

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 11, 1938.

Mr. _____, President,
 _____ Bank and Trust Co.,
 _____, _____.

Dear Sir:

This refers to your letter of August 1, 1938, to Mr. _____, requesting a ruling with respect to a question which has arisen in connection with the operation of a common trust fund by your bank.

You state that the assets of the common trust fund are valued monthly and that among the assets are a number of Federal Housing Administration insured mortgage loans which provide for monthly payments. You inquire whether, in order to comply with the Board's Regulation F, it is necessary to segregate, on each valuation date, any of such loans on which payments due on the first day of the month have not been paid during the month.

Regulation F does not require the segregation of assets except as it may be necessary in order to permit new investments in participations in the fund or the withdrawal of participations in cash in compliance with the requirements hereinafter described. Section 17(c)(2) of Regulation F provides that funds of a trust shall not be invested in a participation in a common trust fund if the trust investment committee finds that any of the investments comprising the common trust fund is "one in which funds of such trust might not lawfully be invested at that time." Section 17(c)(6), in dealing with the withdrawal of participations, provides that, if the trust investment committee determines that any investment remaining in the common trust fund "would be unlawful for one or more participating trusts if funds of such trusts were being invested at that time", no distribution shall be made in cash until any such unlawful investment shall have been eliminated from the common trust fund.

Therefore, it is not necessary to segregate assets on a valuation date unless additional funds are being invested in participations in the common trust fund or participations are being withdrawn in cash and it is not then necessary unless, on the one hand, such assets would be unlawful investments for funds of the

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trusts acquiring participations or, on the other hand, would be unlawful investments for funds of trusts which then hold participations. The question whether a particular loan or class of loans would be an unlawful investment for funds of a particular trust is one which must be decided in the light of the terms of the trust and the applicable State law and upon which the Board cannot undertake to rule.

Copies of this correspondence are being furnished to the Federal Reserve Bank of _____ and, if you have any further questions, it will be appreciated if you will take them up with that institution in order that it may answer them if it is in a position to do so or refer them to the Board with such information as may be needed by it.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.