

FEDERAL RESERVE BANK OF DALLAS
FISCAL AGENT OF THE UNITED STATES
DALLAS, TEXAS 75222

Circular No. 67-168
August 23, 1967

**PROPOSED AMENDMENT OF TREASURY DEPARTMENT CIRCULAR NO. 300
PROVIDING FOR BOOK-ENTRY TREASURY SECURITIES**

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

Enclosed is an excerpt from the Federal Register of August 2, 1967, containing a notice of proposed rule making issued by the Treasury Department that would amend its Circular No. 300, "General Regulations With Respect to United States Securities." The proposed amendment provides for the issuance of transferable Treasury bonds, notes, certificates of indebtedness, and bills in the form of "book entries," as well as in definitive (or physical) form as at present. Such book-entry Treasury securities would be maintained on the records of the several Federal Reserve Banks, as fiscal agents of the United States, and the book-entry procedure would apply whenever Treasury securities are deposited, on original issue or otherwise, with Federal Reserve Banks for any of the following purposes: (1) by a member bank of the Federal Reserve System for its sole account and in lieu of the safekeeping of definitive Treasury securities by Federal Reserve Banks in their individual capacities, (2) as collateral for advances under Regulation A of the Board of Governors of the Federal Reserve System, (3) as collateral for Treasury Tax and Loan accounts under Treasury Department Circular No. 92, or (4) as collateral for deposits of public moneys under Treasury Department Circular No. 176.

The proposed amendment provides that any depositor which has definitive Treasury securities on deposit with a Federal Reserve Bank for any of the purposes specified above on the effective date of the amendment, or which thereafter deposits definitive Treasury securities with a Federal Reserve Bank for any such purpose, will be deemed to have consented to their conversion to book-entry Treasury securities. Federal Reserve Banks would continue, of course, to hold definitive Treasury securities for purposes other than those indicated above.

Under the proposed book-entry procedure, Federal Reserve Banks would send depositors, for whose account book-entry Treasury securities are entered, an advice describing such securities and indicating the purpose for which the securities are held. Withdrawals and transfers of book-entry Treasury securities may be made upon a depositor requesting (a) delivery of like definitive Treasury securities to itself or on its order to a transferee, or (b) transfer in book-entry form to any transferee eligible to deposit Treasury securities for one of the purposes indicated above.

The Treasury Department has advised that the proposed amendment does not change the taxable or exempt status of Treasury securities and does not set forth special rules of identification of book-entry Treasury securities for tax purposes. Although such securities will not be identifiable by serial number, depositors may, for purposes of determining the cost or other basis and holding period of securities, follow tax record-keeping procedures essentially the same as those they now follow with respect to definitive Treasury securities. However, in any case where a depositor (1) has on deposit under the book-entry procedure securities of the same issue acquired on different dates or at different prices, (2) is not on a "first in-first out" (FIFO) basis, and (3) is disposing of or withdrawing only a part of such book-entry securities, it should in its letter requesting such action, or in a confirmatory letter or wire (if the original request was made by telephone), identify by date or dates of acquisition and price or prices the lot or lots affected. If it does not do so, the IRS may conclusively presume that the bank is on a FIFO basis.

The identifying data referred to would be solely for the purpose of permitting depositors to make appropriate current records to support, if the occasion should subsequently arise, the taxpayers' own records and tax reports. Federal Reserve Banks would, accordingly, have no responsibility for attempting to verify the accuracy of the identification data so specified and would not do so.

In its first phase, the book-entry procedure will not apply to securities held by a bank as "dealer" (as defined in 26 CFR §1.471-5) for sale to customers in the ordinary course of business, as distinguished from those held for investment. Therefore, during this phase book-entry Treasury securities deposited under the procedure would be identified in the depositor's own records as held for investment and the depositor would not need to refer to this fact in its instructions to the Federal Reserve Bank regarding the securities.

