

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

Circular No. 71-99
May 3, 1971

**PROGRAM FOR FURTHER EXPANSION OF BOOK-ENTRY
PROCEDURE FOR TREASURY SECURITIES**

**To all banking institutions and others concerned
in the Eleventh Federal Reserve District:**

Last December plans were announced by the United States Treasury Department and the Federal Reserve Banks for an accelerated program for the further expansion of the book-entry procedure for Treasury securities. Since January 1, 1968, the book-entry procedure has been applicable to Treasury securities owned by a member bank and held for its sole account at a Federal Reserve Bank in lieu of the safekeeping of definitive securities; the procedure has also been applicable to Treasury securities held at a Reserve Bank as collateral for advances by the Reserve Bank or as collateral to Treasury Tax and Loan Accounts and related deposits. Over the years, the book-entry procedure has been expanded to apply to Treasury securities held in custody at Reserve Banks for various other categories of safekeeping accounts, primarily governmental and foreign official accounts. As of the end of 1970, over \$100 billion in Treasury securities were held in book-entry form at the Federal Reserve Banks. The rules and procedures governing book-entry accounts at this Bank are set forth in this Bank's Bulletin No. 7, "Custody of Securities", and Fiscal Agency Operating Circular No. 3, "Book-Entry Treasury Securities".

As indicated in the plans announced last December, in connection with the emergence of a problem of curtailed insurance coverage for Government securities, the present program for the further expansion of the book-entry procedure involves its extension to include Treasury securities held by member banks (a) for account of their customers, including customers which are nonbank primary dealers in Government securities, and (b) as their "dealer" inventory in those cases in which the bank is a primary dealer in Government securities. Since December, the Treasury, the Internal Revenue Service, and the Federal Reserve Banks have adopted several changes in applicable regulations and procedures to facilitate the implementation of that program. The purpose of this letter is to report on such changes, and to advise you of the current status of the program and plans for its further expansion.

In general, the program has involved two separate steps. The first step, which is now in effect, provides for the extension of the book-entry procedure to Treasury securities owned by primary dealers which are held either by bank dealers or by banks acting as clearing agents on behalf of nonbank dealers, and which are cleared through the Government Securities Clearing Arrangement at the Federal Reserve Bank of New York. To facilitate this step, the Treasury adopted amendments, effective January 1, 1971, to Subpart 0 of Treasury Circular No. 300, "General Regulations with Respect to U.S. Securities" (31 C.F.R. Part 306), and the Internal Revenue Service adopted changes in the applicable Income Tax Regulations and Revenue Rulings (T.D. 7081, Rev. Rul. 71-15, Rev. Rul. 71-21, all published in 1971 Internal Revenue Bulletin No. 3 at 16-18).

The next step in the program will be the extension of the book-entry procedure to securities held by all member banks for account of their customers. In this connection, further changes have recently been made in Subpart 0 of Treasury Circular No. 300 designed to facilitate the operation of the extended book-entry procedure and its application to securities held by all member banks for account of their customers. Such changes, together with the changes referred to above made by the Treasury and the Internal Revenue Service since last December, are reflected in a new basic revision of Subpart 0 and its Attachment relating to tax matters. Copies of the revised Subpart 0, which became effective on April 7, 1971, together with a new Attachment, are enclosed. The revised documents incorporate or reflect the following changes in the rules applicable to the book-entry procedure:

(1) Provision is made for the extension of the book-entry procedure to securities held by member banks for account of their customers.

(2) New rules are provided governing the transfer of book-entry securities, and the effecting of pledges in such securities, on the books of a member bank or other "book-entry custodian".

(3) Subpart 0 has been restructured to classify different types of book-entry accounts on the books of a Reserve Bank either as (a) accounts maintained by the Reserve Bank acting solely as fiscal agent of the United States, or as (b) accounts maintained by the Reserve Bank in a "dual capacity", i.e., not only as fiscal agent of the United States but also in its individual capacity.

(4) The applicable tax rules have been revised (a) to facilitate the extension of the book-entry procedure to securities held by dealers in Government securities; (b) to liberalize the identification requirements applicable to book-entry securities owned by member banks and held for investment purposes; and (c) to establish similar rules for tax identification purposes with respect to book-entry securities held by banks for account of their customers.

The Federal Reserve Banks are now preparing the detailed operating rules necessary to implement the extension of the book-entry procedure to securities held by all member banks for account of their customers. It is contemplated that under such rules, it would be possible for every member bank to open an additional book-entry account at its Federal Reserve Bank for customer securities. In general, it is also contemplated that such securities would be held in a single account on the books of the Reserve Bank in the name of the member bank, and the member bank would maintain the records necessary to distinguish the ownership rights of its individual customers in such securities.

When the operating rules governing the opening of such accounts are completed, they will be published in this Bank's Bulletin No. 7 and Fiscal Agency Operating Circular No. 3. Until such publication, the book-entry procedure for securities held for account of banks will continue to be limited to the types of accounts outlined in the present Circulars, i.e., primarily securities owned by a bank and held (a) in safekeeping, (b) as collateral for Reserve Bank advances, (c) as collateral for Treasury Tax and Loan Accounts and related deposits, and (d) as collateral to secure deposits in a member bank of public funds.

Pending the completion of the new Operating Circulars and the extension of the book-entry procedure to securities of customers held at all member banks, technical amendments to this Bank's Bulletins No. 2 and No. 7, and Operating Circular No. 3 have been made in order to conform such circulars to the recent changes in Subpart 0 relating to the capacity in which this Bank maintains book-entry securities. Such amendments are set forth in the enclosed Supplements, dated May 3, 1971, to such Operating Circulars. (Bulletins No. 2 and 7 are not applicable to nonmember banks).

