

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8301]
March 23, 1978

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 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today proposed a change in requirements for inclusion of stocks in the Board's list of Over the Counter (OTC) Stocks that are subject to margin requirements.

The Board asked for comment by April 14, 1978.

The proposal would require that, to be included among stocks on the Board's OTC list, dealers in the stock must submit *bona fide* bids and offers for the stock to an automated quotation system such as NASDAQ (National Association of Securities Dealers Automated Quotations—linking major brokers throughout the country). Currently, stocks included on the list are those for which dealers regularly publish *bona fide* bids and offers.

The text of the proposed amendments to Regulations G, T, and U is reprinted below from the *Federal Register*. Comments thereon should be submitted by April 14, and may be sent to the Regulations Division of our Consumer Affairs and Bank Regulations Department.

PAUL A. VOLCKER,
President.

[Regs. G, T, and U]

(Docket No. R-0147)

SECURITIES CREDIT TRANSACTIONS

OTC List Requirements

[6210-01]

FEDERAL RESERVE SYSTEM

[12 CFR Parts 207, 220, 221]

[Regs. G, T, U; Docket No. R-0147]

OTC LIST REQUIREMENTS

Proposed Rule

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule.

SUMMARY: These proposed amendments to the Supplements to Regulations G, T and U will require that dealers must submit *bona fide* bids and offers for an OTC stock to an automated quotation system if they are to be counted as market-makers in that stock for the purpose of being included on the Board's List of OTC Margin Stocks. The minimum market maker requirements for a stock to be included on the List under the present rule recognizes those dealers who make "regularly published *bona fide* bids and offers for such stock." When the List was first published by the Board in 1969 the "pink sheets" of the National Quotation Bureau were the only consistent source of the required price information. Since that time an

automated quotation system, the National Association of Security Dealers Automated Quotations (NASDAQ), has been developed to a point where price information on all stocks on the Board's list can now be obtained from it. The Board is presently using data from both the "pink sheets" and NASDAQ for its surveys.

The proposed amendment will eliminate the necessity of reviewing data from the "pink sheets" most of which is considered duplicative and reduce staff review and computer time.

DATE: Comments must be received on or before April 14, 1978.

ADDRESS: Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

FOR FURTHER INFORMATION CONTACT:

Laura Homer, Chief Attorney, Securities Regulation, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, 202-452-2781.

SUPPLEMENTARY INFORMATION: The Board proposes to amend the Supplements to Regulations G, T and U (12 CFR Parts 207, 220 and 221) to eliminate the necessity of reviewing data from the "pink sheets" when sur-

veying stocks for inclusion on the Board's List of OTC margin Stocks. Most of the data is now duplicative of material from NASDAQ, and reviewing it requires an expenditure of staff and computer time no longer deemed necessary to complete the analysis required in surveying the stocks eligible for the Board's List. Further, an analysis of available price information indicates that NASDAQ is the most convenient and complete source of bid and offer data for more actively traded OTC stocks in addition to supplying other needed data which are unavailable from the "pink sheets." The proposed amendments will permit the Board to use survey data from NASDAQ only.

Accordingly, pursuant to sections 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78 g and w) the Board proposes to amend 12 CFR Parts 207, 220, and 221 as follows:

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

1. Section 207.5(d)(2) and 207.5(e)(2) of Part 207, Securities Credit by Persons other than Banks, Brokers or Dealers, would be amended as follows:

(OVER)

§ 207.5 Supplement.

(d) *Requirements for inclusion on List of OTC margin stock.* * * *

(2) Four or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system 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).

(e) *Requirements for continued inclusion on List of OTC margin stock.*

(2) Three or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system 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).

PART 220—CREDIT BY BROKERS AND DEALERS

2. Section 220.8(h)(2) and 220.8(i)(2) of Part 220, Credit by Brokers and Dealers, would be amended as set forth below:

§ 220.8 Supplement.

(h) *Requirements for inclusion on List of OTC margin stock.* * * *

(2) Four or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system 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).

(i) *Requirements for continued inclusion on List of OTC margin stock.*

(2) Three or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system 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).

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

3. Section 221.4(d)(2) and 221.4(e)(2) of Part 221, Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks, would be amended as follows:

§ 221.4 Supplement.

(d) *Requirements for inclusion on List of OTC margin stock.* * * *

(2) Four or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system 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).

(e) *Requirements for continued inclusion on List of OTC margin stock.*

(2) Three or more dealers stand willing to, and do in fact, make a market in such stock and regularly submit bona fide bids and offers to an automated quotations system 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).

To aid in consideration of this matter by the Board, interested persons are invited to submit relevant data, views, comments, or arguments. All material should include the docket number R-0147. 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 (12 CFR 261.6(a)).

By order of the Board of Governors,
March 13, 1978.

THEODORE E. ALLISON,
Secretary of the Board.

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