

FEDERAL RESERVE BANK
OF NEW YORK

Fiscal Agent of the United States

[Circular No. 6325]
[April 29, 1969]

Proposed Expansion of Book-Entry
Procedure for Treasury Securities

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

Printed below is an excerpt from the *Federal Register* of April 25, 1969, containing a notice of proposed rule making issued by the Treasury Department that would amend Subpart 0 of the Treasury's Circular No. 300, "General Regulations with Respect to United States Securities," to expand the book-entry procedure for Treasury securities. As explained in our Circular No. 6075, dated December 12, 1967, an amendment to Circular No. 300, effective January 1, 1968, provided for the maintenance of Treasury securities in book-entry form on the records of this Bank, as fiscal agent of the United States, whenever Treasury securities are deposited with us for 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 monies under Treasury Department Circular No. 92 or No. 176, respectively; or (3) for the sole account of a member bank in lieu of the safe-keeping of definitive Treasury securities by this Bank.

The amendment to Circular No. 300 now proposed would authorize the Federal Reserve Banks, as fiscal agents of the United States, to apply the book-entry procedure to Treasury securities deposited in accounts with such Banks in their individual capacity and as to which securities the Reserve Banks, in their individual capacity, are to continue to maintain deposit accounts notwithstanding application of the book-entry procedure to such accounts. Such accounts include accounts in which Treasury securities are deposited (1) as collateral to secure deposits of public funds by a State, municipality, or other political subdivision in member banks; (2) pursuant to Section 61 of the Bankruptcy Act in connection with deposits of bankruptcy funds in commercial banks; (3) as collateral in connection with the qualification of member banks to exercise trust powers; and (4) as collateral to secure deposits of trust funds in the commercial banking departments of member banks.

In accordance with the proposed amended Subpart 0, this Bank will act in a dual capacity (that is, in an individual capacity and as fiscal agent of the United States) with respect to securities in the above accounts. Application of the book-entry procedure to these newly covered accounts will not derogate from or adversely affect the relationships that would otherwise exist between this Bank in its individual capacity and its depositors concerning the deposits involved. The rights of all persons in and with respect to obligations of the United States represented by such Treasury securities, as to which the book-entry procedure is applied, would continue in all respects to be the same as though definitive Treasury securities in bearer form had been at all times held in custody by this Bank in its individual capacity.

It is contemplated that this Bank's Operating Circular No. 14, "Safekeeping, Handling, and Shipment of Securities," will be amended to provide that any bank or other depositor whose definitive Treasury securities are on deposit in any account newly included under amended Subpart 0

thirty days after the effective date of that amendment, or which thereafter deposits Treasury securities in any such account, will be deemed to have authorized this Bank to employ the book-entry procedure with respect to such securities. The book-entry procedure will not be applied by this Bank to Treasury securities in which third parties have an interest, such as securities deposited as collateral by member banks to secure deposits of public funds in such banks and securities deposited as collateral in connection with the qualification of member banks to exercise trust powers, without the consent of such third parties.

The Treasury Department has advised that the Appendix to Subpart O, which contains Federal income tax rules concerning book-entry Treasury securities, will be revised to cover Treasury securities in accounts added under the amended book-entry procedure. It is understood that under the income tax rules to be set forth in that Appendix, the tax identification requirements now applied to book-entry Treasury securities will, in effect, be continued in regard to securities in accounts newly included under the amended Subpart O.

The notice of proposed rule making states that prior to final adoption consideration will be given to any data, views, or arguments pertaining to the proposed amendment that are submitted in writing, in duplicate, to the Commissioner of the Public Debt, Washington, D. C. 20220, within the period specified in the notice.

Additional copies of this circular will be furnished upon request. Our Government Bond and Safekeeping Department (Extension 8143) will be glad to discuss any questions that you may have with respect to the proposed expansion of the book-entry procedure.

ALFRED HAYES,
President.

Proposed Rule Making

DEPARTMENT OF THE TREASURY

Fiscal Service

[31 CFR Part 306]

UNITED STATES SECURITIES

Book-Entry Procedure

Notice is hereby given, pursuant to the Administrative Procedure Act, 5 U.S.C. 553, that Subpart O of the regulations set forth in Treasury Department Circular No. 300, Third Revision, dated December 23, 1964, as amended (31 CFR Part 306), are to be further amended as tentatively shown below. However, prior to their final adoption, consideration will be given to any data, views, or arguments pertaining thereto which are submitted by interested persons in writing, in duplicate, to the Commissioner of the Public Debt, Washington, D.C. 20220, on or before 12 noon, May 22, 1969. All suggestions for changes should be accompanied by drafts of the language thought necessary to accomplish the desired change and by statements in support thereof.