Until certain legal questions have been resolved in connection with the deposit of Treasury securities held by member banks in trust accounts, it is not contemplated that such securities would be deposited in book-entry accounts.

At this point, the book-entry procedure is applicable only to Treasury securities, pursuant to the provisions of Treasury Circular No. 300. Studies are now in progress as to the application of book-entry systems to securities issued by United States Government agencies and corporations.

We would welcome any comments or suggestions you may have with respect to our program for the further expansion of the book-entry procedure. If you have any such comments or suggestions, or if you have any questions regarding the program, the officers in charge of Fiscal Agency activities at each of our offices will be pleased to review them with you.

Yours very truly,

P. E. Coldwell

President

**FEDERAL RESERVE BANK
OF DALLAS**
Fiscal Agent of the United States

**Amendment No. 1
Effective May 3, 1971
to
Fiscal Agency Operating Circular No. 3
Dated September 1, 1969**

Paragraphs 1 and 2 of this Bank's Fiscal Agency Operating Circular No. 3, revised September 1, 1969, are amended to provide as follows:

1. This circular contains information and instructions relating to the general terms and conditions governing the issuance and maintenance by this Bank, as fiscal agent of the United States, of certain book-entry Treasury securities under Subpart O of Treasury Department Circular No. 300 (hereinafter "Subpart O"). For purposes of this circular, the terms "Treasury security," "definitive Treasury security," and "book-entry Treasury security" shall have the meanings prescribed in Section 306.115 of Subpart O.

2. (a) This Bank may apply the book-entry procedure to Treasury bonds, notes, certificates of indebtedness and bills issued under the Second Liberty Bond Act ("book-entry Treasury securities") deposited in accounts maintained by this Bank, in its individual capacity, and as to which this Bank, in its individual capacity, is to continue to maintain such deposit accounts, notwithstanding application of the book-entry procedure to such securities. Such accounts include, but are not limited to, securities deposited:

- (1) as collateral for advances by this Bank, in its individual capacity;
- (2) for the sole account of a member bank in this District (including both securities held by such member banks as investments, and securities held as inventory by member banks which are dealers in such securities);
- (3) as collateral to secure deposits in member banks of public funds by a

State, municipality, or other political subdivision;

- (4) pursuant to Section 61 of the Bankruptcy Act (11 U.S.C. 101) in connection with the deposit of bankruptcy funds in commercial banks;
- (5) as collateral in connection with the qualification of member banks to exercise trust powers; and
- (6) as collateral to secure deposits of trust funds in commercial banking departments of member banks.

(b) Under Section 306.117(b) of Subpart O, this Bank as Fiscal Agent of the United States shall apply the book-entry procedure to Treasury securities deposited with us as collateral pledged to the United States under Treasury Department Circulars No. 92 and No. 176, both as revised and amended, and may apply the book-entry procedure, with the approval of the Secretary of the Treasury, to any other Treasury securities deposited with us.

(c) Subpart O also authorizes this Bank to convert definitive Treasury securities to and from book-entry Treasury securities, and under Section 306.117(c) of Subpart O, any person having an interest in Treasury securities which are deposited with this Bank, in either its individual capacity or as Fiscal Agent of the United States, for any of the purposes specified in paragraph 2(a) hereof, shall be deemed to have consented to their conversion to book-entry Treasury securities pursuant to the provisions of Subpart O, and in the manner and under the procedure prescribed by this Bank. Book-entry Treasury securities are maintained at our Head Office and at our El Paso, Houston, and San Antonio Branches.

**FEDERAL RESERVE BANK
OF DALLAS**

**Amendment No. 1
Effective May 3, 1971
to
Bulletin No. 7
Dated September 1, 1969**

Paragraphs 6 through 10 of Bulletin No. 7, revised September 1, 1969, is amended to provide as follows:

**TRANSFERABLE TREASURY SECURITIES —
BOOK-ENTRY SECURITIES**

6.a. In accordance with Section 306.117(a) of Subpart O of Treasury Department Circular No. 300, this Bank as fiscal agent of the United States may maintain Treasury bonds, notes, certificates of indebtedness and bills issued under the Second Liberty Bond Act by means of entries on the records of this Bank as such fiscal agent ("book-entry Treasury securities") when such Treasury securities are deposited in accounts maintained by this Bank in its individual capacity and as to which securities this Bank in its individual capacity is to continue to maintain such deposits notwithstanding application of the book-entry procedure to such securities. Such accounts include, but are not limited to, accounts in which Treasury securities are deposited (i) by member banks in this District for their own account; (ii) as collateral for advances by this Bank in its individual capacity; (iii) as collateral to secure deposits in member banks of public funds by a State, municipality, or other political subdivision; (iv) pursuant to Section 61 of the Bankruptcy Act (11 U.S.C. 101) in connection with the deposit of bankruptcy funds in commercial banks; (v) as collateral in connection with the qualification of member banks to exercise trust powers; or (vi) as collateral to secure deposits of trust funds in commercial banking departments of member banks. Section 306.117(a) of Subpart O provides that such application of the book-entry procedure shall not derogate from or adversely affect the relationships that would otherwise exist between this Bank in its individual capacity and its depositors.

b. Any bank or other depositor whose Treasury securities are on deposit in any account specified in paragraph (a) above maintained by this Bank either in its individual capacity or as fiscal agent on April 7, 1971, and any person having an interest in Treasury securities which on or after such date are

deposited in any of the aforesaid accounts or any other account specified by this Bank for application of the book-entry procedure under Section 306.117(a) of Subpart O of Treasury Department Circular No. 300, will be deemed to have authorized this Bank to employ the book-entry procedure under the provisions of such section with respect to such Treasury securities and to have consented to the conversion of any such Treasury securities from definitive to book-entry form.

c. In connection with the application of the book-entry procedure to Treasury securities under the provisions of Section 306.117(a) of Subpart O, it is understood that:

(1) The terms and conditions of this letter and this Bank's Fiscal Agency Operating Circular No. 3 entitled "Book-Entry Treasury Securities", or in the event of a particular agreement between this Bank and its depositor, the terms and conditions of such agreement, shall apply to such securities.

