

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7401 ]  
May 30, 1974

AMENDMENT TO REGULATION Y

Activities Permitted to Trust Company Subsidiaries of Bank Holding Companies

*To All Bank Holding Companies, and Others Concerned,  
in the Second Federal Reserve District:*

The following statement was made public May 28 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced an amendment of its bank holding company regulation which clarifies the deposit-taking and lending activities permissible to trust company subsidiaries of bank holding companies.

The amendment revises the existing rule that subsidiaries of bank holding companies may perform any of the activities of a trust company, including activities of a fiduciary, agency or custodian nature as authorized by State law "so long as the institution does not both accept demand deposits and make commercial loans."

It was adopted in the light of comments received on a proposal originally published July 3, 1973, and revised on October 3, 1973. The amendment announced today is the same as the proposal published for comment in October.

The amendment:

1. Permits the following types of deposit-taking to trust company subsidiaries of bank holding companies:
  - Deposits arising from trust funds not currently invested;
  - Deposits received under a trust instrument;
  - Deposits received for special use on behalf of an issuer of or investor in securities; and
  - Deposits arising from custodial and managing-agent accounts, and other specified agency relationships.
2. Prohibits trust company subsidiaries of bank holding companies from making loans or investments except as follows:
  - 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.

The Board specified that such loans and investments may not be used as a method of channeling funds to nonbanking affiliates of the trust company. The Board said such limitations on the lending activity of trust company subsidiaries of bank holding companies are necessary due to provisions of the Bank Holding Company Act restricting the commercial banking business of bank holding companies to the State in which their principal banking subsidiaries operate.

In addition to clarifying the permissible deposit-taking and lending activities of limited purpose trust

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companies chartered under State law, the regulation also allows bank holding companies to operate limited purpose trust companies with national bank charters so long as such institutions do not accept demand deposits and make commercial loans.

The Board recognizes that, in order to engage in broader lending activities, bank holding companies may, in their home State, choose to apply for limited purpose trust companies under section 3 of the Bank Holding Company Act.

The amendment is effective June 24, 1974. A copy of the Board's order is attached.

In submitting the amendment for publication in the *Federal Register*, the Board of Governors made the following additional statement:

\* \* \*

Pursuant to this amendment, bank holding company trust company subsidiaries, operating under Federal or State charter, are authorized to accept deposits that are generated from trust funds not currently invested and deposits representing funds received for a special use in the capacity of a managing agent or custodian for an owner of, or investor in, real property, or as agent for an issuer of, or broker or dealer in, securities, provided that such agency or custodian accounts are not employed by or for the account of a customer in the manner of a general purpose checking account and do not bear interest. However, such trust company subsidiaries are prohibited 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. \* \* \*

Enclosed is a copy of the amendment, effective June 24, 1974, to Regulation Y; additional copies will be furnished upon request.

ALFRED HAYES,  
*President.*

# Board of Governors of the Federal Reserve System

## BANK HOLDING COMPANIES

### AMENDMENT TO REGULATION Y

Effective June 24, 1974, section 225.4(a) (4) is amended 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) sale of Federal funds, 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 non-banking affiliates of the trust company);