BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

November 19, 1962.

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Young

There is enclosed a copy of a memorandum, Further Comments on Guidelines for Monetary Policy, dated November 2, 1962, from the Federal Reserve Bank of New York commenting on the recent Sternlight-Koch discussion regarding the appropriate treatment of reserves against Treasury balances in the construction of reserve guidelines and exploring the broader implications of this discussion with respect to the choice of guidelines for monetary policy.

Also enclosed for your information is a copy of a notice of proposed rule making for publication in the Federal Register regarding regulations governing the sale of Treasury bonds through competitive bidding.

Ralph A. Young

Ralph A. Young, Secretary,
Federal Open Market Committee.

Enclosures

CONFIDENTIAL--(F.R.)

To Mr. Hayes

From F. W. Schiff

November 2, 1962

Subject: Further Comments on Guidelines for Monetary Policy

The following memorandum (a) comments on the recent Sternlight-Koch discussion regarding the appropriate treatment of reserves against Treasury balances in the construction of reserve guidelines, and (b) explores the broader implications of this discussion with respect to the choice of guidelines for monetary policy.

1. The key point in Mr. Sternlight's memorandum, as I see it, relates to situations in which the Treasury deliberately builds up the level of its deposit balances through sales of bills to the nonbank public that are not purely seasonal but designed to support short-term bill rates. Mr. Sternlight argues that under these circumstances, the Board staff's reserve guideline should make little or no provision for the creation of reserves needed to compensate for the shift of deposits from private to Treasury accounts. This shift, he reasons, is likely to leave private liquidity virtually unchanged, for the public will regard its newly acquired Treasury bills to be as liquid--or almost as liquid--as the deposits which it has given up. Carried somewhat further, this argument would seem to call for the use of a guideline geared to some measure of total liquid assets--i.e., for a guideline that is quite different from the one currently employed. The current guideline is essentially a proxy for money supply, narrowly defined, since it gives much more weight to demand deposits than to time deposits, and none to Treasury bills or similar liquid instruments.

2. Mr. Koch's reply is that the facts cited by Mr. Sternlight <u>necessarily</u> imply some reduction in the public's liquidity. To reword his argument slightly: there is no clear-cut way of determining how much the <u>existing</u> stock of accumulated liquid assets affects spending decisions at any one time, or whether people holding deposits will have a greater disposition to spend, <u>ceteris paribus</u>, than those

holding an equivalent amount of Treasury bills. But when particular holders of deposits are induced to shift into Treasury bills in the course of Federal Reserve or Treasury operations, there is indeed evidence that their liquidity position has changed. It is only because such holders are paid a price in the form of higher interest rates that they are willing to give up the degree of liquidity represented by ownership of deposits. The rise in interest rates on short-term Governments, in turn, may have some adverse effects on spending, both because it would tend to get "reflected in private short-term rates" and because it would "make lenders somewhat more willing to hold short-term rather than longer-term securities" and thereby have an adverse effect on longer-term interest rates as well.

Mr. Koch's argument, too, can be made more general, although I am not sure how far he would go along with the formulation that follows.[1/] There are two major points to be made here. First, it can be held that Federal Reserve or Treasury operations involving a change in the stock of money or deposits will have an influence on private spending decisions only if these operations also affect interest rates, asset prices, and other credit terms that tend to be reflected in the "condition of credit markets". The reason is that such operations do not change the net financial assets of the public in nominal volume but merely rearrange these assets. With given demands, the public consequently has no incentive to make substitutions among its financial assets and liabilities unless there is a change in terms on which such substitutions can be made. And it is only to the extent that such substitutions occur and are bound up with or give rise to still further

1/ This formulation owes much to correspondence I had early this year with Messrs. Samuel Chase Jr. and Lyle Gramley (then both associated with the Research Department of the Federal Reserve Bank of Kansas City), and to the memorandum on "The Money Supply as a Proximate Guide to Policy Implementation" which Mr. Gramley and William R. Gardner (then also with the Kansas City Reserve Bank) submitted to the System Ad Hoc Committee on Money Supply Statistics in July 1959. I do not know, however, to what extent Messrs. Chase, Gardner and Gramley would go along with the specific conclusions reached in the present memorandum.

substitutions involving real as well as financial assets that credit policy can affect business activity.

