

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

Circular No. 72-149
July 21, 1972

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

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

As announced in our Circular No. 71-99, dated May 3, 1971, last year the Federal Reserve Banks and the United States Treasury Department undertook an accelerated program for the further expansion of the book-entry procedure for Treasury securities, designed to extend the book-entry procedure to securities held by member banks for account of their customers. Before then, the book-entry procedure had been limited to Treasury securities held in custody primarily in safe-keeping accounts for member banks, at the Reserve Banks. As planned at that time, the first phase of the expanded program was applied to the member banks which are participants in the New York Government Securities Clearing Arrangement. Over the past year, the program has been gradually extended to cover the securities held by those banks (a) for account of their customers — including customers which are nonbank dealers in Government securities — and (b) as their “dealer” inventory, in those cases in which the bank is a primary dealer in Government securities.

In the light of the operating experience with the first phase of the program over the past year, operating procedures and patterns have been developed to serve as a basis for the extension of the program to all member banks throughout the country. Some of the procedures developed required further amendments to Subpart 0 of Treasury Circular No. 300 — the Treasury regulation governing the book-entry procedure, which had been revised last April to provide the basis for the first phase of the expanded program. A copy of Subpart 0 as amended April 7, 1971, was transmitted to you with our Circular of May 3, 1971. The amendments to Subpart 0 necessary to implement the further extension of the program were made effective on April 27, 1972; a copy of the revised Subpart 0 incorporating such amendments is enclosed for your information. This copy of Subpart 0 supersedes the copy sent to you last year.

The recent amendments to Subpart 0 are designed to simplify the procedures for opening and maintaining book-entry accounts. Most important, the concept of “book-entry custodian” has been eliminated. In addition, the revised regulation no longer requires that the member bank must obtain the express consent of the holder of the security to convert it into book-entry form. In general, the new rules are designed to pattern the procedures for the transfer and pledge of book-entry securities more closely to existing commercial practices involving definitive securities. They provide, in effect, that book-entry Treasury securities, including such securities held by member banks for account of their customers and maintained in book-entry form, may be transferred or pledged — without notice or advice to the Reserve Bank — by any means that would be effective to transfer or pledge the security if it were maintained by the Reserve Bank in bearer definitive form. Subpart 0 continues to provide that book-entry Treasury securities may also be transferred or pledged, in appropriate cases, by entries on the books of a Reserve Bank.

The Federal Reserve Banks are now preparing new operating rules, based on the revised Subpart 0, which will provide for the extension of the book-entry program to the securities held by member banks for account of their customers, including customer and trust accounts of their correspondent banks. Such rules will be published in this Bank’s Bulletin No. 7 and Fiscal Agency Operating Circular No. 3. It is contemplated that under such rules, and under similar rules in other

Federal Reserve Districts, each member bank would have the option of maintaining either a single pooled book-entry account at a Federal Reserve Bank, including its own securities as well as the securities of its customers, or several separate book-entry accounts containing the bank's investment, trading, customer, and trust securities. Such account or accounts would be in addition to any book-entry accounts maintained by this Bank for Treasury securities held as collateral for advances by this Bank, as collateral for Treasury Tax and Loan accounts, or as collateral for other specific accounts for which this Bank acts as custodian.

It is expected that several United States Government agencies will be issuing separate regulations in the near future that will provide for the application of the book-entry procedure to most of their obligations. In this connection, studies are now in progress within the Federal Reserve System to develop operating procedures and supporting documentation that would provide for the transfer of eligible book-entry agency securities over the Federal Reserve wire system and the maintenance of such securities in book-entry form at the Federal Reserve Banks.

Pending the development of detailed operating procedures for such book-entry accounts, and the issuance of revised Operating Circulars by this Bank, the officers in charge of Fiscal Agency activities at each of our offices will be pleased to discuss with member banks in this District any questions they may have concerning the expanded program, and to review with them their plans for utilizing the new procedures.

Yours very truly,

P. E. Coldwell

President

Enclosure

GENERAL REGULATIONS WITH RESPECT TO UNITED STATES SECURITIES

1972
Sixth Amendment
Department Circular No. 300
Third Revision
dated December 23, 1964,
as amended and supplemented

DEPARTMENT OF THE TREASURY
Washington, April 27, 1972

Fiscal Service
Bureau of the Public Debt

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

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) 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,

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

(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 Circular Nos. 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. Transfer or pledge.

