

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-88
July 15, 1983

BULLETIN 7

CUSTODY OF SECURITIES

(Revised Bulletin)

TO ALL DEPOSITORY INSTITUTIONS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

As a service to depository institutions, Federal Reserve Banks offer services relating to the custody of securities. In an effort toward improvement of this service, the Federal Reserve Bank of Dallas has streamlined its joint safekeeping procedures for holding securities as collateral to secure deposits of State of Texas political subdivisions.

Effective August 1, 1983, when a joint safekeeping relationship is established between parties including this Bank, the depositor's governing body will adopt an agreement by resolution and also vest approval authority in the person or persons of its choice. This will eliminate the present requirement that the governing body meet each time a transaction is effected. This Bank will then have that person's signature on file and will accept substituted securities of lesser amount over that person's signature. The SEC-20 form, our three-party agreement for custody services, has been revised, and a revised form should be used for all future applications to this Bank for joint safekeeping with a State of Texas political subdivision. All institutions now using joint safekeeping services of this Bank will be notified by separate letter of the procedures and forms required in this process.

Enclosed is a copy of this Bank's revised Bulletin 7, Custody of Securities, which incorporates the above mentioned changes in sections 8.05 and 8.20. Also, changes were made to section 2.00, which expands the types of securities accepted for custody, and to section 4.00, which indicates an absence of liability for failure to adhere to special requests. Appendix A reflects changes in book-entry prices effective April 27, 1982. The enclosed bulletin should be filed in Volume 1 of your Regulations Binder to replace the old Bulletin 7.

Questions regarding the material contained in this circular should be directed to Trudy White, (214) 651-6179 at the Head Office; Jerry Silvey, (915) 544-4730 at the El Paso Branch; Jack Stone, (713) 652-1637 at the Houston Branch; or Herb Barbee, (512) 224-2141 at the San Antonio Branch.

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

Additional copies of this circular will be furnished upon request to the Public Affairs Department, Extension 6289.

Sincerely yours,

A handwritten signature in cursive script that reads "William H. Wallace". The signature is written in black ink and is positioned above the typed name and title.

William H. Wallace
First Vice President

Enclosure

BULLETIN 7

Custody of Securities



FEDERAL RESERVE BANK OF DALLAS

SCOPE

This bulletin describes our services relating to the custody of securities. Any depository institution depositing, either directly or through others, securities with this Bank shall, by such action, be understood to have agreed to the terms and conditions set forth herein.

TABLE OF CONTENTS

Section 1, GENERAL

- 1.00 Reference to Bulletin 1
- 1.05 Availability of service
- 1.10 Fees

Section 2, TYPES OF SECURITIES ACCEPTED

- 2.00 General
- 2.05 Pledged securities

Section 3, BOOK-ENTRY

- 3.00 Authority
- 3.05 Conversion to book-entry form
- 3.10 Terms of conversion
- 3.15 Application of Subpart O

Section 4, LIMITATION OF LIABILITY

Section 5, ACKNOWLEDGMENTS AND RECEIPTS

Section 6, SERVICES PERFORMED BY US

- 6.00 General
- 6.05 Collection of maturing United States Government securities (unpledged)
- 6.10 Collection of maturing municipal or corporate securities (unpledged)
- 6.15 Exchange of maturing securities (unpledged)
- 6.20 Pledged securities
- 6.25 Notice of called or maturing securities

- 6.30 Municipal or corporate securities received for the account of depository institutions
- 6.35 Collection of maturing coupons
- 6.40 Unpaid coupons

Section 7, PLEDGING SECURITIES

- 7.00 To United States Government
- 7.05 To United States District Courts
- 7.10 To United States District Court appointed trustees
- 7.15 Collateral to Treasury Tax and Loan account

Section 8, PLEDGING SECURITIES—JOINT SAFEKEEPING

- 8.00 State Treasurer—State of Texas
- 8.05 Political subdivisions—Texas
- 8.10 Political subdivisions—other states
- 8.15 Trust department of depository institutions
- 8.20 Liability

Section 9, SHIPMENT OF SECURITIES

- 9.00 Risk of loss
- 9.05 Registered mail insurance
- 9.10 Exclusion
- 9.15 Limit of liability
- 9.20 Shipments by us
- 9.25 Shipments to us
- 9.30 Shipments by this Bank as fiscal agent

Appendix A—FEE SCHEDULE

Section 1, GENERAL

1.00 Reference to Bulletin 1

Several definitions, rules of construction and other provisions applicable to this bulletin are found in our Bulletin 1, General Provisions, and are incorporated herein by reference.