(2) Advices of deposit and withdrawal with respect to such Treasury securities should be retained in some circumstances by the depositing banks or other parties in interest for Federal income tax purposes. (See attachment to Subpart O).

7. Under Section 306.117(b) of Subpart O of Treasury Department Circular No. 300, this Bank, as fiscal agent of the United States, shall apply the book-entry procedure to Treasury securities deposited with this bank, as collateral for balances in Treasury Tax and Loan Accounts or for deposits of public monies under Treasury Department Circular No. 92 or No. 176, respectively, and may also apply to book-entry procedure to Treasury securities deposited in other accounts designated by this Bank; and such securities will be handled pursuant to such terms and conditions as may be agreed upon between this Bank and the depositors of such securities. This Bank's Fiscal Agency Operating Circular No. 3, entitled "Book-Entry Treasury Securities" applies to such accounts.

3.25 Renewal

A borrowing bank wishing to renew an advance should follow the same procedure necessary to obtain an original advance (see section 5 and section 6).

Section 4, PREREQUISITES FOR BORROWING

4.00 Borrowing resolution

A certified copy of a resolution adopted by a member bank's board of directors authorizing designated officers to execute agreements with us and to borrow on its behalf from us must be on file with us in order for any member bank to obtain credit accommodations. Our Form BD-1 Rev. should be used for this purpose. Borrowing resolutions filed with us remain in effect until cancelled or superseded by a new resolution.

4.05 Filing of signatures

An officer authorized to borrow must have his signature filed with this bank on a signature card, Form AC-150, before he is authorized to sign any documents in connection with borrowing.

4.10 Continuing lending agreement

In general, we will make advances to a member bank pursuant to a continuing lending agreement (our Form LD-176) to be executed by an officer authorized to borrow; and particular advances pursuant to such agreement will be evidenced by an advice of credit, transmitted to the member bank at the time of the particular advance, specifying the amount and maturity of the advance. However, we reserve the right in any case to require the execution by a member bank of a promissory note with respect to a particular advance. Such a note must be signed by an officer authorized to borrow. The continuing lending agreement remains in effect until cancelled by either party by notice in writing to the other; however, cancellation does not affect loan transactions made previously.

Reference: 1.50 and 4.05 of this bulletin.

Section 5, SECTION 13 ADVANCES

5.00 Description

We may make advances to a member bank, pursuant to section 13 of the Act, for periods not exceeding 90 days,* on the security of obligations of, or fully guaranteed by, the United States or any agency of the United States (see Supplement B). Also, we may make advances to a member bank, pursuant to section 13 of the Act, for periods not exceeding 90 days,* on the security of any paper eligible for discount or for purchase by the Reserve Banks under provisions of the Act (eligible paper).

5.05 Borrowing request

In general, we do not require that a request for an advance be accompanied by a written application, and any such request may be made by letter, wire, or telephone by an officer authorized to borrow. However, we reserve the right to require the submission of a written application. Each request for an advance must specify the amount and maturity of the requested advance and the collateral offered as security, and in the event such collateral is not already held by us, the manner in which such collateral will be placed in our possession or under our control.

Reference: 4.05 of this bulletin.

5.10 Collateral security

Collateral offered as security for any advance, in addition to meeting requirements of the continuing lending agreement, must be acceptable to us; must be endorsed or assigned by the member bank (except in the case of bearer paper); and must be in such form, or accompanied by such documents, that it may be readily transferred to us without further action by the member bank.

Reference: 1.00 and sections 8 and 9 of this bulletin.

*It is expected, however, that advances for adjustment purposes normally will be for shorter periods commensurate with the period of time Federal Reserve credit is actually needed.

5.15 Collateral must have adequate maturity

Collateral should not mature earlier than the date on which the borrowing matures (except collateral which is to be exchanged for similar collateral, with our advance agreement, before the maturity of the borrowing).

5.20 Release of collateral

Unless the borrowing bank requests otherwise, we release collateral immediately following payment of the related borrowing. All paper held as collateral will be returned to the borrowing bank and securities will be held by us in safekeeping subject to the order of the borrowing bank.

5.25 Advances due on Saturdays, Sundays or holidays

If an advance is agreed to fall due on one of our nonbanking days, the due date will be changed so that the advance will mature on our next banking day.

Reference: Supplement A to Bulletin 1, containing our nonbanking days.

Section 6, SECTION 10(b) ADVANCES**6.00 Description**

We may make advances to a member bank, pursuant to section 10(b) of the Act, for periods not to exceed four months,* secured to our satisfaction, whether or not the collateral meets the requirements of 5.00 above. However, the rate on such advances must be at least one-half of 1 per cent higher than the highest rate applicable to discounts of or advances on eligible paper.

