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

[Circular No. 5443
January 9, 1964]

ADVANCE REFUNDING

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

Enclosed are copies of two Treasury statements, both dated January 8, 1964, on the current advance refunding. One describes, in detail, the terms and conditions of the refunding, and the other contains supplementary information on cash adjustments. These statements supplement the Treasury statement of the same date sent to you with our Circular No. 5442.

The subscription books for the offering will be open beginning Monday, January 13, and will remain open through Friday, January 17. The official offering circulars and subscription forms will be mailed to reach you by Monday, January 13.

Additional copies of the enclosures will be furnished upon request.

Alfred Hayes,
President.

TREASURY DEPARTMENT

WASHINGTON, D. C.

IMMEDIATE RELEASE
Wednesday, January 8, 1964

ADVANCE REFUNDING OFFER

The Treasury today announced that it will offer holders of six outstanding Treasury securities an opportunity to extend their holdings at attractive yields. The public holds \$15.3 billion of the securities eligible for exchange; about \$9.4 billion are held by official accounts. The outstanding total is \$24.7 billion.

Holders of securities eligible for exchange have the option of exchanging them, as of January 22, 1964 (with payment for the new bonds to be completed by and delivery to be made on January 29), for two issues of bonds as follows:

Securities eligible for exchange and their maturity dates		*Securities offered in exchange and their maturity dates*	
3¾% Notes, E-1964	8/15/64	4% Bonds, 1970 (Additional Issue)	8/15/70
5% Notes, B-1964	8/15/64		
3¾% Notes, F-1964	11/15/64	4¼% Bonds, 1975-85 (Additional Issue)	5/15/75-85
4⅞% Notes, C-1964	11/15/64		
2⅝% Bonds, 1965	2/15/65		
4⅝% Notes, A-1965	5/15/65		

The Treasury is placing an outside limit of \$4 billion, or thereabouts, on the aggregate amount of the 4 percent bonds of 1970, and \$750 million, or thereabouts, on the aggregate amount of the 4¼ percent bonds of 1975-85 to be issued; therefore, all subscriptions will be received subject to allotment. Cash subscriptions are not invited.

The exchanges will be made on the basis of par for par with accrued interest adjustments as of January 22, 1964, and with cash payments to or by the 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 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, January 13, and will remain open through Friday, January 17, 1964, for all classes of subscribers.

Further details of the offering, including amounts of cash payments due to or by 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 Yrs.*	*Mos.*	*Amount outstanding (in billions)*
3¾% note E-1964	Aug. 1, 1961	Aug. 15, 1964	—	6¾	$5.0
5% note B-1964	Oct. 15, 1959	Aug. 15, 1964	—	6¾	2.3
3¾% note F-1964	Aug. 15, 1963	Nov. 15, 1964	—	9¾	6.4
4⅞% note C-1964	Feb. 15, 1960	Nov. 15, 1964	—	9¾	4.2
2⅝% bond 1965	June 15, 1958	Feb. 15, 1965	1	¾	4.7
4⅝% note A-1965	May 15, 1960	May 15, 1965	1	3¾	2.1

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*
4% bond of Aug. 15, 1970	June 20, 1963	$1.9	Jan. 22, 1964	Feb. 15 & Aug. 15
4¼% bond of May 15, 1975-85	April 5, 1960	0.5	Jan. 22, 1964	May 15 & Nov. 15

[1] Interest on the securities surrendered stops on January 22, 1964.

3. Terms of the exchange:

Exchanges will be made on the basis of equal face amounts, with payments to or by the subscriber, and with adjustments of accrued interest to January 22, 1964, 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*					*Extension of maturity Yrs.-Mos.*
	Payable TO *subscriber on account of purchase price of securities to be issued*[1]	*On account of accrued interest to 1/22/64*		*Net amount*		
		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*	
For the 4% Bonds of 1970						
3¾% note E-1964	$0.95	$1.630435	$2.357915	$0.222520	—	6—0
5% note B-1964	1.65	2.173913	2.357915	1.465998	—	6—0
3¾% note F-1964	0.95	0.700549	2.357915	—	$0.707366	5—9
4⅞% note C-1964	1.85	0.910714	2.357915	0.402799	—	5—9
2⅝% bond 1965	(0.25)	1.141304	2.357915	—	1.466611	5—6
4⅝% note A-1965	1.80	0.864011	2.357915	0.306096	—	5—3
For the 4¼% Bonds of 1975-85						
3¾% note E-1964	$0.05	$1.630435	$0.793956	$0.886479	—	20—9
5% note B-1964	0.75	2.173913	0.793956	2.129957	—	20—9
3¾% note F-1964	0.05	0.700549	0.793956	—	$0.043407	20—6
4⅞% note C-1964	0.95	0.910714	0.793956	1.066758	—	20—6
2⅝% bond 1965	(1.15)	1.141304	0.793956	—	0.802652	20—3
4⅝% note A-1965	0.90	0.864011	0.793956	0.970055	—	20—0

[1] Amounts payable by subscribers are included within parentheses.

