

**FEDERAL RESERVE BANK
OF NEW YORK**

ATCIR No 10076
August 27, 1986

**TREASURY DIRECT
Book-Entry Securities System**

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

Effective with the August 1986 Quarterly Financing, the Treasury Department has implemented its plan to issue marketable securities in book-entry form. Under the new TREASURY DIRECT Book-Entry Securities System, new issues of notes and bonds are no longer available in registered form. Treasury bills will be incorporated into TREASURY DIRECT beginning with the 52-week bill to be offered in January 1987.

The TREASURY DIRECT system offers new features formerly not available to investors, including:

- interest and principal payments by electronic direct deposit (ACH);
- the ability of Federal Reserve Banks and Branches to service investors' accounts directly;
- a single master account under which investors can hold all issues of bills, notes and bonds;
- automatic re-investment of Treasury bills on an extended or one-time basis; and,
- a broader range of registration options.

To assist institutions in understanding how TREASURY DIRECT will affect both individual and institutional investors, the major changes in our current procedures are highlighted on the reverse side of this circular.

Questions regarding our procedures under TREASURY DIRECT may be addressed to Robert J. Kammarada, Chief, Issues Division (Tel. No. 212-720-8180), or to Mario G. Nobile, Assistant Chief, Issues Division (Tel. No. 212-720-8181). Further details are also contained in Department of the Treasury Circular, Public Debt Series No. 2-86 (31 CFR Part 357), copies of which will be furnished upon request directed to our Government Bond Department (Tel. No. 212-720-6619).

WHITNEY R. IRWIN,
Vice President.

(OVER)

HOW WILL TREASURY DIRECT AFFECT INVESTORS?

- **PROOF OF OWNERSHIP:** Investors will no longer receive registered certificates. Instead, a Statement of Account will be issued as proof of ownership.
- **PURCHASE OPTIONS:** Investors will continue to be able to buy securities through the Federal Reserve or the Treasury, held in the TREASURY DIRECT system, or through a depository institution (i.e., the Treasury/Reserve Automated Debt Entry System (TRADES)). Securities purchased through TRADES are held in the name of a financial institution with individual records of ownership maintained by the institution. In the TREASURY DIRECT system, individual ownership records are maintained directly by the Treasury.
- **ELECTRONIC DIRECT DEPOSIT:** Since TREASURY DIRECT will provide electronic deposit of interest and principal payments to investors' designated accounts, investors need to designate a deposit account with a depository financial institution as a prerequisite to establishing a TREASURY DIRECT account.

HOW WILL TREASURY DIRECT AFFECT FINANCIAL INSTITUTIONS?

- **TENDER SUBMISSION:** Two options are available:

- **TRADES**

Institutions can still purchase securities for customers through their commercial book-entry (TRADES) account with the Federal Reserve. The institution's reserve or clearing account (or that of its correspondent) will be charged on the date of issue. Investors may retain their securities with the institution, or request the institution to transfer the securities after the issue date to a TREASURY DIRECT account in the investor's own name.

- **TREASURY DIRECT**

An institution can submit individual tenders for its customers accompanied by full payment directly to the Federal Reserve Bank on the auction date.

- **TRADING:**

- Transfer to TREASURY DIRECT from TRADES requires that the security be eligible for TREASURY DIRECT (securities issued after the system implementation date). A transfer from TRADES to TREASURY DIRECT can be made provided the transfer is to an established TREASURY DIRECT account. A transfer involving a TREASURY DIRECT account cannot be made against payment.

- Transfer of a security from TREASURY DIRECT to TRADES, or between accounts within TREASURY DIRECT, may be accomplished for investors through the use of the *Request for Transfer* form (PD 5178) before the security is traded or pledged. This form will be furnished upon request by contacting our Government Bond Department (Tel. No. 212-720-6619).

- **ELECTRONIC DIRECT DEPOSIT:**

- In order for TREASURY DIRECT to process electronic interest and principal payments to investors, each institution must receive pre-notifications through the Automated Clearing House (ACH) to verify the accuracy of each customer's account number and account type. A pre-notification is a zero-dollar advice sent shortly after a TREASURY DIRECT account is initially established for an investor. Institutions are required to respond to the pre-notification message within 8 calendar days after the date of receipt if the account number or type is inaccurate or if there are any other questions about the forthcoming payment. Investors who are unfamiliar with direct deposit procedures may contact their depository institution with questions.