

**FEDERAL RESERVE BANK  
OF NEW YORK**

Fiscal Agent of the United States

[ Circular No. 7419 ]  
July 12, 1974

**Auction of \$1.5 Billion of Federal Financing Bank Bills**

*To All Banking Institutions, and Others Concerned,  
in the Second Federal Reserve District:*

The following statements were made public yesterday by the Federal Financing Bank:

**FEDERAL FINANCING BANK BILL OFFERING**

The Federal Financing Bank today announced its first borrowing from the public.

The Federal Financing Bank is an instrumentality of the United States Government and its obligations are general obligations of the United States, identical in this respect to Treasury obligations.

With the approval of the Secretary of the Treasury, the Bank is inviting bids for \$1.5 billion of discount bills to mature March 31, 1975. The bills, which will have the characteristics of Treasury bills and will be sold in the same way, will be auctioned on July 23 for delivery on July 30. Commercial banks may make payments for their own and their customers' accepted tenders by crediting Treasury Tax and Loan Accounts.

Jack F. Bennett, President of the Bank and Under Secretary of the Treasury for Monetary Affairs, noted that the maturity date of the Bank's bills corresponds with a maturity date in Treasury's 2-year cycle. Consequently, at maturity, these securities could be refunded by an issue of 2-year notes at that time either through Treasury or the Federal Financing Bank.

The Bank was created by the Act of December 29, 1973, to consolidate the market financing of other Federal agencies. It made its first loan on May 24, 1974, and by July 30 it will have \$1.4 billion of loans outstanding, all of which will have been financed by borrowing from the Treasury. The proceeds of the public borrowing announced today will be used to pay off the borrowing from the Treasury.

**DETAILS OF FEDERAL FINANCING BANK ANNOUNCEMENT OF AUCTION  
OF \$1.5 BILLION OF BILLS**

The Federal Financing Bank, with the approval of the Secretary of the Treasury, by this public notice invites tenders for \$1,500,000,000, or thereabouts, of 244-day Federal Financing Bank bills to be dated July 30, 1974, and to mature March 31, 1975 (CUSIP No. 313322 AA7).

The bills will be issued on a discount basis under competitive and noncompetitive bidding as herein-after provided, and at maturity their face amount will be payable without interest. They will be issued in bearer and book-entry forms only, and in denominations of \$10,000, \$15,000, \$50,000, \$100,000, \$500,000 and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Tuesday, July 23, 1974.

Tenders will not be received at the Federal Financing Bank in Washington, D. C. Each tender must be for a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. In the case of competitive tenders, the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and

recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills bid for under this offering at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Tuesday, July 23, 1974.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Federal Financing Bank of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Federal Financing Bank expressly reserves the right to accept or reject any or all tenders, in whole or in part, and its action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for \$300,000 or less without stated price from any one bidder will be accepted in full at the average price (in three deci-

mals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on July 30, 1974, in cash or other immediately available funds. Any qualified depository will be permitted to make settlement by credit in its Treasury Tax and Loan Account for bills allotted to it for itself and its customers.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954, the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

This offering is made pursuant to Federal Financing Bank Circular No. 1-74. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

The terms of this offering are set forth above and in Federal Financing Bank Circular No. 1-74, a copy of which is printed on the following pages. This Bank will receive tenders up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, July 23, 1974, at the Securities Department of its Head Office and at its Buffalo Branch. Please use the enclosed tender forms to submit tenders, and return them in the enclosed envelope marked "Tender for Federal Financing Bank Securities." Tenders not requiring a deposit may be submitted by telegraph, subject to written confirmation; no tenders may be submitted by telephone. Settlement for accepted tenders must be made on or before July 30, 1974, in cash or other immediately available funds, except that any qualified depository may make settlement by credit in its Treasury Tax and Loan Account for bills allotted to it for itself and its customers.

Also printed on the following pages are brief descriptions of the Federal Financing Bank and the characteristics of its bills, and a formal opinion of the Attorney General of the United States concluding that "the obligations of the Bank will be general obligations of the United States backed by its full faith and credit."

ALFRED HAYES,  
*President.*



# FEDERAL FINANCING BANK BILLS

## FEDERAL FINANCING BANK

Circular No. 1-74

## FEDERAL FINANCING BANK,

*Washington, July 10, 1974.*

The Federal Financing Bank Act of 1973 created a body corporate to be known as the Federal Financing Bank. The Bank, which is subject to the general supervision and direction of the Secretary of the Treasury, is an instrumentality of the United States. It is authorized, with the approval of the Secretary of the Treasury, to issue publicly obligations having such maturities and bearing such rate or rates of interest as may be determined by the Bank.

A new Chapter VIII, entitled "Federal Financing Bank", containing a new Part 810 entitled "Federal Financing Bank Bills", is added to Title 12 of the Code of Federal Regulations. The new Part sets forth the regulations contained in Federal Financing Bank Circular No. 1-74. As these regulations relate to the fiscal policy of the United States notice and public procedures thereon are unnecessary.

