Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, July 27, 1954.

PRESENT: Mr. Martin, Chairman
Mr. Mills

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary

Letters to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

In view of the circumstances outlined in your letter of July 21, 1954, and the Reserve Bank's favorable recommendation, the Board of Governors extends until October 25, 1954, the time within which Peoples Savings Bank and Trust Company, Wilmington, North Carolina, may establish an in-town branch at the corner of 17th and Dawson Streets.

Reference is made to your letter of July 16, 1954, submitting the request of Union Trust Company of Maryland, Baltimore, Maryland, for permission to operate a branch in temporary quarters at 811 Eastern Boulevard, Baltimore County, Maryland, until its permanent branch quarters at the northwest corner of Eastern Boulevard and Stuart Avenue, Baltimore County, Maryland, are completed.

After consideration of the available information and your favorable recommendation, the Board approves the establishment of the branch in the temporary quarters at 811 Eastern Boulevard provided the branch operations at this location will be discontinued simultaneously with the opening of the branch at Eastern Boulevard and Stuart Avenue as approved by the Board on June 7, 1954.

Approved unanimously.

Letter to Mr. Dawes, Vice President, Federal Reserve Bank of Chicago, reading as follows:

This refers to your letter of July (June) 21, 1954, in which you ask whether it would be permissible under Regulation U for a bank to accept the transfer from a broker of a special

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subscription account, described in section 4 (h) of Regulation T, at a time prior to the reduction of the customer's debit balance to no more than the maximum loan value of the securities prescribed for a general account. It appears to be contemplated that the bank would loan the customer an amount sufficient to retire his debit balance with the broker and that the broker would transfer the securities to the bank as collateral for the loan.

Originally, section 3(e) of Regulation U permitted a bank to accept the transfer of a loan "from another lender". However, by an amendment in 1936 this provision was limited to permit the acceptance of such transfers "from another bank". The Board has indicated previously that Regulation U does not permit a bank to accept the transfer of an undermargined account from a broker and, in that connection, reference was made to the fact that the basic rules of Regulations T and U are different in numerous respects.

Accordingly, the Board is of the view that Regulation U does not permit a bank to accept the transfer of a special subscription account from a broker in the circumstances related by you and summarized above. It is noted that this conforms to the view expressed in your letter.

Approved unanimously.

Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

This refers to your letter of June 30, 1954, together with enclosures, presenting two questions submitted by The National Shawmut Bank of Boston with respect to the intertrust transfer of participations in a common trust fund.

It is understood that in the first case a donor wishes to combine two trusts, both revocable and created by him at different times, all assets of each having been invested in the common trust fund. The trustee wishes to consummate this transaction by transfer of the units of participation in the common trust fund rather than by liquidation and reinvestment of such units.

In the second case, the beneficiary of a terminating testamentary trust, invested in the common trust fund, wishes to create a living trust with his distributable share. In carrying out this transaction, the trustee wishes to transfer units of participation rather than liquidate them and reinvest the proceeds in the living trust.

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The only provision of Regulation F pertaining to this matter is the second sentence of the third paragraph of section 17(a), which provides that "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 purpose of this provision was to minimize the possibility of common trust funds being used as investment trusts the shares of which ordinarily are negotiable or assignable and to preclude any evidence of participation in such funds reaching the hands of the general public. It was not the intent of this provision to prohibit, in all instances, inter-trust transfers of participations in a common trust fund.

The Board is of the opinion, therefore, that, in the two cases mentioned, the transfer of units in a common trust fund does not violate the spirit and purpose of the regulation and is not prohibited. However, it should be borne in mind that any trust which acquires, by inter-trust transfer, an investment in a common trust fund must be one created and used for bona fide fiduciary purposes.

The possible tax aspects of the cases submitted in support of this inquiry have not been fully explored. It is assumed, however, that the national bank will have taken appropriate steps to satisfy itself that transactions of this kind would not be used to accomplish an improper avoidance of tax liability.

Approved unanimously, with
copies to the Presidents of all
Federal Reserve Banks.

S R Carpenter
Secretary

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