

FEDERAL RESERVE BANK  
OF NEW YORK

Fiscal Agent of the United States

[ Circular No. 6075 ]  
December 12, 1967

Book-Entry Procedure for Treasury Securities

*To All Banking Institutions, and Others Concerned,  
in the Second Federal Reserve District:*

The Treasury Department has adopted, effective January 1, 1968, an amendment to its Circular No. 300, "General Regulations with Respect to United States Securities," providing for book-entry Treasury securities. This amendment as originally proposed was the subject of our Circular No. 6022, dated August 21, 1967.

Enclosed herewith are copies of the following documents relating to the book-entry procedure:

1. Subpart O of Treasury Department Circular No. 300, effective January 1, 1968, and the Appendix thereto dealing with certain record-keeping requirements and other matters for Federal income tax purposes; and

2. Operating Circular No. 21 of this Bank, effective January 1, 1968, entitled "Book-Entry Treasury Securities."

We are in the process of amending our current Operating Circulars No. 14, "Safekeeping, Handling, and Shipment of Securities," and No. 12, "Advances and Discounts," to reflect therein the institution of the book-entry procedure. Copies of such amendments will be forwarded to you shortly.

Under the book-entry procedure, this Bank, as fiscal agent of the United States, is authorized to issue book-entry Treasury securities by means of entries on its records whenever Treasury securities are deposited, upon original issue or otherwise, for any of the following purposes: (1) as collateral for advances by this Bank; (2) as collateral for Treasury Tax and Loan Accounts or for deposits of public moneys under Treasury Department Circular No. 92 or No. 176, respectively, or (3) for the sole account of a member bank of this District (including a member bank having an office in the central financial district of New York) and in lieu of the safekeeping of definitive Treasury securities by this Bank. While no additional accounts will at this time be included in the book-entry procedure, the final version of Subpart O of Treasury Department Circular No. 300 authorizes this Bank to include other accounts. At such time as we take action under this authorization, we will advise depositors that may be affected.

Under the book-entry procedure, any member bank or other depositor that has transferable Treasury bonds, notes, certificates of indebtedness, or bills on deposit with this Bank for any of the foregoing purposes as of the close of business January 5, 1968 (rather than January 1, 1968, to enable us to effect the transition to the new procedure) will be deemed to have authorized the conversion of such securities into book-entry form and to have agreed to all of the provisions of our Operating Circular No. 21. After such date, unless this Bank determines that special circumstances require otherwise, any such securities in definitive form deposited for any of the said purposes will be converted to and held by us in book-entry form, and depositors tendering definitive securities to us for any of such purposes will be deemed to have consented to such conversion.

Subpart O and our Operating Circular No. 21 more completely describe the details of the new book-entry procedure. The attention of depositors is called in particular to the provisions therein relating to the deposit, withdrawal, and transfer of securities under the book-entry procedure and to the provisions regarding the creation of security interests. Depositors should also note the provisions of the new procedure relating to possible tax consequences, which are described in some detail in the Appendix to Subpart O. These provisions have been revised since our Circular No. 6022, dated August 21, 1967.

Additional copies of this circular and its enclosures will be furnished upon request.

ALFRED HAYES, *President.*

**FEDERAL RESERVE BANK  
OF NEW YORK**

Fiscal Agent of the United States

[ Operating Circular No. 21 ]  
[ Effective January 1, 1968 ]

**BOOK-ENTRY TREASURY SECURITIES**

*To All Banking Institutions, and Others Concerned,  
in the Second Federal Reserve District:*

1. This circular contains information and instructions relating to the general terms and conditions governing the issuance and maintenance by this Bank, as fiscal agent of the United States, of book-entry Treasury securities under Treasury Department Circular No. 300, Subpart O. For purposes of this circular, the terms "Treasury security," "definitive Treasury security," and "book-entry Treasury security" shall have the meanings prescribed in § 306.115 of said Subpart O. References in this circular to "this Bank" or to "us" refer, unless otherwise indicated, to this Bank as fiscal agent of the United States.

