

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5495]
May 15, 1964]

SAFEKEEPING, HANDLING, AND SHIPMENT OF SECURITIES

Revision of Operating Circular No. 14

To All Member and Nonmember Banks
in the Second Federal Reserve District:

Enclosed is a copy of our Operating Circular No. 14, Revised May 15, 1964, on safekeeping, handling, and shipment of securities. The revised operating circular incorporates the outstanding supplement to the superseded circular and contains the following changes of substance:

Paragraph 1(a) provides that we will hold in safekeeping at our Head Office any securities owned by any member bank *other than one having an office in the central financial district of New York City*; formerly, this exclusion in paragraph 1 applied to "central reserve city" member banks, a designation that is no longer in effect. The exclusion in paragraph 9(a), relating to receipt and delivery of securities for account of member banks, was similarly changed.

Paragraph 1(b) provides that we will hold in safekeeping for those member banks excluded under the general safekeeping provisions of paragraph 1(a) *any securities* owned by the member bank *that are eligible as collateral* for borrowings from this Bank or for balances in Treasury Tax and Loan Accounts when such securities are being used from time to time for such purposes; formerly, paragraph 1 provided that this safekeeping of "in-and-out collateral" would be limited to marketable securities of the United States.

Paragraph 6, relating to our handling of maturing securities held in safekeeping, provides that, in the absence of timely and appropriate instructions, we will, upon maturity of a convertible security, present it for payment or forward it for collection. Formerly, the paragraph provided that we would take such action only if we knew the conversion privilege had expired.

Additional copies of the revised Operating Circular No. 14 will be furnished upon request.

ALFRED HAYES,
President.

FEDERAL RESERVE BANK
OF NEW YORK

[Operating Circular No. 14]
Revised May 15, 1964

SAFEKEEPING, HANDLING, AND SHIPMENT OF SECURITIES

*To All Member and Nonmember Banks
in the Second Federal Reserve District:*

This circular contains the general terms and conditions governing (1) the handling by this Bank at its Head Office in New York City and at its Buffalo Branch of securities received from or for the account of member banks in the Second Federal Reserve District to be held in safekeeping, or to be sold, redeemed, or exchanged; and (2) the shipment of securities by or to this Bank (Head Office and Buffalo Branch).

Safekeeping

Securities that will be held in safekeeping

1.(a) We will accept and hold in safekeeping at our Head Office for account of any member bank in the District, except a member bank having an office located in the central financial district of New York City, any securities owned solely by such bank. A member bank located in the territory assigned to our Buffalo Branch and required to maintain the reserves prescribed for a member bank not located in a reserve city may at its option have such securities held in safekeeping at our Head Office or at our Buffalo Branch.

(b) We will also accept and hold in safekeeping at our Head Office, for account of any member bank located in New York City for which we will not hold securities in safekeeping pursuant to paragraph 1(a) hereof, any securities owned solely by such bank that are eligible as collateral for borrowings from this Bank or for balances in Treasury Tax and Loan Accounts when such securities are being used from time to time for such purposes; we will render this service only to the extent that it contributes to efficient and economical operations at our Head Office.

2. In any case in which we would accept and hold securities in safekeeping for account of any member bank as specified in paragraph 1(a) hereof, we will also accept and hold in safekeeping for account of the trust department of such bank any securities owned solely by such bank and set aside in its trust department to secure deposits of trust funds awaiting investment or distribution (as is provided in section 1(d) of Public Law 87-722); but securities held by a member bank in any other fiduciary capacity, or as collateral for loans or advances made by it, or which are the property of others, will not be accepted for safekeeping.

Representations as to securities tendered for safekeeping

3. Any member bank tendering securities to us for safekeeping for its account (other than for the account of its trust department) will be deemed to represent to us that such securities are owned solely by it; and any member bank tendering securities to us for safekeeping for account of its trust department will be deemed to represent to us that such securities are owned by it and have been set aside in its trust department to secure deposits of trust funds awaiting investment or distribution.

Advices of receipt and withdrawal

4. Securities received by us for safekeeping for account of a member bank or of the trust department of a member bank will be described in an advice of receipt that we will mail to such bank or trust department. These advices are not transferable and their return will not be required when securities are withdrawn from safekeeping, but they should be retained by the bank in its records of securities held by us. Corresponding advices will be mailed when securities are withdrawn from safekeeping.

Maturing and called securities and coupons

5. This Bank will endeavor to perform the services described in paragraphs 6, 7, and 8 with respect to maturing coupons and maturing, called or exchangeable securities held in safekeeping, but in no case will the Bank assume any liability for its failure to perform such services.