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

Securities	*Coupons to be attached*
3¾% note E-1964, 5% note B-1964 and 2⅝% bond 1965	Feb. 15, 1964, and subsequent
3¾% note F-1964, 4⅞% note C-1964 and 4⅝% note A-1965	May 15, 1964, and subsequent

4. Payment:

Payment for the new securities allotted and the net amount to be collected from subscribers, as shown in the table in the preceding paragraph, must be completed by January 29, 1964. 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. The new securities will be delivered January 29, 1964.

5. Limitation on amount of securities to be issued:

While it is not practicable to estimate the extent of investor acceptance, the Treasury is placing an outside limit of $4 billion, or thereabouts, on the aggregate amount of the 4 percent bonds of 1970, and $750 million, or thereabouts, on the aggregate amount of the 4¼ percent bonds of 1975-85 to be issued. In the event the limit on either issue is exceeded, subscriptions to the respective issue will be subject to allotment.

6. Books open for subscriptions for the new securities:

The books will be open for the receipt of subscriptions from *Monday, January 13, through Friday, January 17, 1964.* Subscriptions placed in the mail by midnight, *January 17,* addressed to any Federal Reserve Bank or Branch or the Office of the Treasurer of the United States, 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 United States (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, provided the names of the customers are set forth in such subscriptions. 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.

Subscriptions from banking institutions for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, Federal Reserve Banks, and Government Investment Accounts will be received without deposit. Subscriptions from all others must be accompanied by deposit of eligible securities in an amount equal to 10% of the securities applied for.

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 value[1] of the securities to be issued plus the amount paid to the investor (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) *Where premium is paid by the subscriber*—If a premium is paid by the subscriber no gain or loss will be recognized; but his tax basis in the new securities will be his cost basis in the old securities *increased* by the amount of the premium.

(d) 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 attached.)

10. *Federal estate tax option on the 4¼% bonds of 1975-85* —The 4¼% bonds of 1975-85 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, the 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 3¾% notes of 11/15/64 are exchanged for the 4% bonds of 8/15/70, the investor receives 4% for the entire 6 years and 6¾ months plus $0.95 (per $100 face value) immediately. If the exchange is not made, a 3¾% rate will be received until November 15, 1964, requiring reinvestment of the proceeds of the 3¾'s of November 1964 at that time at a rate of at least 4.24% for the remaining 5 years and 9 months, all at compound interest, to average out to a 4% rate for 6 years and 6¾ months plus the $0.95 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.

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

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

	3¾% Notes 8/15/64	5% Notes 8/15/64	3¾% Notes 11/15/64	4⅞% Notes 11/15/64	2⅝% Bonds 2/15/65	4⅝% Notes 5/15/65
FOR THE NEW 4% BONDS OF AUGUST 15, 1970						
Payments on account of $100 issue price:						
To subscriber	$0.95	$1.65	$0.95	$1.85	—	$1.80
By subscriber	—	—	—	—	$0.25	—
Approximate investment yield from exchange date (1/22/64) to maturity of bonds offered in exchange based on price of securities eligible for exchange[1]	4.16%	4.15%	4.16%	4.15%	4.15%	4.16%
Approximate minimum reinvestment rate for the extension period[2]	4.21%	4.21%	4.24%	4.24%	4.25%	4.23%
FOR THE NEW 4¼% BONDS OF MAY 15, 1975-85						
Payments on account of $100 issue price:						
To subscriber	$0.05	$0.75	$0.05	$0.95	—	$0.90
By subscriber	—	—	—	—	$1.15	—
Approximate investment yield from exchange date (1/22/64) to first call date or to maturity of bonds offered in exchange based on price of securities eligible for exchange[1]	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
Approximate minimum reinvestment rate for the extension period[2]						
To first call date	4.29%	4.29%	4.30%	4.31%	4.32%	4.31%
To maturity	4.27%	4.27%	4.28%	4.28%	4.29%	4.28%

[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 January 7, 1964.

[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 plus \$.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.

TREASURY DEPARTMENT

WASHINGTON, D. C.

IMMEDIATE RELEASE
Wednesday, January 8, 1964

ADVANCE REFUNDING

Supplementary Note on Cash Adjustment Payments

To assure reasonably comparable terms to all holders of the eligible securities, the Treasury will collect small cash adjustment payments from the holders of low coupon securities and will correspondingly make cash adjustment payments to holders of issues bearing higher coupons. These payments are apart from the usual interest adjustments on the eligible and offered issues as indicated in the table below.