In consideration of the foregoing, Title 12 of the Code of Federal Regulations is amended by the addition of a new Chapter VIII, as set forth below, effective July 10, 1974.

**JACK F. BENNETT**

*President*

*Federal Financing Bank*

### Title 12 — Banks and Banking

#### CHAPTER VIII — FEDERAL FINANCING BANK

#### PART 810 — FEDERAL FINANCING BANK BILLS

- Sec.
- 810.0 Authority for issue and sale.
  - 810.1 Description of Federal Financing Bank bills.
  - 810.2 Public notice of offering.
  - 810.3 Payment at maturity.
  - 810.4 Acceptance of FFB bills for various purposes.
  - 810.5 Taxation.
  - 810.6 Exemption.
  - 810.7 Federal Reserve Banks as fiscal agents.
  - 810.8 Reservations as to terms of circular.

Authority: The provisions of this Part 810 are issued under Secs. 9-11, 87 Stat. 939, 940; 12 U.S.C. 2288, 2289, 2290.

Sec. 810.0 *Authority for issue and sale.* The Federal Financing Bank is authorized under the Federal Financing Bank Act of 1973, to issue publicly, with the approval of the Secretary of the Treasury, obliga-

tions having such maturities and bearing such rate or rates of interest as may be determined by the Bank. Pursuant to this authority, Federal Financing Bank bills, referred to herein as "FFB bills", are offered for sale from time to time and tenders invited therefor, through the Federal Reserve Banks. The FFB bills so offered, the tenders made, and all subsequent transactions therein are subject to the terms and conditions of the public notice offering the bills for sale, this circular, and to the extent not inconsistent with such notice and circular, to Department of the Treasury Circular No. 418, current revision, the regulations governing United States Treasury bills, and all other regulations governing United States securities.

Sec. 810.1 *Description of Federal Financing Bank bills.*

(a) *General.* Federal Financing Bank bills are bearer obligations of the Federal Financing Bank, the terms of which provide for payment of a specified amount on a specified date. They are issued

only by Federal Reserve Banks and Branches, pursuant to tenders accepted by the Federal Financing Bank, and are available in both definitive and book-entry form. Where issued as a definitive security, it shall not be valid unless the issue date, the maturity date and the CUSIP number are imprinted thereon.

(b) *Denominations.* Federal Financing Bank bills will be issued in denominations of \$10,000, \$15,000, \$50,000, \$100,000, \$500,000 and \$1,000,000 (maturity value).

Sec. 810.2 *Public notice of offering.* On the occasion of an offering of FFB bills, tenders therefor will be invited through public notices issued by the Federal Financing Bank. Each notice will set forth the amount offered, the issue date, the date they will be due and payable, the place and the date of the closing hour for the receipt of tenders, and the date on which payment for accepted tenders must be made or completed.

Sec. 810.3 *Payment at maturity.* Each FFB bill will be paid in its face amount at maturity upon presentation and surrender to any Federal Reserve Bank or Branch or to the Department of the Treasury, Bureau of the Public Debt, Securities Transaction Branch, Washington, D. C. 20226. If a FFB bill is presented and surrendered for redemption after it has become overdue, the Federal Financing Bank may require satisfactory proof of ownership, as provided in § 306.25 of Department of the Treasury Circular No. 300, current revision.

Sec. 810.4 *Acceptance of FFB bills for various purposes.* Federal Financing Bank bills are lawful investments and may be accepted as security for all

fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States, the District of Columbia, the Commonwealth of Puerto Rico or any territory or possession of the United States. They are eligible for purchase by national banks, and will be accepted at maturity value to secure public moneys.

Sec. 810.5 *Taxation.* All FFB bills shall be subject to Federal taxation to the same extent as obligations of private corporations are taxed.

Sec. 810.6 *Exemption.* Obligations of the Federal Financing Bank are deemed to be exempted securities within the meaning of § 3(a)(2) of the Securities Act of 1933 (15 U.S.C. 77c(a)(2)), of § 3(a)(12) of the Securities Exchange Act of 1934 (15 U.S.C. 78(a)(12)), and of § 304(a)(4) of the Trust Indenture Act of 1939 (15 U.S.C. 77ddd(a)(4)).

Sec. 810.7 *Federal Reserve Banks as fiscal agents.* The Federal Reserve Banks, as fiscal agents of the United States, have been authorized by the Department of the Treasury to perform all such acts as may be necessary to carry out the provisions of this and other circulars of the Department of the Treasury as may be applicable to FFB bills, and of any public notice or notices issued in connection with any offering of these securities.

Sec. 810.8 *Reservations as to terms of circular.* The Federal Financing Bank reserves the right to amend, supplement, revise or withdraw all or any of the provisions of this circular at any time or from time to time.

