

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

[Circular No. 5382]
[September 4, 1963]

ADVANCE REFUNDING

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

Enclosed is a copy of a Treasury statement made public today, announcing an advance refunding of securities maturing in 1964, 1966, and 1967. The subscription books will be open from September 9 through September 13. The official offering circulars and subscription forms will be mailed to arrive by Monday, September 9.

Additional copies of the enclosure will be furnished upon request.

ALFRED HAYES,
President.

TREASURY DEPARTMENT



WASHINGTON, D. C.

IMMEDIATE RELEASE

Wednesday, September 4, 1963

ADVANCE REFUNDING OFFER

The Treasury today announced that it will offer holders of \$32.1 billion of outstanding Treasury securities an opportunity to extend their holdings at attractive yields. Of this total, \$23.0 billion are held by the public.

The current offering combines a junior advance refunding with a "prerefunding," that is, an advance refunding of issues maturing within the next 12 months.

Holders of securities eligible for exchange have the option of exchanging them, as of September 15, 1963, (with payment for the new bonds to be completed by and delivery to be made on September 18) for three new issues as follows:

*Securities eligible for exchange
and their maturity dates*

*Securities offered in exchange
and their maturity dates*

PREREFUNDING

3¼% Cts., B-1964	5/15/64	}	3⅞% Bonds, 1968 (New Issue)	11/15/68
4¾% Notes, A-1964	5/15/64		4% Bonds, 1973 (New Issue)	8/15/73
3¾% Notes, D-1964	5/15/64		4⅛% Bonds, 1989-94 (Addl. Issue)	5/15/89-94

"JUNIOR" ADVANCE REFUNDING

3¾% Bonds, 1966	5/15/66	}	4% Bonds, 1973 (New Issue)	8/15/73
4% Notes, A-1966	8/15/66		4⅛% Bonds, 1989-94	
3⅝% Notes, B-1967	2/15/67		(Addl. Issue)	5/15/89-94
3¾% Notes, A-1967	8/15/67			

The exchanges will be made on the basis of par for par with accrued interest adjustments as of September 15, 1963, and with cash payments to subscribers which will approximately equalize current market values among eligible issues having different coupons and maturities, and provide an attractive exchange value for each of the issues offered. The amount of the offering will be limited to the amount of securities accepted in exchange. Cash subscriptions are not invited.

The exchanges will not be treated as a sale and purchase for tax purposes; therefore, there will be no recognition of gain or loss for Federal income tax purposes solely on account of the exchange of old for new securities. Details are presented in the following paragraph No. 9.

The subscription books will be open beginning Monday, September 9, and will remain open through Friday, September 13, 1963, for all classes of subscribers.

Further details of the offering, including amounts of cash payments due to subscribers, and the amounts of accrued interest adjustments, are described below.

Terms and Conditions of the Advance Refunding Offer

1. To all holders of the following outstanding Treasury securities:

Description of securities	Issue date	Final maturity date	Remaining term to maturity		Amount outstanding (in billions)
			Yrs.	Mos.	
3 1/4% certificate B-1964	May 15, 1963	May 15, 1964	—	8	\$5.7
4 3/4% note A-1964	July 20, 1959	May 15, 1964	—	8	4.9
3 3/4% note D-1964	June 23, 1960	May 15, 1964	—	8	3.9
3 3/4% bond 1966	Nov. 15, 1960	May 15, 1966	2	8	3.6
4% note A-1966	Feb. 15, 1962	Aug. 15, 1966	2	11	4.5
3 5/8% note B-1967	March 15, 1963	Feb. 15, 1967	3	5	4.3
3 3/4% note A-1967	Sept. 15, 1962	Aug. 15, 1967	3	11	5.3

2. New securities to be issued (or additional amount of an outstanding issue):

Description of securities	Issue date	Amount outstanding (in billions)	Interest starts ¹	Interest payable
3 7/8% bond of Nov. 15, 1968	Sept. 15, 1963	—	Sept. 15, 1963	May 15 and Nov. 15 ³
4% bond of Aug. 15, 1973	Sept. 15, 1963	—	Sept. 15, 1963	Feb. 15 and Aug. 15
4 1/8% bond of May 15, 1994 ²	April 18, 1963	\$0.3	Sept. 15, 1963	May 15 and Nov. 15

¹ Interest on the securities surrendered stops on September 15, 1963.

² Callable on and after May 15, 1989.

³ First interest payment will be May 15, 1964.

