

# FEDERAL RESERVE BANK OF NEW YORK

Fiscal Agent of the United States

[Circular No. 4496]  
August 12, 1957]

## Special Cash Offering of \$1,750,000,000 of 237-Day Treasury Bills

Dated August 21, 1957

Maturing April 15, 1958

To All Incorporated Banks and Trust Companies, and Others Concerned,  
in the Second Federal Reserve District:

Following is the text of a notice published today:

FOR RELEASE, MORNING NEWSPAPERS,  
Monday, August 12, 1957.

TREASURY DEPARTMENT  
Washington

The Treasury Department, by this public notice, invites tenders for \$1,750,000,000, or thereabouts, of 237-day Treasury bills, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated August 21, 1957, and will mature April 15, 1958, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$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 o'clock p.m., Eastern Daylight Saving time, Wednesday, August 14, 1957. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and 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. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Others than banking institutions 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 Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

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 Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his 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 decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on August 21, 1957, provided, however, any qualified depository will be permitted to make payment by credit in its Treasury Tax and Loan Account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its district.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. 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 not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such 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, as ordinary gain or loss.

Treasury Department Circular No. 418, Revised, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

This Bank will receive tenders up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, August 14, 1957, at the Securities Department of its Head Office and at its Buffalo Branch. Please use the form on the reverse side of this circular to submit a tender, and return it in an envelope marked "Tender for Treasury Bills—Special Cash Offering." Tenders may be submitted by telegraph, subject to written confirmation; they may not be submitted by telephone. *Settlement for accepted tenders must be made in cash or other immediately available funds, except that any qualified depository may make payment by credit in its Treasury Tax and Loan Account for Treasury bills allotted to it for itself and its customers, up to any amount for which it shall be qualified in excess of existing deposits.*

ALFRED HAYES,  
President.

**TENDER FOR 237-DAY TREASURY BILLS  
SPECIAL CASH OFFERING**

Dated August 21, 1957

Maturing April 15, 1958

To FEDERAL RESERVE BANK OF NEW YORK,  
Fiscal Agent of the United States.

Dated at .....  
....., 1957

Pursuant to the provisions of Treasury Department Circular No. 418, Revised, and to the provisions of the public notice issued by the Treasury Department and printed on the reverse side of this tender, the undersigned hereby offers to purchase the above described Treasury bills in the amount indicated below, and agrees to make payment therefor at your Bank on or before the issue date at the price indicated below:

**COMPETITIVE TENDER** [ *Do not fill in both Competitive and Noncompetitive tenders on one form* ] **NONCOMPETITIVE TENDER**

\$..... (maturity value),  
or any lesser amount that may be awarded.

\$..... (maturity value).  
(Not to exceed \$300,000 for one bidder through all sources)

Price: ..... per 100.  
(Price must be expressed with not more than three decimal places, for example, 99.925)

At the average price of accepted competitive bids.

Subject to allotment, please issue, deliver, and accept payment for the bills as indicated below:

Pieces	Denomination	Maturity value		
	\$ 1,000		<input type="checkbox"/>	1. Deliver over the counter to the undersigned
	5,000		<input type="checkbox"/>	2. Ship to the undersigned
	10,000		<input type="checkbox"/>	3. Hold in safekeeping (for account of member bank only)
	100,000		<input type="checkbox"/>	4. Hold as collateral for Treasury Tax and Loan Account
	500,000		<input type="checkbox"/>	5. Special instructions:
	1,000,000			
	Totals—			

*(No changes in delivery instructions will be accepted)*

Payment will be made as follows:  
 By charge to our reserve account  
 By cash or other immediately available funds  
 By credit to Treasury Tax and Loan Account

The undersigned (if a bank or trust company) hereby certifies that the Treasury bills which you are hereby instructed to dispose of in the manner indicated in item 3 or 4 above are solely owned by the undersigned.

Name of subscriber ..... (Please print)  
 By ....., By .....  
 (Official signature(s) required)  
 Title ....., Title .....  
 Address .....

