

**DEPARTMENT OF THE TREASURY****Fiscal Service****31 CFR Part 357****Regulations Governing Book-Entry Treasury Bonds, Notes and Bills**

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

**ACTION:** Final rule.

**SUMMARY:** The Department of the Treasury (Department or Treasury) is issuing in final form an amendment to its regulations governing book-entry Treasury Bonds, Notes and Bills which will offer investors holding marketable securities within the TREASURY DIRECT system the option of having Treasury, through a designated Federal Reserve Bank, acting as fiscal agent of the United States, sell such securities in the secondary market. Previously, if investors needed or wanted to sell their Treasury securities, they were required to first transfer their securities from their TREASURY DIRECT accounts to accounts with financial institutions or broker-dealers within TRADES, the commercial book-entry system. Investors who did not already have broker-dealer accounts established were required to first establish such accounts for the transaction. The new service will benefit such investors by providing them with the option of having the designated Federal Reserve Bank sell the securities and transmit the settlement amounts to the investors.

**EFFECTIVE DATE:** September 4, 1997.

**FOR FURTHER INFORMATION CONTACT:** Richard Koch, Director, Division of Customer Service, Bureau of the Public Debt (304) 480-6748; Susan Klimas, Attorney-Adviser, Office of the Chief Counsel, Bureau of the Public Debt (304) 480-5192; Edward C. Gronseth, Deputy Chief Counsel, Office of the Chief Counsel, Bureau of the Public Debt (304) 480-5192.

**SUPPLEMENTARY INFORMATION:** This final rule amends the general regulations governing book-entry Treasury Bonds, Notes and Bills to offer TREASURY DIRECT investors the service of selling their unmatured marketable securities in the secondary market. At the request of the investor, the securities will be transferred to the designated Federal Reserve Bank, acting as fiscal agent of the United States, to be sold on behalf of the investor. This will enhance customer service to TREASURY DIRECT investors who do not already have an account established with a financial institution or broker-dealer and who wish to liquidate some or all of their

securities. In addition, legal representatives and heirs of a decedent with securities held in TREASURY DIRECT who may wish to sell the securities would not have the added burden of establishing a broker-dealer account.

Investors wishing to use the new service will authorize Treasury to transfer their securities to the designated Federal Reserve Bank to be sold on their behalf. Once all evidence which may be required to support such a transfer is received and approved, the securities will be transferred to the Federal Reserve Bank. Generally, on the same day that the Federal Reserve Bank receives the securities, the Federal Reserve Bank will make a reasonable effort to obtain three price quotes from dealers and will enter into an agreement to sell the securities to the dealer with the highest price quote for next day settlement. The day that the agreement to sell the securities is entered into is referred to as the trade date. If the Federal Reserve Bank is unable to obtain at least one price quote for the security, the security will be returned to the TREASURY DIRECT account of the investor on the next full business day following the receipt of the securities by the Federal Reserve Bank, and the investor will be notified. On the next full business day after the trade date, the settlement amount will be released electronically by the Federal Reserve Bank to the account at the financial institution which the investor has previously designated to receive TREASURY DIRECT payments. The electronic payments will be by the Automated Clearing House method, as provided in this part. A confirmation will be sent to the investor by the Federal Reserve Bank upon the completion of the transaction. Because the Federal Reserve Bank enters into an agreement to sell the securities on the same day that it receives the securities, the authorization of the investor for the transfer and sale of the securities becomes irrevocable when the transfer from the TREASURY DIRECT account of the owner to the Federal Reserve Bank is made.

The customer agrees to accept the price received by the Federal Reserve Bank from the dealer selected as having the highest price quote. The Department and the Federal Reserve Bank are not liable for changes in market conditions which may affect the price received by the investor, or any loss which the investor may incur as a result of the transaction or the failure of the Federal Reserve Bank to complete the transaction. The settlement amount, also referred to as the net amount on the

confirmation, may be less than the par amount of the security. Such settlement amount is derived by taking the par amount of the security (that is, the stated value of the security at original issuance), multiplying that amount by the price, adding any interest which may have accrued, and subtracting the transaction fee. For inflation indexed securities, the settlement amount will also include any applicable inflation adjustment, as provided in 31 CFR part 356.

A transaction fee will be charged for each security sold on behalf of the investor. For purposes of computing the transaction fee, a security is considered as any amount within a TREASURY DIRECT account which is identified by a separate CUSIP number. Thus, if an investor has several holdings within a TREASURY DIRECT account of varying amounts, but all are identified by the same CUSIP number, and all are transferred in one transaction, only one transaction fee will be charged, since the holdings are considered as one security. If the investor has several holdings within a TREASURY DIRECT account, each with a different CUSIP number, then a separate transaction fee will be charged for each holding, as each holding with a separate CUSIP number is considered a separate security. If an investor has two TREASURY DIRECT accounts, and each account has a security with a CUSIP identical to the security in the other account, then two transaction fees will be charged, since each security within each account is considered a separate security. If the Federal Reserve Bank is unable to complete the sale of the security, no transaction fee will be charged. The transaction fee will be deducted prior to the Federal Reserve Bank initiating the payment of the settlement amount to the investor's account at the financial institution designated to receive TREASURY DIRECT payments. The amount of the transaction fee will be published by notice in the **Federal Register**.

The Department has reserved the right to terminate the service at any time at its discretion without prior notice.

The TREASURY DIRECT rules found in subpart C of this part apply to the transaction, rather than the TRADES rules found in subpart B.

Several definitions have been added to the part to further clarify the process.