6:05 Collateral types

Among the types of collateral which may be acceptable for a section 10(b) advance are those listed below:

Paper which would be eligible except for its maturity, at the unpaid principal amount.

Paper secured by stock and complying with Regulation U, at the unpaid principal amount.

Obligations insured under Title I or Title II of the National Housing Act, at the unpaid principal amount.

Long-term general obligation bonds, revenue bonds, notes and warrants of any state or political subdivision thereof (other than those referred to in Supplement B).

In addition, when in our judgment circumstances make it advisable, we may accept as security for a section 10(b) advance any assets other than those set forth above which we find acceptable.

6.10 Procedure

Procedure for obtaining a section 10(b) advance is identical to that for other advances (see section 5). In addition, Form BD-29 should be submitted when the collateral is paper, secured or unsecured.

Section 7, DISCOUNTS**7.00 Description**

We may discount customers' paper of a member bank pursuant to section 13 and 13(a) of the Act, that meets the "eligibility" requirements set forth in section 201.3 of Regulation A (eligible paper). Banks have generally found it more convenient to use eligible paper as collateral for a section 13 advance, rather than have it discounted.

7.05 Procedure

Any member bank desiring to discount paper with us, as indicated in 7.00 above, should consult us regarding the procedure to be followed.

Reference: section 9 for operating details with respect to eligible paper.

Section 8, SECURITIES AS COLLATERAL**8.00 Book-entry Treasury securities**

In accordance with Section 306.117(a) of Subpart O of Treasury Department Circular No. 300, this bank, as fiscal agent of the United States, maintains as "book-entry Treasury securities," transferable Treasury securities deposited as collateral for advances by this bank. Notwithstanding the application of the book-entry procedures, this bank in its individual capacity shall con-

*It is expected, however, that advances normally will be for shorter periods commensurate with the period of time Federal Reserve credit is actually needed.

tinue to maintain appropriate accounts evidencing such deposits. Transferable Treasury securities on deposit or hereafter deposited for such purpose will be converted into book-entry form and maintained in a book-entry collateral account in accordance with the provisions of our current Fiscal Agency Operating Circular No. 3, "Book-Entry Treasury Securities," and in such event such securities will be handled pursuant to the terms and conditions of that circular, notwithstanding any inconsistent provisions herein.

8.05 Registered securities

Registered U.S. securities should be accompanied by the appropriate Treasury Department forms properly executed. In this connection, reference should be made to Treasury Department Form PD1004 (power of attorney), and Treasury Department Form PD1010 (authorizing resolution), and the instructions thereon. (The authorizing resolution on Form PD1010 must be in addition to the borrowing resolution referred to in paragraph 4.00 of this bulletin.)

8.10 Securities held elsewhere

Under certain conditions, securities offered as collateral may be held elsewhere than at this bank and should be handled in the following manner:

- (1) If held by an approved custodian bank, arrangements may be made for us to accept a custody receipt (see 8.15 for procedure).
- (2) If held in a correspondent bank in a Federal Reserve office city outside this district, they may be delivered to the Federal Reserve office in that city. The procedure for this will be supplied on request and should be initiated early in the morning on the day the advance is needed.
- (3) In all other cases, the securities should be delivered to us.

8.15 Securities held by an approved custodian bank

Supplement C to this bulletin lists custodian banks that have agreed to hold collateral for us. The borrowing bank should telephone and instruct the custodian bank to hold the securities subject to our order and for the account of the borrowing bank. The name of the individual

contacted at the custodian bank should be furnished us in order that we may confirm that the securities are held as collateral. The borrowing bank should execute a Pledge Agreement Form (LD-168X), though when necessary the agreement may be obtained after the funds are advanced. When the securities are no longer pledged, we will instruct the custodian bank to release them and hold them in free safekeeping.

8.20 Simplified description in certain cases

When obligations pledged as collateral are regular bearer securities held in custody with us, or book-entry Treasury securities on our books, the borrowing bank need only advise us of the description of the securities and the number of the custody receipt or advice of deposit.

Section 9, PAPER

9.00 Approval required

Paper submitted for discount or to secure an advance should be listed on our Form BD-29 and must be processed and approved by our Discount Committee before credit can be granted. However, credit for approved paper will be granted as of the date the paper was received, unless we are otherwise instructed. Many banks find it convenient to submit paper for approval in advance, with instructions for the approved paper to be held in abeyance pending possible use for borrowing.

9.05 Bankers' acceptances

If a banker's acceptance as drawn does not clearly disclose the character of the underlying transaction on its face, evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in one of the following standard certificate forms:

DOMESTIC SHIPMENTS

At time of acceptance, this bill was accompanied by shipping documents evidencing the domestic shipment of (name of commodity) from (point of shipment) to (place of destination).

(Name of Acceptor)

IMPORT AND EXPORT TRANSACTIONS

The transaction which gives rise to this instrument is the (importation or exportation) of

(name of commodity) from (point of shipment) to (place of destination).

(Name of Acceptor)

WAREHOUSE SECURED CREDIT

This bill was secured at the time of acceptance by independent warehouse, terminal, or other similar receipt conveying security title to (name of readily marketable staple) stored in (country where stored).

(Name of Acceptor)

9.10 Collection of paper

Paper which has been discounted or pledged as collateral will be furnished to the borrowing bank, in trust, ten days in advance of maturity to permit collection (see also 3.20 of this bulletin).