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## ORGANIZATION OF THE FEDERAL FINANCING BANK

The Federal Financing Bank was created by the Federal Financing Bank Act of 1973, approved December 29, 1973, (P.L. 93-224, 87 Stat. 937) as an instrumentality of the United States subject to the general direction and supervision of the Secretary of the Treasury. The purpose of the Bank is to consolidate the market financing of other Federal agencies. The Bank is authorized under the Act to purchase any obligations issued, sold, or guaranteed by any Federal agency, and to finance such purchases by issuing its own obligations in the market or to the Secretary of the Treasury.

The Secretary of the Treasury is Chairman of the Board, and the Under Secretary of the Treasury for Monetary Affairs is its President.

### BOARD OF DIRECTORS

Secretary of the Treasury, *Chairman*

Deputy Secretary of the Treasury

Under Secretary of the Treasury for Monetary Affairs

General Counsel of the Treasury

Fiscal Assistant Secretary of the Treasury



## OFFICERS

President .....	Under Secretary of the Treasury for Monetary Affairs
General Counsel .....	General Counsel of the Treasury
Vice President & Treasurer .....	Fiscal Assistant Secretary of the Treasury
Vice President .....	Special Assistant to the Secretary of the Treasury (Debt Management)
Secretary .....	Assistant to the Special Assistant to the Secretary of the Treasury (Debt Management)

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## CHARACTERISTICS OF FEDERAL FINANCING BANK BILLS

Public Law 93-224 established the Federal Financing Bank under the general direction and supervision of the Secretary of the Treasury. The purpose of the Bank is to consolidate the market financing of other Federal agencies.

The Bank may purchase obligations issued, sold, or guaranteed by any Federal agency. To finance such purchases the Bank may issue obligations in the market or to the Secretary of the Treasury. The authority of the Bank to borrow from the Secretary of the Treasury assures the immediate availability of any funds required for timely payment by the Bank of principal and interest on obligations issued in the market.

Obligations issued in the market by the Bank are obligations of the United States issued with the approval of the Secretary of the Treasury. Federal Financing Bank bills are:

- Available in bearer or book-entry form.
- Exempt from State and local taxation to the same extent as Treasury securities.
- Lawful investments and may be accepted as security for all fiduciary, trust and public funds (including Treasury Tax and Loan Accounts), the investment or deposit of which is under the authority of any officer of the United States or of the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States.
- Eligible as collateral for Federal Reserve Bank advances.
- Eligible for Federal Reserve Bank open market purchases.
- Payable at Federal Reserve Banks or at the Treasury.
- Eligible for denominational exchanges at Federal Reserve Banks or the Bureau of the Public Debt of the Treasury.
- Eligible for conversion to book-entry at Federal Reserve Banks.
- Eligible for Federal Reserve Bank wire transfer.
- Eligible for relief in the event of loss, theft, or destruction in the same manner as Treasury securities.
- Eligible for purchase by national banks without restriction.
- Eligible for investment by Federal savings and loan associations, Federal credit unions, and small business investment companies.

## OPINION LETTER OF ATTORNEY GENERAL

July 3, 1974

The Honorable William E. Simon  
Secretary of the Treasury  
Washington, D. C. 20220

My dear Mr. Secretary:

You have requested my opinion as to whether obligations to be issued by the Federal Financing Bank will be backed by the full faith and credit of the United States.

The Bank was created by the Federal Financing Bank Act of 1973, P.L. 93-224, 87 Stat. 937 to assure coordination of Federal and federally assisted borrowing programs. It is a government instrumentality subject to the general supervision and direction of the Secretary of the Treasury.

Congress has specifically authorized the Bank to issue obligations to the public in amounts not in excess of \$15,000,000,000 or such additional amounts as may be authorized in appropriations acts. 87 Stat. 939. In addition, the Bank may issue obligations to the Secretary of the Treasury and the latter may in his discretion purchase any such obligations. Aside from the Secretary's discretionary purchases, moreover, the Bank may require him to purchase its obligations in amounts that will not at any time cause his holdings from required purchases to exceed \$5,000,000,000.

Nowhere in the legislation is it expressly stated that the full faith and credit of the United States is pledged to the obligations issued by the Bank. However, an extensive series of opinions of Attorneys General of the United States has established that such language is not necessary to a pledge of full faith and credit. It is enough to create an obligation of the United States if an agency or officer is validly authorized to incur such an obligation on its behalf and validly exercises that power. E.g., 42 Op.A.G. No. 30; 42 Op.A.G. No. 1; 41 Op.A.G. 403; 41 Op. A.G. 363.

In sum, I am of the opinion that if issued within the monetary limits of the Act and in accordance with its other provisions, the obligations of the Bank will be general obligations of the United States backed by its full faith and credit.

Sincerely,

WILLIAM B. SAXBE  
*Attorney General*