**Book-entry Treasury securities**

2. (a) In accordance with Subpart O of Treasury Department Circular No. 300, this Bank issues and maintains transferable Treasury bonds, notes, certificates of indebtedness, and bills issued under the Second Liberty Bond Act by means of entries on the records of this Bank ("book-entry Treasury securities") when such Treasury securities are deposited with this Bank for any of the following purposes: (1) as collateral for advances by this Bank, in its individual capacity; (2) as collateral for balances in Treasury Tax and Loan Accounts or for deposits of public moneys under Treasury Department Circular No. 92 or No. 176, respectively; or (3) for the sole account of a member bank in this District and in lieu of the safekeeping of definitive Treasury securities. Said Subpart O of Treasury Department Circular No. 300 also authorizes this Bank to convert definitive Treasury securities to and from book-entry Treasury securities.

(b) In view of certain Federal income tax consequences, banks which are "dealers" (defined in 26 *Code of Federal Regulations* § 1.471-5) in securities should consider footnote 2 of Subpart O of

Treasury Department Circular No. 300 and the Appendix to said subpart before depositing any securities under this circular.

(c) Any member bank or other depositor which has definitive Treasury securities on deposit with this Bank, in either its individual capacity or as fiscal agent of the United States, for any of the purposes specified in subparagraph 2(a) hereof on January 1, 1968, or which thereafter deposits any such securities or for whose account such securities are deposited for any of such purposes, will be deemed to have authorized the conversion of such securities into book-entry Treasury securities and to have agreed to all of the provisions of this circular. After the aforesaid date, unless this Bank, in either its individual capacity or as fiscal agent of the United States, determines that special circumstances require otherwise, definitive Treasury securities deposited for any of the purposes specified in subparagraph 2(a) hereof will be converted to and maintained by us in book-entry form. Book-entry Treasury securities are maintained only at our Head Office; depositors located in the territory assigned to our Buffalo Branch may have book-entry Treasury securities maintained at our Head Office.

#### **Deposit, maintenance, and withdrawal**

##### *Original issue of book-entry Treasury securities*

3. If upon original issue of Treasury securities the subscriber requests that the securities be held by this Bank for any of the purposes specified in subparagraph 2(a) hereof, such issue will be made in the form of book-entry Treasury securities in accordance with the terms of this circular and will be entered in a book-entry account in the name of the depositor.

##### *Conversion of securities to and from book-entry Treasury securities*

4. Definitive Treasury securities deposited with this Bank prior to maturity or call by or for account of a member bank or other depositor in this District for any of the purposes specified in subparagraph 2(a) hereof will be converted to book-entry Treasury securities in accordance with the terms of this circular and entered in a book-entry account in the name of the depositor. Registered Treasury securities must be assigned to "Federal Reserve Bank of New York, as Fiscal Agent of the United States, for conversion to book-entry Treasury securities," and such assignment must be executed in accordance with Subpart F of Treasury Department Circular No. 300.<sup>1</sup> This Bank

<sup>1</sup> In accordance with Subpart O of Treasury Department Circular No. 300, however, no such assignment is required in respect of registered securities on deposit with this Bank on the effective date of said Subpart O.

reserves the right to convert any book-entry Treasury securities to definitive Treasury securities of the same amount, loan title (or series), and maturity date, such definitive securities to be held or otherwise dealt with in accordance with the agreement pursuant to which the securities are then on deposit.

*Pledge of book-entry Treasury securities*

5. Member banks and other depositors in this District may pledge Treasury securities for any of the collateral-pledge purposes specified in subparagraph 2(a) hereof by executing the relevant applications, agreements, or other documents required to effect the transaction<sup>2</sup> and by depositing the securities to be maintained by this Bank as book-entry Treasury securities. Subpart O of Treasury Department Circular No. 300 provides that a security interest in favor of the pledgee of book-entry Treasury securities is perfected upon the making of an appropriate entry in the relevant book-entry account of the amount of the Treasury securities pledged.

