

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8459]
November 17, 1978]

RESCISSION OF REGULATION E

Purchase of Warrants

*To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

The following statement was issued by the Board of Governors of the Federal Reserve System on November 9:

The Federal Reserve Board announced today that it is cancelling one of its regulations as its first action under a program to clarify and simplify all of its regulations.

The Board decided to cancel Regulation E, which governed the purchase by Federal Reserve Banks of short term State or local securities issued in anticipation of tax or other assured receipts.

Regulation E has been on the Federal Reserve's books since 1915. It has not been used since 1933, when the Federal Reserve Act was amended giving the System alternative means of purchasing such securities, called warrants, in the open market.

At the same time the Board decided against taking any action at present to amend its Regulation C, which implements the Home Mortgage Disclosure Act. The Act will expire in June 1980 unless extended by Congress. Pending the decision of Congress on the Act, and to assist Congress in making its decision, the Board, along with other Federal agencies, is conducting studies of the costs and benefits resulting from the required disclosures about amounts of local mortgage lending.

For the review of all of its 26 regulations, the Board has issued guidelines calling for a new look at regulations and related rules to determine whether a regulation, in whole or in part, is required by law, to determine the costs and benefits of each regulation, whether underlying statutes need revision and whether there are more desirable non-regulatory alternatives to resolving issues regulations address. In addition to cancelling obsolete regulations, changes may involve simplification of language, elimination of parts of regulations found not to be required by law and redrafting to improve format, the relation of regulations to current policy goals and benefits to the public. The Board may also make recommendations to Congress for statutory changes needed to permit regulatory modernization.

Enclosed is a copy of the Board's order rescinding Regulation E. Additional copies will be furnished upon request.

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

PURCHASE OF WARRANTS

RESCISSION OF REGULATION E

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Rescission of Regulation E.

SUMMARY: The Federal Reserve System has undertaken a substantive review of its regulations and, as part of that review, has determined that Regulation E, "Purchase of Warrants", which governs the purchase by Federal Reserve Banks of certain short-term obligations of State or local governments, is obsolete and should be rescinded.

EFFECTIVE DATE: Immediately.

FOR FURTHER INFORMATION CONTACT: Richard H. Puckett, Manager, Regulatory Improvement Project, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-2751).

SUPPLEMENTARY INFORMATION: Regulation E, "Purchase of Warrants" (12 C.F.R. Part 205), first issued by the Board in 1915, governs the purchase by Federal Reserve Banks of obligations with a maturity from the date of purchase of not exceeding six months issued by State or local governments in anticipation of the collection of taxes or the receipt of assured revenues [hereinafter "warrants"]. Regulation E implements section 14(b) of the Federal Reserve Act ("Act"), which empowers Federal Reserve Banks to purchase "bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, . . . such purchases to be made in accordance with rules and regulations prescribed by the Board. . . ." Federal Reserve Banks have not purchased warrants pursuant to the authority of section 14(b) of the Act and Regulation E since 1933. Historically, Federal Reserve Banks purchased warrants to provide liquidity to member banks or income to Federal Reserve Banks. The purpose of Regulation E is to limit purchases of warrants to a relatively small proportion of a Federal Reserve Bank's resources

and to assure that investments of Federal Reserve Banks are of short maturity and are self-liquidating.

In 1933, section 12A of the Act was enacted, creating the Federal Open Market Committee ("FOMC") and limiting the power of Federal Reserve Banks to purchase warrants in the open market. While Federal Reserve Banks may purchase warrants directly from State or local governments subject to regulations issued by the Board, the purchase of such obligations in the open market may only be made at the direction of the FOMC. In 1932, section 10(b) of the Act was enacted, allowing member banks to borrow against any acceptable collateral, thereby permitting the use of warrants as collateral for advances to member banks by Federal Reserve Banks at a rate of at least one-half of one per cent above the basic discount rate. In 1968, section 13 of the Act was amended to permit Federal Reserve Banks to make advances to member banks at the basic discount rate secured by warrants (see 12 C.F.R. § 201.108). These statutory developments have obviated any need for Federal Reserve Banks to make direct purchases from State or local governments of such obligations.

In the unlikely event that it becomes necessary or desirable, in the absence of Regulation E, for Federal Reserve Banks to purchase warrants directly from State or local governments, the underlying statutory authority empowering Federal Reserve Banks to make such purchases in accordance with rules and regulations prescribed by the Board would still exist and appropriate authorization could be given at that time by the Board.

In view of the above-mentioned statutory developments which have made use of the section 14(b) authority to purchase warrants unnecessary, the Board has decided to rescind Regulation E. In this connection, the language "compliance with the requirements of Regulation E is not necessary; but" in 12 C.F.R. § 201.108(d) has been deleted.

By order of the Board of Governors, November 9, 1978.

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