1.05 Availability of service

The services described herein are maintained primarily for the convenience of depository institutions. These services are now extended to include institutions located in a Federal Reserve city. However, these services are limited to the vault capacity available at each Reserve Bank.

1.10 Fees

Our fee schedule which is set forth in Appendix A shows the charges imposed for safekeeping services. We reserve the right to change these fees from time to time.

Section 2, TYPES OF SECURITIES ACCEPTED

2.00 General

Except as provided in Section 2.05, only securities which are neither assigned nor pledged and which are owned by the depositing institution or its customers will be accepted. Securities acceptable for our custody include all bonds, notes, certificates of indebtedness, and Treasury bills issued or guaranteed by the United States Government, and miscellaneous state, municipal, corporate bonds, equity securities such as stocks and bonds, certificates of deposit, and bankers acceptances. Such securities will be held in custody for the account, at the risk and subject only to the order of the depository institution named as owner in the acknowledgment issued by us.

2.05 Pledged securities

(a) Securities belonging to depository institutions which are pledged to departments, agencies, or officials of the United States Government to be held subject to the instructions thereof will be accepted pursuant to any act of Congress or any regulation or request of the Secretary of the

Treasury providing for the deposit of securities with a Federal Reserve Bank.

(b) Securities belonging to depository institutions which are pledged to officials of states, or political subdivisions thereof, as security for public deposits, will be accepted when application is made jointly by the depository institution and the public body whose deposit is secured. We furnish special forms for this purpose.

Section 3, BOOK-ENTRY

3.00 Authority

(a) In accordance with Section 306.117(a) of Subpart O of Treasury Department Circular No. 300 and the corresponding section of regulations issued by those agencies, instrumentalities, and establishments of the United States listed in Appendix B (Agency regulations) to our Bulletin 14, 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, and debt obligations issued pursuant to Agency regulations by means of entries on the records of this Bank as such fiscal agent ("book-entry securities") when such 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.

(b) Such accounts include, but are not limited to, accounts in which Treasury or Agency securities are deposited:

- (i) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it;
- (ii) by depository institutions for their own account;
- (iii) by a depository institution held for the account of its customers;
- (iv) as collateral to secure deposits in depository institutions of public funds by a state municipality, or other political subdivision;
- (v) pursuant to Section 61 of the Bankruptcy

Act (11 U.S.C. 101) in connection with the deposit of bankruptcy funds in depository institutions;

- (vi) as collateral in connection with the qualification of depository institutions to exercise trust powers; or
- (vii) as collateral to secure deposits of trust funds.

(c) Section 306.117(a) of Subpart O of Treasury Department Circular No. 300 and the corresponding section of Agency regulations 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.

3.05 Conversion to book-entry form

Any depository institution or other depositor whose Treasury or Agency securities are on deposit in any account specified in Section 3.00(b) above maintained by this Bank either in its individual capacity or as fiscal agent on April 9, 1973, and any person having an interest in Treasury or Agency 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 or the corresponding section of Agency regulations, 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 or Agency securities and to have consented to the conversion of any such Treasury or Agency securities from definitive to book-entry form.

3.10 Terms of conversion

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

- (a) The terms and conditions of this bulletin and

this Bank's Bulletin 14 entitled "Book-Entry 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.

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

3.15 Application of Subpart O

Under Section 306.117(b) of Subpart O of Treasury Department Circular No. 300 and under corresponding sections of Agency regulations, this Bank, as fiscal agent of the United States, shall apply the book-entry procedure to Treasury or Agency 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 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 Bulletin 14, entitled "Book-Entry Securities," applies to such accounts.

