

St. Cir. No. 9255

March 8, 1982

To the Addressee:

Enclosed are copies of two pamphlets containing a consolidation of all outstanding amendments and supplements to Regulations G, T, and U of the Board of Governors of the Federal Reserve System.

Additional copies of the enclosures will be furnished upon request.

Circulars Division
FEDERAL RESERVE BANK OF NEW YORK

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
AMENDMENTS TO REGULATIONS G, T, AND U

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

AMENDMENTS TO REGULATION G †

Effective February 15, 1982, section 207.1 (h) and (i) are amended by removing existing (h) and (i), and replacing them with new paragraphs (h) and (i) to read as follows:

SECTION 207.1 — GENERAL RULE

* * * * *

(h) Purpose and nonpurpose credit extended to the same customer.

(1) The lender shall identify all the collateral used to meet the requirements of § 207.1 (c) (the entire credit being considered a single credit and collateral being similarly considered) and shall not cancel the identification of any portion thereof except in circumstances that would permit the withdrawal of that portion. Such identification may be made by any reasonable method.

(2) For any credit extended to the same customer that is not subject to § 207.1 (c) the lender shall in good faith require as much collateral not so identified as would be required (if any) if the lender held neither the indebtedness subject to § 207.1 (c) nor the identified collateral.

(i) Purpose credit secured by margin securities and other collateral. A lender may extend credit for the purpose of purchasing or carrying margin securities secured by collateral other than margin securities, and, in the case of such credit, the maximum loan value of the collateral shall be as determined by the lender in good faith.

Effective February 15, 1982, section 207.2 (i) is revised to read as follows:

SECTION 207.2 — DEFINITIONS

* * * * *

(i) Indirectly secured. The term "indirectly secured" includes any arrangement with the customer under which the customer's right or ability to sell, pledge, or otherwise dispose of margin securities owned by the customer is in any way restricted as long as the credit remains outstanding or under which the exercise of such right is or may be cause for acceleration of the maturity of the credit.

The foregoing shall not apply:

(1) if, following application of the proceeds of the credit, not more than 25 percent of the value of the assets subject to the arrangement, as determined by any reasonable method, are margin securities;

(2) to a lending arrangement that permits acceleration of the maturity of the credit as a result of a default under, or the renegotiation of the terms of, another credit to the same customer by another lender that is not an affiliate* of the G-lender; or

(3) if the margin securities are held by the lender only in the capacity of custodian, depository, or trustee, or under similar circumstances, and the lender in good faith has not relied upon such margin securities as collateral in the extension or maintenance of the particular credit.

* For this purpose the term "affiliate" shall mean a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with the lender.

† The complete Regulation is comprised of:

- 1) Regulation G, as amended effective June 1, 1977, printed in the pamphlet "Securities Credit Transactions."
- 2) The Supplement to Regulation G (section 207.5) dated February 1982.
- 3) This amendment.

FEBRUARY 1982

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
AMENDMENTS TO REGULATIONS G, T, AND U
SECURITIES CREDIT TRANSACTIONS
OF BROKERS AND DEALERS
AMENDMENTS TO REGULATION T

CREDIT BY BROKERS AND DEALERS

AMENDMENTS TO REGULATION T †

Effective November 3, 1980, section 220.2(f) is amended; and effective October 30, 1978, section 220.2(f)(i)(1), (2) and (3) are revised as follows:

SECTION 220.2 — DEFINITIONS

* * * * *

(f) The term "margin security" means any registered security, OTC margin stock, OTC margin bond, or any security issued by an open-end investment company or unit investment trust registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

* * * * *

(i) The term "OTC margin bond" means a debt security not traded on a national securities exchange which meets all of the following requirements:

(1) At the time of the extension of credit, a principal amount of not less than \$25,000,000 of the issue is outstanding.

(2) The issue was registered under section 5 of the Securities Act of 1933 and the issuer either files periodic reports pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 or is an insurance company which meets all of the conditions specified in section 12 (g)(2)(G) of the Act.

(3) At the time of the extension of credit, the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments.