(Banks submitting tenders for customer account must indicate name on line below, or attach a list)

.....  
 (Name of customer) ..... (Address)

**INSTRUCTIONS:**

- No tender for less than \$1,000 will be considered, and each tender must be for an even multiple of \$1,000 (maturity value).
- Others than banking institutions will not be permitted to submit tenders except for their own account. Banks submitting tenders for customer account may consolidate competitive tenders *at the same price* and may consolidate noncompetitive tenders, provided a list is attached showing the name of each bidder, the amount bid for his account, and method of payment. Forms for this purpose will be furnished on request.
- If the person making the tender is a corporation, the tender should be signed by an officer of the corporation authorized to make the tender, and the signing of the tender by an officer of the corporation will be construed as a representation by him that he has been so authorized. If the tender is made by a partnership, it should be signed by a member of the firm, who should sign in the form "....., a copartnership, by ....., a member of the firm."
- 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 Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.
- If the language of this tender is changed in any respect, which, in the opinion of the Secretary of the Treasury, is material, the tender may be disregarded.

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FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, N.Y.

RECTOR 2-5700

August 12, 1957

To Each State Member Bank in the  
Second Federal Reserve District:

The Board of Governors of the Federal Reserve System has asked  
me to send you the enclosed material consisting of a copy of -

Investment Securities Regulation

Regulation Regarding National Bank Loans Secured by  
Direct Obligations of the United States

Letter of the Comptroller of the Currency to all  
national banks explaining the two regulations

These regulations, which will become effective August 16, 1957,  
apply to all national banks, and by virtue of sections 9 and 11(m) of the  
Federal Reserve Act, to all State banks that are members of the Federal  
Reserve System.

ALFRED HAYES,  
President.

Encs.



TREASURY DEPARTMENT  
COMPTROLLER OF THE CURRENCY  
WASHINGTON 25

ADDRESS REPLY TO  
"COMPTROLLER OF THE CURRENCY"

July 23, 1957

TO ALL NATIONAL BANKS:

We are enclosing for your information copies of (1) the Investment Securities Regulation, as amended, and (2) a new regulation covering Loans Made by National Banks Secured by Direct Obligations of the United States. The two regulations were published in the Federal Register on July 17, 1957, and will become effective August 16, 1957.

The Investment Securities Regulation is issued by the Comptroller of the Currency under the authority contained in paragraph Seventh of section 5136 of the Revised Statutes (12 U.S.C. 24) and the purpose of this regulation is to prescribe the limitations and restrictions under which national banks, as well as State member banks of the Federal Reserve System, may purchase investment securities for their own account and to define the term "investment securities."

Under the existing regulation there has been doubt as to the eligibility of certain small issues of special revenue obligations because of the present distribution requirements set forth in paragraphs (a) and (b) of section 1. The new regulation clarifies the position that has been taken by the Comptroller with respect to the eligibility of small issues of special revenue obligations. While the distribution standards as stated in paragraphs (a) and (b) of section 1 of the present regulation and paragraphs (1) and (2) of section 2 of the new regulation may not be met by some small special revenue issues, it is recognized that many of such issues possess a high degree of credit soundness which assures marketability to the point contemplated by section 5136 of the Revised Statutes.

The restrictions in the present regulation governing the purchase or sale of securities by banks under repurchase or resale agreements are no longer considered desirable because of the basic nature of such transactions and are deleted from the new regulation. Experience has shown that repurchase or resale transactions in securities are used for the lending and borrowing of money. They will henceforth be treated as loan or borrowing transactions governed by sections 5200 and 5202 of the Revised Statutes (12 U.S.C. 84, 82) and not by section 5136 of the Revised Statutes (12 U.S.C. 24). This means that a bank selling securities under an agreement to repurchase them at a future date will be borrowing funds from the purchasing bank and section 5202 provides that national banks may not borrow an amount in excess of their capital stock except from a Federal Reserve Bank or as permitted under other exceptions to section 5202. The purchasing bank will be lending funds to the selling bank and, if direct obligations of the United States are involved, national banks, under the provisions of a new regulation discussed below, may lend up to 100% of their capital and surplus accounts on the basis of such security provided the amount of the loan in excess of 25% of capital and surplus is secured by direct obligations of the United States having maturities not exceeding 18 months.

The restrictions in the present regulation governing the amortization of premiums paid on investment securities are being amended in the new regulation to permit amortization to the maturity date rather than the call date of the issue, if Federal Internal Revenue Laws and regulations issued thereunder disallow amortization deductions from gross income when computed to the nearest call date. Also

amendments are being provided in the new regulation to clarify the section pertaining to securities convertible into stock. It has also been deemed advisable to incorporate into the new regulation a provision carrying out the present administrative practice which requires that investment securities owned by a bank be supported by adequate information in the files of the bank as to their investment quality.