**Procedural Requirements**

It has been determined that this final rule does not meet the criteria for a "significant regulatory action," as defined in Executive Order 12866. Therefore, the regulatory review

procedures contained therein do not apply.

This final rule relates to matters of public contract and procedures for U.S. securities. Accordingly, pursuant to 5 U.S.C. 553(a)(2), the notice, public comment and delayed effective date provisions of the Administrative Procedure Act do not apply. 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 new collections of information contained in this final rule, therefore, the Paperwork Reduction Act (44 U.S.C. 3507) does not apply.

**List of Subjects in 31 CFR Part 357**

Banks, Banking, Bonds, Federal Reserve System, Government securities.

Dated: August 20, 1997.

**Gerald Murphy,**

*Fiscal Assistant Secretary.*

For the reasons set out in the preamble, 31 CFR part 357 is amended as follows:

**PART 357—GENERAL REGULATIONS GOVERNING BOOK-ENTRY TREASURY BONDS, NOTES AND BILLS**

1. The authority citation for part 357 continues to read as follows:

**Authority:** 31 U.S.C. Chapter 31, 5 U.S.C. 301 and 12 U.S.C. 391.

2. Section 357.22 is amended by redesignating paragraphs (b) through (e) as (c) through (f), respectively, and adding a new paragraph (b), as follows:

**§ 357.22 Transfers.**

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(b) *Transfer to Federal Reserve Bank for sale of securities in the secondary market.*

(1) Upon authorization by the investor, an unmatured security may be transferred to a Federal Reserve Bank acting as the designated fiscal agent of the United States, to be sold on behalf of the investor.

(2) *Definitions.* In this section, unless the context indicates otherwise:

*Dealer* means an entity that is registered or has given notice of its status as a government securities broker or government securities dealer, pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934.

*Par amount* means the stated value of a security at original issuance.

*Price* means the dollar amount to be paid for a security expressed as a percent of its current par amount.

*Security* means any amount held in a TREASURY DIRECT account which is

represented by a separate CUSIP number.

*Settlement amount*, also referred to as net amount, is the amount deposited by the Federal Reserve Bank to the account of the investor at the financial institution designated by the investor to receive TREASURY DIRECT payments. This amount is equal to the par amount of the securities multiplied by the price, plus any accrued interest, and less the transaction fee. For inflation indexed securities, the settlement amount also includes any applicable inflation adjustment, as provided in 31 CFR Part 356. The settlement amount may be less than the par amount of the security.

*Settlement date* is the date the settlement amount is released to the account at the financial institution designated by the investor for receipt of TREASURY DIRECT payments.

*Trade date* means the date on which the Federal Reserve Bank enters into an agreement with a dealer for the sale of the security.

*Yield*, also referred to as yield to maturity, means the annualized rate of return to maturity on a fixed principal security expressed as a percentage. For an inflation-indexed security, yield means real yield, as defined in 31 CFR part 356.

(3) *Procedure.* On an approved Treasury form, the owner must authorize a transfer of the security from the investor's TREASURY DIRECT account to the designated Federal Reserve Bank, and authorize the Federal Reserve Bank to sell the security. Rules in subpart C of this part governing the transfer of securities will apply to the transfer of the security to the Federal Reserve Bank. Generally, on the day that the security is transferred to the Federal Reserve Bank, the Federal Reserve Bank will make reasonable efforts to obtain a price quote from at least three dealers, and will enter into an agreement to sell the security to the dealer with the highest price quote for next day settlement. What constitutes reasonable effort shall be determined solely by the Federal Reserve Bank. On the next full business day after the trade date, the settlement amount shall be released by direct deposit (electronic funds transfer), as provided in § 357.26 of this part, to the account at the financial institution designated by the investor to accept TREASURY DIRECT payments, except when the Department determines that extraordinary circumstances exist that require payment by other means. In the event that the Federal Reserve Bank is unable to obtain at least one price quote for the security, the security will be returned to the TREASURY DIRECT account of the investor on the next full

business day following the receipt of the securities by the Federal Reserve Bank, and the Federal Reserve Bank will notify the investor.

(4) *Confirmation.* The Federal Reserve Bank will send a confirmation of the sale to the investor upon completion of the transaction. Such confirmation will include such information as price, trade date, settlement date, settlement amount, also referred to as net amount, transaction fee, and yield to maturity.

(5) *Price.* By authorizing the transfer and sale of the securities, the investor agrees to accept the price received by the Federal Reserve Bank from the dealer selected as having the highest price quote.

(6) *Transaction Fee.* A transaction fee shall be charged for each security sold on behalf of the investor. If the Federal Reserve Bank is unable to complete the sale of the security, no fee will be charged. By authorizing the sale of the security, the investor authorizes the Federal Reserve Bank to withhold the transaction fee prior to the Federal Reserve Bank initiating the payment of the settlement amount to the account at the financial institution designated by the investor to receive TREASURY DIRECT payments. The amount of the transaction fee will be published by notice in the **Federal Register**.

(7) *Termination.* This service may be terminated at anytime without prior notice at the discretion of the Department.

(8) *Rights.* The provisions applicable to TREASURY DIRECT transactions in subpart C shall apply to this section. The provisions applicable to transactions in TRADES in subpart B shall not apply to this section.

(9) *Irrevocability.* The authorization of the investor for the transfer and sale of the securities shall be irrevocable when the transfer from the TREASURY DIRECT account of the investor to the account at the Federal Reserve Bank is effected.

(10) *Liability.* The Department and the designated Federal Reserve Bank shall not be liable for changes in market conditions affecting the price received for the security, or for any loss which the investor may incur as a result of the transaction or the inability of the Federal Reserve Bank to complete the transaction.

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