

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

September 12, 1936.

Mr. \_\_\_\_\_, Vice President,  
\_\_\_\_\_ National Bank,  
\_\_\_\_\_, \_\_\_\_\_.

Dear Sir:

This refers to your letter of August 27, 1936, to Mr. \_\_\_\_\_, inquiring whether the Board would consider the investment of trust funds by your bank in securities purchased from its affiliate, Trust Company of \_\_\_\_\_, (name of city), a violation of subsection (a) of section 11 of Regulation F, revised effective June 1, 1936, which reads as follows:

"(a) Obligations of trustee bank or its directors, officers, etc.--Funds received or held by a national bank as fiduciary shall not be invested in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank."

It is understood that Trust Company of \_\_\_\_\_ is an affiliate of your bank solely by reason of the fact that the same persons own or control a majority of the shares of stock of each institution.

The Board is of the opinion that the investment of trust funds by a national bank in securities purchased from an organization which is for any reason an affiliate of such bank, within the meaning of that term as defined by Congress in section 2(b) of the

Banking Act of 1933, violates the above quoted provisions of Regulation F and that, therefore, the investment of trust funds by your bank in securities purchased from Trust Company of \_\_\_\_\_ is prohibited. As you know, the pertinent provisions of Regulation F are based upon long established principles of law and sound practices relating to the administration of trusts and, while circumstances may reduce the danger of abuses in some instances, the Board has not felt that it could justify making exceptions.

In this connection, it may be noted that the American Law Institute's Restatement of the Law of Trusts, section 170, comment (i), states:

"\* \* \* A corporate trustee cannot properly purchase for the trust property owned by an affiliated or subsidiary corporation in which it has the entire interest or a controlling interest or an interest of such a substantial nature that there would be a temptation to consider its own advantage in making the sale and not to consider solely the advantage to the beneficiaries of the trust. The rule is the same where the shares of the selling corporation are owned by the shareholders of the corporate trustee. \* \* \*"  
(Underscoring supplied)

It may also be noted that the Statement of Principles of Trust Institutions, adopted by the Trust Division of the American Bankers Association, states:

"It is a fundamental principle that a trustee should not have any personal financial interest, direct or indirect, in the trust investments, bought for or sold to the trusts of which it is trustee, and that it should not purchase for itself any securities or other property from any of its trusts. Accordingly, it follows that a trust institution should not buy for or sell to its estates or trusts any securities or other property in which

-3-

it, or its affiliate, has any personal financial interest, and should not purchase for itself, or its affiliate, any securities or other property from its estates or trusts."

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,  
Assistant Secretary.