(a) A transfer or a pledge of book-entry Treasury securities to a Reserve Bank (in its individual capacity or as Fiscal Agent of the United States), or to the United States, or to any transferee or pledgee eligible to maintain an appropriate book-entry account in its name with a Reserve Bank under this subpart, is effected and perfected, notwithstanding any provision of law to the contrary, by a Reserve Bank making an appropriate entry in its records of the securities transferred or pledged. The making of such an entry in the records of a Reserve Bank shall (1) have the effect of a delivery in bearer form of definitive Treasury securities; (2) have the effect of a taking of delivery by the transferee or pledgee;

(3) constitute the transferee or pledgee a holder; and (4) if a pledge, effect a perfected security interest therein in favor of the pledgee. A transfer or pledge of book-entry Treasury securities effected under this paragraph shall have priority over any transfer, pledge, or other interest, theretofore or thereafter effected or perfected under subsection (b) of this section or in any other manner.

(b) A transfer or a pledge of transferable Treasury securities, or any interest therein, which is maintained by a Reserve Bank (in its individual capacity or as Fiscal Agent of the United States) in a book-entry account under this subpart, including securities in book-entry form under Sec. 306.117(a)(3), is effected, and a pledge is perfected, by any means that would be effective under applicable law to effect a transfer or to effect and perfect a pledge of the Treasury securities, or any interest therein, if the securities were maintained by the Reserve Bank in bearer definitive form. For purposes of transfer or pledge hereunder, book-entry Treasury securities maintained by a Reserve Bank shall, notwithstanding any provision of law to the contrary, be deemed to be maintained in bearer definitive form. A Reserve Bank maintaining book-entry Treasury securities either in its individual capacity or as Fiscal Agent of the United States is not a bailee for purposes of notification of pledges of those securities under this subsection, or a third person in possession for purposes of acknowledgment of transfers thereof under this subsection. A Reserve Bank will not accept notice or advice of a transfer or pledge effected or perfected under this subsection, and any such notice or advice shall have no effect. A Reserve Bank may continue to deal with its depositor in accordance with the provisions of this subpart, notwithstanding any transfer or pledge effected or perfected under this subsection.

(c) No filing or recording with a public recording office or officer shall be necessary or effective with respect to any transfer or pledge of book-entry Treasury securities or any interest therein.

(d) A Reserve Bank shall, upon receipt of appropriate instructions, convert book-entry Treasury securities into definitive Treasury securities and deliver them in accordance with such instructions; no such conversion shall affect existing interests in such Treasury securities.

(e) A transfer of book-entry Treasury securities within a Reserve Bank shall be made in accordance with procedures

established by the Bank not inconsistent with this subpart. The transfer of book-entry Treasury securities by a Reserve Bank may be made through a telegraphic transfer procedure.

(f) All requests for transfer or withdrawal must be made prior to the maturity or date of call of the securities.

Sec. 306.119. Withdrawal of Treasury securities.

(a) A depositor of book-entry Treasury securities may withdraw them from a Reserve Bank by requesting delivery of like definitive Treasury securities to itself or on its order to a transferee.

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

Sec. 306.120. Delivery of Treasury securities.

A Reserve Bank which has received Treasury securities and effected pledges, made entries regarding them, or transferred or delivered them according to the instructions of its depositor is not liable for conversion or for participation in breach of fiduciary duty even though the depositor had no right to dispose of or take other action in respect of the 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 depository (other than a Reserve Bank) may obtain Treasury securities in definitive form only by causing the depositor of the Reserve Bank to order the withdrawal thereof from the Reserve Bank.

Sec. 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 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. 306.122. 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 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

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Records for Federal Income Tax Purposes

There are attached three documents in connection with the book-entry procedure which simplify recordkeeping 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 to the person through whom the taxpayer makes 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 his bank or any other person through whom the taxpayer makes the sale or transfer, 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 party 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 to the person through whom the taxpayer makes the sale or transfer 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 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.

1 Also released as Technical Information Release 1063, dated December 30, 1970.

The owner will assign lot numbers in the manner described above to these purchased securities.

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 Rev. Rul. 71-15¹
securities.
(Also Section 1012; 1.1012-1.)

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 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 for Cooperatives, 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.