Section 4, LIMITATION OF LIABILITY

Each depository institution or other party depositing securities with us either directly or through others shall by such action be deemed to have agreed that this Bank:

- (a) Will be responsible only for the exercise of the same diligence with which it cares for its own property;
- (b) Will not be liable for any loss of such securities when a loss is due to any cause other than lack of such diligence;
- (c) Will not be responsible for the genuineness, validity, or alteration of or any defect in such

securities; and

(d) Will not be obligated to maintain any form of insurance for the account of the depositor in relation to securities held in custody for it.

(e) Will not be liable for failure to adhere to special request such as requiring more than one signature for deposits and withdrawal transactions.

Section 5, ACKNOWLEDGMENTS AND RECEIPTS

An acknowledgment form or joint safekeeping receipt describing the securities and indicating the purpose for which they are held, will be issued for each deposit. The acknowledgment form and joint safekeeping receipt are not negotiable or transferable and their return to us will not be required for the release of the securities.

Section 6, SERVICES PERFORMED BY US

6.00 General

In the absence of specific instructions to the contrary, we will endeavor to perform certain services as outlined herein but will assume no liability for failure to perform such services. These services are intended merely as an aid to depository institutions and do not relieve the depository institution of its own duty to keep itself informed of maturities, call dates, and other information affecting its own portfolio.

6.05 Collection of maturing United States Government securities (unpledged)

Unpledged United States Government securities and fully guaranteed obligations of its agencies which are payable by this Bank as fiscal agent of the United States and held by it in custody will, in the absence of specific instructions from the owner, be withdrawn prior to maturity or redemption call date, and the proceeds credited to the the depository institution's account on the due date.

6.10 Collection of maturing municipal or corporate securities (unpledged)

Unless otherwise instructed we will enter for collection, under the terms and conditions of our cur-

rent Bulletin 9, Collection of Noncash Items, all maturing unpledged municipal or corporate securities. Securities payable outside the continental United States, will be shipped to the owning depository institution. The shipping charges for collecting municipal or corporate securities will be charged to the owning depository institution's account.

6.15 Exchange of maturing securities (unpledged)

Under instructions from a depository institution, we will effect the exchange of maturing unpledged United States Government securities for available new issues. Upon receipt of the new securities to be held in custody, a new acknowledgment will be issued therefor.

6.20 Pledged securities

No action will be taken by us relative to maturing or called securities which are pledged, except upon receipt of appropriate written instructions of the owning depository institution and the pledgee. When so instructed, maturing securities, other than United States Government securities, will be handled for collection under the terms and conditions of our current Bulletin 9, Collection of Noncash Items, and United States Government securities will be redeemed. Disposition of the proceeds, when available, will be made upon receipt of appropriate instructions.

6.25 Notice of called or maturing securities

Notice of maturity of all municipal, corporate, or United States Government securities will be given in advance of maturity date. However, we do not maintain a called securities record, and, therefore, cannot undertake to advise depository institutions when securities are called for redemption.

6.30 Municipal or corporate securities received for the account of depository institutions

Under appropriate written instructions from a depository institution, we will accept for the depository institution's account municipal or corporate securities delivered by brokers and others

and make payment therefor at the price stipulated in the purchasing depository institution's letter. In handling these transactions, this Bank acts solely as agent for the depository institution and assumes no responsibility for the genuineness, validity or any alteration of the securities received.

6.35 Collection of maturing coupons

Unless otherwise instructed we will:

(a) Credit the owning depository institution on maturity date for maturing coupons detached from United States Government securities and fully guaranteed obligations of its agencies which are payable by this Bank as fiscal agent of the United States and held in custody for its account; and

(b) Enter for collection, under terms of our current Bulletin 9, Collection of Noncash Items, coupons detached from other securities held in custody and credit the account of the owning depository institution in accordance with Bulletin 9.

Municipal or corporate coupons payable outside the continental United States will be shipped to the owning depository institution. Coupons attached to securities which are pledged as collateral to a customer's note held under rediscount or as collateral to an advance by this Bank and held by us will not be clipped and handled for collection, unless specific instructions are received in connection therewith.

6.40 Unpaid coupons

Coupons entered for collection and returned unpaid will be reattached to the securities from which they were detached, and the owning depository institution will be advised of the reason for nonpayment. In the absence of specific instructions from the owning depository institution, no further effort will be made to collect on these and subsequent coupons attached to such securities.

