1985

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GENERAL PARTNERSHIP INTERESTS AS SECURITIES UNDER THE FEDERAL SECURITIES LAWS: SUBSTANCE OVER FORM

INTRODUCTION

One of the central purposes of the federal securities laws¹ was to protect² passive, uninformed investors.³ Accordingly, Congress sought to ensure provision of otherwise unavailable information to these investors.⁴ Congress expected that with this information investors would have the tools necessary to protect their interests and would avoid investing in unsound, worthless, or fraudulent securities.⁵

General partners are not usually viewed by courts as needing the protections offered by the federal securities laws⁶ because they are assumed

³. See Slevin v. Pedersen Assocs., 540 F. Supp. 437, 441 (S.D.N.Y. 1982) ("securities laws were enacted to provide surveillance for those not in a position to monitor their own investments . . . [and to] protect the integrity of financial interests that unsuspecting investors are incapable of investigating for themselves"); Sandusky Land, Ltd. v. Uniplan Groups, Inc., 400 F. Supp. 440, 445 (N.D. Ohio 1975) (investors usually knew little about the actual operation of companies they were investing in).
⁴. See Ernst & Ernst v. Hochfelder, 425 U.S. 185, 195 (1976) (1933 Act designed to give investors full disclosure of material information about public offerings of securities and protect investors against fraud); Tcherepnin v. Knight, 389 U.S. 332, 336 (1967) (a central purpose of the 1934 Act is to protect investors by requiring full disclosure by issuers); SEC v. Capital Gains Research Bureau, Inc., 375 U.S. 180, 186 (1963) (fundamental purpose of securities laws was to substitute full disclosure for the philosophy of caveat emptor); Kahan v. Rosenstiél, 424 F.2d 161, 173 (3d Cir.) (1934 Act’s goal is to give the investing public the opportunity to make knowing and intelligent decisions), cert. denied, 398 U.S. 950 (1970); S. Rep. No. 1455, 73d Cong., 2d Sess. 68 (1934) (“One of the prime concerns of the exchanges should be to make available to the public, honest, complete, and correct information regarding the securities listed.”); S. Rep. No. 47, 73d Cong., 1st Sess. 1 (1933) (1933 Act aims “to place adequate and true information before the investor”).
to possess powers and responsibilities\(^7\) that would enable them to protect their partnership interests. Such classic general partners should expect to reap profits through their own efforts and active participation\(^8\) in the venture rather than simply through the efforts of others.

Some promoters have sought to take advantage of this judicial position by trying to masquerade a security as a general partnership interest to avoid the regulatory requirements and potential liabilities imposed by the securities laws.\(^9\) Federal courts, recognizing the potential for this type of masquerade in the context of other investment vehicles,\(^10\) have followed a Supreme Court mandate to examine the economic realities of an investment scheme rather than its appearance to determine whether the particular scheme will be considered a security and thus fall within the ambit of the federal securities laws. In the Supreme Court's analysis, the substance rather than the form of the scheme should govern.\(^11\)

A classic general partner trying to prove that his general partnership

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interest constitutes a security faces a difficult burden because he is presumed able to protect his own investment. To satisfy this burden, some courts have noted that the general partner must prove that despite the partnership form, he was so dependent on the promoter or a third party that he was in fact unable to exercise meaningful partnership powers. In fact, not all courts have given the general partner such an opportunity but have simply held as a matter of law that a general partnership interest cannot be considered a security.


In addition, the complaining general partner will be trying to gain all the advantages of being in federal court. For example, the general partner will have broader discovery rights in federal court. See E. Brodsky, Guide to Securities Litigation 326 (1974). If the general partner is also bringing some state law claims, the federal court will probably exercise pendent jurisdiction over such claims, because the federal and state claims will normally arise from the same operative facts. See United Mine Workers v. Gibbs, 383 U.S. 715, 725 (1966).

If the general partner’s interests are considered securities, the promoter or issuer may be required to register as a broker or dealer under § 15 of the 1934 Act, 15 U.S.C. § 78o (1982), if he is not exempt from registration. The promoter may also have to consider the possibility of registering the initial offering under § 5 of the 1933 Act, 15 U.S.C. § 77e (1982), if he is unable to find an exemption.


13. See Gordon v. Terry, 684 F.2d 736, 742 (11th Cir. 1982), cert. denied, 459 U.S. 1203 (1983); Williamson v. Tucker, 645 F.2d 404, 424 (5th Cir.), cert. denied, 454 U.S. 897 (1981); cf. Odom v. Slavik, 703 F.2d 212, 216 (6th Cir. 1983) (per curiam) (defendant did not overcome burden of showing that his partnership interest was a limited one).


This Note argues that an investment should not lose the protections of the federal securities laws simply because it is in the form of a general partnership interest. Rather, the economic realities of the scheme should govern. Part I will analyze the Howey test, the current formula used to determine whether a particular scheme classifies as an investment contract and thus a security, and the Howey test’s relevance to general partnership interests. Part II will describe the present controversy concerning whether general partnership interests should ever be considered securities. Part III will conclude that under certain circumstances general partnership interests should be treated as securities. Part III will also set forth a proposed sequence of analysis for determining the securities status of general partnership interests on a case-by-case basis.

I. HOWEY AND ITS RELEVANCE TO GENERAL PARTNERSHIP INTERESTS

A. The Howey Test


Neither Act refers directly to partnership interests. The Uniform Partnership Act\(^2\) (U.P.A.), however, defines a partnership as "an association of two or more persons to carry on as co-owners a business for profit."\(^2\) This definition appears to bring partnership agreements within the definition of securities in that they entail certificates of interest or participations in a profit-sharing agreement.\(^3\) The Supreme Court has stated, however, that a profit-shar-
ing agreement alone is not sufficient to make an agreement a security.\textsuperscript{24}

Courts confronted with the issue of whether a general partnership interest constitutes a security have considered whether the interest satisfies the definition of an investment contract\textsuperscript{25} set forth in the seminal case


The most important consideration in determining whether a partnership is bona fide is the presence of the right of \textit{delectus personae}, the right to determine membership. \textit{Id.} at 363. This notion was codified in the U.P.A.: “no person can become a member of a partnership without the consent of all the partners.” U.P.A. § 18(g) (1914). Thus, to be a bona fide partnership, all the partners must have the right to select all the other partners. In addition, if partnership interests are offered to the public, the partnership cannot be bona fide. Dahlquist, \textit{supra}, at 363. Lastly, if the holders of the interests have no personal relationship with one another, the partnership will not be bona fide since most partners, it is said, have a close personal relationship. \textit{Id.}

Dahlquist’s bona fide partnership test has been severely criticized. See, e.g., Long, \textit{Partnership, Limited Partnership and Joint Venture Interests as Securities}, 37 Mo. L. Rev. 581, 606-11 (1972). The criticism notes that a partnership that allows people to become partners without the consent of the other partners is not merely a non-bona fide partnership, but actually not a partnership at all, although nothing in partnership law prevents the public solicitation of new partners. \textit{Id.} at 609. Thus, the factors considered by the bona fide partnership test will not help distinguish between the passive investor and the active general partner.