The case cited by Mr. Sternlight, which involves a swap of one asset (private deposits) for another (Treasury bills), is merely one example of the general rule cited. Another would be a situation in which the System provides additional reserves to the banks, and the banks then expand deposits by acquiring securities from the nonbank public. Here the public reduces its holdings of one asset (securities) to build up those of another (deposits). In order to persuade the public to make this switch, the banks must presumably bid up the prices of the securities somewhat. It is this rise in asset prices, in turn, which makes the sellers of the securities (as well as the remaining nonbank holders) wealthier and thus possibly more willing to spend. A third case--the expansion of deposits through an increase in bank loans--involves a simultaneous rise in both assets and liabilities of the nonbank public. To induce an increase in loan demand, the banks would, in a competitive situation, have to ease lending terms somewhat. With credit rationing this might take the form of changes in "nonprice" credit terms and a shift in the degree of rationing. The general rule would, however, be the same as in all these cases: Federal Reserve and Treasury operations that influence spending decisions must in some sense work through, and be reflected in, the state of the credit markets.

The second point that would seem to follow from Mr. Koch's argument is that given policy changes which cause the public to shift from deposits into Treasury bills are not only likely to have some impact on liquidity and the availability of funds but will have different effects at different times, even when the amounts shifted from deposits to bills are the same. These divergences in impact can be spotted if one watches interest rates and credit market conditions, but they cannot be satisfactorily taken into account by mechanically assigning a standard "liquidity weight" to given amounts of asset substitution of this type. The same rule applies to other kinds of asset substitutions, such as shifts from time deposits to savings and loan shares or from demand deposits to time deposits. To state the point even more generally: in none of these cases can liquidity effects--and possible effects on spending--be reliably gauged if one only observes changes in the supply of money or of some other liquid assets measure. The reason is that there can be simultaneous changes in the demand (or elasticity of demand) for money or liquid assets, and these tend to vary substantially with differences in business conditions, in financial practices and structure, and in expectations.

3. On the basis of the preceding discussion, I would conclude that Mr. Sternlight and Mr. Koch have both made useful points but that these points do not in either instance give full support to what seem to be their conclusions--in Mr. Koch's case, that System operations should be fairly directly geared to a guideline based on money supply, and in Mr. Sternlight's case, that they should aim at the same guideline "converted" into a total liquidity proxy through a quantitative allowance for shifts from deposits to Treasury bills.

Mr. Koch's argument seems persuasive in showing that the Sternlight procedure does not yield a reliable indication of how policy actions affect liquidity. But the same argument can be turned with equal or greater force against the use of money supply (or of any other "stock of liquid assets" measure) as the principal guide to System policy. Indeed, all such uses are open to criticism because they make the unrealistic assumption of the quantity-theorists that the demand for money or liquidity is stable, and that changes in the quantity of money or liquid assets will consequently be closely correlated with changes in over-all activity.

Where, then, does the logic of the Sternlight-Koch discussion lead us as far as the choice of guidelines is concerned? In my opinion, it suggests that the principal guide to System action should be the "condition of the credit markets", as manifested in asset prices and the cost and availability of credit. Credit market conditions, in contrast to measures of money supply and total deposits, necessarily take account of all credit transactions, not just of bank credit alone. And, for the reasons already outlined, they tend to give a more reliable indication than "stocks-of-asset" measures of the way in which different kinds of asset substitutions induced by System policy affect liquidity. Nevertheless, money supply and related "stock" measures do have a useful "guideline" function. This stems from the fact that as a practical matter, accurate assessment of the forces operative in particular credit markets is often difficult and that supplementary information is needed for such purposes as distinguishing between demand and supply influences. Here I agree with Mr. Sternlight's statement that "money supply does not mean much in itself but.... is (merely) one convenient measure of the credit-creating activities that have brought it into being." Such a supplementary use of money supply and similar stock-of-assets measures is, however, quite different from a procedure that gives primary emphasis to money supply as a guideline.

I realize, of course, that neither Mr. Koch nor Mr. Sternlight would necessarily advocate that System policy be solely or rigidly geared to a guideline that is a proxy for stocks of money or liquid assets. It strikes me, however, that the difficulty with their arguments is precisely that these are worded <u>as if</u> the System should give overriding emphasis to such a guideline. The difficulty could in good part be resolved if it were frankly recognized that among current "financial" indicators, the System's main focus should be on the condition of credit markets, but that money supply and other "stock" measures also serve an important though supplementary guideline function.

