

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7378 ]  
[ April 19, 1974 ]

CHANGES IN LISTING CRITERIA FOR OTC MARGIN STOCKS

Proposed Amendments to Regulations G, T, and U

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

Following is the text of a statement issued April 16 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System proposed today to amend the criteria that over-the-counter (OTC) stocks must meet and continue to meet to be included on its List of OTC Margin Stocks.

The criteria employed in selecting OTC stocks for inclusion on the List of OTC Margin Stocks were announced on July 8, 1969. More than 600 stocks are now on the list and subject to the Board's margin requirements.

The proposal, which would make the criteria somewhat less restrictive, reflects the many changes that have occurred in the OTC market since 1969, particularly the impact of the National Association of Securities Dealers Automated Quotation System (NASDAQ).

Comment will be received by the Board through May 20, 1974.

The text of the proposed amendments to Regulations G, T, and U is printed below. Comments thereon should be submitted by May 20 and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,  
President.

[Regs. G, T, and U]

SECURITIES CREDIT TRANSACTIONS

Requirements for Inclusion

and Continued Inclusion on the List of OTC Margin Stocks

Pursuant to the authority of section 7 of the Securities Exchange Act of 1934 (15 U.S.C. § 78g(1970)) notice is hereby given that the Board of Governors proposes to amend Parts 207, 220, and 221 (the requirements for a stock's inclusion and continued inclusion on the List of OTC Margin Stocks). The purpose of the proposed amendments is to incorporate in the requirements for inclusion and continued inclusion on the List of OTC Margin Stocks significant changes which have occurred in the over-the-counter (OTC) market, particularly the impact of the National Association of Securities Dealers Automated Quotation System (NASDAQ).

**PART 207—SECURITIES CREDIT BY PERSONS  
OTHER THAN BANKS, BROKERS, OR DEALERS**

1. Paragraphs (d) and (e) of section 207.5 would be amended as set forth below:

SECTION 207.5—SUPPLEMENT

\* \* \*

(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 section 12(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g)(1)), is issued by an insurance company subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) that has at least \$1 million of capital and surplus, or is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

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

(3) There are 1,200 or more holders of record (as defined in SEC Rule 12g5-1) of the stock who are not

officers, directors, or beneficial owners of 10 percent or more of the stock,

(4) The issuer is organized under the laws of the United States or a State<sup>9</sup> 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,

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

(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; and shall meet two of the three additional requirements that:

(8) The shares described in subparagraph (7) of this paragraph have a market value of at least \$5 million,

(9) The minimum average bid price of such stock, as determined by the Board, 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 § 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. 78l(g)(1)), is issued by an insurance company subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) that has at least \$1 million of capital and surplus, or is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

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

(3) There continue to be 800 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

(6) There are 300,000 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; and shall meet two of the three additional requirements that:

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value of at least \$2.5 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.

## PART 220—CREDIT BY BROKERS AND DEALERS

2. Paragraphs (h) and (i) of section 220.8 would be amended as set forth below:

### SECTION 220.8—SUPPLEMENT

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(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 section 12(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g)(1)), is issued by an insurance company subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) that has at least \$1 million of capital and surplus, or is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

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

(3) There are 1,200 or more holders of record (as defined in SEC Rule 12g5-1) 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<sup>6</sup> 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,

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

(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; and shall meet two of the three additional requirements that:

(8) The shares described in subparagraph (7) of this paragraph have a market value of at least \$5 million,

(9) The minimum average bid price of such stock, as determined by the Board, 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. 78l(g)(1)), is issued by an in-

<sup>9</sup> As defined in 15 U.S.C. 78c(a)(16).

<sup>6</sup> As defined in 15 U.S.C. 78c(a)(16).

insurance company subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) that has at least \$1 million of capital and surplus, or is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

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

(3) There continue to be 800 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

(6) There are 300,000 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; and shall meet two of the three additional requirements that:

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value of at least \$2.5 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.

#### PART 221—CREDIT BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING MARGIN STOCKS

3. Paragraphs (d) and (e) of section 221.4 would be amended as set forth below:

##### SECTION 221.4—SUPPLEMENT

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(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 section 12(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(g)(1)), is issued by an insurance company subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) that has at least \$1 million of capital and surplus, or is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

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

(3) There are 1,200 or more holders of record (as defined in SEC Rule 12g5-1) 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<sup>9</sup> 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,

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

(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; and shall meet two of the three additional requirements that:

(8) The shares described in subparagraph (7) of this paragraph have a market value of at least \$5 million,

(9) The minimum average bid price of such stock, as determined by the Board, 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. 78l(g)(1)), is issued by an insurance company subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) that has at least \$1 million of capital and surplus, or is issued by a closed-end investment management company subject to registration pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. § 80a-8),

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

(3) There continue to be 800 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

(6) There are 300,000 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; and shall meet two of the three additional requirements that:

(7) The shares described in subparagraph (6) of this paragraph continue to have a market value of at least \$2.5 million,

(8) The minimum average bid price of such stock,

<sup>9</sup> As defined in 15 U.S.C. 78c(a)(16).

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.

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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 May 20, 1974. 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 C.F.R. 262.2(a)).