9.15 Demand paper

Eligible paper in the form of demand notes is acceptable for discount or to secure advances. However, demand paper cannot be accepted if offered more than a reasonable time after issue, if dishonored after demand for payment, or if otherwise overdue. Subject to the above restrictions, or unless limited by facts which establish an earlier payment date:

(1) Commercial or industrial demand paper may be accepted for periods up to 90 days from the date of pledge or discount.

(2) Agricultural demand paper may be discounted for periods up to 9 months, or accepted as collateral to a borrowing bank's note having a maturity not in excess of 90 days.

9.20 Financial statements

In connection with any advance or discount, financial statements, including complete schedules of important items, **must** be submitted with all commercial or industrial paper regardless of amount and **should** be submitted with agricultural paper in the amount of \$1,000 or over. Financial statements of endorsers or guarantors, if any, should also be submitted. We reserve the right to require a recent balance sheet and profit and loss statement of any obligor on paper

offered as collateral for an advance or for discount, and such other reports and statements as we may deem desirable.

9.25 Financial statements — originals or copies

Financial statements should be originals or copies of originals held in the files of the borrowing bank. Financial statements become the property of this bank and are not returned; therefore, when a borrowing bank submits original financial statements, it should retain copies for its files. If copies (other than photocopies) are furnished, they should bear the following certification signed by an officer authorized to borrow:

[This is a true copy of the original signed]
[financial statement held in our files.]

9.30 Form of financial statements, forms available

Financial statements need not be in any special form but should consist of a complete and reasonably detailed balance sheet, profit and loss statement, and reconciliation of net worth. We may request additional information when deemed desirable for a better understanding of the financial condition and operation of the obligor. We have prepared three forms for optional use by member banks in this connection, and we supply them free of charge to member banks. They are:

Form C-5, financial statement for farmers and ranchers.

Form C-6, financial statement for commercial borrowers.

Form C-7, for comparative posting of five years of financial data on the borrower.

9.35 Endorsement

Paper may be endorsed by the use of an allonge so firmly affixed as to become a part of the instrument. Affixing the allonge by glue will meet this test; however, the use of pins, staples, paper clips, or various forms of tape will not comply.

9.40 Insurance

When applicable, insurance policies covering collateral should accompany paper and should

GENERAL REGULATIONS WITH RESPECT TO UNITED STATES SECURITIES

1971
First Supplement to
Department Circular No. 300
Third Revision
dated December 23, 1964,
as amended

TREASURY DEPARTMENT
Washington, April 7, 1971

Fiscal Service
Bureau of the Public Debt

Subpart O of Treasury Department Circular No. 300, Third Revision, dated December 23, 1964, as amended (31 CFR Part 306), is hereby revised and issued in its entirety as a supplement as follows:

SUBPART O--BOOK-ENTRY PROCEDURE

Sec. 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 and when indicated acting in its individual capacity.

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

(d) "Book-entry Treasury security" means a 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.

(e) "Pledge" includes a pledge of, or any other security interest in, Treasury securities as collateral for loans or advances or to secure deposits of public monies or the performance of an obligation.

(f) "Date of call" (see 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."

(g) "Member bank" means any national bank, State bank or bank or trust company which is a member of a Reserve Bank.

(h) "Book-entry custodian" means a bank, banking institution, financial firm, or similar party, which (1) regularly accepts in the course of its business Treasury securities as a custodial service for customers, (2) maintains accounts in the name of such customers reflecting ownership of or interest in such securities which are deposited in a book-entry account under Sec. 306.117(a)(3) of this subpart with such customers' consent, and (3) complies with the procedures and conditions for maintaining such accounts prescribed by the Reserve Bank maintaining such book-entry Treasury securities.

Sec. 306.116. Authority of Reserve Banks.

Each Reserve Bank is hereby authorized, 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 loan title (or series) and maturity date; (b) effect conversions between book-entry Treasury securities and definitive Treasury securities; (c) otherwise service and maintain book-entry Treasury securities; and (d) issue a confirmation of transaction in the form of a written advice (serially numbered or otherwise) which specifies the amount and description of any securities, that is, loan title (or series) and maturity date, sold or transferred and the date of the transaction.

Sec. 306.117. Scope and effect of book-entry procedure.

(a) A Reserve Bank as Fiscal Agent of the United States may apply the book-entry procedure provided for in this subpart to any Treasury securities which have been or are hereafter deposited for any purpose in accounts with it in its individual capacity under terms and conditions which indicate that the Reserve Bank will continue to maintain such deposit accounts in its individual capacity, notwithstanding application of the book-entry procedure to such securities. This paragraph is applicable, but not limited, to securities deposited: 1/

1/ See the Attachment to this subpart for rules of identification of book-entry securities for Federal income tax purposes.

- (1) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it;
- (2) by a member bank for its sole account;
- (3) by a member bank held for the account of its customers;
- (4) in connection with deposits in a member bank of funds of States, municipalities, or other political subdivisions; or,
- (5) in connection with the performance of an obligation or duty under Federal, State, municipal, or local law, or judgments or decrees of courts.

The application of the book-entry procedure under this paragraph shall not derogate from or adversely affect the relationships that would otherwise exist between a Reserve Bank in its individual capacity and its depositors concerning any deposits under this paragraph. Whenever the book-entry procedure is applied to such Treasury securities, the Reserve Bank is authorized to take all action necessary in respect of the book-entry procedure to enable such Reserve Bank in its individual capacity to perform its obligations as depositary with respect to such Treasury securities.

