

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers
of Monday, December 27, 1937.

December 23, 1937.

The Board of Governors of the Federal Reserve System has issued, effective December 31, 1937, an amendment to its Regulation F to provide that in States where collective investment of trust funds is permitted by State law, national banks may invest funds of various individual trusts in participations in a common trust fund, provided the amount so invested from any one trust does not exceed \$25,000, or 10 per cent of the value of the assets of such common trust fund, whichever amount is less.

Regulation F has heretofore permitted national banks to make collective investment of funds of individual trusts only if such funds were too small to be invested separately to advantage, and the amendment now issued permits this to be continued under a minimum of regulatory requirements provided the amount so invested from any one trust account does not exceed \$1,200.

The Board also amended subsections (b) and (c) of section 6 of Regulation F, in certain minor respects, with respect to the trust department committees already provided for in the regulation.

In the Revenue Act of 1936 Congress recognized the desirability, under proper safeguards, of permitting banks to operate common trust

funds when it granted certain tax exemptions to common trust funds administered by any bank in conformity with rules and regulations prescribed for national banks by the Board of Governors. Some States have enacted legislation specifically authorizing the operation of common trust funds and in other States similar legislation has been considered.

In upholding and construing provisions of law relative to the exercise of trust powers by national banks, the courts have recognized that the regulation of the administration of trusts is a matter peculiarly within the province of the States. In issuing the present amendment, the Board has permitted the collective investment of funds of various trusts in common trust funds only when the laws of the State in which the particular national bank is located authorize or permit such investments by State banks, trust companies, or other corporations which compete with national banks.

Issuance of such an amendment was recommended by a special committee of the American Bankers Association, and the amendment was drafted after consultation with the committee and after submission of a tentative draft of the proposed regulation to and receiving criticisms and comments from that committee, all Federal Reserve banks and other interested groups.

The Board's regulations have been drawn specifically with a view to preventing common trust funds from being operated as investment trusts for other than strictly fiduciary purposes and to providing safeguards to prevent preferences or other inequities between trusts participating in common trust funds.