This kind of test has not often been used in the federal courts, and when it has been mentioned the courts have also relied on the \textit{Howey} test. See, e.g., Vincent v. Moench, 473 F.2d 430, 436 (10th Cir. 1973); Holmes v. Bateson, 434 F. Supp. 1365, 1386-87 (D.R.I. 1977), aff'd in part and rev'd in part, 583 F.2d 542 (1st Cir. 1978); Hirsch v. duPont, 396 F. Supp. 1214, 1226-27 (S.D.N.Y. 1975), aff'd, 553 F.2d 750 (2d Cir. 1977); Pawgan v. Silverstein, 265 F. Supp. 898, 900-01 (S.D.N.Y. 1967).

Some courts that have considered whether an investor’s interest constitutes a security have also employed a risk capital analysis. Such an analysis was initially used in Silver Hills Country Club v. Sobieski, 55 Cal. 2d 811, 815-16, 361 P.2d 906, 908-09, 13 Cal. Rptr. 186, 188-89 (1961) (en banc) where the California Supreme Court held that membership interests in a country club were securities because the investors risked their capital in an enterprise managed by others. \textit{Id.} at 815, 361 P.2d at 908, 13 Cal. Rptr. at 188. It was irrelevant whether they expected a return on their capital as long as the investors received some benefit. This test focuses on what an investor stands to lose retrospectively and not what he expects to gain.

The Supreme Court of Hawaii, in Commissioner of Sec. v. Hawaii Mkt. Center, Inc., 52 Hawaii 642, 648-49, 485 P.2d 105, 109 (1971) also adopted a risk capital test. This
defining that term, *SEC v. W.J. Howey Co.*

In *Howey*, the Howey Company offered investors interests in approximately 250 acres of a citrus grove development, along with a service contract to harvest, cultivate and market the crop. In holding that the offering was an investment contract the Supreme Court set forth a four part test to determine whether an investment scheme was an investment contract.

To be considered an investment contract, the contract, transaction or scheme under scrutiny must be one in which a person 1) invests his money 2) in a common enterprise and 3) is led to expect profits 4) solely from the efforts of a promoter or a third party.

The *Howey* test seems mechanical on its face, but the Supreme Court emphasized that the term investment contract "embodies a flexible rather than a static principle, one that is capable of adaptation to meet the countless and variable schemes devised by those who seek the use of the test was originally set forth in *Coffey*, *The Economic Realities of a "Security": Is There a More Meaningful Formula?,* 18 W. Res. L. Rev. 367, 377 (1967). Noting that the *Howey* test was too mechanical to protect the investing public, the court stated that an investment contract is created whenever:

1. An offeree furnishes initial value to an offeror, and
2. A portion of this initial value is subjected to the risks of the enterprise, and
3. The furnishing of the initial value is induced by the offeror's promises or representations which give rise to a reasonable understanding that a valuable benefit of some kind, over and above the initial value, will accrue to the offeree as a result of the operation of the enterprise, and
4. The offeree does not receive the right to exercise practical and actual control over the managerial decisions of the enterprise.

While risk capital tests have been supported by other commentators, see, e.g., *What Is a Security?*, supra note 16, at 908-12; *Importance of Risk*, supra note 16, at 244-49; *Securities Regulation*, supra note 16, at 167-70; *Securities Regulation: "Beneficial Interest in Title to Property" as a Security—Silver Hills Country Club v. Sobieski (Cal. 1961), 50 Calif. L. Rev. 156 (1962); Note, *Securities Regulation: Risk Capital—Twenty Years After Silver Hills*, 35 Okla. L. Rev. 436 (1982), they have not been frequently employed by the federal courts. Such tests have been used in the context of deciding whether certain debt instruments are securities. See *Great W. Bank & Trust v. Kotz*, 532 F.2d 1252, 1257 (9th Cir. 1976); *El Khadem v. Equity Sec. Corp.*, 494 F.2d 1224, 1228-30 (9th Cir.), cert. denied, 419 U.S. 900 (1974). It does appear, however, that the fourth prong of this approach was influential in the Ninth Circuit's interpretation of the "efforts" prong of *Howey* in *SEC v. Glenn W. Turner Enters.*, 474 F.2d 476, 482 (9th Cir.), cert. denied, 414 U.S. 821 (1973). *See infra* notes 39-44 and accompanying text.

27. *See id.* at 295.
28. *See id.* at 298-99. In defining the term "investment contract," the Court did not specifically refer to the test as a four part test. The federal courts in interpreting *Howey*, however, have broken the test down into distinct elements. See, e.g., *Hunssinger v. Rockford Bus. Credits, Inc.*, 745 F.2d 484, 489 (7th Cir. 1984) (breaking down the *Howey* test into four parts); *Kansas State Bank v. Citizens Bank*, 737 F.2d 1490, 1494 (8th Cir. 1984) (same); *American Bank & Trust Co. v. Wallace*, 702 F.2d 93, 96 (6th Cir. 1984) (same); *United Am. Bank v. Gunter*, 620 F.2d 1108, 1114 (5th Cir. 1980) (same); *see also Odom v. Slavik*, 703 F.2d 212, 214 (6th Cir. 1983) (per curiam) (breaking down the *Howey* test into three parts); *Gordon v. Terry*, 684 F.2d 736, 740 (11th Cir. 1982) (same), cert. denied, 459 U.S. 1203 (1983); *Smith v. Gross*, 604 F.2d 639, 642 (9th Cir. 1979) (same).
money of others on the promise of profits.” This construction has led the federal courts to interpret the elements of the Howey test broadly.