(b) A Reserve Bank as Fiscal Agent of the United States shall apply the book-entry procedure to Treasury securities deposited as collateral pledged to the United States under Treasury Department Circulars No. 92 and 176, both as revised and amended, and may apply the book-entry procedure, with the approval of the Secretary of the Treasury, to any other Treasury securities deposited with a Reserve Bank as Fiscal Agent of the United States.

(c) Any person having an interest in Treasury securities which are deposited with a Reserve Bank (in either its individual capacity or as Fiscal Agent) for any purpose 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.

(d) No deposits shall be accepted under this section on or after the date of maturity or call of the securities.

Sec. 306.118. Pledges.

(a) (1) A pledge of book-entry Treasury securities maintained under Sec. 306.117 is effected, notwithstanding any provision of law to the

contrary, by a Reserve Bank making an appropriate entry in its records of the amount of the securities pledged.

(2) In addition, a pledge of transferable book-entry Treasury securities maintained under Sec. 306.117(a)(3), or under any other provision of Sec. 306.117 to the extent and in the manner provided under procedures prescribed by the Reserve Bank maintaining the book-entry Treasury securities, may be effected by (i) the making of appropriate entries on the books of a member bank or other book-entry custodian which evidence that such Treasury securities are held by it for the account of the pledgee, and (ii) issuance by such member bank or book-entry custodian of an advice directed to the pledgee reflecting such entries and acknowledging such holding.

(b) The making of such entries under subsection (a) of this section, and issuance of any required advice as provided for in subsection (a)(2) of this section, (i) shall have the effect of a delivery of definitive Treasury securities in bearer form in the amount of the obligations pledged; (ii) shall have the effect of a taking of delivery by the pledgee; (iii) shall effect a perfected security interest therein in favor of the pledgee; and (iv) shall constitute such pledgee a holder.

(c) No filing or recording with a public recording office or officer shall be necessary to perfect any pledge in any book-entry Treasury securities under this subpart.

(d) A Reserve Bank shall, upon receipt of appropriate instructions, convert book-entry Treasury securities into definitive Treasury securities and deliver them to its depositor; and the pledge interest of the pledgee in such book-entry Treasury securities prior to conversion to definitive securities shall continue without interruption to be fully effective with respect to such definitive securities.

Sec. 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.

Sec. 306.120. Withdrawals and transfers.

(a) (1) Withdrawals and transfers of book-entry Treasury securities may be made upon a depositor of a Reserve Bank requesting (i) delivery of like definitive Treasury securities to itself or on its order to a transferee, or (ii) transfer to any transferee eligible to maintain a book-entry account in its name with a Reserve Bank under Sec. 306.117.

(2) In addition, a transfer of transferable book-entry Treasury securities maintained under Sec. 306.117(a)(3) may be effected, by (i) the making of appropriate entries on the books of a member bank or other book-entry custodian which evidence that such Treasury securities are held by it for account of the transferee, and (ii) issuance by such member bank or book-entry custodian of an advice directed to the transferee reflecting such entries and acknowledging such holding.

(b) The transfer of a book-entry Treasury security as provided in this section 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 may be made through a telegraphic transfer procedure.

(c) 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 actually to be delivered upon withdrawal or transfer may be issued either in registered or in bearer form, except that EA and EO series of Treasury notes will be issued in bearer form only.

Sec. 306.121. Delivery of Treasury securities.

A Reserve Bank shall be fully discharged of its obligations under this subpart by the delivery of Treasury securities in definitive form to its depositor or upon the order of such depositor. Customers of a member bank or other book-entry custodian may receive Treasury securities in definitive form only by making an appropriate demand to such member bank or book-entry custodian.

Sec. 306.122. 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 Sec. 306.117(a). Registered Treasury securities deposited thereafter with a Reserve Bank for any purpose specified in Sec. 306.117 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 in this part, so far as applicable, shall be to "Federal Reserve Bank of _____, as Fiscal Agent of the United States, for conversion to book-entry Treasury securities."

Sec. 306.123. 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 depositor's 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 depositor's instructions.

JOHN K. CARLOCK
Fiscal Assistant Secretary
of the Treasury.

ATTACHMENT

SUBPART O--BOOK-ENTRY PROCEDURE

TREASURY DEPARTMENT CIRCULAR NO. 300
THIRD REVISION, SIXTH AMENDMENT

- - - -

Records for Federal Income Tax Purposes

There are attached three documents in connection with the book-entry procedure which simplify record-keeping for Federal income tax purposes. They apply to transferable Treasury bonds, notes, certificates of indebtedness or bills issued under the Second Liberty Bond Act, as amended, and to "any other security of the United States." The quoted term is defined to include a bond, note, certificate of indebtedness, bill, debenture or similar obligation which is subject to the provisions of 31 CFR, Part 306, or other comparable Federal regulations and which is issued by any department or agency of the Government of the United States, or the Federal National Mortgage Association, the Federal Home Loan Banks, the Federal Land Banks, the Federal Intermediate Credit Banks, the Banks for Cooperatives, or the Tennessee Valley Authority.

The three documents are:

(1) The substance of Treasury Department Decision 7081, published in the Federal Register on December 31, 1970;

(2) Revenue Ruling 71-21, published in Internal Revenue Bulletin 1971-3, dated January 18, 1971; and

(3) Revenue Ruling 71-15, published in Internal Revenue Bulletin 1971-3, dated January 18, 1971.

The first document modifies the tax identification rules regarding the determination of basis and holding period of securities held as investments. It applies

to the sale or transfer of book-entry securities pursuant to a written instruction by a taxpayer. It permits the taxpayer in its written instruction to its bank or other book-entry custodian, with regard to the sale or transfer, to identify the securities being sold or transferred by specifying the unique lot number which he has assigned to the lot containing them.

