
President.

[Reg. T]

PART 220 — CREDIT BY BROKERS AND DEALERS

Notice of Proposal to Set Uniform Margin in Connection With Writing of Puts, Calls and Combinations thereof

Pursuant to authority of Section 7 of the Securities and Exchange Act of 1934 (15 U.S.C. 78g), notice is hereby given that the Board of Governors proposes amending section 220.3(d)(5) of Regulation T, "Credit by Brokers and Dealers" to require a uniform margin in connection with the issuance, endorsement or guarantee of any put, call or combination thereof. Such uniform margin requirement would be based, at the outset, upon the minimum margin requirements of the major stock exchanges for puts, calls and combinations thereof.

Interested persons are invited to submit relevant data, views, or arguments concerning this proposal. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than June 1, 1973. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

This notice is published pursuant to section 553(b) of Title 5, United States Code, and § 262.2(a) of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2(a)).

By order of the Board of Governors, May 10, 1973.

AMENDMENTS TO REGULATIONS T AND U

AMENDMENTS TO REGULATION T

CREDIT BY BROKERS AND DEALERS

Effective May 23, 1973, sections 220.3(b)(2) and (d)(5) are amended as follows:

SECTION 220.3 GENERAL ACCOUNT

* * * * *

(b) **General rule**

* * * * *

(2) Except as permitted in this subparagraph, no withdrawal of cash or exempted or margin securities shall be permissible if the adjusted debit balance of the account (whether the general account, the special bond account, or the special convertible security account) would exceed the maximum loan value of the securities in such account after such withdrawal. The exceptions are available only in the event no cash or securities need to be deposited in such account in connection with a transaction on a previous day and none would need to be deposited thereafter in connection with any withdrawal of cash or securities on the current day. The permissible exceptions are * * * (iv) upon the sale (other than the short sale) of margin securities or securities having loan value in the general account, special bond account, or special convertible security account there may be withdrawn in cash an amount equal to the difference between the current market value of the securities sold and the "retention requirement" of such securities, or (v) * * *

* * * * *

(d) **Adjusted debit balance.** For the purpose of this part, the adjusted debit balance of a general account, special bond account, or special convertible debt security account shall be calculated by taking the sum of the following items:

* * * (5) the amount of any margin required in connection with the issuance, endorsement or guarantee of any put, call or combination thereof.

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AMENDMENT TO REGULATION U

CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING MARGIN STOCKS

Effective June 16, 1973, section 221.3(l) is amended to read as follows:

SECTION 221.3 MISCELLANEOUS PROVISIONS

* * * * *

(l) *Stock.* The term stock includes any security commonly known as a stock; any voting trust certificate or other instrument representing such a security; and any security convertible, with or without consideration, presently or in the future, into such security, certificate, or other instrument, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security which the Securities and Exchange Commission shall deem to be of similar nature and consider necessary or appropriate, by such rules and regulations as it may prescribe in the public interest or for the protection of investors, to treat as an equity security such as any certificate of interest or participation in any profit sharing agreement, preorganization certificate or subscription, transferable share, limited partnership interest, interest in a joint venture, or certificate of interest in a business trust; or any put, call, straddle, or other option or privilege of buying such a security from or selling such a security to another without being bound to do so.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENTS TO REGULATIONS G, T, AND U

SUPPLEMENT TO REGULATION G

Effective May 23, 1973

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 35 per cent 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 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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(e) **Requirements for continued 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 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 has at least $1 million of capital and surplus,

(2) Four 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 continue to be 1,000 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 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 shall meet 3 of the 4 additional requirements that:

(6) 400,000 or more shares of such stock remain outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value in the aggregate of at least $5 million,

(8) The minimum average bid price of such stock, as determined by the Board, is at least $5 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 40 per cent.

SUPPLEMENT TO REGULATION T

Effective May 23, 1973

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), (c) and (f) 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.

(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 60 per cent 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 40 per cent of the current market value of each security.

(h) **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.

(i) **Requirements for continued 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 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 has at least $1 million of capital and surplus,

(2) Four 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 continue to be 1,000 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 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 shall meet 3 of the 4 additional requirements that:

(6) 400,000 or more shares of such stock remain outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value in the aggregate of at least $5 million,

(8) The minimum average bid price of such stock, as determined by the Board, is at least $5 per share, and

(9) The issuer continues to have at least $2.5 million of capital, surplus, and undivided profits.

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

SUPPLEMENT TO REGULATION U

Effective June 16, 1973

(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 35 per cent 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 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.

(e) **Requirements for continued 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 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 has at least $1 million of capital and surplus,

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

(2) Four 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 continue to be 1,000 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 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 shall meet 3 of the 4 additional requirements that:

(6) 400,000 or more shares of such stock remain outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 per cent of the stock,

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value in the aggregate of at least $5 million,

(8) The minimum average bid price of such stock, as determined by the Board, is at least $5 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 40 per cent.