The new regulation, "Loans Made by National Banks Secured by Direct Obligations of the United States", issued by the Comptroller, with the approval of the Secretary of the Treasury, under the authority contained in paragraph (8) of section 5200 of the Revised Statutes, as amended, prescribes conditions under which national banks may make loans to one borrower in excess of 25% of capital and surplus, and up to 100% of capital and surplus when such loans made in excess of 25% of capital and surplus are secured by direct obligations of the United States which will mature in not exceeding 18 months.

Under the terms of paragraph (8) of section 5200 of the Revised Statutes, national banks may lend to a single borrower an additional 15% of capital and surplus (in addition to the customary 10% limitation) on obligations secured by not less than a like amount of bonds or notes of the United States, certificates of indebtedness of the United States, Treasury Bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States. Because of the amendments being made in the Investment Securities Regulation which will place resale and repurchase transactions in bonds under sections 5200 and 5202 of the Revised Statutes (12 U.S.C. 84, 82) rather than section 5136 of the Revised Statutes (12 U.S.C. 24), the present 25% limitation embodied in section 5200 is believed to be too restrictive with respect to loans to one borrower which are secured by not less than a like amount of direct obligations of the United States. Under the provisions of section 5136, repurchase and resale transactions involving United States Bonds have not been subject to any limitation measured by capital and surplus. The issuance of this regulation is necessary to implement the making of such loans above 25% and up to 100% of the bank's capital and surplus, provided they are secured by direct obligations of the United States which will mature within 18 months.

As stated above, the two regulations become effective August 16, 1957. It was not possible to include the regulations in the 1957 Supplement to the Digest of Opinions which has now been distributed to national banks. We will issue an investment securities Supplement to the Digest in approximately 30 days, which will include the new regulations and appropriate comments relating thereto in the paragraphs of the Digest dealing with the subject matter of the regulations.

Very truly yours,



Comptroller of the Currency.

Enclosures

**TREASURY DEPARTMENT**  
**COMPTROLLER OF THE CURRENCY**  
**WASHINGTON**  
**INVESTMENT SECURITIES REGULATION**

**SECTION 1 — SCOPE AND APPLICATION.**

(a) This regulation is issued by the Comptroller of the Currency under authority of paragraph Seventh of Section 5136 of the Revised Statutes, as amended (12 U.S.C. 24);

(b) This regulation applies to the purchase for its own account of investment securities by a national bank or a State member bank of the Federal Reserve System.

**SECTION 2 — DEFINITION OF THE TERM "INVESTMENT SECURITIES".**

(a) An obligation of indebtedness which may be purchased for its own account by a national bank or State member bank of the Federal Reserve System in order to constitute an "investment security" within the meaning of paragraph Seventh of Section 5136 of the Revised Statutes, must be a marketable obligation, i.e., it must be salable under ordinary circumstances with reasonable promptness at a fair value; and except as provided in (b) and (c) below, there must be present one or both of the following characteristics:

(1) A public distribution of the securities must have been provided for or made in a manner to protect or insure the marketability of the issue; or,

(2) Other existing securities of the obligor must have such a public distribution as to protect or insure the marketability of the issue under consideration.

(b) In the case of investment securities for which a public distribution as set forth in (1) or (2) above cannot be so provided, or so made, and which are issued by established commercial or industrial businesses or enterprises, that can demonstrate the ability to service such securities, the debt evidenced thereby must mature not later than ten years after the date of issuance of the security and must be of such sound value or so secured as reasonably to assure its payment; and such securities must, by their terms, provide for the amortization of the debt evidenced thereby so that at least 75% of the principal will be extinguished by the maturity date by substantial periodic payments: Provided, that no amortization need be required for the period of the first year after the date of issuance of such securities.

(c) Special revenue obligations of States or local governments or of duly constituted public Authorities thereof which possess a high degree of credit soundness, so as to assure sale under ordinary circumstances with reasonable promptness at a fair value, but which do not meet the distribution standards of (a) (1) or (a) (2) above, may be considered to constitute "investment securities."

(d) Where the security is issued under a trust agreement, the agreement must provide for a trustee independent of the obligor, and such trustee must be a bank or trust company.

(e) All purchases of investment securities by national and State member banks for their own account must be securities "in the form of bonds, notes, and/or debentures, commonly known as investment securities"; and every transaction which is in fact such a purchase must, regardless of its form, comply with this regulation.

**SECTION 3 — LIMITATIONS AND RESTRICTIONS ON PURCHASE OF INVESTMENT SECURITIES FOR BANK'S OWN ACCOUNT.**

(a) Although the bank is permitted to purchase "investment securities" for its own account for purposes of investment under the provisions of R. S. 5136 and this regulation, the bank is not permitted otherwise to participate as a principal in the marketing of securities.

