

FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, March 29, 1951

SUPPLEMENTAL TREASURY DEPARTMENT INTERPRETATIONS CONCERNING 2¾ PERCENT TREASURY BONDS, INVESTMENT SERIES B-1975-80

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

Several additional interpretations relating to the new 2¾ percent Treasury Bonds, Investment Series B-1975-80, have been received from the Treasury Department.

The Department has recommended the use of powers of attorney in connection with pledging as collateral for loans or as security for performance of obligations of 2¾ percent Investment Series B bonds. Where 2½ percent Treasury Bonds of 1967-72, unassigned or in coupon form, are now pledged with State authorities or with banks or other pledgees, accompanied by powers of attorney, and are to be exchanged for the new 2¾ percent bonds, a special power of attorney containing the title of the new loan and denominations may be executed prior to the issue of the new bonds, the serial numbers of those bonds to be inserted later. Powers of attorney used in connection with the above transactions must be supported by resolutions in the case of corporations or unincorporated associations. These forms will be furnished by this bank and its branches upon request.

Denominational exchanges of the new 2¾ percent bonds may be made at any time in authorized denominations, where necessary, in connection with the pledge of the bonds.

The 2½ percent Treasury Bonds of June 15 and December 15, 1967-72, held by commercial banks in trading accounts pursuant to Treasury Department Circular No. 787, dated May 17, 1946, may be exchanged. These banks will be permitted to replenish their trading accounts in accordance with the terms of the circular, but any bonds so acquired will not be eligible for subsequent exchange under this offering.

All assignments of 2½ percent registered bonds presented for this exchange must be in accordance with the general regulations of the Treasury Department governing assignments for transfer or exchange. In accordance therewith, registered 2½ percent Treasury Bonds inscribed in the names of two or more persons presented for this exchange, must be assigned by each coowner named in the inscription with the usual certifications.

The Investment Series B bonds may not be inscribed in the name of a nominee. Registration must be made in the name of the owner, whether in his own right or as fiduciary.

If the representative of a decedent's estate exchanges the 2½ percent 1967-72 bonds owned by an estate, or acquired by the representative, for 2¾ percent Investment Series B bonds, the latter bonds would not constitute a part of the decedent's estate at the time of his death, and therefore will not be eligible for redemption at par for the purpose of using the proceeds in payment of estate taxes.

The Treasury Department advises that it has received from the Commissioner of Internal Revenue the following information as to whether the exchange of the 2½ percent Treasury Bonds of 1967-72 for the non-marketable 2¾ percent Treasury Bonds is a closed transaction such as to result in a gain or loss for income tax purposes:

“Under the provisions of Section 112(A) of the Internal Revenue Code, every exchange results in gain or loss for income tax purposes unless the exchange comes within one of the statutory exceptions enumerated in Section 112. Exchange of 2½ percent marketable Treasury Bonds of 1967-72 for non-marketable 2¾ percent Treasury Bonds does not come within any of the exceptions enumerated in that section.

“Accordingly, gain derived or loss sustained from such exchange would be recognized for Federal income tax purposes. The gain or loss will be the difference between the cost or other basis of the old bonds and the fair market value of the new bonds on the date of the exchange. (CF. I. T. 2359, C. B. VI-1, 51; I. T. 2734, C. B. XII-2, 73.) In the computation of such gain or loss, the face amount of the new bonds will be regarded as their fair market value at the date of the exchange.

“The gain derived or loss sustained will constitute capital gain or loss under the provisions of Section 117 of the Code, except that in any case where the old bonds are held at the time of exchange by a dealer in securities primarily for sale to customers in the ordinary course of business, such bonds would not constitute capital assets as defined in Section 117(A) of the Code, and the gain or loss would constitute ordinary gain or loss.”

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