

be the law of that jurisdiction as if the jurisdiction had adopted Revised Article 8. Under Revised Article 8, the Federal Reserve Bank's interest would be that of a clearing corporation.

HYPOTHETICAL 4

TREASURY

FEDERAL RESERVE BANK

PARTICIPANT A PARTICIPANT B

Assume that Participant A wishes to borrow from Participant B and grant Participant B a security interest in its Security Entitlement in Treasury book-entry securities. As provided in § 357.12(c)(2), the transaction would be completed pursuant to applicable law determined in accordance with 357.11. Although such an interest could be recorded on the books of a Federal Reserve Bank under § 357.12(c)(1), Federal Reserve Banks generally do not mark their books to record this type of security interest for Participants.

HYPOTHETICAL 5

TREASURY

FEDERAL RESERVE BANK

PARTICIPANT A

DEALER A

BANK A

Assume that Bank A wishes to borrow from the Federal Reserve Bank and will pledge its interest in Treasury book-entry securities held at Dealer A to collateralize that loan. The transaction could be accomplished in two ways. Pursuant to § 357.12(c)(1), the interest could be created and perfected on the books of a Federal Reserve Bank. Such a transaction would take place in the following fashion. Bank A could have Dealer A instruct Participant A to deposit securities to a pledge account specified by the Federal Reserve Bank. The Federal Reserve Bank likely would create an account on its books and specify that account to Bank A as the account to receive Bank A's interest in Treasury book-entry securities. Participant A, upon receiving Dealer A's instructions, would then instruct the Federal Reserve Bank to debit its account at the Federal Reserve Bank and credit the account created by the Federal Reserve Bank. The second way the transaction could take place is by any method permitted by the law of Dealer A's (Bank A's Securities Intermediary) jurisdiction. This could involve a tri-party agreement among the Federal Reserve Bank, Dealer A, and Bank A. As set forth in § 357.11(b)(1), that agreement likely would specify which jurisdiction's law is to govern the transaction and could specify that such choice of law supersedes any other choice of law agreement previously entered into by Dealer A and Bank A. If Dealer A's jurisdiction has not adopted Revised Article 8, the applicable law would be the law of Dealer A's jurisdiction as it would be amended by Revised Article 8.

Dated: August 16, 1996.

Gerald Murphy,

Fiscal Assistant Secretary.

[FR Doc. 96-21469 Filed 8-20-96; 1:29 pm]

BILLING CODE 4810-39-P

DEPARTMENT OF THE TREASURY

Fiscal Service

31 CFR Parts 306, 350, 356, and 358

Conforming Book-entry Changes

AGENCY: Bureau of the Public Debt, Fiscal Service, Treasury.

ACTION: Final rule.

SUMMARY: The Department of the Treasury is publishing final regulations to conform existing miscellaneous regulatory provisions to new regulations governing book-entry Treasury Bonds, Notes and Bills that are being published as a separate rulemaking document on this date. The changes are technical and non-substantive.

EFFECTIVE DATE: January 1, 1997.

FOR FURTHER INFORMATION CONTACT:

Walter T. Eccard, Chief Counsel (202) 219-3320, or Cynthia E. Reese, Deputy Chief Counsel, (202) 219-3320. Copies of the final regulations are being made available for downloading from the Bureau of the Public Debt home page at the following address: <http://www.ustreas.gov/treasury/bureaus/pubdebt/pubdebt.html>.

SUPPLEMENTARY INFORMATION: In a separate publication in this Federal Register, the Department of the Treasury is publishing a final rule that, on and after the effective date, will govern Treasury bonds, notes, and bills (Treasury securities) in book-entry form held in the commercial book-entry system (31 CFR Part 357). That rule incorporates by reference recent and significant changes in commercial law addressing the holding of securities in book-entry form through intermediaries. The rule replaces existing Treasury regulations that contain outdated legal concepts.

In this rulemaking document, existing Treasury regulations are being amended to conform to the changes in Part 357. No other changes of a substantive nature are being made. These various technical changes are summarized below.