4. Given such a framework, it becomes clear that it is the interrelationship between the behavior of the various broad categories of indicators which often tends to be of special usefulness in policy formulation. Thus, a close watch needs to be kept on the degree of correspondence between changes in credit conditions, in measures that are the proxies for money supply and other stocks of assets, and in the broader economic indicators. As long as relatively ample free reserves and easy credit conditions result in steady increases in the money supply as well as in total credit and liquidity, and as long as this in turn is accompanied by the desired rate of growth in over-all economic activity, the System can be fairly confident that its policies are effective. If the movements of these various indicators begin to diverge, however, a host of questions are posed that will lead to an examination of the nature of these divergences. Such an examination can then give clues to the underlying processes at work--for example, whether the beneficial effects of System policies in expanding bank credit are being offset by a simultaneous contraction of nonbank credit, or whether shifts from demand to time deposits reflect significant changes in the public's liquidity. The Sternlight-Koch discussion is an example of precisely the kind of constructive questioning that is induced by divergent movements in the various series.

Once these questions have been raised, however, they cannot, in my view, be resolved by a decision to give priority to movements of the money supply or of similar stock of assets series, even after allowance for particular types of deposit shifts. Rather, they would seem to call for a more careful look at the way in which the asset substitutions highlighted by the divergence in the broader series are affecting decision-making processes and the flow of lendable funds in particular credit markets. In the case cited by Mr. Sternlight, for example, the question is raised whether the effort to support bill rates is, to some significant extent, exerting an adverse effect on the availability of credit, in the sense that banks and business firms are under less pressure to seek out opportunities for lending or productively spending their funds than if bill rates were lower.[1/] There is no easy way to get an answer to this question. However, considerable scope probably exists for wider and more intensive use of interviews with both lenders and borrowers, and for other types of stucies that throw light on the current behavior of these groups (such as more intensive use of bank examination data to obtain information on changes in "nonprice" credit terms--as has been suggested by Mr. Wojnilower).

These lines of inquiry are aided if the guides used by the System allow a clear differentiation between credit terms and credit volume. From this point of view (and assuming that only one "stock of assets" proxy can be used as a guideline), the type of required reserves guideline currently in use is superior to the one proposed by Mr. Sternlight, which would obscure rather than highlight possible conflicts between interest rate and reserve availability goals. There may, however, be a case for developing additional guidelines that could be compared with the one currently in use--for example, a deposit proxy guideline that would give equal weight to demand and time deposits, or guidelines related to even broader measures of liquid (or even not-so-liquid) assets.

1/ I do not mean to imply that a policy of preventing bill rates from falling is wholly incompatible with efforts to stimulate domestic activity through monetary action. Bill rates are only one of the credit terms that are affected by monetary policy, and it is to some extent feasible to keep such rates at desired levels while exerting pressures that will lead to an easing of other kinds of credit terms--including, for example, rates on commercial bank loans, or various "nonprice" credit terms which are not as important in influencing international capital flows as are bill rates. But there are limits in the degree to which bill rates can be supported without keeping other credit terms from easing and thus adversely affecting credit availability. The problem is to determine where the limits lie.

Use of a "stock of money or liquid assets" type of guideline in conjunction with other information can be particularly helpful in separating out changes in credit demands from changes in credit supply. Suppose, for example, that there is an easing in credit market conditions accompanied by increases in bank holdings of free reserves or of corporate acquisitions of bills. In the context of a policy of ease, the System might take this as a sign that there has been an improvement in the liquidity of the banks or of corporations and that there is consequently a lesser need to provide reserves. Suppose further, however, that in this particular instance, the increase in free reserves or corporate bill holdings actually stems from an increased demand for liquidity reflecting a lessened propensity to lend or to spend. Under such conditions, the correct course (leaving out balance-of-payments or market stability considerations) would be to ease credit conditions further in order to put lenders under increased pressure for making new loans and to give business firms added incentives for borrowing. If the System were to focus on the absolute liquidity position of the banks or business firms it might, as Mr. Koch points out, be led to adopt policies which are precisely the opposite from what is needed.[1/] In fact, it might mean that there would be a tendency to tighten credit whenever liquidity increased in line with a weakening of total demand--a policy that would make no more sense than one of cutting Government expenditures purely to match reductions in receipts