Holders of the 2⅝ percent bonds maturing in February of next year, for example, will be asked to pay the Treasury 25 cents for each $100 of par value submitted in response to the Treasury's offering, if the holder wishes to obtain the 4 percent bonds of 1970. If he wishes to obtain the 4¼ percent bonds of 1975-85, his payment to the Treasury will be $1.15 per $100 of par value exchanged. Without these supplementary payments, the increases in coupon income until the maturity of the 2⅝'s in February 1965 would produce rates of return on the offered securities well in excess of those available to the holders of the other eligible issues.

At the other extreme, holders of the 5 percent notes maturing next August would receive a payment of $1.65 per $100 from the Treasury, if they choose to exchange their 5 percent notes for the 4 percent bonds of 1970. If they should choose the 4¼ percent bonds of 1975-85, they would receive a somewhat smaller payment of 75 cents per $100 from the Treasury. In effect, these payments by the Treasury to the subscriber compensate him for the reduction of his coupon income that he will be accepting for the short period remaining to maturity in August. These payments also provide some additional inducement to the holder for recommitting his funds to Government securities for an additional period ahead, either to 1970 or to 1975-85. In effect, a holder of the 5 percent notes may be considered to continue receiving the equivalent of his 5 percent coupon until maturity in August, and then to begin receiving for the extended period for which he has committed his funds a rate of interest well above available alternatives.

INVESTMENT RETURNS IN THE JANUARY 1964 ADVANCE REFUNDING

Securities eligible for exchange	Approximate investment yield from 1/22/64 to maturity [1]: 4% Bond 8/15/70 [3]	4¼% Bond 5/15/75-85 [3] to first call or maturity	Approximate reinvestment rate for extension period [2]: 4% Bond 8/15/70 [3]	4¼% Bond 5/15/75-85 [3] To first call	To maturity
3¾% Note 8/15/64...	4.16%	4.25%	4.21%	4.29%	4.27%
5% Note 8/15/64...	4.15	4.25	4.21	4.29	4.27
3¾% Note 11/15/64...	4.16	4.25	4.24	4.30	4.28
4⅞% Note 11/15/64...	4.15	4.25	4.24	4.31	4.28
2⅝% Bond 2/15/65...	4.15	4.25	4.25	4.32	4.29
4⅝% Note 5/15/65...	4.16	4.25	4.23	4.31	4.28

[1] Yields to nontaxable holders (or before tax) on issues offered in exchange based on prices of eligible issues (adjusted for payments on account of issue price). Prices are the mean of bid and ask quotations at noon on January 7, 1964.

[2] Rate for nontaxable holders (or before tax).

[3] Reopening of an existing security.

Payments to and by the Subscriber in the January 1964 Advance Refunding

(In dollars per $100 face value)

Securities to be exchanged	Amounts to be paid to or by subscribers: Price adjustment — Payment[1] to subscriber	Price adjustment — Payment[1] by subscriber	Accrued interest to 1/22/64 to be paid — To subscriber[2]	Accrued interest to 1/22/64 to be paid — By subscriber[3]	Net amount to be paid — To subscriber	Net amount to be paid — By subscriber
For the 4% Bond 8/15/70						
3¾% note 8/15/64.....	$0.950000		$1.630435	$2.357915	$0.222520	—
5% note 8/15/64.....	1.650000		2.173913	2.357915	1.465998	—
3¾% note 11/15/64.....	0.950000		0.700549	2.357915	—	$0.707366
4⅞% note 11/15/64.....	1.850000		0.910714	2.357915	0.402799	—
2⅝% bond 2/15/65.....		$0.250000	1.141304	2.357915	—	1.466611
4⅝% note 5/15/65.....	1.800000		0.864011	2.357915	0.306096	—
For the 4¼% Bond 5/15/75-85						
3¾% note 8/15/64.....	$0.050000		$1.630435	$0.793956	$0.886479	—
5% note 8/15/64.....	0.750000		2.173913	0.793956	2.129957	—
3¾% note 11/15/64.....	0.050000		0.700549	0.793956	—	$0.043407
4⅞% note 11/15/64.....	0.950000		0.910714	0.793956	1.066758	—
2⅝% bond 2/15/65.....		$1.150000	1.141304	0.793956	—	0.802652
4⅝% note 5/15/65.....	0.900000		0.864011	0.793956	0.970055	—

[1] Payment on account of purchase price of offered securities.
[2] On securities to be exchanged.
[3] On securities offered.