B. The Significance of the Howey Test to General Partnership Interests

A general partnership interest will normally satisfy the first three prongs of the Howey test. In most cases the general partner will have made an investment into the partnership in the form of a capital contribution, expecting to receive profits. In addition, a general partnership will normally be considered a common enterprise.

The Ninth Circuit has gone so far as to hold that the use of investors’ credit in the form of a promissory note was sufficient to satisfy the “investment of money” prong of the Howey test. See Hector v. Wiens, 533 F.2d 429, 432-33 (9th Cir. 1976) (per curiam); El Khadem v. Equity Sec. Corp., 494 F.2d 1224, 1228-29 (9th Cir.), cert. denied, 419 U.S. 900 (1974).

An enterprise cannot be considered a partnership unless it was organized to make a profit for its members. See generally J. Crane & A. Bromberg, Law of Partnership § 13, at 63-65 (1968). The Supreme Court has noted that this prong of the Howey test may be satisfied either by profits generated through a capital appreciation resulting from the development of the initial investment or by having the investors participate in the earnings that have resulted from the use of their funds. See United Hous. Found., Inc. v. Forman, 421 U.S. 837, 852 (1975) (citing SEC v. C.M. Joiner Leasing Corp., 320 U.S. 344 (1943) and Tcherepnin v. Knight, 389 U.S. 332 (1967)). It is also possible that potential tax benefits could satisfy the requirement of profits. This issue can be very important in determining whether partnership interests can qualify as securities, because investors frequently choose to invest in a partnership mainly because of its potential tax benefits. Since the expectation of a tax saving may have actually induced the investment, it is arguable that this potential tax benefit should be considered an investor’s expected profit satisfying the third prong of the Howey test. See SEC v. International Mining Exch., Inc., 515 F. Supp. 1062, 1069 (D. Colo. 1981); Stowell v. Ted S. Finkel Inv. Servs., Inc., 489 F. Supp. 1209, 1221 (S.D. Fla. 1980), aff’d, 641 F.2d 323 (5th Cir. 1981); Sharp v. Cooper & Lybrand, 457 F. Supp. 879, 889 (E.D. Pa. 1978), aff’d in part and vacated in part, 649 F.2d 175 (3d Cir. 1981), cert. denied, 455 U.S. 938 (1982).

The Supreme Court noted in Forman, 421 U.S. at 855 (1975), that certain tax benefits did not qualify as profits. These tax benefits were of the type available to all homeowners. Id. at 855. In a footnote, the Court stated that even if tax deductions were considered profits, they could not be said to derive from a “security investment” if they did not result from the managerial efforts of others. See id. at 855 n.20.

Another issue arises as to what degree of commonality must be present in order for the Howey test to be satisfied. Some courts require the presence of horizontal commonality, which is a comingleing of the various funds or a private sharing of profits. See
The determination of whether a general partnership interest is an investment contract will turn on one of the most litigated aspects of the Howey test: whether profits are expected solely from the efforts of others. A literal reading of the word "solely" would almost always prevent a general partnership interest from being an investment contract because general partners, given their participatory role in the enterprise, will not depend solely on the efforts of others for profits. Promoters of investment schemes would be able to evade the securities laws by creating investments in the form of general partnership interests and by requiring the investing general partners to "contribute a modicum of effort" to the scheme. Such schemes would thwart the remedial purposes behind the securities laws.

Realizing this potential for abuse, the Ninth Circuit, in SEC v. Glenn W. Turner Enterprises, noted that it would adopt a more realistic approach to investment contract analysis. The Ninth Circuit stated that a court must determine "whether the efforts made by those other than the investor are the undeniably significant ones, those essential managerial efforts which affect the failure or success of the enterprise." This interpretation of the Howey test recognizes that even when an

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Salcer v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 682 F.2d 459, 460 (3d Cir. 1982) (investment did not satisfy Howey test because it was not part of a pooled group of funds); Curran v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 622 F.2d 216, 222-24 (6th Cir. 1980) (a relationship that ties the fortunes of each investor to the success of the overall venture is required), aff'd on other grounds, 456 U.S. 353 (1982); Hirk v. Agri-Research Council, Inc., 561 F.2d 96, 101 (7th Cir. 1977) ("a sharing or pooling of funds is required by Howey"). Other courts require the presence of vertical commonality for the investor and promoter to be engaged in a common enterprise. See SEC v. Koscot Interplanetary, Inc., 497 F.2d 473, 478 (5th Cir. 1974) ("[t]he critical factor is . . . the uniformity of impact of the promoter's efforts"); SEC v. Glenn W. Turner Enters., 474 F.2d 476, 482 n.7 (9th Cir.) (the fortunes of the investor must be "interwoven with and dependent upon the efforts . . . of those seeking the investment or of third parties"), cert. denied, 414 U.S. 821 (1973).


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40. See id. at 482.

41. Id.
investor performs some very minor, nominal services for an investment scheme, the investor may still lack access to the information necessary to enable him to protect his investment. Most circuits have accepted this interpretation of Howey.

II. THE CONTROVERSY

There is disagreement on whether a general partnership interest can ever be considered a security for purposes of the federal securities laws. Under one view general partnership interests cannot be securities as a matter of law because general partners possess certain statutory powers. The other view focuses on the factual reality of the given case and analyzes the actual rights and abilities of the general partner. Both approaches purport to place central importance on the "efforts" or "solely" prong of the Howey test.

42. For example, while the investors in Glenn W. Turner (who were considered security holders) were required to lure other potential investors to the scheme, the people in charge of the enterprise actually sold the investments. See Glenn W. Turner Enters., 474 F.2d at 482-83.


The Supreme Court has on occasion omitted the word "solely" in discussion of the Howey test. See International Bhd. of Teamsters v. Daniel, 439 U.S. 551, 561 (1979). Nonetheless, the Court has explicitly declined to express a view on whether "solely" should be interpreted literally or whether the essential managerial efforts test of Glenn W. Turner should be used when applying Howey. See United House Found., Inc. v. Forman, 421 U.S. 837, 852 n.16 (1975). If the Supreme Court were to decide this issue, however, it would be very unlikely to follow a mechanical reading of this prong of the Howey test in light of its mandate that the substance and not the form of an investment scheme should govern and that the factual economic realities behind the scheme should be scrutinized. See supra note 11 and accompanying text.


