

DEPARTMENT OF THE TREASURY**Fiscal Service****31 CFR Part 344**

[Department of the Treasury Circular, Public Debt Series No. 3-72]

U.S. Treasury Securities—State and Local Government Series

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

ACTION: Interim rule with request for comments.

SUMMARY: State and Local Government Series (SLGS) securities are offered to provide issuers of tax exempt securities with investments from any amounts that constitute gross proceeds of an issue, or assist in complying with applicable provisions of the Internal Revenue Code relating to the tax exemption.

We're publishing an interim rule amending the rules to allow you to submit SLGS subscriptions over the Internet to the Division of Special Investments (DSI), Bureau of the Public Debt (Public Debt), Department of the Treasury (Treasury).

Under the Government Paperwork Elimination Act (GPEA), executive agencies must generally provide, where practicable, for the optional use and acceptance of electronic documents, record keeping and signatures by October 2003.

We are implementing the GPEA by offering SLGSafeSM, a secure site where Internet customers can submit subscriptions, change account information, and redeem securities.

We've also rewritten this part in plain language.

DATES: Effective September 13, 2000. To be considered, comments must be received on or before November 13, 2000.

ADDRESSES: You can download this interim rule at the following World Wide Web address: <<http://www.publicdebt.treas.gov>>. You may also inspect and copy this interim rule at: Treasury Department Library, Room 1428, Main Treasury Building, 1500 Pennsylvania Ave., NW., Washington, DC 20220. Before visiting the library, you must call (202) 622-0990 for an appointment.

Submit comments to Howard Stevens, Director, Division of Special Investments, Bureau of the Public Debt, Department of the Treasury, 200 3rd St., P.O. Box 396, Parkersburg, WV 26101-0396 or by e-mail at:

<osas_dsi@bpd.treas.gov>. See

SUPPLEMENTARY INFORMATION for other

information about electronic filing of comments.

FOR FURTHER INFORMATION CONTACT:

Technical information: Howard Stevens, Director, Division of Special Investments, Bureau of the Public Debt, 200 3rd St., P.O. Box 396, Parkersburg, WV 26106-0396, (304) 480-7752, <www.publicdebt.treas.gov/spe/spe.htm> or <osas_dsi@bpd.treas.gov>.

Legal information: Edward C. Gronseth, Deputy Chief Counsel, Office of the Chief Counsel, Bureau of the Public Debt, at (304) 480-3692, <egronset@bpd.treas.gov> or Elizabeth S. Gracia, Attorney-Adviser, Office of the Chief Counsel, Bureau of the Public Debt, at (304) 480-3692, <lgracia@bpd.treas.gov>.

SUPPLEMENTARY INFORMATION:**I. Electronic Access and Filing of Comments**

You may submit comments by sending electronic mail to: <osas_dsi@bpd.treas.gov>. Please identify the e-mail by the **Federal Register** citation and provide your full name and mailing address. Submitted comments will be available for public inspection and copying at DSI and the Treasury Library. Comment letters may be downloaded from <<http://www.publicdebt.treas.gov>>.

II. Background

This interim rule implements the last of a three-step process designed to improve the SLGS program. First, we centralized processing of SLGS securities in the Division of Special Investments (DSI), Bureau of the Public Debt (Public Debt), Department of the Treasury (Treasury). We published a final rule accomplishing the consolidation in the **Federal Register**, 60 FR 4502, Jan. 23, 1995.

Second, we made SLGS more attractive to State and local government issuers of debt obligations. After soliciting comments from market participants in an Advanced Notice of Proposed Rulemaking, **Federal Register**, 61 FR 19002, April 30, 1996, we published the enhancements in the **Federal Register**, 61 FR 55690, Oct. 28, 1996.

The third phase, the ability to file electronic subscriptions, was announced in a Proposed Rule published in the **Federal Register**, 61 FR 39228, 39230, Jul. 26, 1996. This interim rule fulfills the requirement under the Government Paperwork Elimination Act (GPEA), Sec. 1701-1710, Pub. L. 105-277, 112 Stat. 2681-749 to 2681-751 (44 U.S.C. 3504 note), that Executive agencies provide for the option of

electronic submissions instead of paper. Specifically, the interim rule gives you the option of subscribing for SLGS securities electronically over the Internet through SLGSafeSM.

SLGSafeSM is the secure site where Internet customers can submit subscriptions, change account information, and redeem securities. As further described in the SLGSafeSM Internet User's Guide, owners and trustees can redeem, review, and inquire about their SLGS security holdings by using SLGSafeSM. SLGSafeSM also reduces processing time and simplifies the subscription procedure by eliminating the time-consuming paperwork required to manually complete and submit subscription forms. A major benefit is the enhanced retrieval of electronically stored information. You can view, download, and print reports from your SLGS securities portfolio. For example, SLGSafeSM will provide a variety of reports, such as Future Payments by Date, Statement of Accounts and Statement of Holdings.