The proposed book-entry procedure is designed to help the Treasury Department and the Federal Reserve Banks handle a large volume of Treasury securities through the use of modern high speed data-processing equipment. Use of the new procedure should lead to increased efficiency in the handling and servicing of Treasury securities by the Federal Reserve Banks. While the book-entry procedure will initially be applied only to Treasury securities held by Federal Reserve Banks for the purposes noted, it is hoped that the procedure may ultimately be extended to Treasury securities held for other purposes and depositors.

The notice of proposed rule making states that prior to final adoption consideration will be given to any data, views or arguments pertaining to the proposed amendment that are submitted in writing, in duplicate, to the Commissioner of Public Debt, Washington, D. C. 20220, within the period specified in the notice. At the present time it appears that the earliest effective date of the book-entry procedure will be October 2, rather than the September 5 date indicated in the Notice of Proposed Rule Making.

Yours very truly,

Watrous H. Irons

President

Proposed Rule Making

DEPARTMENT OF THE TREASURY

Fiscal Service

[31 CFR Part 306]

UNITED STATES SECURITIES

Book-Entry Procedure; Notice of Proposed Rule Making

Notice is hereby given, pursuant to the Administrative Procedure Act, approved June 11, 1946, that the regulations set forth in Treasury Department Circular No. 300, Third Revision (31 CFR Part 306) are proposed to be further amended as tentatively shown below. However, prior to their final adoption, consideration will be given to any data, views, or arguments pertaining thereto which are submitted in writing, in duplicate, to the Commissioner of the Public Debt, Washington, D.C. 20220, within the period of 30 days from the date of this notice in the FEDERAL REGISTER.

[SEAL] JOHN K. CARLOCK,
Fiscal Assistant Secretary.

JULY 28, 1967.

Department Circular No. 300, Third Revision, dated December 23, 1964, is hereby amended effective September 5, 1967, by redesignating Subpart O (entitled "Miscellaneous Provisions") as Subpart P, and renumbering §§ 306.115 through 306.118 as §§ 306.123 through 306.126, respectively, and by inserting a new Subpart O as follows:

Subpart O—Book-Entry Procedure

§ 306.115 Definition of terms.

In this subpart, unless the context otherwise requires or indicates:

(a) "Reserve Bank" means a Federal Reserve Bank and its branches acting as Fiscal Agent of the United States.

(b) "Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in the form of a definitive Treasury security or a book entry Treasury security.

(c) "Definitive Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in the form of a physical security.

(d) "Book-entry Treasury security" means a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in the form of an entry made as prescribed in this subpart on the records of a Reserve Bank.

§ 306.116 Applicability.

This subpart is applicable to any Treasury securities now on deposit or hereafter deposited with any Reserve Bank for any purpose specified in § 306.118(a) except that no deposits will be accepted thereunder on or after the date of maturity or call of the securities.¹ Any depositor which on the effective date of this subpart has definitive Treasury securities on deposit with a Reserve Bank (in either its individual capacity or as Fiscal Agent) for any purpose specified in § 306.118(a) shall be deemed to have consented to their conversion to book-entry Treasury securities pursuant to the provisions of this subpart, and in the manner and under the procedures prescribed by the Reserve Bank.

§ 306.117 Authority of Reserve Banks.

Each Reserve Bank is hereby authorized and directed, in accordance with the provisions of this subpart, to (a) issue book-entry Treasury securities by means of entries on its records which shall include the name of the depositor, the amount, the title of the loan (or the series) and the maturity date; (b) effect conversions between book-entry Treasury securities and definitive Treasury securities; and (c) otherwise service and maintain book-entry Treasury securities.

§ 306.118 Accounts subject to book-entry procedure; pledges.

(a) The book-entry procedure applies to Treasury securities now on deposit or hereafter deposited in accounts with any Reserve Bank (1) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it, (2) as collateral pledged to the United States under Treasury Department Circulars No. 92 or 176, both as revised and amended, and (3) by a member bank of the Federal Reserve System for its sole account and in lieu of the safekeeping of definitive Treasury securities by a Reserve Bank in its individual capacity. Entries will be made for the amounts deposited for each specific purpose.