Effective June 2, 1980, sections 220.3(b)(1)(i) and (ii); 220.3(e); 220.3(f) and 220.3(g)(3) are amended to read as follows:

Sections 220.3(b)(1)(i) and (ii) are amended by deleting the words "5 full business days" and substituting therefor the words "7 full business days";

Section 220.3(e) is amended by deleting the words "5-day period" and substituting therefor for words "7-day period";

Section 220.3(f) is revised to read as follows:

SECTION 220.3 — GENERAL ACCOUNTS

* * * * *

(f) **Extensions of time.** If an appropriate committee of a national securities exchange or a national securities association is satisfied that the creditor is acting in good faith in making the application, and that exceptional circumstances warrant such action, such committee may extend the 7-day period specified in paragraph (b) of this section for one or more limited periods commensurate with the circumstances. Applications should be filed and acted upon prior to the end of the 7-day period or the expiration of any subsequent extension. However, an application may be accepted as timely filed from firms having no direct electronic access to the exchange or association if it is postmarked no later than midnight of the last day of the 7-day period or any subsequent extension.

Section 220.3(g)(3) is amended by deleting the figure "\$100" and substituting therefor the figure "\$500";

Effective June 2, 1980, sections 220.4(c)(6) and (7) are amended; effective July 12, 1978, section 220.4(f)(2) is amended; effective August 11, 1980, section 220.4(g) is amended; effective June 2, 1980, section 220.4(h)(2) is amended; and effective October 26, 1981, section 220.4(i) is amended to read as follows:

SECTION 220.4 — SPECIAL ACCOUNTS

* * * * *

(c) **Special cash account.**

* * * * *

† The complete Regulation comprises:

- 1) Regulation T, as amended effective June 1, 1977, printed in the pamphlet "Securities Credit Transactions."
- 2) The Supplement to Regulation T (section 220.8) dated February 1982.
- 3) These amendments.

(6) If an appropriate committee of a national securities exchange or a national securities association is satisfied that the creditor is acting in good faith in making the application, that the application relates to a *bona fide* cash transaction, and that exceptional circumstances warrant such action, such committee (i) may extend any period specified in subparagraphs (2), (3), (4), or (5) of this paragraph for one or more limited periods commensurate with the circumstances, or (ii), in case a security purchased by the customer in the special cash account is a margin or exempted security, may authorize the transfer of the transactions to a general account special bond account, special convertible security account, or special omnibus account, and the completion of such transaction pursuant to the provisions of this part relating to such an account. Applications under (i) above should be filed and acted upon prior to the end of the 7-day period or the expiration of any subsequent extension. However, an application may be accepted as timely filed from firms having no direct electronic access to the exchange or association if it is postmarked no later than midnight of the last day of the 7-day period or any subsequent extension.

Section 220.4(c)(7) is amended by deleting the figure "\$100" and substituting therefor the figure "\$500".

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- (f) * * *
- (1) * * *
- (2) * * *

(ii) —Extend and maintain a subordinated loan to another creditor for capital purposes: *Provided*, That

(a) Either the lender or the borrower is a firm or corporation which is a member of a national securities exchange or national securities association, the other party to the credit is an affiliated corporation of such firm or corporation, the credit is not in contravention of any rule of the exchange or association and the credit has the approval of appropriate committees of the exchange or association, or

(b) The lender as well as the borrower is a creditor as defined in section 220.2(b), the subordinated loan agreement has the approval of the appropriate Examining Authority as defined in Securities and Exchange Commission Rule 15c3-1(c)(12) (12 CFR 240.15c3-1(c)(12)) and such Examining Authority is satisfied, in the case of a borrower who would be considered a customer of the

lender apart from the subordinated loan, that the loan will not be used to increase the amount of dealing in securities for the account of the borrower, his firm or corporation or an affiliated corporation of such firm or corporation.

* * * * *

(g) **Specialist's Account.** (1) *Applicability.* In a specialist's account, a creditor may clear and finance for a specialist who is a member of a national securities exchange the member's specialist transactions or transactions of any joint account in which all participants, or all participants other than the creditor, are registered and act as specialists. The provisions of this subsection are available to a specialist who is a member of a national securities exchange which submits to the Board of Governors of the Federal Reserve System reports suitable for supplying current information regarding the use of specialist credit.

(2) *Definitions.* For the purpose of this subsection:

(i) "Joint account" means an account in which the creditor may participate and which by written agreement permits the commingling of the security positions of the participants and provides for a sharing of profits and losses from the account on some predetermined ratio;

(ii) "Underlying security" means the security which will be delivered upon exercise of the option and does not include a security convertible into the underlying security;

(iii) "Overlying option" means (A) a put option purchased or a call option written against an existing long position in a specialist's or market-maker's account, or (B) a call option purchased or a put option written against a short position in a specialist's or market-maker's account.

