



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-109
Reg. F-17

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 9, 1938.

Dear Sir:

For your information there is inclosed herewith a copy of the text of a ruling of the Board of Governors which will be printed in the Federal Reserve Bulletin with regard to the approval of the acceptance of trusts by a national bank under the provisions of section 6(b) of the Board's Regulation F.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Inclosure.

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TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Approval of Acceptance of Trusts by National Bank

The Board recently considered an inquiry relating to the ruling published at page 440 of the Federal Reserve Bulletin for June 1938 to the effect that the directors or the appropriate committee of a national bank must approve the acceptance of trusts by the bank prior to their acceptance rather than subsequent thereto in order to comply with the following provision of section 6(b) of the Board's Regulation F:

"* * * 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; and such committee or committees shall be composed of capable and experienced officers or directors of the bank. Any such approval or ratification shall be recorded in the minutes of the board of directors or of such committee as the case may be."

In commenting upon the considerations which prompted the incorporation of the above-quoted provision in the regulation, the Board noted that such provision conforms to the principle contained in the "Statement of Principles of Trust Institutions", approved by the Executive Council of the American Bankers Association in 1933, to the effect that the responsibility for the investment of trust funds should not be reposed in an individual officer or employee, but all investments should be made, retained, or sold only upon the authority of a committee composed of capable and experienced officers or directors of the institution. The Board stated that the question whether or not a particular trust should be accepted by a bank is a matter of such importance that

it felt that this principle of collective judgment should be applied in such a case as well as in the case of investment of trust funds, and that if such collective judgment should not be exercised until after a new trust has been accepted it might be embarrassing and in some instances impracticable for the bank to relinquish the trust.

As a matter of practical operation, attention was called to the fact that the board of directors of a bank, if it so desires, may designate a special committee for the purpose of passing on the acceptance of new trusts and it is not necessary that such committee be composed of directors of the bank. In fact, under the regulation, the committee may be composed exclusively of capable and experienced officers.

The Board stated that it considered it to be consistent with the provisions of the regulation for a new trust to be accepted by a bank upon the written approval of a majority of the members of the appropriate committee without a meeting of the committee, provided such action is promptly reported to the committee and the report incorporated in its minutes. It was stated that it was understood, of course, that at the time the acceptance is approved in writing all of the available members of the committee will be given an opportunity to pass on the acceptance. It was noted that the Board's position in this matter was similar to that taken in a ruling published at page 391 of the Federal Reserve Bulletin for May, 1937, with reference to the actions of the trust investment committee provided for in section 6(c) of the regulation.

It was also noted that the Board had ruled that alternates might be appointed for members of the trust investment committee and that when the regulation was amended effective December 31, 1937, a footnote containing the following statement was included: "* * * alternates appointed by the board of directors may serve in place of regular members of the committee who are unable to serve on account of vacations, illness, or other good and sufficient reasons if the minutes of the committee show the reason for the service of such alternate in place of the regular member". The Board expressed the opinion that the appointment of alternates may properly be made for the committee provided for in section 6(b) in the circumstances described in the language just quoted.