*Withdrawal of book-entry Treasury securities*

6. At any time prior to maturity or call, book-entry Treasury securities may be withdrawn by the depositor for whose sole account such securities are maintained, and book-entry Treasury securities maintained for any of the collateral-pledge purposes specified in subparagraph 2(a) hereof may be so withdrawn by the pledgor thereof if they have been released from such pledge. Such withdrawn securities will be converted into definitive Treasury securities in bearer form, or, if this Bank is so requested, in registered form,<sup>3</sup> in the amount, loan title (or series), and maturity date of the securities withdrawn, and such definitive securities will be delivered to the depositor effecting the withdrawal or on its order to a transferee.

*Transfer of book-entry Treasury securities*

7. At any time that a book-entry Treasury security could be withdrawn under paragraph 6 hereof, such security may be transferred to any depositor for whose account this Bank may maintain book-entry Treasury securities for any of the purposes specified in subparagraph 2(a) hereof. A depositor may also transfer book-entry Treasury securities from one book-entry account in its name to another such

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<sup>2</sup> Depositors which have qualified for Treasury Tax and Loan Account deposits or deposits of public moneys under Treasury Department Circular No. 92 or No. 176, respectively, prior to the effective date of this circular need not reexecute any new qualification documents by reason of the institution of the book-entry procedure.

<sup>3</sup> Except for Treasury bills, certificates of indebtedness, and notes of EA and EO series.

account. Such transfers will be effected on the records of this Bank by entry of the amount, loan title (or series), and maturity date of the securities in a book-entry account maintained in the name of the transferee. Subpart O of Treasury Department Circular No. 300 provides that such transfers have the same effect as a delivery to the transferee of definitive Treasury securities in bearer form. Book-entry Treasury securities may also be transferred by wire in appropriate cases to a bank or other party in another Federal Reserve District under the provisions of this Bank's Operating Circular No. 17.

*Representation as to securities tendered for deposit*

8. Any party tendering securities for deposit for any of the purposes specified in subparagraph 2(a) hereof is deemed to represent that it has the unqualified right to deposit such securities for the purpose for which they are being deposited, and any depositor for which this Bank maintains securities under this circular will be deemed to represent that such securities are and will be free and clear of any interest, as security or otherwise, inconsistent with the purpose for which they are maintained and dealt with by this Bank pursuant to the instructions of the depositor.

*Receipt and delivery of securities*

9. Definitive Treasury securities may be delivered to this Bank for account of a member bank, and definitive Treasury securities in the amount of withdrawn book-entry Treasury securities will be delivered to someone other than the member bank depositor for whose account they are held, either against receipt or against payment. Definitive Treasury securities will be received and delivered under this circular for the account of depositors other than member banks only against receipt. Instructions to receive securities against payment for account of a member bank will constitute our authority to charge the reserve account of the member bank with the amount of such securities on the day the securities are received by us. When instructed by a member bank to deliver definitive securities against payment, unless other instructions are received, such payment will be accepted in the form of a check drawn on a commercial bank and payable to the order of Federal Reserve Bank of New York, and immediate or deferred credit therefor, subject to receipt of payment in actually and finally collected funds, will be given in the reserve account of the member bank withdrawing the securities in accordance with the time schedules contained in our Operating Circular No. 5.

If payment for any such securities is made in "Federal funds," however, the proceeds thereof will be credited to the reserve account of such member bank on the day the securities are delivered.