1/ This is the type of situation which Mr. Guttentag discussed (with respect to banks) in his article on "Some Comments on Reserve Targets" that appeared in Staff Comments for May 1962. I generally agree with Mr. Guttentag's analysis of the problem, but not with his proposed solution--that the System should make reserve targets which are proxies for bank deposits its principal guideline. (To the extent that Mr. Guttentag merely arrived at his conclusion because of the assumption that the System is committed to money supply or bank deposits as its broad target, I have little quarrel with him.)

caused by a developing recession. Such an erroneous course can be avoided if the System makes a continuous assessment of the adequacy of liquidity, not in absolute terms, but in terms of liquidity requirements for arriving at the desired level of economic activity.

Proxies for money supply (or for other stocks of liquid assets) which can be related to desired levels of GNP can be useful in such an assessment. It is by no means clear, however, that the present type of reserve guideline is entirely satisfactory for this purpose. Use of a three per cent target rate of growth of money supply or its proxy would seem to imply that the money supply should grow at a rate considered "appropriate" to the current stage of the business cycle. Quite apart from the fact that it is difficult to determine precisely what stage of the cycle we are in, it seems questionable whether the aim should merely be to have liquidity repeat the growth rate recorded at comparable stages of previous business cycles, particularly when in some of these cycles the recovery from recession was brief and incomplete. The more appropriate procedure would be to focus on liquidity requirements at full employment or, more precisely, on a rate of growth in liquidity consistent with movement toward full employment within some reasonable period of time and without undesirable side effects, such as undue pressure on prices. (The analytical technique I have in mind would in some respects be analogous to that used by the Council of Economic Advisers in devising the so-called full employment budget concept.) Some use of such an approach has already been made within the System, notably by Mr. Holland and Mr. Link. In my view it would be helpful to do a good deal of additional work along these lines, despite the formidable conceptual and measurement problems that are involved.[1/]

5. The preceding discussion has implications both for the direction of research efforts to improve guides to monetary policy and operations, and for the policy conclusions to be drawn when the various types of guidelines give divergent results. With respect to the direction of research effort, probably the greatest need is to develop indicators that would give the System a more continuous and exact indication of changes in the availability of credit, as revealed particularly in variations in credit standards, banks' demand for free reserves, and factors influencing corporate liquidity requirements. Another promising research area is further investigation (in good part on the basis of already available data) of the velocity of turnover of liquid assets held by different categories of spenders, such as consumers and business firms; this would be helpful in analyzing the meaning of over-all liquidity measures. Other areas for exploration might include the development of separate "proxy" series for total deposits and for liquid assets that could be continuously compared with the current guideline, and the construction of measures that relate actual liquidity to liquidity requirements at full employment.

1/ These difficulties stem mainly from the fact that there is no unique stock of liquid assets that can be considered appropriate for full employment, nor a unique current volume of such assets that is consistent with getting to full employment. A great deal depends on the process by which the economy is expected to get to a full employment level--including the nature of demand forces, the type of fiscal policy used, etc. There may also be a case for pushing liquidity hard for some period along the way, and then recapturing part of the added liquidity as the economy approaches full (or high) employment levels. But within wide ranges, relating current liquidity to full employment requirements should be useful. It would, for example, make clear that there is no gain when the ratio of liquid assets to current GNP rises purely because of a decline in GNP.

In the policy area, I have already noted why, in my view, the System's primary focus among financial indicators should be on the state of the credit markets. If, however, there is a strong and persistent divergence between policies suggested by the "feel of the credit markets" and by the behavior of money supply or liquid asset proxies, the determining element should be the over-all state of the economy. Thus, if the economy's advance is less than satisfactory, domestic economic considerations as such would call for some further easing, even if actual liquidity is already ample. Purely domestic economic factors must, of course, be weighed against possible adverse effects of added liquidity on international capital flows and against the danger that markets might become excessively sloppy. Better "guidelines" might provide more precise indications than are now available of the relative impact which given increases in reserve availability would exert on the domestic economy, on the balance of payments, and on financial market fluctuations. With the present state of our knowledge, however, the help that the various indicators can provide in this respect is still quite limited, and there is no substitute for a process of taking risks through trial and error.