3. Terms of the exchange:

Exchanges will be made on the basis of equal face amounts, with payments by the Treasury, and with adjustments of accrued interest to September 15, 1963, on the securities surrendered and on the additional issue of bonds (per \$100 face amount), as indicated below:

Securities to be exchanged	Amounts to be paid to or by subscribers					
	On account of accrued interest to 9/15/63			Net amount		
	Payable TO subscriber on account of purchase price of securities to be issued	Payable TO subscriber on securities to be exchanged	Payable BY subscriber on securities to be issued	To be paid TO subscriber	To be collected FROM subscriber	Extension of maturity Yrs.-Mos.
FOR THE 3 7/8% BONDS OF 1968						
3 1/4% ctf. B-1964	\$0.65	\$1.086277	—	\$1.736277	—	4—6
4 3/4% note A-1964	1.60	1.587636	—	3.187636	—	4—6
3 3/4% note D-1964	0.95	1.253397	—	2.203397	—	4—6
FOR THE 4% BONDS OF 1973						
3 1/4% ctf. B-1964	\$1.15	\$1.086277	—	\$2.236277	—	9—3
4 3/4% note A-1964	2.10	1.587636	—	3.687636	—	9—3
3 3/4% note D-1964	1.45	1.253397	—	2.703397	—	9—3
3 3/4% bond 1966	1.15	1.253397	—	2.403397	—	7—3
4% note A-1966	1.80	0.336957	—	2.136957	—	7—0
3 5/8% note B-1967	0.40	0.305367	—	0.705367	—	6—6
3 3/4% note A-1967	0.70	0.315897	—	1.015897	—	6—0
FOR THE 4 1/8% BONDS OF 1989-94						
3 1/4% ctf. B-1964	\$1.35	\$1.086277	\$1.686402	\$0.749875	—	30—0
4 3/4% note A-1964	2.30	1.587636	1.686402	2.201234	—	30—0
3 3/4% note D-1964	1.65	1.253397	1.686402	1.216995	—	30—0
3 3/4% bond 1966	1.35	1.253397	1.686402	0.916995	—	28—0
4% note A-1966	2.00	0.336957	1.686402	0.650555	—	27—9
3 5/8% note B-1967	0.60	0.305367	1.686402	—	\$0.781035	27—3
3 3/4% note A-1967	0.90	0.315897	1.686402	—	0.470505	26—9

The following coupons should be *attached* to the securities in bearer form when they are surrendered:

<i>Securities</i>	<i>Coupons to be attached</i>
3 $\frac{1}{4}$ % ctf. B-1964, 4 $\frac{3}{4}$ % note A-1964, 3 $\frac{3}{4}$ % note D-1964, and 3 $\frac{3}{4}$ % bond 1966	Nov. 15, 1963, and subsequent
4% note A-1966, 3 $\frac{5}{8}$ % note B-1967, and 3 $\frac{3}{4}$ % note A-1967	Feb. 15, 1964, and subsequent

4. Payment:

Payment for the new securities must be completed by September 18, 1963. The new securities will be delivered September 18, 1963. Where the table in the preceding paragraph shows a net amount to be collected from subscribers such amount should accompany the subscription. Where the table shows a net amount payable to subscribers the payment will be made by the Treasury, if bearer securities are surrendered following their acceptance, and if registered securities are surrendered following discharge of registration in accordance with the assignments on the securities.

5. Limitation on amount of securities to be issued:

The amount of securities to be issued under this offering will be limited to the amount of the eligible securities tendered in exchange and accepted.

6. Books open for subscriptions for the new securities:

The books will be open for the receipt of subscriptions from Monday, September 9, through Friday, September 13. Subscriptions placed in the mail by midnight, September 13, addressed to any Federal Reserve Bank or Branch or the Treasurer, U. S., Washington, D. C. 20220, will be considered as timely. The use of registered mail is recommended for the security holders' protection in submitting securities to be exchanged.

If securities eligible for exchange are pledged with a State or Federal Government agency or authority and such securities cannot or will not be released by such authority to the pledgor in time for use in making payment for the securities offered in this exchange, the pledgor may, nevertheless, enter a subscription. Such subscriptions should be accompanied by a letter signed by an authorized official of the pledgor explaining the circumstances and, if the authority will not release the securities, a request and authorization for the Federal Reserve Bank, or Branch, or the Treasurer of the U. S. (according to where the subscription is directed) to deliver the new securities to the State or Federal authority in exchange for the old securities held by such authority.

7. Requirements applicable to subscriptions:

Subscriptions will be received at the Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington, D. C. 20220. Banking institutions generally may submit subscriptions for account of customers. All subscribers requesting registered securities will be required to furnish appropriate identifying numbers as required on tax returns and other documents submitted to the Internal Revenue Service.