*Advices of deposit and withdrawal*

10. Securities deposited with this Bank for any of the purposes specified in subparagraph 2(a) hereof will be described in a serially-numbered advice which this Bank will send to the depositor of such securities. These advices are neither transferable nor negotiable and their return will not be required when securities are withdrawn from maintenance as book-entry Treasury securities or transferred from one book-entry account to another such account. The designation "BE" on such advices as part of the description of the securities deposited indicates that such securities are deposited and maintained by this Bank, as fiscal agent of the United States, as book-entry Treasury securities in accordance with Subpart O of Treasury Department Circular No. 300 and this circular. Advices will also be sent when securities are withdrawn. Advices of deposit and withdrawal are issued in the form of "serially-numbered advices of transactions" prescribed by the Fiscal Service of the Treasury Department and should be retained by depositors for Federal income tax purposes, as more fully explained in the Appendix to Subpart O of Treasury Department Circular No. 300.

*Redemption of book-entry Treasury securities; interest*

11. All maturing book-entry Treasury securities will be redeemed by this Bank at maturity or call. Interest on all book-entry Treasury securities will be paid by this Bank on the date on which such interest becomes due and payable. Unless otherwise instructed by the depositor or pledgee, the amount of such maturing securities or such interest will be credited, under advice, to the reserve account of a member bank depositor, and the amount of such maturing securities or such interest will be paid or credited, under advice, to a depositor other than a member bank in accordance with its instructions.

*Depositors' instructions*

12. (a) All instructions with reference to book-entry Treasury securities should be in writing over authorized signature(s) on behalf of the depositor for whose account such securities are handled. In exceptional circumstances or emergencies this Bank, in its discretion, may accept and act upon instructions from member banks transmitted

by telegraph or telephone on the understanding 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.

(b) In some cases it will be desirable for Federal income tax purposes for a depositor to include in its instructions concerning the withdrawal or transfer of its book-entry Treasury securities the date and price of acquisition of such securities. In determining whether to include such information, the attention of depositors is called to the Appendix to Subpart O of Treasury Department Circular No. 300. Inclusion by a depositor in its instructions of information as to the acquisition date and price of such securities is for Federal income tax purposes only, and this Bank will not attempt to verify the accuracy of such information.

#### **Shipment of Treasury securities**

13. All shipments of definitive Treasury securities upon conversion from book-entry form shall be at the risk and expense of the depositor effecting the withdrawal. The provisions of our current Operating Circular No. 14 regarding shipments of securities to or from this Bank and insurance of such shipments apply to shipments of definitive Treasury securities for conversion to or from book-entry Treasury securities.

#### **Revision of this circular**

14. The right is reserved to withdraw, add to, or amend at any time any of the provisions of this circular.

ALFRED HAYES,  
*President.*

GENERAL REGULATIONS WITH RESPECT TO UNITED STATES SECURITIES

1967  
Second Amendment  
Department Circular No. 300  
Third Revision, dated  
December 23, 1964

TREASURY DEPARTMENT  
OFFICE OF THE SECRETARY  
Washington, November 7, 1967

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Fiscal Service  
Bureau of the Public Debt

Department Circular No. 300, Third Revision, dated December 23, 1964, as amended, is hereby further amended effective January 1, 1968, by redesignating Subpart O (entitled "Miscellaneous Provisions") as Subpart P, and renumbering Secs. 306.115 through 306.118 as Secs. 306.123 through 306.126, respectively, and by inserting a new Subpart O 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.
- (b) "Treasury security" means a transferable 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 transferable 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 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 this subpart on the records of a Reserve Bank.



(e) "Serially-numbered advice of transaction" means the confirmation (prescribed in Sec. 306.116) issued by a 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 Treasury security (or securities) has been executed.

Sec. 306.116. Authority of Reserve Banks.

Each Reserve Bank is hereby authorized and directed, 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 title of the loan (or the series) and the 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 serially-numbered advices of transactions with respect to each instruction relating to the deposit or withdrawal of a book-entry Treasury security (or securities) which has been executed. Each such advice shall confirm that book-entry Treasury securities of the amount, loan title (or series) and maturity date specified in the depositor's instruction have been deposited or withdrawn.

Sec. 306.117. Scope of book-entry procedure.

