

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-178
July 2, 1974

REVISION OF AMENDMENT TO REGULATION Y

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

On June 5, 1974, as item number 7 in the attachment to Circular No. 74-150, this Bank transmitted to all concerned an amendment to section 225.4(a)(4) of Regulation Y that clarified the boundaries upon deposit-taking and investing 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.

The amended regulation permits trust company subsidiaries of bank holding companies increased latitude in their deposit-taking activity but prohibits such trust companies from making loans or investments except the sale of federal funds, the making of call loans to securities dealers or the purchase of money market instruments such as certificates of deposit, commercial paper, government or municipal securities, and bankers acceptances. Such limitations on permissible loans and investments are intended to insure that bank holding companies do not, in contravention of section 3(d) of the Act, engage in the business of accepting demand deposits and making commercial loans outside of the State in which a bank holding company has its principal banking operations. However, the enumeration in the regulation of the "sale of federal funds" is not intended to supersede previous Board interpretations to the effect that the sales of funds by trust companies to member banks are subject (under Regulations D and Q) to reserve requirements and interest rate ceilings. Accordingly, to resolve any ambiguity concerning trust companies' participation in the federal funds market, the phrase "sale of federal funds" contained in section 225.4(a)(4)(iii) is hereby deleted.

The text of the amendment to section 225.4(a)(4), as modified, is enclosed in slip sheet form.

Yours very truly,

P. E. Coldwell,

President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BANK HOLDING COMPANIES

AMENDMENT TO REGULATION Y †

The amendment to section 225.4(a)(4), effective June 24, 1974, has been revised to read as follows:

SECTION 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 make loans or investments or 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 managing agent or custodian for an owner of, or investor in, real property, securities, or other personal property, or for such owner or investor as agent or custodian of funds held for investment or escrow agent, or for an issuer of, or broker or dealer in securities, in a capacity such as paying agent, dividend disbursing agent, or securities clearing agent, and not employed by or for the account of the customer in the manner of a general purpose checking account or bearing interest, or (iii) making of call loans to securities dealers or purchase of money market instruments such as certificates of deposit, commercial paper, government or municipal securities, and bankers acceptances (such authorized loans and investments, however, may not be used as a method of channeling funds to nonbanking affiliates of the trust company).

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† For this Regulation to be complete as amended effective June 24, 1974, retain:

- 1) Printed Regulation pamphlet as amended effective December 1, 1971.
- 2) Amendment effective June 6, 1972.
- 3) Amendments contained in June 1974 slip sheet.
- 4) This slip sheet.