8. Denominations and other characteristics of new securities:

The bonds will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000 in coupon and registered forms. The bonds will be acceptable to secure deposits of public moneys.

9. Nonrecognition of gain or loss for Federal income tax purposes:

(a) *General*—The Secretary of the Treasury has declared pursuant to section 1037(a) of the Internal Revenue Code that no gain or loss shall be recognized for Federal income tax purposes solely on account of the exchange of the securities; *however*, section 1031(b) of the Code requires recognition of any gain realized on the exchange to the extent that money (other than interest) is received by the security holder in connection with the exchange as indicated in (b).

(b) *Where the securities to be issued are offered by the Treasury with a payment to the investor*—If the fair market value¹ of the securities to be issued plus the amount paid to the investor

¹ The mean of the bid and asked quotations on date subscriptions are submitted.

(discount) exceeds the cost basis to the investor of the securities to be exchanged, such gain (but not to exceed the amount of the payment) must be recognized and accounted for as gain for the taxable year of exchange. He will carry the new securities on his books at the same amount as he is now carrying the old securities except that he will reduce the cost basis by the amount of the payment and increase it by the amount of the gain recognized. If the fair market value of the new securities plus the amount of the payment does not exceed the cost basis of the old securities, the basis in the new securities will be the cost basis in the old securities reduced by the amount of the payment.

(c) Gain to the extent not recognized under (b) (or loss), if any, upon the old securities surrendered in exchange will be taken into account upon the disposition or redemption of the new securities. (See appendix to paragraph 9 on page 6.)

10. *Federal estate tax option on the 4 $\frac{1}{8}$ % bonds of 1989-94*—The 4 $\frac{1}{8}$ % bonds of 1989-94 will be redeemable at par and accrued interest prior to maturity for the purpose of using the proceeds in payment of Federal estate taxes *but only if they are owned by the decedent at the time of his death and thereupon constitute part of his estate.*

11. Book value of new securities to banking institutions:

The Comptroller of the Currency, Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation have indicated to the Treasury that banks under their supervision may place the new securities received in exchange on their books at an amount not greater than the amount at which the eligible securities surrendered by them are carried on their books plus the amount of premium, if any, paid on the new securities, or reduced by the amount of discount, if any, received by the subscriber and increased by the amount of gain, if any, which will be recognized as indicated in paragraph 9.

12. Computation of reinvestment rate for the extension of maturity:

A holder of the outstanding eligible securities has the option of accepting the Treasury's exchange offer or of holding them to maturity. Consequently, he can compare the interest plus (or minus) any payment, other than the adjustment of accrued interest, he will receive resulting from exchanging now with the total of the interest on the eligible issues and what he might obtain by reinvesting the proceeds of the eligible securities at maturity.

The income before tax for making the extension now through exchange will be the coupon rates plus (or minus) any payment on the new issues. If a holder of the eligible securities does *not* make the exchange he would receive the coupon rates on the eligible issues to their maturity and would have to reinvest at that time at a rate equal to that indicated in paragraph 13 below for the remaining terms of the issues now offered, in order to equal the return (including any payment) he would receive by accepting the exchange offer. For example, if the 3 $\frac{3}{4}$ % bonds of 5/15/66 are exchanged for the 4% bonds of 8/15/73, the investor receives 4% for the entire nine years and eleven months plus \$1.15 (per \$100 face value) immediately. If the exchange is not made, a 3 $\frac{3}{4}$ % rate will be received until May 15, 1966, requiring reinvestment of the proceeds of the 3 $\frac{3}{4}$'s of 1966 at that time at a rate of at least 4.32% for the remaining seven years and three months, all at compound interest, to average out to a 4% rate for nine years and eleven months plus the \$1.15 immediate payment. This minimum reinvestment rate for the extension period is shown in the table under paragraph 13. The minimum reinvestment rates for the other issues included in the exchange are also shown in the table under paragraph 13.