(b) A pledge of book-entry Treasury securities in the name of a pledgor, or any interest therein, in favor of a Reserve Bank in its own right as pledgee or in favor of the United States as pledgee, is effected, notwithstanding any provision of law to the contrary, by the making of an appropriate entry under paragraph (a) (1) or (2) of this section, of the amount of the securities pledged. The making of such entry shall have the effect of a delivery of a definitive Treas-

ury security in bearer form representing the amount of the obligations pledged and shall effect a perfected security interest therein in favor of the pledgee, who shall be a holder. No filing or recording with a public recording office or officer shall be necessary to perfect the pledge or security interest in book-entry Treasury securities under this section. Pledges of, or security interest in, definitive Treasury securities which are under pledge to a Reserve Bank in its own right or to the United States at the time of their conversion to book-entry Treasury securities shall be fully effective with respect to such book-entry Treasury securities. A Reserve Bank, when requested by the pledgee, shall convert book-entry Treasury securities into definitive Treasury securities and deliver them to the pledgee for disposition under the applicable pledge arrangement; and the pledge or security interest of the pledgee in the book-entry Treasury securities prior to conversion shall continue to be fully effective with respect to such definitive Treasury securities.

§ 306.119 Limitations on transfers or pledges.

Except as provided in this subpart, book-entry Treasury securities may not be assigned, transferred, hypothecated, pledged as collateral, or used as security for the performance of an obligation, and the Treasury Department will not recognize any such assignment, transfer, hypothecation, pledge or use.

§ 306.120 Withdrawals and transfers.

Withdrawals and transfers of book-entry Treasury securities may be made upon a depositor requesting (a) delivery of like definitive Treasury securities to itself or on its order to a transferee, or (b) transfer to any transferee eligible under § 306.118(a). The making of any book-entry transfer by a Reserve Bank shall have the same effect as a delivery to the transferee of definitive Treasury securities in bearer form. The transfer of book-entry Treasury securities within a Reserve Bank will be made in accordance with procedures established by the latter not inconsistent with this subpart. The transfer of book-entry Treasury securities between Reserve Banks will be made through a telegraphic transfer procedure. All requests for withdrawal or for transfer must be made prior to the maturity or date of call of the securities. Treasury bonds and notes which are to be delivered physically upon withdrawal or transfer may be issued either in registered² or in bearer form.

¹ The date of call as defined in these regulations (sec. 306.2) is "the date fixed in the official notice of call published in the Federal Register * * * on which the obligor will make payment of the security before maturity in accordance with its terms."

² Except for Treasury notes, EA and EO Series.

§ 306.121 Registered bonds and notes.

No formal assignment shall be required for the conversion to book-entry Treasury securities of registered Treasury securities held by a Reserve Bank (in either its individual capacity or as fiscal agent) on the effective date of this subpart for any purpose specified in § 306.118(a). Registered Treasury securities deposited thereafter with a Reserve Bank for any purpose specified in § 306.118(a) shall be assigned for conversion to book-entry Treasury securities. The assignment, which shall be executed in accordance with the provisions of Subpart F of the regulations of this part so far as applicable, shall be to "The Secretary of the Treasury for conversion to book-entry Treasury securities by the Federal Reserve Bank of _____, as Fiscal Agent of the United States."

§ 306.122 Servicing book-entry Treasury securities; payment of interest, payment at maturity or upon call.

Interest becoming due on book-entry Treasury securities shall be charged in the Treasurer's account on the interest due date and remitted or credited in accordance with the depositors' instructions. Such securities shall be redeemed and charged in the Treasurer's account on the date of maturity, call or advance refunding, and the redemption proceeds, principal and interest, shall be disposed of in accordance with the depositors' instructions.

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8:49 a.m.]
