

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 73-171
July 11, 1973

PROPOSED AMENDMENT TO REGULATION Y
(To Clarify Deposit-Taking Activities
Permitted to Trust Company Subsidiaries)

To All Banks, Bank Holding Companies, and Others
Concerned in the Eleventh Federal Reserve District:

On July 3, 1973, the Board of Governors of the Federal Reserve System proposed an amendment to Regulation Y to clarify the deposit-taking activities permitted to trust company subsidiaries. The proposal concerns trust company subsidiaries that are not "Banks" within the meaning of the Bank Holding Company Act (that is, they do not both accept demand deposits and engage in the business of making commercial loans).

Interested parties are invited to submit relevant data, views, or arguments in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than August 6, 1973.

The press release and proposed amendment are printed on the following pages.

Yours very truly,

P. E. Coldwell,

President

Enclosure



FEDERAL RESERVE

press release

For immediate release

July 3, 1973

The Board of Governors of the Federal Reserve System today proposed an amendment to its bank holding company regulation to clarify the deposit-taking activities permitted to trust company subsidiaries.

The proposal concerns trust company subsidiaries that are not "banks" within the meaning of the Bank Holding Company Act (that is, they do not both accept demand deposits and engage in the business of making commercial loans). Such trust companies would be permitted to accept deposits that are (1) generated out of funds received under trust instruments or (2) represent funds that are received for a special use on behalf of an issuer of securities or an investor in securities. Bank holding companies could apply to acquire such trust companies across State lines.

The proposal would also permit bank holding companies to apply to acquire companies that are chartered by the Comptroller of the Currency to engage solely in trust company activities.

The Board's proposal takes note of recent developments in New York in which limited purpose trust companies are being established to furnish stock transfer and related services and to accept deposits incidental thereto. Also, the Comptroller has recently granted a national bank charter to a company organized solely to engage in carrying on the business of a commercial bank trust department and activities incident to such business.

Interested persons are invited to submit comments in writing to the Secretary of the Board through August 6, 1973.

A copy of the Board's proposal is attached.

FEDERAL RESERVE SYSTEM

[12 CFR PART 222]

BANK HOLDING COMPANIES

Nonbanking Activities and Interests

Pursuant to its authority under section 4(c)(8) of the Bank Holding Company Act (12 U.S.C. 1843(c)(8)), the Board proposes to amend § 225.4(a)(4) of its Regulation Y to clarify the boundaries upon deposit-taking activities that are properly incidental to trust company activities which the Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto, and to provide that the kinds of activities authorized under § 225.4(a)(4) include those performed not only by trust company subsidiaries that are State-chartered, but also by any such subsidiaries that may operate as limited purpose trust companies under national bank charters and that do not both accept demand deposits and make commercial loans.

The definition of boundaries upon deposit-taking activities by trust company subsidiaries of bank holding companies under § 225.4(a)(4) is especially significant in the case of multi-State operations. Section 3(d) of the Bank Holding Company Act (12 U.S.C. 1842(d)) prohibits the Board from approving any application under section 3 which will permit any bank holding company to acquire, directly or indirectly, additional banks located outside of the State in which the operations of its banking subsidiaries are principally conducted, unless any such acquisition is specifically authorized by the laws of the State in which such additional

bank is located. In some cases, trust companies are chartered as banks, but intend to limit their operations to trust activities and not to engage in commercial banking. The policy of section 3(d) would not apply to holding company subsidiaries of this type. The proposed amendment would delineate the scope of deposit-taking activities that could be engaged in by trust company subsidiaries consistently with nonbank status under the Bank Holding Company Act.

Under the proposal, a trust company subsidiary that is not a "bank" within the meaning of the Bank Holding Company Act would be permitted to accept deposits that are generated out of funds received under trust instruments. It would not have authority to receive deposits generated out of funds received in the capacity of agent or custodian, except as expressly permitted in an exception for functions as agent or custodian for an issuer of, or investor in, securities. The Board notes that the New York Banking Department has determined to permit qualified out-of-State bank holding companies to acquire limited purpose trust companies in New York to furnish stock transfer and related services for institutional customers and to receive deposits incidental thereto. The proposed amendment is intended to facilitate bank holding companies' acquisitions of this type of limited purpose trust company.

Both commercial banks and trust companies act as agents or custodians for their customers. Deposit transactions incidental to agency or custodian functions are normally characteristic of commercial banking. However, the proposed deposit-taking activities incidental to

payments upon or transfers of securities would appear to be properly incidental to a trust company business.

The Comptroller of the Currency has granted a national bank charter to a trust company organized for the purpose of carrying on the general business of a commercial bank trust department and to engage in such activities as are necessary, incident or related to such business. Trust companies that do not engage in the business of making commercial loans would not be "banks" within the meaning of section 2(c) of the Bank Holding Company Act (12 U.S.C. 1841(c)), even though chartered as national banks. The proposed amendment would permit bank holding companies to acquire under section 4(c)(8) of the Act federally chartered trust companies that are not "banks", and such trust companies would be governed by the same Regulation Y limitations on deposit-taking as would apply to State-chartered trust companies acquired under that section.

The proposed amended subparagraph (a)(4) of § 225.4 of Regulation Y would read as follows:

§ 225.4 Nonbanking activities.

(a) Activities closely related to banking or managing or controlling banks.The following activities have been determined by the Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto:

* * * * *

"(4) performing or carrying on any one or more of the functions or activities that may be performed or carried on by a trust company (including activities of a fiduciary, agency, or custodian nature), in the

manner authorized by federal or State law, so long as the institution does not both accept demand deposits and make commercial loans, and does not accept deposits other than (i) deposits that are generated from trust funds not currently invested and are properly secured to the extent required by law or (ii) deposits representing funds received for a special use in the capacity of an agent or custodian for an issuer of, or investor in, securities, such as paying and dividend disbursing agent, securities clearing agent, and similar capacities, and not employed by or for the account of a customer in the manner of a general purpose checking account or bearing interest....."

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or argument. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than August 6, 1973.

By order of the Board of Governors, June 28, 1973.

(Signed) Chester B. Feldberg

Chester B. Feldberg
Secretary of the Board

[SEAL]