Part 306

Subpart O of Part 306 contains the provisions governing book-entry Treasury securities that have been in effect for over twenty years. Almost all of these provisions, including those dealing with transfer and pledge, are

being supplanted by the new regulations in 31 CFR Part 357, Subpart B (the "TRADES" regulations). The only provisions that will continue to have any force on and after the effective date are those dealing with the procedures for withdrawal of securities from book-entry. Those provisions only apply to securities issued before August 15, 1986, which were offered in definitive (certificated) form.

In revised § 306.115, a new definition of "Eligible book-entry Treasury security" has been added and the definition of "Definitive Treasury security" is being retained, but otherwise the definitions in 31 CFR § 357.3 will apply. Revised § 306.117 contains the rules for withdrawal of Eligible book-entry Treasury securities for conversion to definitive form. It is based on provisions in former §§ 306.118(d) and (f) and 306.119. All other provisions of current Subpart O are covered by TRADES or are obsolete.

Part 350

This Part contained the regulations governing Treasury bills that were offered exclusively in book-entry form, beginning in 1976.¹ Subpart C of Part 350, which related to direct access Treasury bill accounts, was superseded by the TREASURY DIRECT regulations in Part 357, Subpart C. Subpart B of Part 350, which related to Treasury bills held in the commercial book-entry system, was applicable until promulgation in 1993 of the uniform offering circular, 31 CFR Part 356 (Sale and Issue of Book-Entry Treasury Bills, Notes, and Bonds, Department of the Treasury Circular, Public Debt Series No. 1-93). Under §§ 356.3 and 356.5, Treasury bills were made subject to 31 CFR Part 306 and 357. Because Treasury bills have a maturity of no longer than one year, there are currently no unmatured Treasury bills subject to Part 350. Therefore, Part 350 is being removed.

Part 356

All of the changes in this Part either replace references to 31 CFR Part 306 with Part 357, or add references to TRADES.

Part 358

One change is being made to Section 358.3 to delete language that will no longer apply as a result of the publication of TRADES.

Procedural Requirements

This rulemaking does not meet the criteria for a "significant regulatory

¹ (Subpart D of Part 350 provided for issuance of definitive bills on an exception basis for a limited period of time.)

action" pursuant to Executive Order 12866. The notice and public comment procedures requirements of the Administrative Procedure Act are inapplicable, pursuant to 5 U.S.C. 553(a)(2). As no notice of proposed rulemaking is required, the provisions of the Regulatory Flexibility Act (5 U.S.C. 601, *et seq.*) do not apply.

There are no collections of information contained in this rulemaking. Therefore, the Paperwork Reduction Act does not apply.

List of Subjects in 31 CFR Parts 306, 350, 356, and 358

Bonds, Federal Reserve System, Government securities, Securities.

For the reasons set forth in the preamble and under the authority of 31 U.S.C. 3121, 31 CFR chapter II is amended as follows:

PART 306—GENERAL REGULATIONS GOVERNING U.S. SECURITIES

1. The authority citation for part 306 continues to read as follows:

Authority: 31 U.S.C. chapter 31; 5 U.S.C. 301; 12 U.S.C. 391.

2. Section 306.115 is revised to read as follows:

§ 306.115 Definition of terms.

For the purposes of this subpart, the definitions provided in 31 CFR 357.3 are applicable, with the following additions:

Definitive Treasury security means a Treasury bond, note, certificate of indebtedness, or bill issued under 31 U.S.C. chapter 31 in engraved or printed form.

Eligible book-entry Treasury security means a security maintained in TRADES that was originally issued prior to August 15, 1986, which by the terms of its offering circular is available in either definitive or book-entry form.

3. Section 306.116 is removed and § 306.117 is redesignated as § 306.116 and revised to read as follows:

§ 306.116 Scope and effect of book-entry procedure.

(a) Except as provided in § 306.117, the provisions of 31 CFR part 357, subparts A, B, and D apply.

(b) This subpart is effective January 1, 1997.

4. Section 306.118 is removed and § 306.119 is redesignated as § 306.117 and revised to read as follows:

§ 306.117 Withdrawal of eligible book-entry Treasury securities for conversion to definitive form.

(a) Eligible book-entry Treasury securities may be withdrawn from

TRADES by requesting delivery of like definitive Treasury securities.

(b) A Reserve bank shall, upon receipt of appropriate instructions to withdraw eligible book-entry Treasury securities from book-entry form in TRADES, convert such securities into definitive Treasury securities and deliver them in accordance with such instructions; no such conversion shall affect existing interests in such Treasury securities.