(To be published in Federal Register *of November 16, 1962)*

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, November 15, 1962

NOTICE OF PROPOSED RULE MAKING

Notice is hereby given, pursuant to the Administrative Procedure Act, approved June 11, 1946, that regulations concerning the sale of Treasury bonds through competitive bidding are proposed to be prescribed by the Secretary of the Treasury in a Treasury Department Circular entitled "REGULATIONS GOVERNING THE SALE OF TREASURY BONDS THROUGH COMPETITIVE BIDDING" in the form tentatively shown below. An example of a "PUBLIC NOTICE OF INVITATION TO BID" on such bonds is also published herewith. However, prior to final adoption, consideration will be given to any data, views, or arguments pertaining thereto, which are submitted in writing, in duplicate, to the Office of Debt Analysis, Room 3036, Treasury Department, Washington 25, D. C., within the period of thirty days from the date of this notice.

DOUGLAS DILLON,
Secretary of the Treasury.

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, November 15, 1962

Department Circular
Public Debt Series No. 00-62

REGULATIONS GOVERNING THE SALE OF TREASURY BONDS THROUGH COMPETITIVE BIDDING

Sec. 000.0. *Authority for sale of Treasury bonds through competitive bidding.*—The Secretary of the Treasury may, from time to time, by public notice, offer Treasury bonds for sale and invite bids therefor. The bonds so offered and the bids made will be subject to the terms and conditions and the rules and regulations herein set forth, except as they may be modified in the public notice or notices issued by the Secretary in connection with particular offerings.[1] The bonds will be subject also to the general rules and regulations of the Treasury Department, now or hereafter prescribed, governing United States securities. They will be issued pursuant to the authority of the Second Liberty Bond Act, as amended.

AUTHORITY: R.S. 3706; 40 Stat. 288, 290, 1308; 48 Stat. 343; 50 Stat. 481; 31 U.S.C. 738a, 739, 752, 752a, 753, 754, 754a and 754b.

The terms "public notice," "notices," or "announcement" as used herein mean the "Public Notice of Invitation to Bid" on Treasury bonds and any supplementary or amendatory notices or announcements with respect thereto.

Sec. 000.1. *Public notice—description of bonds—terms of offer.*—When bonds are offered for sale through competitive bidding, bids therefor will be invited through the form of a public notice or notices issued by the Secretary of the Treasury. The notice or notices will set forth the terms and conditions of the bonds, including maturities, call features, if any, and the terms and conditions of the offer, including the amount of the issue for which bids are invited, the coupon rate or rates of interest which will be subject to bidding, the date and closing hour for receipt of bids, and the date on which payment for any accepted bid must be completed. When so specified in the public notice, it shall be a condition of each bid that, if accepted by the Secretary of the Treasury, the bidder will make a *bona fide* reoffering to the investing public.

Sec. 000.2. *Denominations and exchanges.* — Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be available in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000, and \$1,000,000. Provisions will be made for the interchange of bonds of different denominations and of bearer and registered bonds, and for the transfer of registered bonds.

Sec. 000.3. *Taxation.*—The income derived from the bonds will be subject to all taxes imposed under the Internal Revenue Code of 1954. The bonds will be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but will be 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.

Sec. 000.4. *Acceptance as security for public deposits.*—The bonds will be acceptable to secure deposits of public moneys.

Sec. 000.5. *Notice of intent to bid.*—Any individual, organization, syndicate, or other group of any kind, which intends to submit a bid, must, when required by the public notice, give written notice of such intent at the place and within the time specified in the public notice. The filing of such notice will not constitute a commitment to bid.

Sec. 000.6. *Submission of bids.*

(a) *General.*—Bids will be received only at the place specified and not later than the time designated in the public notice. Each bid must be submitted in duplicate on the official form referred to in the public notice and should be enclosed and sealed in the special envelope prescribed by the Treasury Department. Forms and envelopes may be obtained from any Federal Reserve Bank or Branch or the Bureau of the Public Debt, Treasury Department, Washington 25, D. C. Bids shall be irrevocable.

(b) *Bidding.*—Bids, except noncompetitive bids when authorized, must be expressed as a percentage of the principal amount in not to exceed five decimals, *e.g.*, 100.01038%. Provisions relating to the coupon rate or rates of interest on the bonds, if not set forth in the public notice, will be made in a supplemental announcement. The public notice will indicate the timing of any such announcement. If the bidders are permitted to specify the coupon rate, each bidder shall specify a single coupon rate of interest, which shall be a multiple of 1/8 of 1 percent but not in excess of 4 1/4 percent. The Secretary of the Treasury may limit the premium above or the discount below par.