(iv) "In or at the money," with respect to a call option, indicates that the current market price of the underlying security is not more than one standard exercise interval below the exercise price of the option, and, with respect to a put option, that the current market price of the underlying security is not more than one standard exercise interval above the exercise price of the option.

(v) "In the money," with respect to a call option, indicates that the current market price of the underlying security is not below the exercise price of the option and, with respect to a put option, that the current market price of the underlying security is not above the exercise price of the option.

(3) *Permitted offset positions.* A specialist in options is permitted to establish in this account on a share-for-share basis a long or short position in the securities underlying the options in which the specialist makes a

market, and a specialist in securities other than options is permitted to purchase or write options overlying the securities in which the specialist makes a market, only under one or more of the following conditions (such positions are referred to in this paragraph as "permitted offset positions"):

(i) The account holds a short option position which is "in or at the money" and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money";

(ii) The account holds a long option position which is "in or at the money" and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security which is "in the money";

(iii) The account held a short option position against which an exercise notice was tendered;

(iv) The account held a long option position which was exercised;

(v) The account holds a net long position in a security (other than an option) in which the specialist makes a market; or,

(vi) The account holds a net short position in a security (other than an option) in which the specialist makes a market.

(4) *Maximum loan value.* The maximum loan value of securities which may be used as collateral in the account shall be:

(i) No more than 100 per cent of the current market value of any long position in a security in which the specialist makes a market or a wholly-owned margin security;

(ii) 75 per cent of the current market value of any underlying security or overlying option purchased and held in the account as a permitted offset position;

(iii) The maximum loan value prescribed by the Board in section 220.8 (the Supplement to Regulation T) when a security purchased and held in the account does not qualify as a specialist or permitted offset position.

(5) *Adjusted debit balance.* The amount to be included in the adjusted debit balance of the account shall be:

(i) Not less than 100 per cent of the current market value of either a security sold short or an option written where such position qualifies as a specialist transaction;

(ii) 125 per cent of the current market value of any security sold short or option written and held in the account as a permitted offset position;

(iii) The amount prescribed by the Board in section 220.8 (the Supplement to Regulation T) when a security sold short in the account does not qualify as a

specialist or permitted offset position plus, for a short position in a security other than an option, the current market value of the security sold short.

(6) *Additional margin; "free-riding."* Except as required by paragraph (g)(8), on any day when additional margin is required as a result of transactions in the account, the creditor shall issue a call for a deposit of cash or securities having loan value and may allow the specialist a maximum of five full business days to make a deposit sufficient to meet the call. To prevent "free-riding" in the account, a creditor who has not obtained this deposit (and is therefore required to liquidate sufficient securities to meet the call) is prohibited for a 15 day period from extending any further credit in the account to finance transactions in securities in which the specialist is not registered to make a market. The acquisition or liquidation of a permitted offset position shall not be subject to this "free-riding" penalty. The restriction on "free-riding" shall not apply of any national securities exchange adopting a "free-riding" rule applicable to specialists which has been approved by the Securities and Exchange Commission.

(7) *Withdrawals.* On any day when a specialist requests a withdrawal of cash or securities from the account, the creditor shall compute the status of the account for non-specialist securities positions in accordance with the provisions of section 220.8 (the Supplement to Regulation T), permitted offset positions in accordance with the provisions of paragraphs (g)(4)(ii) and (g)(5)(ii), and specialist positions on a "good faith" basis. Withdrawals shall be permitted to the extent that the adjusted debit balance in the account does not exceed the maximum loan value of all of the collateral held in the account after the withdrawal has been made.

(8) *Deficit accounts.* On any day when the account would liquidate to a deficit, the creditor shall not extend any further credit in the account, and shall issue a call for additional cash or collateral, which shall be met by noon of the following business day. In the event sufficient cash or collateral is not deposited the creditor shall liquidate existing positions in the account.

* * * * *

Section 220.4(h)(2) is amended by deleting the words "5 full business days" and substituting therefor the words "7 full business days".

* * * * *

(i) **Special bond account.**

(1) In a special bond account a creditor may extend and maintain credit on any exempted security, registered non-equity security, or OTC margin bond. The maximum loan value of securities held in this account shall be

as prescribed from time to time in §220.8 of this Part (the Supplement to Regulation T).

