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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

July 7, 1915.

S I R :

For the purpose of establishing a uniform method of carrying investments in municipal warrants upon the books of Federal reserve banks, the following suggestions are made :

1. All warrants purchased should be charged to the investment account at the amount which will be received for each investment at maturity.

At the present time certain warrants call for payment of face amount at maturity; others call for face amount plus interest. This necessitates carrying the two classes of investments in a different manner.

2. The difference between the cost and the amount which will be received for the investment at maturity should be credited to the account of " Unearned interest on investments," (code word "BOBI" on Form 34),, on the liability side.. Transfers from that account should be made to "Interest on investments " (earned) account, (item "BODE" on Form 34, in a manner similar to that employed with respect to unearned discount.

The adoption of this suggestion will enable the banks to carry rediscounts, acceptances and warrants on a like basis and will greatly simplify the accounting system.

No entries would have to be made against item "Accrued Interest" (except United States Bonds).

3. In computing daily earnings on municipal warrants, the pro rata method has been found to work very satisfactorily. The amount which is credited to " unearned interest on investments" should be divided by the number of days to maturity in order to determine the amount to be apportioned for each day.

For purposes of illustration the following hypothetical cases involving the investment of \$10,000 of 4% Municipal warrants are taken and their suggested treatment on Form 34 is shown.

I. Warrants due without interest (a) or with interest at 4% (b) six months from date of issue and from date of purchase by the Federal reserve bank.

<u>RESOURCES.</u>	<u>LIABILITIES.</u>
(a) Cost.....\$9,800	-BOBI-Unearned interest on
Investments (BAXE)..... 10,000	investments.....\$200.00
(b) Cost..... 10,000	-BODE-Interest on investments
Investments (BAXE)..... 10,200	1" day..... 1.31
	thereafter..... 1.11

II. Warrants due without interest (a) or with interest at 4% (b) six months from date of issue and 3 months from date of purchase by the Federal reserve bank.

<u>RESOURCES.</u>	<u>LIABILITIES.</u>
(a) Cost.....\$ 9,900	-BOBI-Unearned interest on
(BAXE) Investments..... 10,000-	investments.....\$100.00
(b) Cost..... 10,200	-BODE-Interest on investments
(BAXE) Investments..... 10,200	1" day..... 1.21
	daily thereafter... 1.11

III. Warrants due without interest (a) or with interest at 4% (b) six months from date of issue and date of purchase by the Federal reserve bank, bought on a 3% basis :

<u>RESOURCES.</u>	<u>LIABILITIES.</u>
(a) Cost.....\$9,850-BCBI-Unearned Interest on	
(BAXE) Investments.....10,000-	investments.....\$150.00
(b) Cost.....10,050-BODE-Interest on investments	
(BAXE) Investments.....10,200	1" day..... 1.43
	daily thereafter..... .83

In the three cases involving the purchase of warrants, calling merely for payment at maturity of face amounts, item "BAXE" should be charged with \$10,000; in the three cases calling for payment at maturity of face amount plus interest, item "BAXE" should be charged with \$10,200.

Respectfully,

Secretary.

Mr.
Chairman, Board of Directors,
Federal Reserve Bank of