6. Unless we receive appropriate instructions to the contrary within a reasonable time prior to maturity:

(a) All maturing direct or guaranteed obligations of the United States and all maturing obligations of any other obligor for which this Bank acts as fiscal agent, held in safekeeping for account of a member bank, will be withdrawn from safekeeping and redeemed by this Bank, as fiscal agent of the United States or other obligor, and the amount thereof will be credited to the reserve account of the member bank; and

(b) All other maturing securities payable in United States dollars in any Federal Reserve District,* held in safekeeping for account of a member bank, except securities payable in a city, town, or village in which an office of the member bank is located, will be withdrawn from safekeeping and will be presented for payment, or forwarded for collection, at maturity in accordance with the provisions of our current Operating Circular No. 8, Collection of Noncash Items, and the proceeds will be credited, under advice, to the reserve account of the member bank. A maturing security payable in a city, town, or village in which an office of the member bank is located will be forwarded directly to the head office of such member bank for collection; the proceeds of such item should be retained by the member bank and not treated as the proceeds of a collection item.

Whenever the title of any security held in safekeeping for account of a member bank indicates that it may be convertible into a security of another issue, no action will be taken by us with respect to the conversion privilege except upon receipt of timely and appropriate instructions; in the absence of such instructions, our only action will be to present the security upon maturity for payment or forward it for collection. Maturing coupons will be detached from securities held in safekeeping and will be handled in the same manner as maturing securities.

7. Securities or coupons payable in the alternative in more than one currency, including United States dollars, will be presented for payment in United States dollars unless appropriate instructions to

* As used in this paragraph, the term "any Federal Reserve District" means any Federal Reserve District as referred to in paragraph 1 of Operating Circular No. 8.

the contrary are received by us within a reasonable time prior to the date of maturity.

8. It is our practice to review the services to which we subscribe for the purpose of ascertaining whether any securities held by us in safekeeping (a) have been called for redemption, (b) are exchangeable for securities in definitive form, or (c) are exchangeable for other securities in connection with a reorganization or readjustment. We endeavor to transmit such information to each bank for which we hold any such securities. Unless we receive appropriate instructions to the contrary, it is our practice to handle called securities in the same manner as other maturing securities, and to endeavor to exchange interim or temporary securities for definitive securities when the latter are available.

Receipt and delivery of securities

9. Upon receipt of appropriate instructions, we will arrange:

(a) To receive or deliver securities, against payment or receipt, for account of any member bank other than a member bank located in the central financial district of New York City.

(b) For the purchase or sale of small amounts of securities (other than corporate stocks), for account of those member banks that do not have ready access to ordinary market facilities.

Instructions to receive securities against payment or to purchase securities should specify the amount to be paid or the purchase price, and will constitute our authority to debit the reserve account of the member bank with such amount on the day the securities are received by us. When instructed by a member bank to deliver securities against payment, or to sell securities, we will, unless otherwise instructed, accept payment therefor in the form of a check drawn on a commercial bank and payable to our order, and credit the amount thereof to the reserve account of such member bank, subject to final payment, at the close of business of the business day next succeeding the day on which such securities are delivered. However, if payment for any such securities is made to us in "Federal" funds, the proceeds thereof will be credited to the reserve account of such member bank on the day the securities are delivered.

Instructions

10. Instructions with reference to securities held, or to be received and held, by us in safekeeping for account of the trust department of a member bank should be in writing and signed by a trust officer, an assistant trust officer, or some other officer of the member bank whose authority to act for the trust department generally or to issue instructions relating to such securities has been satisfactorily certified to us by the member bank.

11. All instructions with reference to other securities should be in writing over authorized signature(s) on behalf of the bank for account of which such securities are handled. The instructions should indicate whether the securities are owned by the bank or its customers. In exceptional circumstances or emergencies we will accept and act upon instructions transmitted by telegraph or telephone on the understanding, in either instance, that written confirmation of such instructions over authorized signature(s) will be mailed to us promptly. Telegrams

should be forwarded prepaid, should be in the American Bankers Association code wherever possible, and should be duly tested by the appropriate word taken from the list of special test words supplied by us. All telephonic instructions should also include such a test word, and whenever securities are to be delivered against receipt to other than a bank, additional confirmation will be required in the form of a telegram promptly dispatched, including the test word used in the telephonic instructions.

Charges and expenses

12. We make no charge for any of the services described in the preceding paragraphs of this circular except that—

(a) Any necessary out-of-pocket expenses, such as postage or express charges on outgoing shipments and insurance on incoming and outgoing shipments, will be charged to the bank on whose behalf such expenses are incurred; no such charge will be made, however, for shipping and insurance costs incurred in connection with the collection of maturing coupons detached from securities held in safekeeping for member banks.