(2) Put and call options on exempted securities may be issued, endorsed or guaranteed in this account if either a security position in lieu of margin (cover) is held in the account or the amount of margin prescribed by the Board from time to time §220.8 of this part (the supplement to Regulation T) is included in the adjusted debit balance.

(3) A security position held in the account may serve in lieu of the margin required for writing a call or a put, if the following conditions are met:

(i) For writing a call, the covering long security position shall be valued at no more than the exercise price of the call or

(ii) For writing a put, the amount of margin required for a covering short security position shall be based on a value not less than the exercise price of the put.

(4) Any security position held in the account which serves in lieu of the margin required for a put or a call shall be unavailable to support any other option transaction in the account.

(5) The customer may either designate at the time the option order is entered which security position held in the account is to serve in lieu of the margin required or have a standing agreement with the creditor as to the method to be used for making the determination on any given day.

* * * * *

Effective July 13, 1981, section 220.6 is amended by deleting paragraph (j) in its entirety, and redesignating paragraphs (k) and (l) as paragraphs (j) and (k) respectively.

SECTION 220.6 — CERTAIN TECHNICAL DETAILS

* * * * *

(j) **Innocent mistakes.** If any failure to comply with this part results from a mechanical mistake made in good faith in executing a transaction, recording, determining, or calculating any loan, balance market price or loan

value, or other similar mechanical mistake, the creditor shall not be deemed guilty of a violation of this part if promptly after the discovery of such mistake he takes whatever action may be practicable in the circumstances to remedy such mistake.

(k) **Credit related to portion of a security.** Credit for the purpose of purchasing or carrying any part of an investment contract security (for example, but not limited to, the cattle ownership portion of a program to own and feed cattle, or the condominium ownership part of a program to own and rent a unit through a rental pool or otherwise) shall be deemed to be credit on the entire security.

Effective February 15, 1982, section 220.7(a) is revised to read as follows:

SECTION 220.7 — MISCELLANEOUS PROVISIONS

(a) *Arranging for loans by others.* A creditor may not arrange for the extension or maintenance of credit to or for any customer by any person upon terms and conditions other than those upon which the creditor may himself extend or maintain under the provisions of this Part, except that this limitation shall not apply to credit arranged for a customer which does not violate Parts 207 and 221 of this Chapter and results solely from:

(1) investment banking services, provided by the creditor to the customer, including, but not limited to underwritings, private placements, and advice and other services in connection with exchange offers, mergers and acquisitions, except for underwritings that involve the public distribution of an equity security with installment or other deferred payment provisions; or

(2) the sale of non-margin securities with installment or other deferred payment provisions if the sale is exempted from the registration requirements of the Securities Act of 1933 under section 4(2) or section 4(6) of the Act (15 U.S.C. §§77(d)(2) and (6)).

* * * * *

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

AMENDMENTS TO REGULATION U †

Effective March 31, 1982, sections 221.1(a), (b) and (c); 221.3(a), (m), (p), (q), (r) (2), (s) and (t) (4); 221.4 (a) and (c) are amended by adding the word "margin" before the word "stock" in every place that it appears.

Effective February 15, 1982, section 221.3(c) is amended by revising it to read as follows:

SECTION 221.3 — MISCELLANEOUS PROVISIONS

* * * * *

(c) **Indirectly secured.** The term "indirectly secured" includes any arrangement with the customer under which the customer's right or ability to sell, pledge, or otherwise dispose of margin stock owned by the customer is in any way restricted as long as the credit remains outstanding or under which the exercise of such right is or may be cause for acceleration of the maturity of the credit.

The foregoing shall not apply:

(1) if, following application of the proceeds of the credit, not more than 25 percent of the value of the assets

subject to the arrangement, as determined by any reasonable method, are margin stock;

(2) to a lending arrangement that permits acceleration of the maturity of the credit as a result of a default under, or the renegotiation of the terms of, another credit to the same customer by another lender that is not an affiliate* of the bank; or

(3) if the margin stock is held by the bank only in the capacity of custodian, depositary, or trustee, or under similar circumstances, and the bank in good faith has not relied upon such margin stock as collateral in the extension or maintenance of the particular credit.

* * * * *

*For this purpose the term "affiliate" shall mean a bank holding company of which the bank is a subsidiary within the meaning of the Bank Holding Company Act of 1956, as amended, or any other subsidiary of such bank holding company, or any other corporation, business trust, association or other similar organization which is an affiliate as defined in section 2 (b) of the Banking Act of 1933 (12 U.S.C. 221a).

