

X-9872
Reg. F-9INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

March 15, 1937.

Mr. _____,
Assistant Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

On August 4, 1936, you transmitted to the Board a letter of July 31, 1936, and its inclosures, received from The National _____ Bank of _____, _____, _____, requesting a ruling concerning the question whether certain features of the plan adopted by such bank with respect to the operations of its trust investment committee are in conformity with the requirements of section 6(c) of Regulation F. Subsequently, this matter was discussed informally by representatives of the bank and members of the Board's staff and the bank submitted a memorandum describing the operations of its trust department and that of its affiliate, _____ Trust Company, and discussing the problems hereinafter considered.

The first question presented is whether it is proper for the bank to provide that 2 of the 6 members of its trust investment committee shall constitute a quorum. The underlying purpose of the provisions in the regulation pertaining to the trust investment committee was to provide: (1) that collective rather than individual judgment govern the investment of trust funds; and (2) that responsibility for the investment of trust funds be definitely placed in a committee

functioning as such, rather than in two or more officers acting as individuals.

The bank has pointed out that the regulation permits of a trust investment committee consisting of only three members, and in view of the fact that two members of such a committee would constitute a quorum, suggests that the purpose of the regulation would be served by considering two members a quorum of a committee of six. While the collective judgment of two individuals would be the same, whether they were members of a committee of three or of six, it is not believed that the responsibility of the committee as such, or the continuity of the committee's action, could be so well maintained if such a proportionately small number of the members could act for the committee. While the regulation does not state specifically what percentage of a trust investment committee shall constitute a quorum, the Board is of the opinion that, in accordance with the usual rule, a majority of the committee is necessary to constitute a quorum in order to comply with the requirements of the regulation.

The bank has suggested that, if the Board does not deem it proper to provide that two of the six members of such investment committee shall constitute a quorum, the bank's by-laws might be amended to provide for a committee of three members and to provide further for the appointment of alternates to serve in place of the regular members of the committee. The Board recognizes that it may be proper to appoint alternates to serve in place of the regular members of the committee in certain circumstances. However, unless there were some

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restrictions upon the service of the alternates, it would seem that the bank's suggestion would result in a change merely in form and not in substance and, in the absence of definite information as to the circumstances in which such alternates would serve, the Board is not in a position to express an opinion with reference to such an amendment to the by-laws.

The second question presented is whether it is proper to provide that trust investments may be made or disposed of upon written approval of a quorum of the trust investment committee without a meeting of the committee. The Board does not consider it inconsistent with the purposes of the pertinent provisions of Regulation F, and will not deem it a violation of such regulation, for trust investments to be made or disposed of upon written approval by a majority of the members of the trust investment committee, provided such action is promptly reported to the committee and the report is incorporated in the minutes of the committee.

It has been noted that the rules prescribed by the bank's trust committee provide that any vice president or trust officer may purchase for any trust any investment which the bank is authorized to purchase for such trust and which is included in the list of investments approved by the trust investment committee as appropriate investments for trust funds; and that such investments may be purchased prior to action by the trust investment committee with respect to specific transactions although all such transactions are required

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to be promptly reported to a meeting of the committee. According to the information submitted, the rules require that each new trust be brought to the attention of the trust investment committee promptly for the determination of an investment program adapted to the needs of the particular trust. It is assumed that, under the procedure followed by the bank, all purchases by a trust officer from the approved list are made in accordance with a pre-determined policy of the trust investment committee for the particular trust involved, which policy is currently in effect.

The Board desires that the provisions of its regulation shall be such that it is entirely practicable for the operations of large as well as small trust departments to be carried on efficiently thereunder. To this end, as you know, before the revision of Regulation F was adopted, the Board obtained, through the cooperation of the American Bankers Association, suggestions from men actively engaged in the operation of trust departments. Some of these men were officers of banks having large trust departments, and the provisions of the regulation under discussion in this letter are in conformity with the suggestions received from them. The development of the procedure under the regulation to be followed by a particular bank involves practical matters of administrative detail which the bank should be able to work out in the exercise of sound judgment. Of course, if it should develop that banks with large trust departments cannot operate efficiently and in a practical manner under the provisions of the

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regulation, it will be necessary to give consideration to whether an amendment of major importance should be made to the regulation. Any such amendment would require careful consideration of the Board, which would undoubtedly consult with men actively engaged in the operation of trust departments.

The Board appreciates the fact that the directors and officers of The National _____ Bank of _____ have given careful consideration to the operating procedure of the trust department in an effort to adapt the procedure to the spirit and purpose of the regulation.

Very truly yours,

(S) Chester Morrill

Chester Morrill,
Secretary.