

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

[Circular No. 5030]
April 28, 1961

**Treasury Advance Refunding Cleared
of Technical Obstacles by Attorney General**

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

The following statement was made public April 27 by the Treasury Department:

Treasury Secretary Douglas Dillon today announced that the Treasury has received an opinion from the Attorney General which confirms its authority to engage in advance refundings of Government bonds where the new issue bears a coupon rate not exceeding 4¼ per cent, even though the effective rate of interest under certain accounting procedures technically would exceed that figure.

The interest rate on Government bonds is limited by law to not more than 4¼ per cent. The legal question presented was whether selling or exchanging bonds at a discount which produces an effective rate above 4¼ per cent violates a prohibition of the Congress.

It is not contemplated that bonds would be sold or exchanged in the near future under circumstances requiring application of this ruling. However, in view of recent Congressional and public interest, Secretary Dillon asked Attorney General Robert F. Kennedy on April 7 for the opinion so that if such an issue should ever become desirable the legal question would have been resolved.

Attorney General Robert F. Kennedy on April 25 delivered his opinion that the 4¼ per cent "ceiling" applied only to the coupon rate placed on bonds, and that issuance of bonds below par as authorized by law does not "circumvent" any Congressional prohibition.

"The power to do so plainly exists," the Attorney General concluded, "and I cannot see anything inappropriate in exercising it if you believe that the circumstances require such action. I therefore answer your question in the affirmative."

ALFRED HAYES,
President.