



NATIONAL CREDIT UNION ADMINISTRATION

Washington, D.C. 20456

May 11, 1987

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Office of General Counsel

Mr. Sidney A. Bailey
Commissioner of Financial Institutions
Commonwealth of Virginia
P.O. Box 2AE
Richmond, Virginia 23205

Dear Mr. Bailey:

This Office has reviewed the letter dated December 12, 1986, which you sent to Aviva Grossman of Spengler, Carlson, Gubar, Brodsky and Frischling regarding the Credit Union Government Securities Trust (Trust). Thank you for sending a copy of this letter to us.

As you are aware, the Trust was originally structured as a Massachusetts business trust. This type of trust permits shareholders to be held personally liable for obligations of the trust under certain circumstances. You were concerned that the fact that shareholders of the Trust could be held personally liable for obligations of the Trust might make it an impermissible investment for Virginia credit unions and Federal credit unions.

Stockholders in a business trust will generally not be held personally liable for trust obligations. Personal liability may result, however, in certain situations: where the trust instrument is considered as having created an entity which is, in legal effect, a partnership; where the trust operates as a partnership; or in the rare jurisdiction which holds shareholders of a business trust liable as partners for trust obligations. Under these circumstances, the chance of personal liability is remote. Furthermore, the circumstances that would give rise to personal liability are also remote, as a mutual fund will generally not have any creditors and its borrowing practices are heavily regulated by the SEC. To further limit the chance of personal liability, the trust instrument should (1) contain a statement which disclaims any personal liability of shareholders for trust obligations; (2) require that notice of this disclaimer be given in each contractual obligation of the trust; and (3) obligate the trust to indemnify the shareholder if he is held liable for a trust obligation.

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