(b) We make a charge of \$1.50 for each transaction involving the receipt or delivery, or the exchange or transfer, of a security upon the instructions of a member bank if the security does not belong to the member bank but is handled by the member bank for account of a customer. This charge does not apply if the securities involved are handled by us as fiscal agent of the United States.

(c) We make a charge of \$1.50 for each draft with securities attached received by us from a member bank or nonmember clearing bank if the securities do not belong to the bank but are handled by the bank for account of a customer.

Risk of loss

Shipments of securities

13. Except in the case of the shipments to us referred to in paragraph 25, any bank or other person shipping, or causing the shipment of, securities to us 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. Likewise, except in the case of the shipments by us referred to in paragraphs 23 and 25 and in the first sentence of paragraph 24, any bank or other person ordering shipments of securities from us shall by such action be deemed to have agreed that in making such shipments we undertake merely to make delivery to the post office, express company, or other carrier, and that the risk of loss occurring subsequently to such delivery is not assumed by us but is on the bank or other person ordering the shipment to be made.

Securities held in safekeeping

14. Any bank or other person depositing securities with us, either directly or through others, shall by such action be deemed to have agreed that we (a) will be responsible only for the exercise of the same diligence with which we care for our 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.

Insurance of securities held in safekeeping

15. Securities held by us in safekeeping for member banks are insured under our Bankers Blanket Bond, but the amount of such bond is relatively small in comparison with the total amount of money and securities held by us for our own account and for account of others. Such bond is carried primarily for our own protection, and accordingly, in the event of loss the amount recovered thereunder will be first applied against the loss of property held for our own account, and the excess only will be available for pro rata distribution against losses of property held for account of others. If additional insurance protection is desired by a member bank, it should make its own arrangements for such insurance.

Insurance of shipments of securities

Insurance available

16. We hold certain open registered mail insurance policies under which shipments of securities made by us by registered mail and shipments of securities consigned to us by registered mail may be insured, at the expense of the bank requesting the shipment by us or making the shipment to us,* as set forth in paragraphs 16 to 22, inclusive. These policies cover all risks, except that they do not cover loss by theft by employees of senders or addressees (except in a very limited class of circumstances and even in such circumstances the insurance afforded by such policies is excess insurance only), nor do they provide protection against so-called war or related risks. Such policies cover such shipments from the time the shipment leaves the office of the sender until actual delivery has been made to the office of the addressee, whether delivery is effected in whole or in part by employees or agents of the Post Office Department, the sender or the addressee, and in the event of nondelivery, until delivered at the proper address or a substituted address, or until returned to the sender. Coverage under these policies is limited to \$10,000,000 on property dispatched from any one sender to any one addressee on any one train, boat, or other conveyance.

War and related risks not covered

17. Such policies contain the following language with respect to war and related risks:

“ * * * 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 warlike 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)

* As specified in paragraph 12 (a), no charge will be made, however, for insurance costs incurred in connection with the collection of maturing coupons detached from securities held in safekeeping for member banks.

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."

Amount for which shipments insured

18. Shipments will be insured for the amount reported or declared, which amount may be more or less than the actual value of the property shipped, and in the event of loss the liability of the insurers shall be the replacement cost of the lost property or the market value thereof at the time of dispatch or at the time the loss becomes known to us, whichever of the foregoing shall be the measure of the actual loss sustained, but in no case shall the liability of the insurers exceed in the aggregate the sum for which the lost property was reported or declared.

Insurance of incoming registered mail shipments

19. Any bank shipping securities to us by registered mail for any purpose may have the shipment insured under our registered mail insurance policies for its account and risk, and at its expense, provided the following conditions are complied with:

(a) Concurrently with a shipment to our Head Office, the sender should mail to our Head Office under separate cover an insurance declaration or notice of shipment (Form Misc. 110) stating the amount of insurance to be effected. Concurrently with a shipment to our Buffalo Branch, the sender should mail such declaration or notice (Form Misc. 111) under separate cover to our Branch. Copies of these forms will be furnished by our Head Office or Branch upon request.

(b) The contents of the shipment shall be verified by at least one person and shall be enclosed in a strong wrapper, envelope, or cloth or canvas bag, well secured, and the package shall be sealed in a manner acceptable to the post office at the place of mailing.

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

In order for shipments to us to be insured they must be made by *registered* mail. In no circumstances can a shipment sent to us by ordinary mail be insured under our policies.