47. See, e.g., Goodwin v. Elkins & Co., 730 F.2d 99, 103 (3d Cir.), cert. denied, 105 S.
A. *The Matter of Law Approach*

A proponent of the matter of law approach will often look to the statutory rights of a general partner and assume that a general partner possesses the ability to exercise those rights and therefore has a voice in managing partnership affairs. The Third Circuit recently used this analysis in *Goodwin v. Elkins & Co.*, holding, as a matter of law, that one who holds a general partnership interest does not possess a security for purposes of the federal securities laws.

The plaintiff, Mr. Goodwin, was a general partner in a brokerage and securities limited partnership. Goodwin brought an action alleging violations of Section 10(b) of the 1934 Act and Rule 10b-5. He claimed that based on the defendants' false representations made to him, including the misrepresentation that the firm was not planning to merge or to be sold, he resigned from the company. Shortly thereafter, the company was acquired by Bache, Halsey, Stuart and the value of the partnership interest he had relinquished rose considerably.

Judge Garth, announcing the judgment of the court, held that plaintiff's interest in the partnership could not qualify as a security because "the role of a general partner, by law, extends well beyond the permitted role of a passive investor." This holding would apparently prevent any general partner from ever having an opportunity to prove that he


48. See *supra* note 45 and accompanying text.


50. 730 F.2d 99 (3d Cir.), cert. denied, 105 S. Ct. 118 (1984). While Judge Garth announced the judgment of the court, his analysis with regard to the matter of law approach was not shared by his colleagues. *Id.* at 103.

51. *See id.* at 108 (Garth, J.).

52. *Id.* at 101 (Garth, J.).


55. *Goodwin*, 730 F.2d at 101 (Garth, J.).

56. *Id.*

57. *Id.* at 103 (Garth, J.) (emphasis in original). Judge Garth went a step further, characterizing as dicta the parts of *Williamson v. Tucker, 645 F.2d 404 (5th Cir.), cert. denied, 454 U.S. 897 (1981)*, which stated that some forms of general partnership interests could be securities. *See Goodwin, 730 F.2d at 106 n.11 (Garth, J.)*. In his view *Williamson* only stands for the proposition that for a case to be dismissed for lack of subject matter jurisdiction the plaintiff's claims must be made solely to obtain federal jurisdiction. *Id.* Regardless of the accuracy of this argument, the *Williamson* analysis has been quoted and adopted by many other courts. *See infra* note 88 and accompanying text.

58. Although Judge Garth's conclusion that Mr. Goodwin's general partnership interest was not a security was probably correct even under *Williamson*, his analysis was overinclusive.
owned a security in the form of an investment contract by satisfying the requirements of the Howey test.

Judge Garth based his opinion on the statutory rights and powers granted the general partner,\(^{59}\) reasoning that a partnership agreement could not so diminish these statutory powers as to make the general partnership interest a security.\(^{60}\) His opinion discussed many provisions of the Pennsylvania Partnership Act\(^{61}\) to demonstrate the extensive powers of a general partner and to conclude that one who has such powers cannot have expected to receive profits solely from the efforts of others.\(^{62}\)

The partnership rights and duties emphasized by Judge Garth's opinion are those of the general partners with respect to third parties,\(^{63}\) not the rights of the partners among themselves to control and manage the business of the partnership. Hence, these rights do not necessarily give the general partner access to the kind of information that would help the general partner protect himself. The fourth prong of the Howey test, as interpreted by Glenn W. Turner, considers the partner's actual control over the management of the enterprise to determine whether profits are expected from the efforts of others.\(^{64}\) The Garth analysis, however, does not acknowledge the relevance of the actual functioning and managing of


\(^{60}\) Id. at 104. Other courts at times have followed an analysis similar to Judge Garth's opinion in Goodwin. In New York Stock Exch. v. Sloan, 394 F. Supp. 1303 (S.D.N.Y. 1975) the court stated that general partners are not passive investors and therefore could not be considered investors in securities. See id. at 1314. The court emphasized that a partner's responsibility under New York partnership law for acts of the partnership could not be diminished even if the general partner chose to delegate his duties. See id. The court did not extensively analyze the fourth prong of the Howey test, but stated that whether a general partnership interest is a security "does not and should not hinge on the particular degree of responsibility he assumes within the firm." Id.; see also Hirsch v. duPont, 396 F. Supp. 1214, 1220 (S.D.N.Y. 1975) (adopting the Sloan reasoning), aff'd, 553 F.2d 750 (2d Cir. 1977). The court in Hirsch noted that the rights and duties granted by the partnership articles were not a sham designed to evade the strictures of the Howey test.

\(^{61}\) 59 Pa. Cons. Stat. Ann. §§ 301-365 (Purdon Supp. 1983). Judge Garth particularly noted certain rights under this act, including: each general partner can bind the partnership while conducting business with third parties; each partner has unlimited liability for partnership losses; the partnership is liable for wrongful acts or breaches of trust by partners; and notice to one general partner is equal to notice to the entire partnership. See Goodwin, 730 F.2d at 104.

\(^{62}\) See Goodwin, 730 F.2d at 104 (Garth, J.). Judge Garth noted that even if the Elkins partnership agreement contained the most draconian restrictions on the rights of the nonmanaging general partners, these partners would still have enough legal power and responsibility to preclude such interests from being considered securities. See id. at 107.

\(^{63}\) See supra note 61.

the partnership.\textsuperscript{65}

\textbf{B. The Factual Reality Approach}

Courts employing the factual reality approach\textsuperscript{66} look beyond the rights of a general partner as set forth by statute or by the partnership agreement to scrutinize the partner's ability to manage the partnership.\textsuperscript{67} These courts seek to determine whether the investing general partner actually depends on the managing efforts of others to control partnership affairs.\textsuperscript{68}

This approach was initially set forth in \textit{Williamson v. Tucker},\textsuperscript{69} in which the Fifth Circuit described three sets of circumstances under which a general partnership interest could appropriately be treated as a security.\textsuperscript{70} These circumstances were referred to by the court as examples of situations that would give rise to an investor's dependence on the promoter.\textsuperscript{71} These examples were not considered exhaustive.\textsuperscript{72}

The Fifth Circuit's analysis requires an evaluation of the capabilities of the general partner to determine whether the investing general partner


In contrast, the concurring opinions of Chief Judge Seitz and Judge Becker were not based on the statutory rights afforded general partners but on the particular partnership agreement at hand. \textit{See id.} at 111-13 (Seitz, C.J., concurring); \textit{id.} at 113-14 (Becker, J., concurring). They both stop short of the broad sweep of the opinion announcing the judgment of the court, reasoning that it was unnecessary to decide whether the statutory rights granted to general partners were substantial enough to preclude a general partner from claiming that his interest was a security. \textit{See id.} at 112 (Seitz, C.J., concurring); \textit{id.} at 114 (Becker, J., concurring).


