

WARRANTS.

Regulation No.....

Covering Sec. 14 Clause (b)

This clause reads as follows:

"Every Federal reserve bank shall have power:

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and 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, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board."

The power to buy and sell bonds and notes of the United States will be treated in a separate regulation.

For brevity's sake, the expression "warrant", when used in this regulation, shall be construed to mean: "bills, notes, revenue bonds and warrants with a maturity from date of purchase of not exceeding six months", and the expression "municipality" shall be construed to mean: "State, county, district, political subdivision or municipality in the Continental United States, including irrigation, drainage, and reclamation districts."

In order to be eligible for purchase by a Federal Reserve Bank, "warrants" must be issued

First: In anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by a "municipality"; and the taxes or assured revenues, against which such "warrants" have been issued, must be due and payable on or before the date of maturity of such "warrants",

Taxes shall be considered as due and payable on the last day on which they may be paid without penalty.

Second: By a "municipality" which has been in existence for a period of no less than ten years and which for a period of no less than ten years previous to the purchase has not defaulted in the payment of any part of either principal or interest of any funded or other debt authorized to be contracted by it, and whose net funded indebtedness does not exceed ten per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes.

In computing such "net" funded indebtedness, funded debt incurred for the acquisition of self-supporting property - such as water works, docks, electric plants, transportation facilities, etc. - may be deducted to the extent that such funded debt actually is self-supporting.

Third: No Federal Reserve Bank shall be permitted to purchase and hold an amount in excess of 25% of the total amount of "warrants" outstanding at any one time issued under the provisions of Sec. 14 (b) and actually sold by a "municipality".

Fourth: The aggregate amount invested by any Federal Reserve Bank in "warrants" shall not exceed a sum equal to ten per centum of the deposits of its member banks except with the approval of the Federal Reserve Board.

Except with the approval of the Federal Reserve Board the aggregate amount which may be invested by any Federal Reserve Bank in "warrants" of any single municipality shall be limited as follows:

- 5% of Deposits in warrants of a municipality of
50,000 population or over
- 3% of Deposits in warrants of a municipality of over
30,000 population but less than 50,000
- 1% of Deposits in warrants of a municipality of
30,000 population or less.

Where the population of a municipality cannot be exactly determined, the Board will give special rulings.

This regulation is subject to such modification as the Board may deem proper from time to time.

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In prescribing the above regulations the Federal Reserve Board has been guided by the principle that it is the foremost object of the Federal Reserve Act to provide for a banking machinery which responds to the ebb and flow of commerce and trade. Investments of Federal Reserve Banks must, therefore, primarily be made in commercial and banking paper.

Accordingly purchases of warrants by Federal Reserve Banks should normally be restricted to a small proportion of the aggregate investments, and limits should be exceeded only when general banking policy renders it advisable. In any and all cases the interest of Federal Reserve Banks must be considered first in making such investments and not that of municipalities desiring to sell their obligations.

The Board was guided by this point of view when adding the regulation that Federal Reserve Banks may invest only in 25% of any outstanding issue of warrants. Federal Reserve Banks ought not to be used as ready instruments created for the purpose of financing community requirements.

In order to preserve the highest degree of liquidity of Federal Reserve Banks, investments should be made by preference in such warrants as command a wide market, thus enabling the Federal Reserve Banks to dispose of these warrants whenever it becomes desirable to reinvest in commercial paper.

The regulation prescribing that only warrants be bought offering a definite assurance that the taxes and revenues will be actually in hand before maturity, is in keeping with the general policy of the Board of restricting the Federal Reserve Banks as far as possible to investments which are of short maturity and self liquidating.

12/10/14.