

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7112]
March 19, 1973

Program for Further Expansion of Book-Entry Procedure

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

In our Circular No. 6976, dated July 21, 1972, we reported on the status of the program for the further expansion of the book-entry procedure. The expanded program is designed to extend the book-entry procedure to Treasury securities held by all member banks throughout the country for account of their customers, and also to extend the procedure to include eligible U.S. Government Agency securities. The experimental phase of the program has now been completed and the program is being expanded in this District to include all member banks.

The detailed new operating rules which, together with Subpart O of Treasury Department Circular No. 300, will govern the basic book-entry operations under the expanded program are set forth in our revised Operating Circular No. 21, "Book-Entry Securities," Revised effective March 30, 1973, a copy of which is enclosed, together with three appendixes thereto. Operating Circular No. 21 also incorporates a recent technical amendment, effective March 9, 1973, to the provisions of Subpart O governing transfers and pledges of book-entry securities.

The revised book-entry circular provides for the extension of the book-entry procedure to Treasury securities held by member banks for the account of their customers, and for the book-entry deposit of securities held by such banks as fiduciary or as custodian for a fiduciary, provided the depositor determines that such deposits are consistent with the provisions of applicable State laws. Under the expanded book-entry program, each member bank in this District has the option of opening either a single, pooled book-entry account, designated a "General Account," for its own securities as well as the securities of its customers, or as many as three separate accounts, designated "Investment," "Trust," and "General." As noted in our earlier announcement, such account(s) would be in addition to the various book-entry "collateral" accounts now being maintained by this Bank, such as Treasury Tax and Loan collateral accounts.

Several United States Government agencies have also issued regulations which provide for the application of the book-entry procedure to their obligations. Our revised book-entry circular sets forth the terms and conditions under which eligible Agency securities may be deposited with this Bank in book-entry accounts. In addition, the facilities of the Federal Reserve wire network are being made available for the wire transfer of book-entry Agency securities to other Federal Reserve cities. The securities of the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, and the United States Postal Service will be eligible, effective March 30, for deposit in book-entry form and for transfer over the Federal Reserve wire network. While not all Federal Reserve Bank offices are prepared at this time to accept wire transfers of eligible book-entry Agency securities for credit to all accounts, it is expected that the book-entry program for Agency securities will become fully operational at most Reserve Bank offices within the next several months. In the interim, member banks wishing to utilize the wire network for Agency security transfers should confirm with us that the Federal Reserve offices to which such transfers are to be directed are prepared to accept them.

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With the issuance by certain Federal Agencies of book-entry regulations paralleling Subpart O, we are now in a position to convert into book-entry form securities issued by such agencies that we are holding for our depositors. Accordingly, securities issued by the banks of the Farm Credit System that are held by this Bank on March 30, 1973 will be converted into book-entry securities and deposited in an appropriate book-entry account on that date. Securities issued by the United States Postal Service that are held by this Bank in custody are already carried in book-entry form.

It is expected that other United States Government agencies will be issuing separate regulations in the near future that will provide for the application of the book-entry procedure to most of their securities. As such regulations are issued, we plan to convert eligible Agency securities held by this Bank into book-entry securities. At such time, we will also be in a position to arrange for the deposit of such securities held by our member banks and for the wire transfer of such securities to other Federal Reserve offices. We will keep you advised of significant developments relating to the book-entry program for Agency securities.

In connection with the changes in Operating Circular No. 21, we are enclosing copies of the following:

- (a) Second Supplement, Effective March 30, 1973, to Operating Circular No. 12 (Advances and Discounts), Revised effective February 4, 1971;
- (b) Operating Circular No. 14 (Safekeeping, Handling, and Shipment of Definitive Securities), Revised effective March 30, 1973;
- (c) Operating Circular No. 17 (Transactions in Marketable U.S. Treasury and Agency Securities), Revised effective March 30, 1973; and
- (d) Appendix (Redemption of Treasury Bonds to Pay Federal Estate Taxes), Revised March 30, 1973, to Operating Circular No. 17.

In addition to organizational changes, these documents incorporate or reflect the following changes:

- (1) Operating Circular No. 12 has been amended to provide for the application of the book-entry procedure to securities of those Federal agencies that have issued regulations comparable to Subpart O that are on deposit or hereafter deposited with this Bank as collateral for advances by it.
- (2) Operating Circular No. 14 has been revised to limit its applicability to the safekeeping, handling, and shipment of definitive securities; in addition, certain provisions regarding shipments of securities to this Bank as Fiscal Agent of the United States, including shipments of restrictively endorsed securities, have been incorporated into the operating circular.
- (3) Operating Circular No. 17 has been revised to include information and instructions regarding transactions with this Bank involving securities of those Federal Agencies for which we perform fiscal agency services; the revised circular also provides for the wire transfer of certain Agency securities to other Federal Reserve cities.

In view of the important benefits of the expanded book-entry program, we trust that all member banks will participate in the program. The officers of our Government Bond and Safekeeping Department will be pleased to discuss with you the scheduling of deliveries of securities to us for conversion, as well as any other questions you may have regarding the expanded program.

ALFRED HAYES,
President.