\textsuperscript{69} 645 F.2d 404 (5th Cir.), \textit{cert. denied}, 454 U.S. 897 (1981).

\textsuperscript{70} \textit{See id.} at 424. The Fifth Circuit's analysis is applicable to joint venture interests as well. The two business forms are quite similar, and most states apply many of the rules of partnership law to joint ventures. The joint venture, however, is normally established to perform a particular undertaking and is usually dissolved on completion while the partnership is a more permanent entity. \textit{See generally} J. Crane & A. Bromberg, \textit{supra} note 34, § 35, at 189-95; H. Henn & J. Alexander, Law of Corporations § 49, at 105-09 (1983); H. Reuschlein & W. Gregory, Agency & Partnership, § 266, at 441-46 (1979).

\textsuperscript{71} \textit{See Williamson}, 645 F.2d at 424.

\textsuperscript{72} \textit{Id.} at 424 n.15.
expected to rely on the efforts of others for profits. This scrutiny would be appropriate even though the actual partnership agreement seemed to provide all general partners with the power to control the business. One aim of the Williamson analysis is to determine whether the partnership agreement accurately reflects the behavior and abilities of the general partners.

Under Williamson, a general partnership interest can be considered a security if

1. an agreement among the parties leaves so little power in the hands of the partner or venturer that the arrangement in fact distributes power as would a limited partnership; or
2. the partner or venturer is so inexperienced and unknowledgeable in business affairs that he is incapable of intelligently exercising his partnership or venture powers; or
3. the partner or venturer is so dependent on some unique entrepreneurial or managerial ability of the promoter or manager that he cannot replace the manager of the enterprise or otherwise exercise meaningful partnership or venture powers.

The Fifth Circuit thus seems to acknowledge that a general partnership...
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interest is denied securities protection only if the partner possesses both the designated right and the actual ability to control his investment in the partnership.77

Unfortunately for the joint venturers in Williamson, the court was unable to find investor dependence sufficient to qualify the interests as securities. Three people each owned undivided one-third interests in a 160-acre tract of land near the proposed site of the Dallas-Fort Worth airport.78 As a result of a series of transactions, three separate joint venture groups bought new undivided one-third interests in the property.79 The transactions were arranged by Godwin Investments, which had purchased an interest in the property and then attracted potential investors to participate in the joint venture.80 As part of its scheme, Godwin Investments represented that it would perform all management duties to “assure the maximum profit potential of each investment.”81

In its analysis, the court noted that the partnership agreement allocated powers sufficient to give the venturers the right to control their investment.82 In addition, the plaintiffs were capable of exercising such control because of their considerable business experience and the knowl-

78. Id. at 407.
79. Id. at 407-08.
80. Id. at 408.
81. Id. (capitalization omitted).
82. See id. at 424.
edge they had acquired as real estate venturers. Last, the court found that since the plaintiffs were capable of replacing the management of Godwin Investments, they were not solely dependent on that management to operate the scheme.

*Williamson* thus precludes finding a general partnership interest to be a security if the investor’s right to control the enterprise is accompanied by the actual ability to control the enterprise. It recognizes that if the general partner retains substantial power and the capacity to exercise it, his general partnership interest will not be deemed a security. Thus, the *Williamson* approach is consistent with the view that the securities laws were not enacted to protect against all fraud and would not provide federal securities laws protection to classic general partners. *Williamson* will, however, protect the truly passive investor even though he is termed a general partner.

The Securities and Exchange Commission and many federal courts have endorsed the *Williamson* approach. Courts that employ it do so as an extension of the “efforts” or “solely” prong of the *Howey* test. For example, in *Morrison v. Pelican Land Development*, the District Court for the Northern District of Illinois relied on the second and third prong.

83. *Id.* at 424-25.
84. *See id.* at 425.
85. The investor’s right to control the enterprise refers to a de jure right while his actual ability to do so refers to a de facto condition.

While the opinion of an administrative agency such as the SEC can be quite persuasive and is often given great weight, it is not binding on the courts. *See* International Bhd. of Teamsters v. Daniel, 439 U.S. 551, 566 n.20 (1979).

89. *Id.* at 94,481; *see* *Williamson*, 645 F.2d at 424 (“the partner or venturer is so inexperienced and unknowledgeable in business affairs that he is incapable of intelligently exercising his partnership or venture powers”).
examples of the Williamson analysis. The plaintiff, a Chicago police officer with a high school education, became one of nineteen general partners in Pelican Land Development by investing over $100,000. He claimed he decided to invest in the development after the defendant, his lawyer, lied to him about it. The defendants argued that plaintiff's general partnership interest gave him a right to control the partnership equal to that of the other general partners. Plaintiff contended that he could exercise no real control over the venture because he lacked the expertise, and that he actually depended on the managing partners, to whom the partnership agreement gave the power to control the day-to-day affairs of the partnership. The court denied defendant's motion for summary judgment because it was a disputed issue of fact whether the second and third examples of Williamson were satisfied.

III. THE SECURITIES STATUS OF GENERAL PARTNERSHIP INTERESTS: A PROPOSED SEQUENCE OF ANALYSIS

The alternative approaches to determining the securities status of general partnership interests vary markedly in their sensitivity to the substance of the investment at issue. The matter of law approach rigidly refuses to inquire beyond the face of an investment agreement which takes the general partnership form. It makes only a truncated inquiry, correctly commencing with scrutiny of form, but failing to pierce beyond it. The factual reality approach articulated in Williamson recognizes that despite the appearance of the general partnership agreement, a general partner, because of his lack of expertise or ability, or because of his dependence on others may actually be a passive investor who merits the

