

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 8800]  
April 16, 1980

CREDIT RESTRAINT PROGRAM  
Additional Questions and Answers—Sixth Series

*To All Member Banks, and Others Concerned,  
in the Second Federal Reserve District:*

Printed below is the sixth series of questions and answers, representing the view of the legal staffs of the Federal Reserve Bank of New York and of the Board of Governors of the Federal Reserve System, regarding the Credit Restraint Program. This series of questions and answers relates to the credit restraint program for short-term financial intermediaries (Subpart B of the Board's regulation on Credit Restraint).

Any questions concerning the Credit Restraint Program may be directed to the persons listed in Circular No. 8794, which was sent to you on April 9.

ANTHONY M. SOLOMON,  
*President.*

Subpart B

Short Term Financial Intermediaries

General

B-1. Q: What does "primarily" mean?

A: For a managed creditor, "primarily" means 50 percent. However, if a funds investment objective is to invest in equities or in long- or medium-term debt securities, it will not become a covered creditor unless it meets the 50 percent test on an average basis for a period of 13 reporting weeks after March 14, 1980. Thus, if for any 13-week period the average of its daily percentage of assets with maturities of 13 months or less is 50 percent or greater, the investment company or collective investment fund becomes a managed creditor. Once an investment company or collective investment fund becomes a managed creditor, it remains a managed

creditor and must file weekly reports unless it receives the Board's permission to withdraw from managed creditor status.

For a unit investment trust, "primarily" means 100 percent, and is determined as of its settlement date. A trust whose investments have initial maturities of 14 months may be 100 percent invested in assets with maturities less than 13 months for most of its duration. Therefore, in order to avoid the special deposit requirement a unit investment trust must be fully invested in longer term assets on its settlement date.

B-2. Q: What is included in extensions of credit?

A: In general, all assets except coin and currency, physical assets such as furniture, equity securities and the creditor's special deposit with the Federal Reserve Bank are extensions of credit. Extensions of credit include checking accounts, receivables, and prepaid expenses.

B-3. Q: Are registered investment companies in Puerto Rico, the Virgin Islands, and other U.S. territories covered creditors?

A: Yes.

### Unit Investment Trusts

B-4. Q: Section 229.12(b)(4) of revised Subpart B provides that a unit investment trust established after March 14, 1980, shall have a base equal to its covered credit if, among other things, the units are held entirely by persons who held units in an expiring trust of the same sponsor with a base equal to the amount of its covered credit. How can a sponsor be certain, for purposes of disclosure to investors, that all persons purchasing units in a new trust held units in an eligible expiring trust?

A: The sponsor of any unit investment trust may treat the holders of record on the books of the trustee as the unit holders for purposes of satisfying the existing unit holder requirement. The Board expects that broker-dealers and other holders of record will make reason-

able efforts to offer units of new trusts to beneficial holders of expiring trusts.

B-5. Q: If a unit investment trust has a base equal to the amount of its covered credit and the proportion of its units held by trustees and other fiduciaries changes through secondary market transactions, does its amount of covered credit change?

A: No. If it has a base equal to its covered credit at the time it is established, its unitholders at expiration will be eligible to purchase units in a new trust with a base equal to the covered credit in the new trust even if the proportion has changed. There is no requirement that the covered credit of the new trust be identical to that of the expiring trust.

B-6. Q: On what date is the amount of a unit investment trust's covered credit determined?

A: The value of a unit investment trust's assets should be determined on the date of deposit, even though the special deposit will not be made until the settlement date. The proportion of trustees or other fiduciaries holding units should be determined as of the reporting date, two days prior to settlement.

#### Bank Trust Activities

B-7. Q: Are collective investment funds covered creditors?

A: All collective investment funds primarily investing in short-term assets, including short-term investment funds, are covered creditors. However, if a covered creditor does not hold any covered credit, for instance because all its liabilities are to exempt fiduciary accounts, it need not file reports.

B-8. Q: Are master notes and similar arrangements covered creditors?

A: Yes. Any collective investment vehicle of a bank including master notes and open-end repurchase agreements are covered creditors. The extensions of credit under a master note are equal to the amount funded at any one time, not the limit of the note.