(b) The statutory limitation on the amount of the "investment securities" of any one obligor or maker which may be held by the bank is to be determined on the basis of the par or face value of the securities, and not on their market value.

(c) The purchase of "investment securities" in which the investment characteristics are distinctly or predominantly speculative, or the purchase of securities which are in default, whether as to principal or interest, is prohibited.

(d) Purchase of an investment security at a price exceeding par or face value is prohibited, unless the bank shall:

(1) Provide for the regular amortization of the premium paid so that the premium shall be entirely extinguished at or before the maturity of the security, and the security (including premium) shall at no intervening date be carried at an amount in excess of that at which the obligor may legally redeem such security, unless the amortization which would be necessary to meet the latter requirement would not be allowable as a deduction from gross income under applicable Federal Internal Revenue laws and regulations issued thereunder, in which case the rate of amortization shall be sufficient to extinguish the premium by maturity; or

(2) Set up a reserve account to amortize the premium, said account to be credited periodically with an amount not less than the amount required for amortization under (1) above.

(e) Purchase of securities convertible into stock at the option of the issuer is prohibited.

(f) Purchase of securities convertible into stock at the option of the holder or with stock purchase warrants attached is prohibited if the price paid for such security is in excess of the investment value of the security itself, considered independently of the stock purchase warrants or conversion feature. If it is apparent that the price paid for an otherwise eligible security reflects the investment value of the security and does not include any speculative value based upon the presence of a stock purchase warrant or conversion option, the purchase of such security is not prohibited. If the price paid for a convertible security provides a yield reasonably similar to that of non-convertible securities of similar quality and maturity, a speculative value will not be deemed to exist.

(g) All investment securities shall be supported by adequate information in the files of the bank as to their investment quality.

#### SECTION 4 — EXCEPTION TO LIMITATIONS AND RESTRICTIONS.

The restrictions and limitations of this regulation do not apply to securities acquired through foreclosure on collateral, or acquired in good faith by way of compromise of a doubtful claim or to avert an apprehended loss in connection with a debt previously contracted, or to real estate securities acquired pursuant to Section 24 of the Federal Reserve Act, as amended.

#### SECTION 5 — EFFECTIVE DATE.

This regulation is effective August 16, 1957.

RAY M. GIDNEY  
*Comptroller of the Currency*

**TREASURY DEPARTMENT**  
**COMPTROLLER OF THE CURRENCY**  
**WASHINGTON**

**REGULATION REGARDING NATIONAL BANK LOANS SECURED BY  
DIRECT OBLIGATIONS OF THE UNITED STATES**

Section 5200 U.S.R.S. (12 U.S.C. 84) provides as follows:

“Sec. 5200. The total obligations to any national banking association of any person, copartnership, association, or corporation shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund. The term ‘obligations’ shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such association and the liability of the indorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such association and shall include in the case of obligations of a copartnership or association the obligations of the several members thereof and shall include in the case of obligations of a corporation all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest. Such limitation of 10 per centum shall be subject to the following exceptions:

\* \* \* \* \*

“(8) Obligations of any person, copartnership, association, or corporation in the form of notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States, shall (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.”

**SECTION 1 — SCOPE AND APPLICATION.**

(a) This regulation is issued by the Comptroller of the Currency with the approval of the Secretary of the Treasury under authority of paragraph (8) of section 5200 of the Revised Statutes, as amended (12 U.S.C. 84), and section 321 (b) of the Act of August 23, 1935 (49 Stat. 713);

(b) This regulation applies to loans made by national banks secured by direct obligations of the United States which will mature in not exceeding 18 months.

**SECTION 2 — GENERAL AUTHORIZATION.**

The obligations to any national banking association in the form of notes of any person, copartnership, association, or corporation, secured by not less than a like amount of direct obligations of the United States which will mature in not exceeding eighteen months from the date such obligations to such national banking association are entered into shall be limited to 75 per centum of the capital and surplus of such association in addition to the 10 per centum of such capital and surplus prescribed in the opening paragraph of said section 5200 and the 15 per centum limitation referred to in paragraph (8) of section 5200.

**SECTION 3 — EFFECTIVE DATE.**

This regulation is effective August 16, 1957.

RAY M. GIDNEY  
*Comptroller of the Currency*

Approved:

GEORGE M. HUMPHREY  
*Secretary of the Treasury*