

MEMO# 1859

April 23, 1990

FED APPROVES AMENDMENTS TO REGULATION T PERMITTING MARGINABILITY OF CERTAIN FOREIGN SECURITIES

- 1 - April 23, 1990 TO: CLOSED-END FUND COMMITTEE NO. 10-90 SEC RULES COMMITTEE NO. 23-90 UNIT INVESTMENT TRUST COMMITTEE NO. 18-90 INTERNATIONAL FUNDS TASK FORCE NO. 5-90 RE: FED APPROVES AMENDMENTS TO REGULATION T PERMITTING MARGINABILITY OF CERTAIN FOREIGN SECURITIES

The Federal Reserve Board has adopted amendments to Regulation T which will permit certain foreign equity and debt securities to receive margin treatment provided they meet prescribed eligibility requirements. A copy of the Federal Register notice is attached. Under the amendments, a "foreign margin stock" must have traded for at least six months on a foreign exchange or other recognized foreign market; must have continuously available in the U.S., through an electronic quotation system, daily quotations for bid and asked or last sale prices; must have an aggregate share value of at least \$1 million; must have an average weekly trading volume for the preceding six months of at least 200,000 shares or \$1 million; and must have been in existence for at least five years. A foreign debt security will qualify as an "OTC margin bond" if it had a principal amount outstanding at the time of original issue of at least \$100 million; it is not in default; and it is rated in one of the two highest rating categories by a nationally recognized rating organization. Several of these standards are stricter than those included in proposed amendments to Rule 12d3-1 under the Investment Company Act of 1940, which would ease restrictions on investing in equity securities of foreign issuers engaged in securities-related activities. (See Memorandum to SEC Rules Committee No. 63-89, Closed-End Fund Committee No. 44-89, Unit Investment Trust Committee No. 69-89, and International Funds Task Force No. 18-89, dated October 12, 1989.) Currently, Rule 12d3-1 permits registered investment companies to purchase equity securities - 2 - issued by such firms only if the securities satisfy certain conditions, including that they are margin securities as defined by Regulation T. The Commission has not yet taken any action on the proposed amendments to Rule 12d3-1. The amendments to Regulation T become effective April 30, 1990. Frances M. Stadler Assistant General Counsel