(a) The book-entry procedure shall apply to Treasury securities now on deposit or hereafter deposited in accounts with any Reserve Bank (1) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it, (2) as collateral pledged to the United States under Treasury Department Circulars No. 92 or 176, both as revised and amended, and (3) by a member bank of the Federal Reserve System for its sole account and in lieu of the safekeeping of definitive Treasury securities by a Reserve Bank in its individual capacity. Any depositor which on the effective date of this subpart has definitive Treasury securities on deposit with a Reserve Bank (in either its individual capacity or as Fiscal Agent) for any purpose specified above or which thereafter deposits such securities for any such 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.

(b) The book-entry procedure may be applied to any Treasury securities now on deposit or hereafter deposited with any Reserve Bank for any other purpose under such terms and conditions as may be prescribed by the Reserve Bank with the approval of the Secretary of the Treasury.

(c) No deposits shall be accepted under this section on <sup>1/</sup> or after the date of maturity or call of the securities.

Sec. 306.118. Pledges.

A pledge of book-entry Treasury securities, or of any interest therein, in favor of a Reserve Bank in its own right as pledgee or in favor of the United States as pledgee, is effected, notwithstanding any provision of law to the contrary, by the making of an appropriate entry under paragraph (a) (1) or (2) of Sec. 306.117, of the amount of the securities pledged. The making of such entry shall have the effect of a delivery of definitive Treasury securities in bearer form representing the amount of the obligations pledged and shall effect a perfected security interest therein in favor of the pledgee, who shall be a holder. No filing or recording with a public recording office or officer shall be necessary to perfect the pledge or security interest in book-entry Treasury securities under this section. Pledges of definitive Treasury securities, or of any security interest therein, to a Reserve Bank in its own right or to the United States at the time of their conversion to book-entry Treasury securities shall be fully effective with respect to such book-entry Treasury securities. A Reserve Bank, when requested by the pledgee, shall convert book-entry Treasury securities into definitive Treasury securities and deliver them to the pledgee for disposition under the applicable pledge arrangement; and the pledge or security interest of the pledgee in the book-entry Treasury securities prior to conversion shall continue to be fully effective with respect to such definitive Treasury securities.

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<sup>1/</sup> The date of call as defined in these regulations (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."

Sec. 306.119. Limitations on transfers or pledges.

Except as provided in this subpart, book-entry Treasury securities may not be assigned, transferred, hypothecated, pledged as collateral, or used as security for the performance of an obligation, and the Treasury Department will not recognize any such assignment, transfer, hypothecation, pledge or use.

Sec. 306.120. Withdrawals and transfers. <sup>2/</sup>

Withdrawals and transfers of book-entry Treasury securities may be made upon a depositor requesting (a) delivery of like definitive Treasury securities to itself or on its order to a transferee, or (b) transfer to any transferee eligible under Sec. 306.117. The making of any book-entry transfer by a Reserve Bank shall have the same effect as a delivery to the transferee of definitive Treasury securities in bearer form. The transfer of book-entry Treasury securities within a Reserve Bank will be made in accordance with procedures established by the latter not inconsistent with this subpart. The transfer of book-entry Treasury securities between Reserve Banks will be made through a telegraphic transfer procedure. All requests for withdrawal or for transfer must be made prior to the maturity or date of call of the securities. Treasury bonds and notes which are actually to be delivered upon withdrawal or transfer may be issued either in registered <sup>3/</sup> or in bearer form.

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<sup>2/</sup> There is an Appendix hereto which contains information regarding the identification of book-entry Treasury securities for Federal income tax purposes and the accounting separation for such purposes on books of dealers. Although dealers in Treasury securities are not eligible as dealers to have them in book-entry form under these regulations, if they or any other depositors are dealers in other types of securities they must meet the requirements of Sec. 1236 of the Internal Revenue Code to establish that they are holding the book-entry Treasury securities for investment.

<sup>3/</sup> Except for Treasury notes, EA and EO series.

