

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

April 14, 1938.

Mr. \_\_\_\_\_, Vice President,  
Federal Reserve Bank of \_\_\_\_\_,  
\_\_\_\_\_, \_\_\_\_\_.

Dear Mr. \_\_\_\_\_:

This has further reference to your letter of March 8, 1938, with inclosures, receipt of which was acknowledged on March 14, 1938, concerning an inquiry from Mr. \_\_\_\_\_, Vice President and Trust Officer, National Bank of \_\_\_\_\_ and Trust Company, \_\_\_\_\_, relating to the provisions of section 6 of Regulation F requiring the review of actions of trust department committees by the directors of a national bank.

It appears that the trust investment committee of National Bank of \_\_\_\_\_ and Trust Company (which also acts upon the acceptance and closing out or relinquishment of fiduciary accounts) keeps extensive minutes and that it is the practice to read such minutes at meetings of the board of directors and to have the directors approve any and all actions of the committee. However, the directors feel that too many details are being brought to their attention for their approval and that too much time is being consumed in that manner. Mr. \_\_\_\_\_ inquires how far it is necessary to go in order to comply with the requirements of Regulation F.

Section 6(b) of Regulation F provides, in part, as follows:

"The board of directors is responsible for the investment of trust funds by the bank, the disposition of trust investments, the supervision of the trust department, the determination of the policies of such department and for the review of the actions of all committees appointed by the board of directors for the conduct of the trust department." (Underscoring added.)

The underscored provision contemplates that the directors shall take such action as is necessary to inform themselves concerning the manner in which the committees are performing their duties and the policies which are being pursued by the committees. However, while it definitely places upon the directors the responsibility for the review of the actions of all committees, it does not require that the directors read all minutes of all committees and formally approve

each and every action taken by the committees. Various methods may be pursued in the proper discharge of this responsibility; that which is feasible for one bank may not be for another and the action which should be taken depends upon the particular circumstances involved. Since the regulation applies to all national banks, the Board feels that it should not destroy the intended flexibility of this provision by a precise statement concerning the action necessary to constitute compliance, but that this should be left to the exercise of sound judgment by individual banks.

It appears that Mr. \_\_\_\_\_ has in mind that his bank's trust investment committee might shorten its minutes in order to meet the directors' objections. Section 6(c) of Regulation F requires that the committee "keep minutes of all its meetings, showing the disposition of all matters considered by and passed upon by it" and, after providing for periodic reviews of assets of each fiduciary account by the committee, it requires that "a report of all such reviews, together with the action taken as a result thereof, shall be noted in the minutes" of the committee. While the regulation thus requires that the committee keep a record of all of its activities, it does not attempt to describe the manner in which the record should be kept. Clearly, it is not necessary to record verbatim everything which is said and to incorporate copies of all memoranda and other documents considered. However, there is a vast range between minutes containing unwarranted detail and those which are so sketchy as to be virtually worthless. Where the line should be drawn between these two extremes is a question which also must be left to the sound judgment of each bank. In deciding this question, however, it should be borne in mind that the minutes serve purposes other than to make information currently available to the directors; they should provide an adequate record for future reference, e.g., in the event the bank is called upon to explain action directed by the committee.

It appears that both Mr. \_\_\_\_\_'s letter and your proposed reply perhaps contemplate that the committee approval of the acceptance of trusts properly may be subsequent to the actual acceptance of the trusts by the bank. Section 6(b) of Regulation F provides that "the acceptance of all trusts shall be approved by the board of directors or a committee appointed by such board, and the closing out or relinquishment of all trusts shall be approved or ratified by the board of directors or a committee appointed by such board." It is believed that this provision clearly requires approval by the directors or the appropriate committee prior to the acceptance of a trust.

Since the advice contained in this letter differs in some respects from your proposed reply to Mr. \_\_\_\_\_, it is suggested that such reply be appropriately modified. The suggestion that your trust examiner will

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be glad to discuss the matter informally seems desirable and, if this suggestion is made, you may find it possible to eliminate from your reply some of the general discussion of directors' responsibilities under Regulation F which goes beyond that which is necessary to answer Mr. \_\_\_\_\_'s specific inquiry.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,  
Assistant Secretary.