SECURITIES AND EXCHANGE COMMISSION

NEWS DIGEST

A brief summary of financial proposals filed with and actions by the S.E.C.

(In ordering full text of Releases from Publications Unit, cite number)

Washington 25, D.C.

FOR RELEASE May 22, 1962

"EQUITY FUNDING" RULE PROPOSED. The SEC today published its opinion (Release 33-4491) that the offer or sale of securities under a program which usually contemplates that the securities sold to the customer will be used as collateral for a loan, the proceeds of which are to be used to pay the premium on a life insurance policy sold to the customer at or about the same time (an activity which in various forms has come to be known as "equity funding," "secured funding," or "life funding") generally involves the offer and sale of an additional security, i.e., an investment contract, which is required to be registered under the Securities Act of 1933.

The Commission also announced a proposal (Release 34-6809) for the adoption of a new Rule 15c2-5 under the Securities Exchange Act of 1934 which would prohibit a broker or dealer from arranging a loan for a customer to whom a security is sold unless, before the transaction is entered into, the broker or dealer reasonably determines that the transaction, including the loan arrangement, is suitable for the customer, and delivers to him a written statement setting forth certain material information which the customer should have before he decides to enter the transaction. The rule would not apply to extensions of credit or loan arrangements by brokers or dealers subject to Regulation T where the credit is extended or the loan is arranged in compliance with that regulation only for the purpose of purchasing or carrying the security. There is reason to believe, the Commission stated, that some dealers have been offering the investment program referred to above without adequate consideration of whether it is suitable for the particular customer, and that they have failed to furnish to the customer adequate information concerning the nature and extent of his particular obligations, the specific charges which he will incur, the risks involved in the transactions, and the commissions and other remuneration which the dealer, and others in a control relationship to him, will receive in connection with the transactions.(Comments on Rule Proposal due June 20, 1962).

It has been suggested that if customers of broker-dealers are to be afforded adequate protection, and if the potentiality for fraud in these situations is to be reasonably controlled, the customer to whom this type of arrangement is offered should receive, before any of the transactions is entered into, a written statement as to the exact nature and extent of his obligations, of the risks involved, and of the commissions and other remuneration to be received by the broker or dealer and by other persons in a control relationship to him. There should also be some assurance that the broker-dealer has given adequate consideration to the customer's personal financial situation and needs and has reasonably determined that the entire transaction, including the loan arrangement, is suitable for the customer. Accordingly, the proposed rule would make a fraudulent practice for any broker or dealer to offer, sell or attempt to induce the purchase of any security by any person if the broker or dealer arranges a loan for such person unless, before the transaction is entered into, the broker or dealer (1) delivers to such person a written statement setting forth the exact nature and extent of his obligations, the risks involved, and the commissions and other remuneration to be received by the broker or dealer and by other persons in a control relationship to him, and (2) obtains from such person information concerning his financial situation and needs, reasonably determines that the entire transaction, including the loan arrangement is suitable for such person, and delivers to such person a written statement setting forth the basis upon which the broker or dealer made the determination.

Since the rule would not be intended to reach the traditional sale of securities on margin it would specifically provide that it is not applicable to an extension of credit, or the arrangement of a loan, by a broker-dealer subject to Regulation T if the loan is made or arranged in compliance with that regulation only for the purpose of purchasing or carrying the security.

In discussing the application of the Securities Act registration requirement, the Commission also observed that such programs of the type discussed may result in the creation of an investment company as defined in the Investment Company Act of 1940. Accordingly, the requirements of that Act, including particularly Sections 7, 26 and 27 thereof, should be considered by the sponsors of these plans.

PRUDENT REALTY FILES FOR STOCK OFFERING. Prudent Realty Investment Trust, 1324 Walnut St., Philadelphia, filed a registration statement (File 2-20388) with the SEC on May 21st seeking registration of 100,000 shares (certificates of beneficial interest in the Trust), to be offered for public sale at $10 per share. No underwriting is involved.

Prudent Realty was organized under Pennsylvania law in March 1962 as a business Trust, and intends to provide investors with an opportunity to own, through transferable shares in the Trust, an interest in diversified income producing properties consisting principally of real estate interests. The Trust is designed to qualify as a "real estate investment trust" under the Internal Revenue Code. It presently owns no real property and has no contracts to purchase any property; and it is expected that the holdings of the Trust will consist principally of apartment houses, office buildings, industrial and commercial buildings and chain retail establishments located initially in the area known as the Delaware Valley or metropolitan Philadelphia. The prospectus states that no commitments have been made for the acquisition of any specific properties with the proceeds from this stock sale, and there is no plan for allocation of the funds of the Trust among the various types of properties.

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The Trust has outstanding 14,250 shares of beneficial interest, all of which are owned by the trustees as a group. Such shares were purchased at $10 per share, of which $1.50 were paid in cash and $8.50 by the purchaser's non-interest bearing demand promissory notes held by the Trust. Richard I. Rubin is president.

SEC ORDER APPROVES FEES IN NEW ORLEANS P.S. CASE. The SEC has issued an order under the Holding Company Act (Release 35-14640) authorizing the payment of $41,660 of legal and other fees and expenses in connection with the proceedings culminating in the November 1961 order of the Commission approving a plan providing for the issuance by Middle South Utilities, Inc., New York holding company, of its common shares in exchange for the 3.18% publicly-held minority interest in its subsidiary, New Orleans Public Service Inc.

MEDICAL SECURITIES FUND ORDER. The SEC has issued an order under the Investment Company Act granting an application of Medical Securities Fund, New York investment company, for an exemption from provisions of the Investment Company Act to the extent that same requires approval by shareholders of investment advisory agreements, election of directors, and selection of certified public accountants, such exemption to be effective until the first annual meeting of the Fund in March 1963.

SECURITIES ACT REGISTRATIONS. Effective May 22: IPCO Hospital Supply Corp. (File 2-19967); McWood Corp. (File 2-19759); Rosenau Brothers, Inc. (File 2-19913); Seaway Food Town Inc. (File 2-20098); State Bond and Mortgage Co. (File 2-19600).

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