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91. Morrison, [1982 Transfer Binder] Fed. Sec. L. Rep. (CCH), at 94,481; see Williamson, 645 F.2d at 424 ("the partner or venturer is so dependent on some unique entrepreneurial or managerial ability of the promoter or manager that he cannot replace the manager of the enterprise or otherwise exercise meaningful partnership or venture powers") (footnote omitted).
93. Id.
94. Id.
95. Id.
96. Id.
97. Id. at 94,480 & n.1.
98. See id. at 94,481. In a similar context, the District Court for the Northern District of California used the Williamson analysis to deny a motion for summary judgment. See McConnell v. Frank Howard Allen & Co., 574 F. Supp. 781, 786-87 (N.D. Cal. 1983). The plaintiffs, who were designated as nonmanaging general partners of a real estate venture, claimed that they were defrauded, and sued under the 1934 Act (appending many state law claims). Id. at 782-83. In denying the motion, the court noted that both the contract and the factual necessity must be scrutinized to determine whether the partners were able to exercise some control over the management of the venture. Id. at 786; see also Gordon v. Terry, 684 F.2d 736, 742-43 (11th Cir. 1982) (whether defendant's skills created dependency as set forth in Williamson was an issue of fact), cert. denied, 459 U.S. 1203 (1983).
99. See supra Part II.A.
100. See supra Part II.B.
protections of the securities laws.\textsuperscript{101}

\section*{A. The Three Stage Analysis}

To ensure that the true relationship between the general partner and the partnership is revealed, an examination of the partnership interest should proceed well beyond the face of the agreement.\textsuperscript{102} Accordingly, this Note proposes a three stage analysis.\textsuperscript{103}

Each stage focuses on a different kind of evidence, with each stage serving as a threshold to the next.\textsuperscript{104}

\textit{Stage One. The partnership agreement.} Inquiry should begin with an assessment of the balance of powers within the partnership,\textsuperscript{105} scrutinizing the partnership agreement to determine whether the powers, rights and responsibilities granted the general partner would enable him to exercise a voice in the management and control of the partnership, thus helping to further its goals.\textsuperscript{106} This scrutiny helps determine the intent or expectation of the general partners.

\textit{Stage Two. Conduct and behavior of general partner.} The conduct and behavior of the general partner should be examined to determine whether his actions are consistent with the partnership agreement.\textsuperscript{107}

\textit{Stage Three. Sophistication of general partner.} The general partner's level of sophistication regarding the particular business of the partnership should be evaluated to determine whether his experience and knowledge would provide him with the ability to make an independent


\textsuperscript{102} \textit{Id.} at 424; see Lino v. City Investing Co., 487 F.2d 689, 693 (3d Cir. 1973) ("It would seem that only through examining all the facts and circumstances surrounding the agreement could the Supreme Court's mandate to emphasize economic reality be given full effect."); McConnell v. Frank Howard Allen & Co., 574 F. Supp. 781, 786 (N.D. Cal. 1983) ("Although an enterprise may be a partnership or a joint venture in form, it may be considered the equivalent of a limited partnership under \textit{Williamson} because by contract or factual necessity certain partners have little or no control over the management of the enterprise.").

\textsuperscript{103} The proposed test adopts many of the ideas behind the \textit{Howey} test and the \textit{Williamson} analysis. It should be employed only after the first three prongs of the \textit{Howey} test have been satisfied.

\textsuperscript{104} For discussion of the rationale supporting this analysis, see \textit{infra} Part III.B.

\textsuperscript{105} U.P.A. § 18 (1914), which sets forth the rules that determine the rights and duties of partners, assumes that the rights and duties of the partners "shall be determined, subject to any agreement between them." \textit{Id}.

While a written agreement will be strong evidence of the general partner's intent, the partnership agreement need not be in writing. \textit{See} Bailes v. Bailes, 261 Ark. 389, 391, 549 S.W.2d 69, 71 (1977); Stein v. Jung, 492 S.W.2d 139, 144 (Mo. App. 1973). A security might exist even without a written agreement. \textit{See} SEC v. Addison, 194 F. Supp. 709, 722 (N.D. Tex. 1961).

\textsuperscript{106} See \textit{infra} notes 109-14 and accompanying text.

\textsuperscript{107} See \textit{infra} notes 115-20 and accompanying text.
contribution toward the management and control of the partnership.\textsuperscript{108}

1. Establishing the Rebuttable Presumptions: Stage One

The proposed analysis begins\textsuperscript{109} under Stage One with a facial scrutiny of the partnership agreement to assess the powers granted to the complaining general partner.\textsuperscript{110} Stage One will set up one of two presumptions, while Stages Two and Three will afford the opportunity to rebut that presumption.

If, in the partnership agreement, the complaining general partner is found to have no powers\textsuperscript{111} or only nominal or ministerial powers,\textsuperscript{112} he will be presumed to be a security holder\textsuperscript{113} and the burden will be on the

\begin{footnotes}
\item[108] See infra notes 121-28 and accompanying text.
\item[109] Under the proposed analysis, the determination of whether a general partnership interest is a security is a mixed question of law and fact. If the material facts are undisputed, the issue may be resolved summarily by the court. If there are disputed issues of fact material to the determination of whether a security exists, the court will not resolve the issue summarily. See Gordon v. Terry, 684 F.2d 736, 742 (11th Cir. 1982), cert. denied, 459 U.S. 1203 (1983); McConnell v. Frank Howard Allen & Co., 574 F. Supp. 781, 786-87 (N.D. Cal. 1983); Morrison v. Pelican Land Dev., 781 F.2d 351 (1982) ("[n]ovel, uncommon, or irregular devices, whatever they appear to be, are also reached [by the 1933 Act] if it be proved as a matter of fact that they [are] ... investment contracts") (emphasis added).
\item[111] In the absence of any agreement to the contrary, all partners shall have equal rights in the management and conduct of the partnership business. U.P.A. § 18(e) (1914).
\end{footnotes}
defendant, under Stage Two, to rebut that presumption by proving that the general partner actually exercised or expected to exercise real partnership power. If the complaining general partner does possess significant power on the face of the partnership agreement, he will be presumed to be a classic general partner and therefore not a security holder. It will be his burden to overcome this presumption. The general partner will be able to satisfy his burden if he can prove under Stage Two that he did not exercise his powers and under Stage Three that he did not have the capacity to exercise this power independently.

