

FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, July 19, 1945

AMENDMENT TO REGULATION F

To the Member Bank Addressed:

There is transmitted herewith an amendment to Regulation F, issued by the Board of Governors of the Federal Reserve System, effective September 1, 1945. This amendment provides for an increase in the limitation on investments in Common Trust Funds from \$25,000 to \$50,000.

Also included are other amendments to the Common Trust Fund provisions of Regulation F, providing restrictions on a bank's advertising as to such funds and certain other minor changes, principally of a clarifying nature. Corresponding changes are also made in the provisions relating to mortgage investment funds.

Of the states included in the Eleventh Federal Reserve District, the laws of Arizona alone authorize operation of Common Trust Funds by State chartered institutions. Under Regulation F national banks are not authorized to operate Common Trust Funds, unless enabling legislation has been adopted by the states in which they are located.

It is suggested that the amendment be inserted in your ring binder containing regulations of the Board of Governors and bulletins of this bank.

Yours very truly,

R. R. GILBERT

President

TRUST POWERS OF NATIONAL BANKS

AMENDMENT TO REGULATION F

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective September 1, 1945, section 17 of Regulation F relating to Common Trust Funds is amended in the following respects:

The third paragraph of subsection (a) is amended to read as follows:

The purpose of this section is to permit the use of Common Trust Funds, as defined in section 169 of the Internal Revenue Code,¹⁷ for the investment of funds held for true fiduciary purposes; and the operation of such Common Trust Funds as investment trusts for other than strictly fiduciary purposes is hereby prohibited. No bank administering a Common Trust Fund shall issue any document evidencing a direct or indirect interest in such Common Trust Fund in any form which purports to be negotiable or assignable. The trust investment committee of a bank operating a Common Trust Fund shall not permit any funds of any trust to be invested in a Common Trust Fund if it has reason to believe that such trust was not created or is not being used for bona fide fiduciary purposes. A bank administering a Common Trust Fund shall not, in soliciting business or otherwise, publish or make representations which are inconsistent with this paragraph or the other provisions of this regulation and, subject to the applicable requirements of the laws of any State, shall not advertise or publicize the earnings realized on any Common Trust Fund or the value of the assets thereof.

The second paragraph of subsection (c) (3) is amended to read as follows:

The bank shall, without charge, send a copy of the latest report of such audit annually to each person to whom a regular periodic accounting of the trusts participating in the Common Trust Fund ordinarily would be rendered or shall send advice to each such person annually that the report is available and that a copy will be furnished

¹⁷For applicable provisions of the Internal Revenue Code, see Appendix.

without charge upon request. Except as may be required by the applicable laws of any State, the bank shall not publish or authorize the publication of any such report or the information contained therein and each copy furnished to any person as herein provided must bear a statement to the effect that the publication of such copy or the information contained therein is unauthorized.

Subsection (c) (4) is amended to read as follows :

(4) Value of assets to be determined periodically.—Not less frequently than once during each period of three months the trust investment committee of a bank administering a Common Trust Fund shall determine the value of the assets in the Common Trust Fund as of the dates which the Plan provides for the valuation of assets. No participation shall be admitted to or withdrawn from the Common Trust Fund except (1) on the basis of such valuation and (2) as of such a valuation date. A reasonable period, not to exceed 7 days, following each valuation date may be used to make the computations necessary to determine the value of the Fund and of the participations therein. No participation shall be admitted to or withdrawn from the Common Trust Fund unless a written request for or notice of intention of taking such action shall have been entered in the records of the bank and approved by the trust investment committee, on or before the valuation date. No such request or notice may be canceled or countermanded after the valuation date.

The first paragraph of subsection (c) (5) is amended to read as follows :

(5) Miscellaneous limitations.—No funds of any trust shall be invested in a participation in a Common Trust Fund if such investment would result in such trust having invested in the aggregate in the Common Trust Fund an amount in excess of 10 per cent of the value of the assets of the Common Trust Fund at the time of investment, as determined by the trust investment committee, or the sum of \$50,000, whichever is less. If the bank administers more than one Common Trust Fund under this subsection, no investment shall be made which would cause any one trust to have invested in the aggregate in all such Common Trust Funds an amount in excess of the sum of \$50,000; and, if the bank administers Funds under both subsections (c) and (d) of this section, no investment shall be made which would cause any one trust to have invested in the aggregate in all such Funds an amount in excess of the sum of \$50,000. In applying the limitations contained in this paragraph, if two or more trusts are created by the same settlor or settlors and as much as one-half of the income or principal or both of each trust is payable or applicable to the use of the same person or persons, such trusts shall be considered as one.

The first paragraph of subsection **(d) (4)** is amended to read as follows:

(4) Value of assets to be determined periodically.—Not less frequently than once during each period of three months the trust investment committee of a bank administering a Mortgage Investment Fund shall determine the value of the assets in the Mortgage Investment Fund as of the dates which the Plan provides for the valuation of assets. No participation shall be admitted to or withdrawn from the Mortgage Investment Fund except as of such a valuation date. A reasonable period, not to exceed 7 days, following each valuation date may be used to make the computations necessary to determine the value of the Fund and of the participations therein. No participation shall be admitted to or withdrawn from the Mortgage Investment Fund unless, on the basis of such valuation, the value of the assets of the Mortgage Investment Fund, exclusive of accrued income, is at least equal to the amount of the outstanding participations. No participation shall be admitted to or withdrawn from the Mortgage Investment Fund unless a written request for or notice of intention of taking such action shall have been entered in the records of the bank and approved by the trust investment committee, on or before the valuation date. No such request or notice may be canceled or countermanded after the valuation date.

The first paragraph of subsection **(d) (5)** is amended to read as follows:

(5) Miscellaneous limitations.—No funds of any trust shall be invested in a participation in a Mortgage Investment Fund if such investment would result in such trust having invested in the aggregate in the Mortgage Investment Fund an amount in excess of the sum of \$1200. or 2 per cent of the amount of the outstanding participations in the Mortgage Investment Fund, whichever is greater at the time of investment, or in any event in excess of the sum of \$10,000. If the bank administers more than one Mortgage Investment Fund, no investment shall be made which would cause any one trust to have invested in the aggregate in all such Mortgage Investment Funds an amount in excess of the sum of \$10,000; and, if the bank administers Funds under both subsections **(c)** and **(d)** of this section, no investment shall be made which would cause any one trust to have invested in the aggregate in all such Funds an amount in excess of the sum of \$50,000. In applying the limitations contained in this paragraph, if two or more trusts are created by the same settlor or settlors and as much as one-half of the income or principal or both of each trust is payable or applicable to the use of the same person or persons, such trusts shall be considered as one.