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Senate Bill 93 proposes two statutory amendments to Alaska banking laws.

Amendment to AS 06.05.180.

The proposed amendment to AS 06.05.180(10) provides that where an Alaska domiciled bank or national bank holds assets under a trust agreement, that said assets can be invested in shares of a "money market mutual fund" limited to short term U.S. Treasury obligations.

Reason for Amendment.

In the course of its examination of national banks and trust departments, the U.S. Office of the Comptroller of the Currency has construed trust instruments that permit or require investments in U.S. Obligations not to authorize investments in money market funds limited to short term U.S. Treasury Obligations. The regulations of the Office of Comptroller of the Currency applicable to fiduciary activities provides that funds held by a national bank, in a fiduciary capacity, shall be invested in accordance with the instrument establishing the fiduciary relationship and local law. In making their own interpretation of state law, the Office of Comptroller of the Currency has consistently rejected contrary views of local bank counsel and has required national banks in some states to remove their assets from the money market mutual funds, with a subsequent loss to the bank's underlying account of the cost-effectiveness, convenience and liquidity afforded by the trust. The Office of the Comptroller of the Currency nonetheless has said that it will yield on the issue in the event of appropriate state legislation action. The decision of the Office of the Comptroller to yield to clarifying legislation has prompted introduction of legislation similar to the proposed amendment to AS 06.05.180(10) in many states.

Similar legislation has now been adopted by twenty (20) states: Alabama, California, Connecticut, Florida, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Minnesota, Missouri, New Jersey, New York, North Carolina, Oklahoma, Ohio, Texas & Virginia.

Amendment to AS 06.05.270.

The proposed amendment to AS 06.05.270(a)(1) formalizes the position taken by the Director of Banking for the State of Alaska which allows Alaska domiciled banks to invest their own assets in money market mutual funds which are limited to short term U.S. Treasury Obligations.

Reason for Amendment, Senate Bill 93.

1) Formalizes statutory amendment, the practice currently authorized by the State of Alaska's Director of Banking and 2) clarifies existing law.

POSITION PAPER

Department of Commerce
& Economic Development

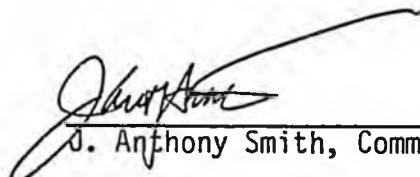
SB 93: "An Act relating to investments by financial institutions."

The Department of Commerce and Economic Development supports this bill if amended in the following manner. Page 2 line 29 after government insert "with approval of the trustor(s),"

Section 1 of the bill allows a trustee of a bank to invest in a mutual fund made up of government securities when the trust customer of the bank grants authority for the trustee to invest in government securities. This provision expands the trust power beyond that of the trustee agreement without allowing the trustor to make the determination as to whether this investment accords with the trustors' wishes. If the bank's trust customer gives the bank fiduciary freedom to invest in government securities the trustee of the trust should do just that. As SB 93 is now written, if the bank customer did not want government securities in the form of shares in a mutual fund the trust agreement would have to so state. There are a number of reasons why a trustor might choose not to have the trustee invest in mutual funds, one of which is that the trustor ends up paying double fees for the investment, one for the trustee administration cost and another for mutual fund management fees.

The department favors Section 2 of the bill as written. This section allows bank management to invest, as part of the bank's investment portfolio, mutual funds as long as the mutual fund limits its portfolio to legal investments. This allows a small financial institution the ability to have greater use of expertise of the mutual fund's managers, thus, diversifying some market risk.

This bill will have no affect on the program of regulating financial institutions nor will it have a fiscal impact.



J. Anthony Smith, Commissioner
DATE: 2/25/87

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____

Bill Version : SR 93

Publish Date : _____

Revision Date: _____

Title : Investments by Financial
Institutions

Agency Affected: Comm. & Econ. Dev.
Banking, Securities & Corp.

BRU: _____

Sponsor : _____

Requestor : _____

Components : _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

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 Division: Banking, Securities & Corporations Date: _____

Approved by Commissioner: J. Anthony Smith, Commissioner Date: _____
 Agency: Department of Commerce and Economic Development

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