Dated: April 21, 1969.

[SEAL]

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Subpart O¹ of Treasury Department Circular No. 300, Third Revision, dated December 23, 1964, as amended (31 CFR Part 306), is hereby further amended and revised as follows:

Subpart O—Book-Entry Procedure

§ 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 § 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.

(f) "Pledge" includes a pledge of, or any other security interest in, Treasury securities held as collateral for loans or advances or to secure deposits of public monies or the performance of an obligation.

(g) "Date of call" (see § 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."

¹ The Second Amendment to the Third Revision, dated Nov. 7, 1967, redesignated the then-current Subpart O, "Miscellaneous Provisions," as Subpart P and renumbered §§ 306.115 through 306.118 as §§ 306.123 through 306.126, respectively, and inserted a new Subpart O on book-entry procedure.

§ 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.

§ 306.117 Scope and effect of book-entry procedure.

(a) The book-entry procedure shall apply to Treasury securities deposited 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 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 hereafter 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) (1) A Reserve Bank as Fiscal Agent of the United States may also apply the book-entry procedure provided for in this subpart to any Treasury securities which have been or are hereafter deposited for any purpose in accounts with it in its individual capacity under terms and conditions which indicate that the Reserve Bank will continue to maintain such deposit accounts in its individual capacity, notwithstanding application of the book-entry procedure to such securities. This paragraph is applicable, but not limited, to securities deposited:

(i) In connection with deposits in member banks of funds of States, municipalities, or other political subdivisions; or

(ii) In connection with the performance of an obligation or duty under Federal, State, municipal or local law, or judgments or decrees of courts.

The application of the book-entry procedure under this paragraph shall not

derogate from or adversely affect the relationships that would otherwise exist between a Reserve Bank in its individual capacity and its depositors concerning any deposits under this paragraph. Whenever the book-entry procedure is applied to such Treasury securities, the Reserve Bank is authorized to take all action necessary in respect of the book-entry procedure to enable such Reserve Bank in its individual capacity to perform its obligations as depositary with respect to such Treasury securities.

(2) The rights of all persons in all Treasury securities (whether pledged or otherwise) referred to in subparagraph (1) of this paragraph shall in all respects be the same when those securities are in book-entry form as if definitive Treasury securities in bearer form in the same amount and of the same loan (or series) and maturity date had at all times been held in custody by the Reserve Bank in its individual capacity in accordance with the agreement between such bank and its depositors.

(c) In addition to applying the book-entry procedure to Treasury securities deposited under paragraphs (a) and (b) of this section, the procedure may be applied by any Reserve Bank, with the approval of the Secretary of the Treasury, to any other Treasury securities deposited with the Reserve Bank.

(d) No deposits shall be accepted under this section on or after the date of maturity or call of the securities.

§ 306.118 Pledges.

A pledge of book-entry Treasury securities maintained under § 306.117 is effected, notwithstanding any provision of law to the contrary, by a Reserve Bank's making an appropriate entry in its records of the amount of the securities pledged. The making of such entry (a) shall have the effect of a delivery of definitive Treasury securities in bearer form in the amount of the obligations pledged; (b) shall have the effect of a taking of delivery by the pledgee; (c) shall effect a perfected security interest therein in favor of the pledgee; and (d) shall constitute such pledge a holder. No filing or recording with a public recording office or officer shall be necessary to perfect any pledge in any book-entry Treasury securities under this subpart. Any pledge of definitive Treasury securities existing at the time of the conversion hereunder of such securities to book-entry form shall continue to be fully effective notwithstanding such conversion. A Reserve Bank shall, upon receipt of appropriate instructions, convert book-entry Treasury securities into definitive Treasury securities and deliver them to the pledgee or other appropriate party for disposition under the applicable pledge arrangement; and the pledge interest of the pledgee in such book-entry Treasury securities prior to conversion to definitive securities shall continue without interruption to be fully effective with respect to such definitive securities.

§ 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.

§ 306.120 Withdrawals and transfers.

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 § 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 or in bearer form, except that EA and EO series of Treasury notes will be issued in bearer form only.

§ 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 § 306.117(a). Registered Treasury securities deposited thereafter with a Reserve Bank for any purpose specified in § 306.117 shall be assigned for conversion to book-entry Treasury securities. The assignment, which shall be executed in accordance with the provisions of Subpart F of the regulations in this part, so far as applicable, shall be to "Federal Reserve Bank of _____, as Fiscal Agent of the United States, for conversion to book-entry Treasury securities."

§ 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.

[F.R. Doc. 69-4956; Filed, Apr. 24, 1969; 8:46 a.m.]