Section 7, PLEDGING SECURITIES

7.00 To United States Government

Upon written instructions from the owning depository institution and subject to the approval of the Treasury Department, we will hold securities or receipts issued by qualified institutions pledged to departments, agencies and officials of the United States as collateral to secure deposits under the terms of Treasury Department Circular No. 176.

7.05 To United States District Courts

Under designation as custodian by a United States District Court and at the request of the Court and a depository institution, we will hold as collateral, securities pledged to secure court deposits. Securities held as collateral to secure United States District Court deposits can be substituted for, or withdrawn, only under order of the Court.

7.10 To United States District Court appointed trustees

Under designation as custodian by a United States District Court, we will hold in custody securities pledged as collateral to secure deposits of trustees in bankruptcy or receivership. Securities held as collateral to secure deposits of Court appointed trustees can be substituted for, or withdrawn, only under order of the Court.

7.15 Collateral to Treasury Tax and Loan account

We will hold securities or receipts issued by a qualified institution pledged by a depository institution to secure its Treasury Tax and Loan account. Deposit, release, or substitution of pledged securities should be authorized by this Bank acting as fiscal agent for the United States.

Section 8, PLEDGING SECURITIES—JOINT SAFEKEEPING

8.00 State Treasurer—State of Texas

At the request of a depository institution, subject to the approval of the State Depository Board, we will hold in joint safekeeping securities pledged as collateral to secure deposits of the State Treasurer. Application for deposit, withdrawal,

or substitution of such pledged securities should be made on our appropriate forms.

8.05 Political subdivisions—Texas

At the request of a financial institution ("Depository") and the governing body of a political subdivision ("Depositor"), we will hold in joint safekeeping securities pledged as collateral to secure deposits of political subdivisions of the State of Texas. We require in our files a fully executed Application to the Federal Reserve Bank of Dallas for the Holding of Securities in Joint Safekeeping authorizing our acceptance of pledged securities offered to us for joint safekeeping. At our discretion we will accept some other appropriate form authorizing us to hold securities in joint safekeeping. Requests for withdrawals of, and substitutions of lesser market value amounts for, pledged securities should be made in writing bearing the signature of an authorized person of both the Depository and the Depositor.

8.10 Political subdivisions—other states

At the request of a depository institution and the governing body of a political subdivision, we will hold in joint safekeeping securities pledged as collateral to secure deposits of the political subdivision. Requests for deposits, substitutions, or withdrawals should be made on our appropriate forms and executed jointly by the depository institution and the governing body of the political subdivision. (This paragraph is not applicable in any state where law requires such pledged securities to be deposited within the state.)

8.15 Trust department of depository institutions

At the request of a depository institution and the depository institution's trust department, we will hold in joint safekeeping securities pledged as collateral to secure deposits of uninvested funds of the depository institution's trust department. Deposits, withdrawals, or substitutions of the pledged securities should be authorized by the joint execution of the depository institution and its trust department on our appropriate forms.

8.20 Liability

We take no responsibility for ascertaining the amount of funds on deposit by the Depositor with the Depository nor the market value of securities held by us in joint safekeeping.

Section 9, SHIPMENT OF SECURITIES

9.00 Risk of loss

(a) Regardless of any other provisions of this bulletin, any depository institution or other party shipping, or causing the shipment of, securities to this Bank shall by such action be deemed to have agreed that the risk of loss on such shipments occurring prior to the actual delivery thereof to us by the post office, express company, or other carrier is not assumed by us but is on the sender.

(b) Likewise, any depository institution ordering shipments of securities from this Bank shall by such action be deemed to have agreed that this Bank in making such shipments undertakes merely to make delivery to the post office, express company, or other carrier, and that the risk of loss occurring subsequent to such delivery is not assumed by us but is on the party ordering such shipment.

9.05 Registered mail insurance

We hold open insurance policies under which registered mail shipments of securities made to or by us may be insured. These policies afford protection against loss from the time of acceptance by the messenger or carrier, whether within or without the premises of the sender and end when actual delivery has been made to the office of the addressee. They do not, however, cover losses through theft by the employees of the sender or the addressee, or losses by risks generally referred to as "war risks."