2. Comparing the Partnership Agreement to the Complaining General Partner's Behavior: Stage Two

If defendant can prove under Stage Two that the complaining partner's behavior does not truly reflect the apparently powerless position defined in the partnership agreement and that in fact the general partner participated in the management or control of the partnership, the partnership agreement will be deemed waived or modified, and no security will exist. This may be shown, for example, if the defendant can prove

114. See, e.g., Goodwin v. Elkins & Co., 730 F.2d 99, 105 (3d Cir.) ("[T]he Partnership Agreement provides that any general partner may participate in the nomination, election, or removal of the Executive committee and the Managing Partner. . . . The general partners as a group also maintain ultimate managerial control through oversight of the Executive Committee and the Managing Partner. . . . General partners must approve new admissions into the partnership and involuntary terminations of the partnership."); cert. denied, 105 S. Ct. 118 (1984); Gordon v. Terry, 684 F.2d 736, 741 n.5 (11th Cir. 1982) (agreement permits partners to control, by majority vote, decisions regarding partnership property); cert. denied, 459 U.S. 1203 (1983); Williamson v. Tucker, 645 F.2d 404, 424 (5th Cir.) (partnership agreement allowed investors to exercise ultimate control); cert. denied, 454 U.S. 897 (1981); Morrison v. Pelican Land Dev., [1982 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 98,863, at 94,480 n.1 (N.D. Ill. Aug. 20, 1982) (partnership agreement clearly gave the complaining general partner a right to control the partnership affairs equal to that of all other partners subject only to the managing partners' "day to day" control over the partnership); Bank of Am. Nat'l Trust & Sav. Ass'n v. Hotel Rittenhouse Assocs., 595 F. Supp. 800, 806 & n.1 (E.D. Pa. 1984) (general partners were not authorized to act unless their acts had first been approved); Hirsch v. duPont, 396 F. Supp. 1214, 1221 (S.D.N.Y. 1975) (disputes resolved by a majority in interest of the general partners, with the interest of each general partner based on the number of voting units he held); Oxford Fin. Cos. v. Harvey, 385 F. Supp. 431, 434 (E.D. Pa. 1974) (joint venture agreement showed that most managerial decisions must be approved by both parties).

115. Because the relevant portions of the partnership agreement have been waived or modified, the partnership agreement can no longer be looked at as prime evidence of the general partner's intent or expectations. On the contrary, the general partner's present behavior may now become persuasive evidence of his expectation regarding management. Thus, if a general partner exercises partnership powers, it will usually be justifiable to conclude that he expected to exercise these powers.

The investing general partner should be on notice that he has significant rights and the potential to exercise a voice in the control of partnership affairs because he purchased a general partnership interest. See Williamson v. Tucker, 645 F.2d 404, 422 (5th Cir.), cert. denied, 454 U.S. 897 (1981). Therefore, if he chooses to exercise his partnership powers, he will be deemed to have expected that he had these powers and was waiting for the opportunity to exercise them, unless he can prove otherwise.
that the complaining partner was actually involved in the day-to-day managing of the business\textsuperscript{116} or was consulted and gave his advice and opinions on the management and control of the partnership.\textsuperscript{117} This may also be shown if it can be proved that the general partner actually had some significant decision making responsibility not reflected in the partnership agreement.\textsuperscript{118}

Most partnership agreements will grant general partners more than negligible powers and responsibilities.\textsuperscript{119} When this is the case, Stage One makes it necessary to determine whether these distributed powers and responsibilities would enable the general partner to have a voice in the management and control of the partnership. Where Stage One finds that voice, the complaining general partner will be required to rebut the presumption that he is a classic general partner and not a security holder. To do this, he will have to prove under Stage Two that he did not exercise his apportioned\textsuperscript{120} powers and under Stage Three that his nonuse of apparent powers arose from a lack of personal ability to do so.\textsuperscript{121}

\textsuperscript{116} See Slevin v. Pedersen Assocs., 540 F. Supp. 437, 440 (S.D.N.Y. 1982) (joint venture interest not considered an investment contract even though it may not have been foreseen at time of original agreement that plaintiff would contribute to management of the business because when he saw that the venture was not being run correctly, he rendered his services to the scheme); Goodman v. DeAzoulay, 539 F. Supp. 10, 14-15 (E.D. Pa. 1981) (joint venturer who actively participated in company activities and paid personal bills with company funds was not a security holder); Sandusky Land, Ltd. v. Uniplan Groups, Inc., 400 F. Supp. 440, 445 (N.D. Ohio 1975) (because plaintiff was to be actively involved in the operation of the business no security was found to exist); Romney v. Richard Prows, Inc., 289 F. Supp. 313, 315 (D. Utah 1968) ("it clearly appears that plaintiff... was a participant in a joint venture, the success of which depended to an important degree upon his services and activity in the venture"). But see Rogers v. Cowley, [1982-1983 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 99,178, at 95,684 (N.D. Ga. Mar. 14, 1983) (although plaintiff was a minority director and worked as the manager of a racquetball facility, he had no ultimate control over the significant managerial policies and decisions and therefore his stock purchases were considered investment contracts and thus securities).

\textsuperscript{117} Cf. Andrews v. Blue, 489 F.2d 367, 375 (10th Cir. 1973) (joint venture interest was found to be a security even though contract referred to plaintiff as a consultant, because he had no real managerial status).

\textsuperscript{118} Cf. SEC v. Professional Assocs., 731 F.2d 349, 356-57 (6th Cir. 1984) (while joint venture agreement stated all joint venturers were to have a voice in major decisions affecting the venture, evidence showed that some investors were entirely passive); Schultz v. Dain Corp., 568 F.2d 612, 615 (8th Cir. 1978) (plaintiff retained ultimate control over apartment complex and continued to exercise supervisory rights).

\textsuperscript{119} See supra notes 7, 114 and accompanying text.

\textsuperscript{120} See, e.g., SEC v. Professional Assocs., 731 F.2d 349, 357 (6th Cir. 1984) (evidence demonstrated that some investors were entirely passive); Andrews v. Blue, 489 F.2d 367, 375 (10th Cir. 1973) (plaintiff's consultant role was purely nominal as he had no managerial status and was treated as an outsider); Morrison v. Pelican Land Dev., [1982 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 98,863, at 94,480 (N.D. Ill. Aug. 20, 1982) (partner claimed that in reality he exercised no control over the development).

3. Sophistication of the Complaining General Partner: Stage Three

When previous analysis finds an agreement that gives power, but also that the plaintiff exhibited only passive behavior, the reason for this discrepancy must be determined. In such cases Stage Three will determine whether the general partner simply chose not to exercise his powers or whether his powers were illusory because he was unable to exercise them.

Under Stage Three, the general partner's level of sophistication regarding the particular business of the partnership will be evaluated. Such scrutiny will determine whether the general partner is sophisticated enough to be able to exercise a meaningful voice in controlling and managing the affairs of the partnership or whether he is actually dependent on others to exercise this power.