The taxpayer may make the specification either-- (a) in the written instruction, or (b) in the case of a taxpayer having a book-entry account at a Reserve Bank, in a list of lot numbers with respect to all book-entry securities on the books of the Reserve Bank sold or transferred by him on that date, provided the list is mailed to or received by the Reserve Bank on or before the latter's next business day.

These provisions apply only if the taxpayer assigns lot numbers in numerical sequence to successive purchases of securities in the same loan title (series) and maturity date, except that securities of the same loan title (series) and maturity date which are purchased at the same price on the same date may be included within the same lot.

The written advice of transaction furnished to the taxpayer by the Reserve Bank, or by the customer's bank or other book-entry custodian, which specifies the amount and the description of the securities sold or transferred and the date of the transaction is sufficient confirmation. The Reserve Bank need not use or refer to the lot number.

The second document concerns an owner of securities who has assigned sequential numbers to his successive purchases. The owner retains full interest in the securities but transfers them to a bank which has a book-entry account with a Reserve Bank, or to another book-entry custodian which transfers them to a bank which has a book-entry account with a Reserve Bank.

When at a later date the bank instructs the Reserve Bank to sell or transfer securities held in book entry for its customer, the bank need not refer to the sequential number which had been assigned on the owner's books.

The tax identification requirements are satisfied if the owner's written instruction to his bank or book-entry custodian sufficiently identifies the securities to be sold or transferred and refers to the lot number assigned to them in the owner's books. The bank's instruction to the Reserve Bank will not refer to lot numbers; the Reserve Bank will confirm the sale to the bank in the manner it deems appropriate. The member bank will confirm the sale or transfer to its customer by furnishing a written advice of transaction specifying the amount and description of the securities sold and the date of sale. The confirmation need not refer to lot number.

This document also permits substantially the same kind of identification and confirmation procedures when securities are purchased through the book-entry account for the bank's customers.

The third document provides that a dealer, who properly holds securities in inventory in accordance with section 1.471-5 of the Income Tax Regulations and proposes to transfer them to a book-entry system in a Reserve Bank, will continue to maintain his books and records for Federal income tax purposes with respect to such securities in accordance with section 1.471-5 of the regulations and not section 1.1012-1 of the regulations.

The substantive portion of T.D. 7081, approved December 26, 1970, reads as follows:

TITLE 26--INTERNAL REVENUE

CHAPTER I--INTERNAL REVENUE SERVICE,
DEPARTMENT OF THE TREASURY

SUBCHAPTER A--INCOME TAX

PART 1--INCOME TAX; TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953

Identification of Federal Book-Entry securities

In order to modify the identification rules for purposes of determining basis and holding period of property in the case of certain Federal securities, paragraph (c)(7) of Sec. 1.1012-1 of the Income Tax Regulations (26 CFR Part 1) is amended to read as follows:

Sec. 1.1012-1 Basis of property.

* * * * *

(c) Sale of stock. * * *

(7) Book-entry securities.

(i) In applying the provisions of subparagraph (3)(i)(a) of this paragraph in the case of a sale or transfer of a book-entry security (as defined in subdivision (iii)(a) of this subparagraph) which is made after December 31, 1970, pursuant to a written instruction by the taxpayer, a specification by the taxpayer of the unique lot number which he has assigned to the lot which contains the securities being sold or transferred shall constitute specification as required by such subparagraph. The specification of the lot number shall be made either--

(a) In such written instruction, or

(b) In the case of a taxpayer in whose name the book entry by the Reserve Bank is made, in a list of lot numbers with respect to all book-entry securities on the books of the Reserve Bank sold or transferred on that date by the taxpayer, provided such list is mailed to or received by the Reserve Bank on or before the Reserve Bank's next business day.

This subdivision shall apply only if the taxpayer assigns lot numbers in numerical sequence to successive purchases of securities of the same loan title (series) and maturity date, except

that securities of the same loan title (series) and maturity date which are purchased at the same price on the same date may be included within the same lot.

(ii) In applying the provisions of subparagraph (3)(i) (b) of this paragraph in the case of a sale or transfer of a book-entry security which is made pursuant to a written instruction by the taxpayer, a confirmation as required by such subparagraph shall be deemed made by--

(a) In the case of a sale or transfer made after December 31, 1970, the furnishing to the taxpayer of a written advice of transaction, by the Reserve Bank or the person through whom the taxpayer sells or transfers the securities, which specifies the amount and description of the securities sold or transferred and the date of the transaction, or

(b) In the case of a sale or transfer made before January 1, 1971, the furnishing of a serially numbered advice of transaction by a Reserve Bank.

(iii) For purposes of this subparagraph:

(a) The term "book-entry security" means--

(1) In the case of a sale or transfer made after December 31, 1970, a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act (31 U.S.C. 774(2)), as amended, or other security of the United States (as defined in (b) of this subdivision (iii)) in the form of an entry made as prescribed in 31 CFR Part 306, or other comparable Federal regulations, on the records of a Reserve Bank, or

(2) In the case of a sale or transfer made before January 1, 1971, 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 31 CFR Part 306, Subpart O, on the records of a Reserve Bank which is deposited in an account with a Reserve Bank (i) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it, (ii) as collateral pledged to the United States under Treasury Department Circular No. 92 or 176, both as revised and amended, (iii) by a member bank of the Federal Reserve System for its sole account for safekeeping by a Reserve Bank in its individual capacity, (iv) in lieu of a surety or sureties upon the bond required by section 61 of the Bankruptcy Act, as amended (11 U.S.C. 101), of a banking institution designated by a judge of one of the several courts of bankruptcy under such section as a depository for the moneys of a bankrupt's estate,