(c) *Group bids.*—A syndicate or other group submitting a bid must act through a representative who must be a member of the group. The representative must warrant to the Secretary of the Treasury that he has all necessary power and authority to act for each of the several members of the group. In addition to whatever other data may be required by the Secretary of the Treasury, in the case of a syndicate the bid must state the name of each member and the amount of each member's participation. In the event of changes in the composition of syndicate membership and the amount of any member's participation, notice of such changes shall be filed promptly at the place specified in the public notice for the receipt of bids.

Sec. 000.7. *Deposits—retention—return.* —Each bid must be accompanied by a deposit in the amount specified in the public notice. The deposit of any successful bidder will be retained as security for the performance of his obligation and will be applied toward payment of the bonds. All other deposits will be returned immediately. No interest will be allowed on account of the deposits.

Sec. 000.8. *Acceptance of bids.*

(a) *Opening of bids.*—Bids will be opened at the time and place specified in the public notice, and each bid accepted will be announced on the date of the opening within the time specified in the notice. Bidders or their representatives may attend the opening of the bids.

(b) *Method of determining accepted bids.* —The lowest basis cost of money[2] computed from the date of the bonds to the date of maturity will be used in determining successful bids.

(c) *Acceptance of successful bid.*—The Secretary of the Treasury, or his representative, will notify any successful bidder of acceptance in the manner and form specified in the public notice.

Sec. 000.9. *Bids—revocations—rejections —postponements—reoffers.*—The Secretary of the Treasury, in his discretion, may (1) revoke the public notice of invitation to bid at any time before opening bids, (2) return all bids unopened either at or prior to the time specified for their opening, (3) reject any or all bids, (4) postpone the time for presentation and opening of bids, and (5) waive any immaterial or obvious defect in any bid. In the event of a postponement, known bidders will be advised thereof and their bids returned unopened. Any action the Secretary of the Treasury may take in these respects shall be final.

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[1] These regulations do not apply to Treasury bills, which are governed by Department Circular No. 418, Revised, and do not constitute a specific offering of bonds.

[2] The lowest basis cost of money will be determined by reference to a specially prepared table of bond yields, a copy of which will be made available to all prospective bidders upon written request to the Federal Reserve Bank of New York, or the Bureau of the Public Debt, Treasury Department, Washington 25, D. C. Straight-line interpolation will be applied if necessary.

(OVER)

Sec. 000.10. *Payment for and delivery of bonds.*—Payment for the bonds, including accrued interest, if any, must be made in immediately available funds on the date and at the place specified in the public notice. Delivery of bonds under this section will be made at the risk and expense of the United States at any such place or places in the United States as may be designated in the public notice. Interim receipts, if necessary, will be issued pending delivery of the definitive bonds.

Sec. 000.11. *Failure to complete transaction—liquidated damages.*—If any successful bidder shall fail to pay in full for the bonds on the date and at the place specified in the public notice, the money deposited by or in behalf of such bidder shall be forfeited to the Treasury Department as liquidated damages for such failure.

Sec. 000.12. *Reservations as to terms of circular.*—The Secretary of the Treasury reserves the right, at any time, or from time to time, to amend, repeal, supplement, revise or withdraw all or any of the provisions of this circular.

DOUGLAS DILLON,
Secretary of the Treasury.

FOR IMMEDIATE RELEASE

[This document is an example of an invitation to bid on long-term Treasury bonds]

............(date)............

PUBLIC NOTICE OF INVITATION TO BID ON

.... **Treasury Bonds of** ....

The Secretary of the Treasury, by this notice and under the terms and conditions prescribed in Treasury Department Circular, Public Debt Series No. 00-62, invites bids for an issue of bonds of the United States, designated as Treasury Bonds of .... The face amount of the issue hereunder will be .... These bonds will be sold as a single block to the successful bidder.