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 these regulations, 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

Date: November 7, 1967

## APPENDIX

### Records for Federal Income Tax Purposes

Section 1.1012-1(c) of the Federal Income Tax Regulations provides certain rules regarding the identification of securities for the purpose of determining the basis (normally cost) and holding period of assets--data relevant in ascertaining the amount and nature of gain or loss upon the sale or transfer of the assets.

Subparagraph (7) of section 1.1012-1(c) of the Income Tax Regulations (added by Treasury Decision 6934, quoted below) provides a special rule for the identification of a book-entry Treasury security directed to be disposed of by the owner. <sup>1/</sup> The special rule permits the serially-numbered advice of transaction (required by section 306.116 of the Fiscal Service Regulations to which this is appended) issued by a Reserve Bank upon completion of a transaction, when made pursuant to written instructions, to be used in identifying the particular security sold or transferred. The written instruction and advice of transaction constitute adequate identification.

Revenue Ruling 67-419 (set forth below) particularizes the manner in which the identification may be made by requiring the written instruction to identify the particular book-entry Treasury security either by purchase date and cost or by reference, where applicable, simply to the serially-numbered advice of transaction

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<sup>1/</sup> It should be noted that this rule is only appropriate where the disposing owner retains one or more securities of precisely the same description which it had acquired on a different date or at a different price. Where a security of precisely the same description acquired on a different date or at a different price is not retained, there is no problem of identifying the securities being sold or transferred, since either no others of similar description are owned, or they are from the same lot.

relating to its acquisition. This latter method applies only to a limited class of case--that is, where the securities are acquired by a Reserve Bank for the owner in book-entry form, either upon original subscription to a Treasury offering or otherwise. 2/

It is important for a taxpayer to comply fully with the special rule of section 1.1012-1(c)(7) of the Income Tax Regulations if it wishes to be certain that the "first-in, first-out" (FIFO) rule of section 1.1012-1(c)(1) of the cited regulations will not apply to its disposition of a book-entry Treasury security.

Although dealers in any securities are not eligible as dealers to hold a Treasury security in book-entry form under the present Fiscal Service Regulations, if they are otherwise eligible to do so, they may hold such a security in the form of a book-entry for investment purposes. Since all dealers in securities are subject to the requirements of section 1236 of the Internal Revenue Code, the Revenue Ruling set forth below also provides a method for them to use in identifying a book-entry Treasury security held for investment which satisfies section 1236. Whenever a book-entry security is acquired on original issue or otherwise for the account of the owner, the Reserve Bank will issue a serially-numbered advice. The entry on the taxpayer's books of account of the number of the advice, together with a description of the security acquired to which it relates and an indication that it is held for investment, will be sufficient to identify it as being held for investment purposes.

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2/ The serially-numbered advice of transaction issued by a Federal Reserve Bank in this or any other type of case in or in connection with book entry will not contain price and date of acquisition but in this type of case the advice relating to the acquisition can be used to identify the particular book-entry security involved. Since the mere conversion by a Reserve Bank of definitive Treasury securities owned by a depositor into book-entry form (or vice versa) occurs after the depositor-taxpayer's books of account properly should reflect their acquisition, which might have been at different times or at different prices, the number of a serially-numbered advice of transaction relating to such conversion affords no adequate means of identifying a particular security for purposes of either Section 1012 or Section 1236 of the Internal Revenue Code of 1954.

(T. D. 6934)

TITLE 26--INTERNAL REVENUE

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

SUBCHAPTER A--INCOME TAX

(INCOME TAX REGULATIONS)

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

Identification of book-  
entry Treasury securities

DEPARTMENT OF THE TREASURY  
Office of Commissioner of Internal Revenue,  
Washington, D. C. 20224

TO OFFICERS AND EMPLOYEES OF  
THE INTERNAL REVENUE SERVICE  
AND OTHERS CONCERNED:

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

Sec. 1.1012-1 Basis of property.