† The complete Regulation is comprised of:

- 1) Regulation U, as amended effective June 1, 1977, printed in the pamphlet "Securities Credit Transactions."
- 2) The Supplement to Regulation U (section 221.4) dated February 1982.
- 3) These amendments.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
SUPPLEMENTS TO REGULATIONS G, T, AND U

SUPPLEMENT TO REGULATION G

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 50 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 50 per cent of its current market value, as determined by any reasonable method.

(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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts,

(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 State⁸ 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 had 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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts,

(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

⁸As defined in 15 U.S.C. 78c(a)(16).

for the stock are continuously available to the general public.

(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.

(f) **Minimum equity ratio.** The minimum equity ratio of a credit subject to § 207.1 is zero per cent. For the period November 5, 1974 through November 2, 1975, all same-day substitutions of collateral permitted by section 207.1(j)(2) for credits in which the equity ratio equals or exceeds the minimum equity ratio shall also be permitted for all credits in which the equity ratio is less than the minimum equity ratio.

(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. 78g(1)) or is exempt from registration under section 12(g)(2) of the Securities Exchange Act of 1934 (15 U.S.C. 78g(2)) and is not a closed-end fund of capital and surplus, or it is not a closed-end investment company which is not a company which is subject to registration under section 2 of the Investment Company Act of 1940 (15 U.S.C. 802-2).

(2) There is no debt, and will not be, which has a market value in excess of the market value of the net assets of the company, and which is not a debt of the company.

(3) There continues to be 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, as determined by the Board, in a U.S. corporation.

(4) The issuer continues to be a U.S. corporation.

(5) The issuer is organized under the laws of the United States.

(6) The issuer is organized under the laws of the United States.

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SUPPLEMENT TO REGULATION T

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), 50 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, an OTC margin bond, or a registered nonequity security which is not a put, call or combination thereof shall be as determined by the creditor in good faith. No put, call or combination thereof shall have any loan value.

(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 50 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 50 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 se-

curity 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 50 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 50 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 100 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 zero per cent of the current market value of each security.

(3) For the period November 5, 1974, through November 2, 1975, all transactions permitted by §§220.3(b)(1) and 220.3(g) for accounts not subject to section 8(g) shall also be permitted in accounts subject to section 8(g).

(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 requirement 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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts,

(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 had 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 subparagraph (4) of § 220.(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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts,

(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,

(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.

(j) **Margin required for the writing of options.**

(1) The amount to be included in the adjusted debit balance of a general account, special bond account, or special convertible debt security account pursuant to paragraphs (d)(5) and (i) of § 220.3 of this part, as the margin required for the issuance, endorsement, or guarantee of any put or call on an equity security shall be 30 percent of the current market value of the underlying security with an adjustment for any applicable increase or reduction.

(2) The amount to be included in the adjusted debit balance of an account pursuant to § 220.4(i) of this part as the margin required for the issuance, endorsement, or guarantee of a put or call on an exempted debt security or the security position to be held in lieu of margin shall be equivalent to (i). The amount specified by the rules of the national securities exchange on which the option is traded provided that all such rules have been approved or amended by the Securities and Exchange Commission pursuant to sections 19(b) or 19(c) of the Securities Exchange Act of 1934, or (ii) in the case of an option on an exempted debt security which is not traded on an exchange an amount or security position which the creditor in good faith deems to be equivalent to the margin or the cover on comparable exchange-traded options.

⁶ As defined in 15 U.S.C. 78c(a)(16).

SUPPLEMENT TO REGULATION U

SECTION 221.4—SUPPLEMENT

(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 50 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 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 50 per cent of its current market value, as determined by any reasonable method.

(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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts,

(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 State¹² 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 had 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 and regularly submit *bona fide* bids and offers to an automated quotations system for their own accounts,

(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

¹²As defined in 15 U.S.C. 78c(a)(16).

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.

(f) **Minimum equity ratio.** The minimum equity ratio of a credit subject to § 221.1 is zero per cent. For the period November 5, 1974 through November 2, 1975, all same-day transactions permitted by section 221.1(c) for credits in which the equity ratio is equal to or exceeds the minimum equity ratio shall also be permitted for those credits in which the equity ratio is less than the minimum equity ratio.