(v) pursuant to 6 U.S.C. 15, in lieu of a surety or sureties required in connection with any recognizance, stipulation, bond, guaranty, or undertaking which must be furnished under any law of the United States or regulations made pursuant thereto, (vi) by a banking institution, pursuant to a State or local law, to secure the deposit in such banking institution of public funds by a State, municipality, or other political subdivision, (vii) by a State bank or trust company or a national bank, pursuant to a State or local law, to secure the faithful performance of trust or other fiduciary obligations by such State bank or trust company or national bank, or (viii) to secure funds which are deposited or held in trust by a State bank or trust company or a national bank and are awaiting investment, but which are used by such State bank or trust company or national bank in the conduct of its business;

(b) The term "other security of the United States" means a bond, note, certificate of indebtedness, bill, debenture, or similar obligation which is subject to the provisions of 31 CFR Part 306 or other comparable Federal regulations and which is issued by

(1) any department or agency of the Government of the United States, or

(2) the Federal National Mortgage Association, the Federal Home Loan Banks, the Federal Land Banks, the Federal Intermediate Credit Banks, the Banks for Cooperatives, or the Tennessee Valley Authority;

(c) The term "serially-numbered advice of transaction" means the confirmation (prescribed in 31 CFR 306.116) issued by the Reserve Bank which is identifiable by a unique number and indicates that a particular written instruction to the Reserve Bank with respect to the deposit or withdrawal of a specified book-entry security (or securities) has been executed; and

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

* * * * *

SECTION 1012.--BASIS OF PROPERTY--COST

26 CFR 1.1012.1: Basis of property.

Rev. Rul. 71-21^{1/}

A taxpayer owns as investments Treasury securities and certain other securities described in the new section 1.1012-1(c)(7)(iii)(a) of the Income Tax Regulations. The taxpayer owner will assign a lot number to the securities in his books. The numbers will be assigned in numerical sequence to successive purchases of the same loan title (series) and maturity date, except that securities of the same loan title (series) and maturity date which are purchased at the same price on the same date may be included in the same lot.

The owner proposes to retain full interest in the securities but he will transfer possession of them to a bank. That bank will not keep records of the securities by use of the above-described lot numbers. The bank will also take possession of like securities for other taxpayers.

The bank will transfer all of these securities to a book-entry system of a Federal Reserve Bank. The securities will be entries in the book-entry account of the bank and, as such, the securities will no longer exist in definitive form. That account will not reflect the fact that the bank holds securities for several taxpayers.

When the owner wishes to sell certain securities, he will so instruct the bank in writing. The owner's instruction will sufficiently identify the securities to be sold, and will also refer to the lot number assigned in the books of the owner to the securities to be sold. The bank will then instruct, in writing, the Federal Reserve Bank to transfer the securities. The latter instruction will not refer to the pertinent lot number. The Federal Reserve Bank will confirm the sale to the bank in the manner it deems appropriate. The bank will confirm the sale to the owner by furnishing a written advice of transaction specifying the amount and description of the securities sold and the date of the sale. The confirmation will not refer to lot numbers.

When the owner desires to buy additional securities as investments of the kind described in the new section 1.1012-1(c)(7)(iii)(a) of the regulations, he will order the bank to purchase them. The bank will instruct the Federal Reserve Bank to obtain the securities and to put them in the bank's book-entry account. The confirmation of the purchase from the Federal Reserve Bank to the bank and from the bank to the owner will be of the nature used for the sale of securities. The owner will assign lot numbers in the manner described above to these purchased securities.

^{1/} Also released as Technical Information Release 1063, dated December 30, 1970.

Held, the above procedure is consistent with the tax record requirements of new section 1.1012-1(c)(7) of the regulations. This procedure exemplifies the tax record requirements when securities are transferred by parties to a bank who has an account in the book-entry system of a Federal Reserve Bank. The tax record requirements in the case of a bank who puts its own investment securities in the book-entry system are set forth in new section 1.1012-1(c)(7) of the regulations.

SECTION 471.--GENERAL RULE FOR INVENTORIES

26 CFR 1.471-5: Inventories by dealers in securities.
(Also Section 1012; 1.1012-1)

Rev. Rul. 71-15^{1/}

A dealer, as defined in section 1.471-5 of the Income Tax Regulations, holds Treasury securities and other securities of the United States. "Other securities of the United States" means a transferable bond, note, certificate of indebtedness, bill, debenture, or similar obligation which is subject to the provisions of 31 CFR Part 306 or other comparable Federal regulations and which is issued by (1) any department or agency of the Government of the United States, or (2) the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Land Banks, the Federal Intermediate Credit Banks, the Banks of Cooperative, or the Tennessee Valley Authority.

The dealer properly holds such securities in inventory in accordance with section 1.471-5 of the Income Tax Regulations. He proposes to transfer those securities to a book-entry system maintained by a Federal Reserve Bank. The dealer will continue to maintain his books and records for Federal income tax purposes with respect to such securities in accordance with section 1.471-5 of the regulations.

Held, the dealer is not subject to the provisions of section 1.1012-1 of the regulations relating to identification of property with respect to such securities. Such a dealer must, however, comply with the provisions of section 1.471-5 of the regulations relating to inventory by dealers in securities.

^{1/} Also released as Technical Information Release 1064, dated January 14, 1971.