9.10 Exclusion

The policies contain the following clause eliminating such coverages:

"To cover. . .risks of physical loss of or damage to or destruction of property insured, except theft on the part of employees of senders or addressees, but this policy does not insure against:

(a) capture, seizure, arrest, restraint, detainment, confiscation, preemption, requisition or nationalization, and the consequences thereof or of any attempt thereat, whether in time of peace or war and whether lawful or otherwise; any consequences of hostilities or war-like operations (whether there be a declaration of war or not) but the foregoing shall not exclude collision, explosion or contact with any fixed or floating object (other than a mine or torpedo), stranding, heavy weather or fire unless caused directly (and independently of the nature of the voyage or service which the vessel concerned or, in the case of a collision any other vessel involved therein, is performing) by a hostile act by or against a belligerent power, the term 'power' as used herein including any authority maintaining naval, military, or air forces in association with a power; or any loss or damage caused by any weapon of war employing atomic fission or radioactive force whether in time of peace or war; (b) the consequences of civil war, revolution, rebellion, insurrection, or civil strife arising therefrom, piracy, risks of contraband or illegal transportation or trade, and seizure or destruction under quarantine or customs regulations."

9.15 Limit of liability

The liability of the insurers under these policies is limited to \$10,000,000 on property from any one sender to any one addressee on any one day unless dispatched by two or more trains, boats, or other conveyances, in which event the limit of liability shall apply to each train, boat, or other conveyance separately.

9.20 Shipments by us

Shipments of securities by us, other than shipments made in our capacity as fiscal agent of the United States at the expense and risk of the United States, will be made by registered mail, and, unless instructed to the contrary, we will insure them as provided herein under the registered mail policies referred to at the expense of the depository institution.

9.25 Shipments to us

Shipments of securities to us may be insured

under the registered mail policies referred to, at the expense and risk of the sender, provided the following conditions are observed:

(a) On the day a shipment is made to us, an advice is sent by ordinary mail to the office to which the shipment is addressed, showing the name of the shipper, the number of sacks or packages comprising the shipment, a description of the contents, and the amount of insurance to be effected. A copy of this advice should be placed in the shipment.

(b) The contents of all shipments are verified and enclosed in a strong wrapper, envelope, or cloth or canvas bag, securely sealed with wax, paper seal, or in any manner acceptable to the post office at the place of mailing.

(c) The verifying, packaging and sealing is done by an employee of the sender, and the sealed package is in the charge of a responsible person until deposited and registered at the post office, or is in the custody of an armored car service in transit from the office of the sender to the post office.

(d) In the event of loss of a shipment insured under the registered mail policies referred to, claim will be made on behalf of the depository institution for the amount for which the shipment is insured. Prompt notice of loss should be given to us, together with all available details regarding the loss.

9.30 Shipments by this Bank as fiscal agent

Shipments of securities by this Bank as fiscal agent of the United States at the expense and risk of the United States will be made by registered mail and will be insured under the Government Losses in Shipment Act. This coverage is provided for shipments of United States securities upon original issue and United States securities in exchange for temporary certificates. Risk of loss by the United States from such shipments terminates upon delivery by the post office. Stock of unissued United States Savings Bonds shipped to issuing agents is the property of the United States, and hence such shipments are at the expense and risk of the United States and the interest of the Government does not cease upon delivery by the post office.

Appendix A
FEE SCHEDULE

Book Entry Securities:

Account Switches (on-line institutions)	per transaction	\$ 3.00
Account Switches (off-line institutions)	per transaction	10.00
Account Maintenance per account	per month	15.00
Account Maintenance per issue	per account, per month	.50

Definitive Securities:

Deposit, Withdrawal, or Redemption*	per transaction	12.00
Account Switch	per transaction	5.00
Account Maintenance	per receipt, per month	1.40

*For bonds as well as other noncash items, add shipping expenses, insurance fees and fees assessed by other Federal Reserve Banks, if any.

Fees are not assessed on transactions involving collateral accounts such as Treasury Tax & Loan, Circular 176 (Secretary of the Treasury), and Loans.