I. *Description of bonds*

The bonds will be dated ...., and will bear interest from that date payable semiannually on ...., and thereafter on .... and .... in each year until the principal amount becomes payable. They will mature .... [but may be redeemed, at par and accrued interest, at the option of the United States on and after ...., on any interest day, on four months' notice given in such manner as the Secretary of the Treasury shall prescribe. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.][1]

If the bonds are owned by a decedent at the time of his death and thereupon become part of his estate, they will be redeemed at par and accrued interest at the option of the representatives of the estate, provided the Secretary of the Treasury is authorized by the decedent's estate to apply the entire proceeds of redemption to payment of the Federal estate taxes on such decedent's estate.

II. *Notice of intent*

Any individual, organization, syndicate, or other group intending to submit a bid must give written notice of such intent to the Federal Reserve Bank of New York on Form PD No. .... before 12:01 A.M., Eastern Standard Time, on .... Forms and envelopes therefor may be obtained from any Federal Reserve Bank or Branch or from the Bureau of the Public Debt, Treasury Department, Washington 25, D. C. The filing of such notice will not constitute a commitment to bid.

III. *Submission of bids*

Only bids submitted in accordance with the provisions of this notice, or any supplement or amendment hereto, and of Treasury Department Circular, Public Debt Series No. 00-62, by qualified bidders will be considered. Each bid must be submitted in duplicate on Form PD No. .... and must be received, enclosed and sealed in an envelope which will be furnished with the form, at the Federal Reserve Bank of New York, Room ...., not later than 11:00 A.M., Eastern Standard Time, on .... Forms and envelopes may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt, Treasury Department, Washington 25, D. C.

Each bidder may submit only one bid which must be for the purchase of *all* of the bonds described in this notice. The price to be paid to the United States by the bidder must be expressed as a percentage of the face amount in not to exceed five decimals, e.g., 100.01038%. Provisions relating to the coupon rate or rates of interest will be set forth in a supplemental notice hereto before 12:01 A.M., Eastern Standard Time, on .... [at least three full business days before the bidding date].

Each bid must be accompanied by an amount equal to 3 percent of the face amount of the bonds in immediately available funds.

IV. *Bids—Opening—Acceptance*

Bids will be opened in Room ...., Federal Reserve Bank of New York, at 11:00 A.M., Eastern Standard Time, on ...., and the accepted bid will be announced not later than 2:00 P.M., Eastern Standard Time, on that date.

The bid to be accepted will be the one resulting in the lowest basis cost of money computed from the date of the bonds to the date of maturity determined and accepted in accordance with the terms of this notice, or any supplement or amendment hereto, and the provisions of Treasury Department Circular, Public Debt Series No. 00-62. It shall be a condition of each bid that, if accepted by the Secretary of the Treasury, the bidder shall make a *bona fide* reoffering of all of the bonds to the investing public.

When the successful bidder has been announced, his deposit will be retained as security for the performance of his obligation and will be applied toward payment of the bonds. Thereafter, the deposits of all other bidders will be returned immediately. No interest will be allowed on the deposits. If [bids based on different coupon rates of interest result in identical basis costs of money computed to maturity, the Secretary of the Treasury will, in the case of an issue with a call provision, accept the bid resulting in the lowest interest cost to the first call date. Otherwise, if][2] identical bids are submitted, the Secretary of the Treasury, in his discretion, shall determine the bid to be accepted by lot in a manner prescribed by him, unless he proposes and those who submitted the identical bids agree on a division of the bonds.

The Secretary of the Treasury, or his representative, will accept the successful bid by signing the duplicate copy of the bid form and delivering it to the bidder, or his representative.

However, the Secretary of the Treasury, in his discretion, reserves the right to reject any or all bids.

V. *Payment for and delivery of bonds*

Payment for the bonds, including accrued interest [if any], must be made in immediately available funds and must be completed by the successful bidder not later than ...., Eastern Standard Time, on .... [approximately ten days from the date of announcement of the accepted bid], at the Federal Reserve Bank of New York.

If the bidder desires registered bonds to be shipped on the payment date, he must notify the Federal Reserve Bank of New York and furnish the necessary registration information within two days after the award. All other bonds will be delivered in bearer form and will be available on the payment date at Federal Reserve Banks and Branches. Shipment of the bonds will be made on the payment date, at the risk and expense of the United States, to any place or places in the United States designated by the bidder. If necessary, the Treasury will issue interim receipts for the bonds on the payment date.

DOUGLAS DILLON,
Secretary of the Treasury.

[1] A call provision may or may not be included in any particular invitation.

[2] See footnote 1 on this page.