The second and third examples of Williamson suggest the nature of the inquiry needed here to penetrate the factual reality behind the operation of the partnership. Williamson instructs us to evaluate the general partner's past experience and knowledge in the particular business of the partnership as an indicator of his potential influence on partnership affairs. Overall investment knowledge will not be a factor sufficient to establish classic general partner status unless such knowledge is significant to the management and control of the particular partnership.

Alternatively, Williamson suggests that the court inquire into the general partner's dependence on the promoter. If the promoter possesses such unique, irreplaceable skills that the general partner is at his mercy


122. See Elson v. Geiger, 506 F. Supp. 238, 243 (E.D. Mich. 1980) (plaintiffs possessed significant managerial roles under the partnership documents but chose not to exercise any managerial functions); aff'd, 701 F.2d 176 (6th Cir. 1982); New York Stock Exch. v. Sloan, 394 F. Supp. 1303, 1314 (S.D.N.Y. 1975) (even though a general partner chose to delegate his managerial responsibilities to a committee, he still had the right to a voice in partnership matters); see also Schultz v. Dain Corp., 568 F.2d 612, 615 (8th Cir. 1978) (investor retained ultimate control over apartment complex but chose to delegate his responsibility to an agent); Ballard & Cordell Corp. v. Zoller & Danneberg Exploration, Ltd., 544 F.2d 1059, 1065 (10th Cir. 1976) (agreement gave defendants considerable operating power and defendants were skilled and should have been able to use this power), cert. denied, 431 U.S. 965 (1977); Fargo Partners v. Dain Corp., 540 F.2d 912, 915 (8th Cir. 1976) (investor had power to control business and whether it was exercised was irrelevant); Mr. Steak, Inc. v. River City Steak Co., 460 F.2d 666, 669-70 (10th Cir. 1972) (franchise agreement was not an investment contract where franchisee retained certain powers but simply chose to let franchisor operate the restaurant).

123. See supra note 121 and accompanying text.

124. Since Stage Three calls for a subjective inquiry into the background of the complaining general partners involved in the scheme, it is possible for some general partners to possess securities while others do not, within the confines of the same investment scheme. See Brodsky, General Partner's Interest as a Security, 189 N.Y.L.J., Feb. 2, 1983, at 1, col. 1.


126. See id. at 424.
and unable to replace him, the general partner may be deemed to hold a security.\textsuperscript{127}

If it is determined under Stage Three that a general partner has the sophistication and ability to contribute to the management and control of the partnership independently but simply chose not to exercise this power or decided to delegate it, he will not have overcome the presumption that he is a classic general partner in fact, and his interest will not be a security. If it is found, however, that he does not have the capacity to exercise his partnership power, he will have met his burden and his interest will be considered a security.\textsuperscript{128}

B. Williamson and the Three Stage Analysis

The factual reality approach set forth in \textit{Williamson} points out certain issues to be considered when analyzing the security status of general partnership interests. The three stage analysis proposed here adopts many of the ideas of \textit{Williamson} but also presents a concrete sequence of analysis to determine the factual realities behind each partnership.

By adopting the proposed three stage analysis, courts would put promoters on notice that the regulatory requirements and the potential liabilities imposed by the federal securities laws may be applicable to their investment enterprises even when couched in the form of a general partnership.\textsuperscript{129} Those promoters who want to use the general partnership form of business will be forewarned that immunity from securities protection is only available if investors are reasonably sophisticated in the particular business of the partnership and have the knowledge and capacity necessary to protect their interests without the aid of the federal securities laws. The specific multistage analysis will give promoters standards and predictability regarding acceptable and unacceptable arrangements and the potential consequences and liabilities of establishing an investment venture in the form of a general partnership.\textsuperscript{130} Requiring

\textsuperscript{127} It must be emphasized that \textit{Williamson} does not require the general partner to prove that the promoter possesses such irreplaceable skills. Rather, offer of such proof will be one way the general partner may establish his dependency on the promoter.

\textsuperscript{128} Merely because a general partner is not able to control the outcome of partnership affairs because he has a minority vote will not automatically make him a security holder. The classic general partner's vote coupled with his level of sophistication in dealing with the business affairs of the partnership would give him influence over the partnership and sufficient control to allow him to protect his interest.

\textsuperscript{129} The Supreme Court is reluctant to find the existence of a security where an investment is already comprehensively regulated on the federal level. \textit{See} Marine Bank v. Weaver, 455 U.S. 551, 557-59 (1982) (bank certificate of deposit regulated by federal banking laws); International Bhd. of Teamsters v. Daniel, 439 U.S. 551, 569-70 (1979) (employee pension plans regulated by ERISA); \textit{see also} Wolf v. Banco Nacional de Mexico, S.A., 739 F.2d 1458, 1463 (9th Cir. 1984) (expanding idea to include a foreign government's regulatory structure where this structure provided certificate holders with same degree of protection against insolvency as does U.S. banking system), \textit{cert. denied}, 105 S. Ct. 784 (1985).

\textsuperscript{130} To protect themselves, promoters should draft a warranty and indemnity agreement wherein the general partner represents his degree of knowledge and experience re-
that all three elements of the analysis be satisfied will also offer promoters protection from inappropriate liability by making the elevation of the partnership contract to securities status difficult.

To the bona fide passive investors who have been defrauded by unscrupulous promoters, the proposed three stage factual reality test provides an opportunity to use the remedies provided by the securities acts even though the investments at issue are nominally in the general partnership form. The would-be plaintiff is provided with standards for evaluating the potential of his lawsuit.

The proposed test would be consistent with the Supreme Court's mandate that the form of an investment vehicle should not be allowed to camouflage the actual substance and economic reality of the scheme. It would also further the congressional intent behind the securities laws: "[t]o define the term 'security' in sufficiently broad and general terms so as to include within that definition the many types of instruments that in our commercial world fall within the ordinary concept of a security."132

CONCLUSION

When a general partner does not have the power or ability to have any voice in the management of partnership affairs, his general partnership interest should be considered a security. If it is not, promoters may be encouraged to create investment vehicles in the form of general partnership interests in an effort to bypass the federal securities laws. While most general partners will not be able to overcome the high burden of proof necessary to establish that their partnership interest constitutes a security, those general partners who truly are passive investors should not be deprived of the protections to which they are entitled.

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