(c) All requests for withdrawal of eligible book-entry Treasury securities must be made prior to the maturity or date of call of the securities.

(d) Treasury securities which are to be delivered upon withdrawal may be issued in either registered or bearer form, to the extent permitted by the applicable offering circular.

5. Sections 306.120, § 306.121, § 306.122, and the Appendix to subpart 0 are removed.

PART 350—REGULATIONS GOVERNING BOOK-ENTRY BILLS—[REMOVED]

6. Part 350 is removed.

PART 356—SALE AND ISSUE OF MARKETABLE BOOK-ENTRY TREASURY BILLS, NOTES, AND BONDS

7. The authority citation for part 356 continues to read as follows:

Authority: 5 U.S.C. 301; 31 U.S.C. 3102 *et seq.*; 12 U.S.C. 391.

8. Section 356.2 is amended by adding the following definition in alphabetical order:

§ 356.2 Definitions.

TRADES means the Treasury/Reserve Automated Debt Entry System.

9. Section 356.3 is amended by revising the introductory text and the first sentence of paragraph (a) to read as follows:

§ 356.3 Book-entry securities and systems.

Securities issued subject to this part shall be held in either of two systems for maintaining book-entry securities, as described. Securities may be transferred from one system to the other in accordance with Treasury regulations governing book-entry Treasury bills, notes and bonds. See Department of the Treasury Circular, Public Debt Series No. 2-86, as amended (31 CFR part 357).

(a) *Treasury/Reserve Automated Debt Entry System (TRADES)*. TRADES is established, maintained and operated by the Federal Reserve Banks acting as

fiscal agents of the United States, pursuant to 12 U.S.C. 391. * * *

10. Section 356.5 is amended by revising the first two sentences in its introductory text to read as follows:

§ 356.5 Description of securities.

Securities offered pursuant to this part are offered exclusively in book-entry form and are direct obligations of the United States, issued under chapter 31 of title 31 of the United States Code. The securities are subject to the terms and conditions set forth in this part, as well as the regulations governing book-entry Treasury bills, notes, and bonds (31 CFR part 357) and the offering announcements, all to the extent applicable. * * *

11. Section 356.11 is amended by revising the first sentence of paragraph (a)(2) to read as follows:

§ 356.11 Submission of bids.

(a) * * *

(2) If the awarded securities are to be issued in TRADES, a submitter must have on file at a Federal Reserve Bank a certificate listing those persons who are authorized to submit tenders on its behalf. * * *

12. Section 356.17(b) is revised to read as follows:

§ 356.17 Responsibility for payment.

* * *

(b) *TRADES*. For securities held in TRADES, payment of the par amount and announced accrued interest, if any, must be submitted with the tender unless provision has been made for payment by charge to the funds account of a depository institution. * * *

13. Section 356.31 is amended by revising the first sentences of both paragraphs (a) and (c) and all of paragraph (d) to read as follows:

§ 356.31 STRIPS.

(a) *General*. A note or bond may be designated in the offering announcement as eligible for the STRIPS program. At the option of the holder, and generally at any time from its issue date until its call or maturity, any such security may be "stripped" i.e., divided into separate principal and interest components maintained in TRADES. * * *

(c) *Reconstituting a security*. Stripped interest and principal components may be reconstituted, i.e. restored to their fully constituted form, and maintained in TRADES. * * *

(d) *Applicable regulations.* Unless otherwise provided in this part, notes and bonds stripped into their STRIPS components are governed by subparts A, B and D of part 357 of this chapter.

**PART 358—REGULATIONS
GOVERNING CUBES (COUPONS
UNDER BOOK-ENTRY SAFEKEEPING)**

14. The authority citation for part 358 continues to read as follows:

Authority: 31 U.S.C. chapter 31; 12 U.S.C. 391.

15. Section 358.3 is revised to read as follows:

§ 358.3 Governing regulations.

CUBES are deemed to be securities for purposes of subparts A, B, and D of part 357 of this chapter.

Dated: August 16, 1996.

Gerald Murphy,

Fiscal Assistant Secretary.

[FR Doc. 96-21488 Filed 8-20-96; 1:29 pm]

BILLING CODE 4810-39-P