Insurance of outgoing shipments

20. Except in the case of shipments made by this Bank as fiscal agent of the United States (referred to in paragraphs 23 and 25, and in the first sentence of paragraph 24), whenever we have occasion to ship securities to or on behalf of a bank the shipment will be made by registered mail; and, unless we receive appropriate instructions to the contrary, we will arrange for shipments of securities transfer-

able by delivery to be insured under our registered mail insurance policies at the expense of such bank.* It is not our practice to arrange for the insurance of shipments of securities that are not transferable by delivery. In the case of securities transferable by delivery it is our practice, in the absence of instructions, to declare such securities for insurance in the amounts set forth below:

(a) securities accompanying a draft, for the amount of the draft,

(b) detached matured or maturing coupons, for their face amount, and

(c) other securities, for their face amount or approximate market value, whichever is higher, plus (i) the face amount of all attached matured coupons, (ii) the amount of interest accrued to the date of shipment on attached unmatured coupons, and (iii) three per cent of the face amount of the securities.

Use of other insurance policies

21. Since shipments of securities will be insured at the expense of the bank with which we deal,* it is suggested that banks holding registered mail insurance policies of their own may find it more convenient to insure shipments of securities under their own policies.

Making claim for loss

22. In the event of loss of all or part of a shipment insured under our policies, we will make claim on behalf of the sender or the addressee, as the case may be, for the amount involved. The post office registry receipt covering each shipment to us should be carefully preserved by the sender in order that it may be available as evidence in the event of loss.

Shipments of securities made by this Bank as fiscal agent of the United States

23. Shipments of United States securities made by this Bank, as fiscal agent of the United States, upon original issue or in exchange for temporary certificates, are at the expense and risk of the United States under the Government Losses in Shipment Act, as amended, and the regulations issued thereunder. However, the interest and responsibility of the United States in such shipments ceases upon delivery by the post office. An addressee accepting delivery at the post office by agent or otherwise must, therefore, transport such shipments at its own risk from the post office to the office of the addressee. If the addressee bank does not carry insurance covering this risk, we can arrange coverage for its benefit from the time the securities are receipted for by its agent, at a rate of one cent per \$1,000, subject to all the conditions of our registered mail insurance policies. Any bank that desires such special coverage should so advise us. As pointed out in paragraph 16, such policies do not cover war or related risks or loss by theft of employees of the addressee. In addition, such special insurance does not cover any claim for shortage or mysterious disappearance unless due to a known casualty in transit between the post office and the office of the addressee.

Shipment of United States securities initially delivered to us

24. If, upon original issue, United States securities are immediately pledged with this Bank, as fiscal agent of the United States, as collateral for a Treasury Tax and Loan Account and a request for ship-

* See footnote on page 5.

ment of the securities is made at or before the time of withdrawal of the securities from such pledge, the shipment will be made by this Bank, as fiscal agent of the United States, at the expense and risk of the United States under the Government Losses in Shipment Act, as amended, and the regulations issued thereunder. If, on the other hand, United States securities are delivered, upon original issue, to us for safekeeping or for any purpose other than as collateral for a Treasury Tax and Loan Account, such delivery constitutes an original delivery and any shipment thereafter made by us will not be covered by the Government Losses in Shipment Act but will be made at the expense and risk of the owner.

Shipment of unissued, and paid, savings bonds

25. Stock of unissued savings bonds shipped by this Bank, as fiscal agent of the United States, 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. Stock of unissued savings bonds, spoiled bonds, and stubs of issued bonds, in the possession of issuing agents, remain the property of the United States, and shipments thereof to us, in accordance with our instructions to issuing agents, are at the expense and risk of the United States. Savings bonds paid by qualified paying agents, when shipped to us for redemption and in accordance with the instructions of the Treasury Department, are at the risk of the United States.

Commercial paper and bankers' acceptances

26. Upon receipt of appropriate instructions, we will also :

(a) Hold in safekeeping, receive or deliver against payment or receipt, and ship, for account of a member bank, commercial paper and bankers' acceptances owned solely by the member bank.

(b) Purchase or sell in small amounts, for account of those member banks that do not have ready access to ordinary market facilities, prime bankers' acceptances endorsed by an acceptance dealer or a banking institution and eligible for purchase by us for our own account.

The provisions of this circular applicable to securities owned solely by a member bank shall also be applicable to commercial paper and bankers' acceptances, except that, because of the nature of their contents, paragraphs 2, 8, 10, 23, 24, and 25 are inapplicable to such instruments.

General

27. Any bank availing itself of our facilities referred to in this circular shall by such action be deemed to have agreed to all the terms and conditions of this circular. The right is reserved to withdraw, add to, or amend at any time any of the provisions of this circular.

28. This circular supersedes our Operating Circular No. 14, Revised March 9, 1959, and the First Supplement thereto, dated January 25, 1962.

ALFRED HAYES,
President.