



FEDERAL RESERVE BANK  
OF DALLAS

WILLIAM H. WALLACE  
FIRST VICE PRESIDENT

May 14, 1986

DALLAS, TEXAS 75222

**TO:** The Chief Executive Officer of all  
depository institutions in the  
Eleventh Federal Reserve District

In July 1986, the Department of the Treasury plans to complete the goal of issuing its marketable securities exclusively in book-entry form with installation of the TREASURY DIRECT Book-Entry System. Following the July 1986 implementation, new issues of notes and bonds will no longer be available in registered form. The 2-year note, to be issued in July 1986, will be the first security to enter the TREASURY DIRECT system. Treasury bills will come into TREASURY DIRECT beginning with the 52-week bill to be offered in January 1987.

To aid your understanding of the effect of this changing environment on your institution and the investors you serve, a brief overview of TREASURY DIRECT and the commercial counterpart, Treasury/Reserve Automated Debt Entry System (TRADES), is provided below:

TREASURY DIRECT

- TREASURY DIRECT will maintain book-entry bill, note and bond accounts for investors separately from the current Federal Reserve commercial book-entry system (TRADES).
- Treasury securities in registered form will no longer be available. However, investors desiring to maintain their own accounts directly will be able to do so by holding a book-entry security in TREASURY DIRECT in their own names.
- Investors must establish an account master record for themselves in TREASURY DIRECT before a security can be held in their names. The account establishment can take place prior to an original issue transaction by requesting forms to do so directly from the Federal Reserve Bank. Otherwise, the account master record will be established with the original issue tender used to purchase securities.
- A financial institution's customers who choose to hold their securities within the book-entry accounts of that institution will continue to be able to do so.
- TREASURY DIRECT requires the use of electronic funds transfer for settlements. As a result, pre-notifications through the Automated Clearing House (ACH) on customers' accounts with financial institutions will be passed.

**Treasury/Reserve Automated Debt Entry System (TRADES)**

- The commercial book-entry counterpart to TREASURY DIRECT has been designated as the Treasury/Reserve Automated Debt Entry System (TRADES). TRADES is in effect the commercial book-entry system in existence today. The system is made up of a network of entities including the Federal Reserve Banks, financial institutions, and dealers and brokers in government securities through which investors may maintain and carry out book-entry security transactions.
- Depository financial institutions submitting tenders for securities to be held in book-entry form by the Federal Reserve will be held in TRADES.
- Investors purchasing securities who do not elect to maintain their own book-entry account in TREASURY DIRECT will be required to hold their purchases in the commercial book-entry account of a financial institution.
- Investors who in the past have submitted tenders through your institution requesting a registered security will have two options:
  - 1) to request the security to be held in safekeeping through the use of your institutions commercial book-entry account. Your institution, as the book-entry custodian, would record the individual ownership information on its own internal records, or
  - 2) to submit tenders through the Treasury or local Federal Reserve office for their own account to be held in TREASURY DIRECT. Separately, you can obtain TREASURY DIRECT tenders from the Federal Reserve for use by customers desiring to maintain their book-entry accounts directly.
- A security may be transferred between accounts in TREASURY DIRECT or transferred from TREASURY DIRECT to TRADES or from TRADES to TREASURY DIRECT under guidelines specified by the Department of the Treasury. For transfers between TREASURY DIRECT accounts or to TREASURY DIRECT accounts, an account master record must exist for the receiving investor. Further, all TREASURY DIRECT related transfers must be for securities eligible for inclusion in TREASURY DIRECT as identified in the official offering circulars. It should be noted that a transfer involving a TREASURY DIRECT Book-Entry System account cannot be made against payment.
- Applications for securities to be held in TRADES should be submitted on form SEC 213 - Tender for Treasury Notes/Bonds.

To review prior correspondence regarding both these systems, refer to this Bank's Circular 85-156, dated December 31, 1985, covering proposed regulations for Treasury securities to be held in the new TREASURY DIRECT Access Book-Entry system and Circular 86-30, dated April 2, 1986, covering proposed regulations for Treasury securities to be held in the Treasury/Reserve Automated Debt Entry System.

For further information, please contact Tyrone Gholson (214) 651-6263 at the Head Office; Robert W. Schultz (915) 544-4730 at the El Paso Branch; Luke E. Richards (713) 659-4433 at the Houston Branch; or Tony G. Valencia (512) 224-2141 at the San Antonio Branch.

Sincerely,

*William H. Wallace*