\* \* \* \* \*

(c) Sale of stock. \* \* \*

(7) Book-entry Treasury securities.

(i) In applying the provisions of subparagraph (3) (i) (b) of this paragraph in the case of a sale or transfer of a book-entry Treasury security which is made pursuant to a written instruction by the seller or transferor, the serially-numbered advice of transaction prescribed by the Fiscal Service of the Department of the Treasury and furnished by a Reserve Bank shall constitute confirmation as required by such subparagraph.

(ii) For purposes of this subparagraph:

(a) The term "book-entry Treasury security" means 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, 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 (1) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it, (2) as collateral pledged to the United States under Treasury Department Circular No. 92 or 176, both as revised and amended, and (3) by a member bank of the Federal Reserve System for its sole account for safekeeping by a Reserve Bank in its individual capacity;

(b) 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 Treasury security (or securities) has been executed; and

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

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Because this Treasury decision merely liberalizes the identification rules for purposes of determining basis and holding period in the case of certain securities, it is found that it is unnecessary to issue this Treasury decision with notice and public procedure thereon under 5 U.S.C. 553 (b), or subject to the effective date limitation of 5 U.S.C. 553 (d).

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(This Treasury decision is issued under the authority contained in Section 7805 of the Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805).)

(Signed) Sheldon S. Cohen  
Commissioner of Internal Revenue

Approved: November 7, 1967

(Signed) Stanley S. Surrey

Assistant Secretary of the Treasury



SECTION 1012.--BASIS OF PROPERTY--COST

26 CFR 1.1012-1: Basis of property. Rev. Rul. 67-419  
(Also Section 1236; 1.1236-1.)

Section 1.1012-1(c)(7) of the Income Tax Regulations provides a special rule for the identification of a "book-entry Treasury security" (which is a "bond" under section 1.1012-1(c)(6) of the regulations) directed to be disposed of by the owner who holds securities of precisely the same description which were acquired on different dates or at different prices. This special rule permits the "serially-numbered advice of transaction" prescribed by the Fiscal Service of the Department of the Treasury and furnished by a "Reserve Bank" (as those terms are defined in section 1.1012-1(c)(7) of the regulations) to satisfy the requirements of section 1.1012-1(c)(3)(i)(b) of the regulations for a written confirmation if made pursuant to a written instruction by the seller or transferor. In such case, if the written instruction identifies the book-entry Treasury security to be sold either by purchase date and cost, or by reference to the serially-numbered advice of transaction relating to the acquisition, and a copy thereof is associated with the serially-numbered advice of transaction received from the Reserve Bank upon disposition, the identification requirement of section 1.1012-1(c)(3)(i) of the regulations shall be considered satisfied. Compare Rev. Rul. 61-97, C.B. 1961-1, 394, which provides a rule of identification in the circumstances described therein. Where the identification requirements of section 1.1012-1(c)(3)(i) of the regulations are satisfied in the manner provided for above, the rule stated in the first sentence of section 1.1012-1(c)(1) of the regulations will not be applied.

For the purpose of determining when a security is clearly identified in the records of a dealer in securities as a security held for investment within the meaning of section 1236 of the Internal Revenue Code of 1954, section 1.1236-1(d)(1) of the regulations provides that an investment security is clearly identified where there is an accounting separation of the security from other securities, as by making appropriate entries in the dealer's books of account to distinguish it from inventories and to designate it as an investment, and by (i) indicating with such entries the individual serial number of, or other characteristic symbol imprinted upon, the individual security, or (ii) adopting any other method of identification satisfactory to the Commissioner.

Using the definitions found in section 1.1012-1(c)(7) of the regulations wherever applicable here, the identification of a particular book-entry Treasury security in the dealer's books of account by reference to the serially-numbered advice of transaction furnished by the Reserve Bank upon the acquisition of such security is a method of identification satisfactory to the Commissioner under section 1.1236-1(d)(1)(ii) of the regulations.