

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7847]
March 25, 1976]

CHANGES IN THE CRITERIA FOR LISTING 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 March 11 by the Board of Governors of the Federal Reserve System:

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

More than 800 stocks are now on the list and subject to the Board's margin regulations.

The proposal reflects changes that have occurred in the OTC market in recent years, particularly the increased competition among the securities markets and the impact of the National Association of Securities Dealers Automated Quotation System (NASDAQ).

Comment will be received by the Board through April 23, 1976.

The text of the proposed amendments to Regulations G, T, and U is printed below. Comments thereon should be submitted by April 23, and may be sent to the Securities Regulations Division of our Bank Regulations Department.

PAUL A. VOLCKER,
President.

[Regs. G, T, and U]

[12 CFR Parts 207, 220, and 221]

(Docket No. R-0025)

SECURITIES CREDIT TRANSACTIONS

Requirements for Inclusion

and Continued Inclusion on the List of OTC Margin Stocks

Pursuant to the authority of sections 7 and 23 of the Securities Exchange Act of 1934 (15 U.S.C. § 78g and w), notice is hereby given that the Board of Governors proposes to amend the sections of Parts 207, 220, and 221 which contain 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 revise the criteria for inclusion and continued inclusion on the List of OTC Margin Stocks in view of significant changes which have occurred in the over-the-counter (OTC) market, particularly the increased competition among the securities markets and the impact of the National Association of Securities Dealers Automated Quotation System (NASDAQ).

The changes in initial listing requirements that would be made by the proposed amendments are as follows:

(1) The number of required market-makers would be reduced from 5 to 4; (2) the requirement for 1200 or more holders of record need not be met for stocks with an average daily trading volume of at least 500 shares; and (3) the required average stock price would be reduced from \$10.00 per share to \$5.00 per share.

The criteria for continued listing would be changed as follows: (1) An alternative to the requirement for 800 or more holders of record would be an average daily volume of 300 shares; and (2) the required average stock price of \$5.00 per share would be reduced to \$3.00 per share.

The amended sections of Regulations G, T, and U (12 C.F.R. Parts 207, 220 and 221) would read as follows:

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

1. Paragraphs (d) and (e) of section 207.5 (the Supplement to Regulation G) would be amended as set forth below:

SECTION 207.5—SUPPLEMENT

* * *

(d) **Requirements for inclusion on List of OTC Margin Stocks.** 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) 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 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 (17 C.F.R. § 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 500 shares,

(4) The issuer is organized under the laws of the United States or a State⁹ 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 \$5 per share, and

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

(e) **Requirements for continued inclusion on List of OTC Margin Stocks.** 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)), or if issued by an insurance company such issuer continues to be subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) and to have at least \$1 million of capital and surplus, or if issued by a closed-end investment management company such issuer continues to be 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, as defined in SEC Rule 12g5-1 (17 C.F.R. § 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares,

(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

⁹ As defined in 15 U.S.C. 78c(a)(16).

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 \$3 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 (the Supplement to Regulation T) would be amended as set forth below:

SECTION 220.8—SUPPLEMENT

* * *

(h) **Requirements for inclusion on List of OTC Margin Stocks.** 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) 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 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 (17 C.F.R. § 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 500 shares,

(4) The issuer is organized under the laws of the United States or a State⁶ 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 \$5 per share, and

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

(i) **Requirements for continued inclusion on List of OTC Margin Stocks.** Except as provided in sub-

⁶ As defined in 15 U.S.C. 78c(a)(16).

paragraph (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)), or if issued by an insurance company such issuer continues to be subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) and to have at least \$1 million of capital and surplus, or if issued by a closed-end investment management company such issuer continues to be 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, as defined in SEC Rule 12g5-1 (17 C.F.R. § 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares,

(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 \$3 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 (the Supplement to Regulation U) would be amended as set forth below:

SECTION 221.4—SUPPLEMENT

* * *

(d) **Requirements for inclusion on List of OTC Margin Stocks.** 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) 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 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 (17 C.F.R. § 240.12g5-1) of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 500 shares,

(4) The issuer is organized under the laws of the United States or a State⁹ 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 \$5 per share, and

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

(e) **Requirements for continued inclusion on List of OTC Margin Stocks.** 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)), or if issued by an insurance company such issuer continues to be subject to section 12(g)(2)(G) (15 U.S.C. 78l(g)(2)(G)) and to have at least \$1 million of capital and surplus, or if issued by a closed-end investment management company such issuer continues to be 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, as defined in SEC Rule 12g5-1 (17 C.F.R. § 240.12g5-1), of the stock who are not officers, directors, or beneficial owners of 10 per cent or more of the stock, or the average daily trading volume of such stock, as determined by the Board, is at least 300 shares,

(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:

⁹ As defined in 15 U.S.C. 78c(a)(16).

(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 \$3 per share, and

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

To aid in the consideration of this matter by the Board, 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 no later than April 23, 1976. All material submitted should include the docket number R-0025. 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)).

By order of the Board of Governors, March 10, 1976.

Table 1
Summary of Proposed Changes to OTC Margin Stock
Initial Listing Requirements^a

<i>Current Listing Requirements</i>	<i>Proposed Listing Requirements</i>
(1) Stock is registered under the Securities Exchange Act of 1934	(1) Same
(2) Stock has 5 market makers	(2) Stock has 4 market makers
(3) Stock has 1200 public holders of record	(3) Same, or has average daily volume of 500 shares
(4) Issuer is U. S. corporation in existence for at least 3 years	(4) Same
(5) Stock publicly traded for at least 6 months	(5) Same
(6) Stock prices are continuously available to the public	(6) Same
(7) 500,000 publicly held shares	(7) Same
(8) Stock has market value of \$5 million	(8) Same
(9) Stock has average price of \$10 per share	(9) Stock has average price of \$5 per share
(10) Issuer has at least \$5 million of capital, surplus, and undivided profits	(10) Same

^a All of the first seven requirements must be satisfied, but only two of the final three requirements must be met.

Table 2
Summary of Proposed Changes to OTC Margin Stock
Continued Listing Requirements^a

<i>Current Continued Listing Requirements</i>	<i>Proposed Continued Listing Requirements</i>
(1) Stock is registered under the Securities Exchange Act of 1934	(1) Same
(2) Stock has 3 market makers	(2) Same
(3) Stock has 800 public holders of record	(3) Same, or has average daily volume of 300 shares
(4) Issuer is U. S. corporation	(4) Same
(5) Stock prices are continuously available to the public	(5) Same
(6) 300,000 publicly held shares	(6) Same
(7) Stock has market value of \$2.5 million	(7) Same
(8) Stock has average price of \$5 per share	(8) Stock has average price of \$3 per share
(9) Issuer has at least \$2.5 million of capital, surplus, and undivided profits	(9) Same

^a All of the first six requirements must be satisfied, but only two of the final three requirements must be met.