13. Payments on issue price and investment rates on the new bonds offered in exchange to holders of the eligible securities:

	3 1/4% C/Is 5/15/64	3 3/4% Notes 5/15/64	4 3/4% Notes 5/15/64	3 3/4% Bonds 5/15/66	4% Notes 8/15/66	3 5/8% Notes 2/15/67	3 3/4% Notes 8/15/67
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FOR THE NEW 3 7/8% BONDS OF NOVEMBER 15, 1968

Payments on account of \$100 issue price to subscriber	\$0.65	\$0.95	\$1.60	—	—	—	—
Approximate investment yield from exchange date (9/15/63) to maturity of bonds offered in exchange based on price of securities eligible for exchange ¹	4.02%	4.02%	4.02%	—	—	—	—
Approximate minimum reinvestment rate for the extension period ²	4.14%	4.13%	4.13%	—	—	—	—

FOR THE NEW 4% BONDS OF AUGUST 15, 1973

Payments on account of \$100 issue price to subscriber	\$1.15	\$1.45	\$2.10	\$1.15	\$1.80	\$0.40	\$0.70
Approximate investment yield from exchange date (9/15/63) to maturity of bonds offered in exchange based on price of securities eligible for exchange ¹	4.15%	4.14%	4.14%	4.15%	4.15%	4.15%	4.14%
Approximate minimum reinvestment rate for the extension period ²	4.22%	4.22%	4.22%	4.32%	4.34%	4.32%	4.36%

FOR THE NEW 4 1/8% BONDS OF MAY 15, 1989-94

Payments on account of \$100 issue price to subscriber	\$1.35	\$1.65	\$2.30	\$1.35	\$2.00	\$0.60	\$0.90
Approximate investment yield from exchange date (9/15/63) to maturity of bonds offered in exchange based on price of securities eligible for exchange ¹	4.21%	4.20%	4.20%	4.21%	4.21%	4.21%	4.20%
Approximate minimum reinvestment rate for the extension period ²	4.24%	4.24%	4.24%	4.28%	4.29%	4.28%	4.29%

¹ Yield to nontaxable holder or before tax. Based on mean of bid and asked prices (adjusted for payments on account of issue price) at noon on September 3, 1963.

² Rate for nontaxable holder or before tax. For explanation see paragraph 12 above.

APPENDIX TO PARAGRAPH NO. 9

NONRECOGNITION OF GAIN OR LOSS FOR FEDERAL INCOME TAX PURPOSES

Where a bond is offered by the Treasury with a payment (other than the accrued interest adjustment) to the investor.

Examples:

1. Assume that:

(a) The fair market value of the security offered by the Treasury on the date the subscription is submitted is \$99.50 (per \$100 face value).

(b) The payment to the subscriber (discount) on account of \$100 issue price is \$.80.

(c) The amortized cost basis of the security surrendered on the books of the subscriber is \$100.50 (per \$100 face value). (It is assumed that the security surrendered was bought at a price above \$100.50 and that the original premium was reduced pro rata over the period from purchase date to maturity.)

The sum of the fair market value of the security offered by the Treasury and the payment to the subscriber is \$99.50 plus \$.80 or \$100.30. This is less than the cost basis of the issue surrendered; therefore, no gain is recognized. The new issue will be entered on the books of the subscriber at a cost basis of \$99.70, the cost basis of the issue surrendered less \$.80. The gain or loss between this cost basis and the proceeds of a subsequent sale or redemption of the new issue will be a capital gain or loss to all investors, except those to whom the securities are stock in trade. Under present law, if the combined time that the security surrendered and the new security received in exchange were held exceeds 6 months, the capital gain or loss is long-term, otherwise it is short-term.

2. The assumptions are the same as in example 1 except that the payment (discount) to the subscriber is now \$1.20 (per \$100 face value) instead of \$.80 in example 1.

The sum of the fair market value of the new security received in exchange by the subscriber plus the \$1.20 payment (discount) is \$100.70. This exceeds the cost basis of the security surrendered by \$.20. This excess is a recognized gain reportable for the year in which the exchange takes place. The gain is a capital gain except to those to whom the securities are stock in trade. Under present law, if the time the security surrendered was held exceeds 6 months, the capital gain is long-term, otherwise it is short-term.

The subscriber will carry the new issue received in exchange at a cost basis equal to the basis of the issue surrendered (\$100.50), less the payment (\$1.20), plus the amount of the recognized gain (\$.20), or $(\$100.50 - \$1.20 + \$.20)$ \$99.50.

3. The assumptions are the same as in example 1, except that the cost basis on the books of the subscriber, of the security surrendered is \$99.00 (per \$100 face value) instead of \$100.50 in example 1.

The sum of the fair market value of the new issue received in exchange by the subscriber plus the \$.80 payment (discount) is \$100.30 (as in example 1). This exceeds the \$99.00 cost basis by more than \$.80. However, the amount of the gain reportable for the year of the exchange is \$.80, since the amount of gain recognized cannot exceed the amount of the payment. The nature of the recognized gain and its treatment is the same as in example 2.

In this case, the subscriber will enter the new security received in exchange on his books at \$99.00, the same cost basis as the security surrendered.