Before you submit transactions through SLGSafeSM, we must approve your SLGSafeSM Application for Internet Access. The Secretary of the Treasury (the Secretary) has the sole discretion to approve applications and to prioritize the enrollment of customers in SLGSafeSM. We will contact SLGS securities customers to schedule a commencement date for SLGSafeSM use. Scheduling will aim to meet our goal of completing 50% of SLGS securities transactions electronically by September 2000, 85% by September 2001, and 100% by September 2002.

If your SLGSafeSM Application is approved, each user that you designate will receive a digital certificate and an authorization code in order to access SLGSafeSM. Designated individuals can submit subscriptions signed with an electronic signature over the Internet. SLGSafeSM transactions constitute electronic messages that are governed by this part and 31 CFR part 370.

This interim rule does not eliminate paper subscriptions. Non-Internet subscriptions may be sent to us by various methods: fax, carrier service, U.S. Postal Service (certified or registered mail), or other means. Non-Internet customers will receive transaction confirmations by fax only if requested. However, if you take advantage of Internet delivery through SLGSafeSM, you will receive automatic confirmations of activity.

The Summary of Amendments made in this interim rule, located in Section III, lists the amendments by section. Many of the amendments are plain

language clarifications that do not substantively change 31 CFR part 344, Jul. 1, 1999. Amendments worth highlighting because of their substantive impact have been noted.

We request your comments on SLGSafeSM. The ability to accept, process and distribute subscription information electronically was developed in response to our mutual need to manage book-entry holdings. We welcome your input on the

functionality of SLGSafeSM, including the application process, the electronic submission of data and the reporting capabilities.

Executive Order 12866 and the President's memorandum of June 1, 1998, require us to write this interim rule in plain language. We invite your comments on how we can make the final rule easier to understand.

III. Summary of Amendments in Part 344

All of the operating rules in the offering apply to electronic and paper transactions alike except for § 344.3, which applies exclusively to SLGSafeSM transactions. The ability to conduct electronic transactions in SLGSafeSM is the most significant revision. For ease of reference, we've summarized other important changes from 31 CFR part 344, Jul. 1, 1999, in the following tables:

SUBPART A—GENERAL INFORMATION

Interim rule CFR sec.	Jul. 1, 1999 CFR sec.	Summary of change
344.0	344.0	We amended the section headings of the offering to be consistent with our regulations that have been rewritten in plain language.
344.0(b)	344.10	We provided a complete list of the types of SLGS securities currently outstanding. We added a reference to the date that special zero interest securities were discontinued.
344.0(c)(1)	344.0(c)	We clarified that the denominations for time deposit securities are issued in any whole dollar amount instead of in increments of not less than \$1.00. This is not a substantive change.
344.1	344.0(b), 344.1(k), 344.5(a)(3) (ii), (a) (4)(ii).	We consolidated the terms used in this part into one section. To explain the interaction between the "current Treasury borrowing rate" and the "SLGS rate," we revised the definition of "current Treasury borrowing rate" and added a definition for "SLGS rate." "Current Treasury borrowing rate" is redefined to mean "the prevailing market rate, as determined by Treasury, for a Treasury security with the specified period to maturity" instead of the applicable rate shown in the SLGS rate table for the day we receive your request for early redemption, plus five basis points. "SLGS rate" means "the current Treasury borrowing rate on the day we receive your subscription, less 5 basis points, as released daily by Treasury in a SLGS rate table." We added a definition for "SLGS rate table." The synonymous terms "issuer" and "government body" have been replaced with a definition for "issuer." We also added a definition for "we."
344.2(a) (2), (n)	344.1(a), (g), (i) (2), 344.2(c) (1)–(2), 344.3(b)(3) (iv), 344.7(b).	As for other regulations that apply to SLGS securities, part 306 of this subchapter, "General Regulations that Apply to U.S. Treasury Securities," previously applied to this part to the extent applicable. Appendix to subpart E of part 306 of this subchapter is now specifically cross-referenced at § 344.2(a)(2). We deleted the cross-reference to the waiver of regulations set forth under § 306.126 of this subchapter and added a waiver subsection at § 344.2(n) of this part. The applicable payment provisions were consolidated in 31 CFR § 344.2(j) and 31 CFR part 370. Hence, payments are no longer subject to the payment provisions of § 357 of this subchapter. Since the incorporated regulations easily are obtainable in public libraries and on the Internet, we deleted the option of writing to us to obtain a copy.
344.2(e)	344.1(e)	We deleted the requirement that an agent, other than a commercial bank, must submit evidence of its authority to act for the issuer. However, DSI still may request evidence of such authority.
344.2(f)(3) (i)–(v)	344.1(f)	We issued a Final Rule, 62 FR 46444, Sept. 3, 1997, clarifying that SLGS securities may not be used as cost-free interest hedge or option for speculation in open market securities. The illustrations of permissible and impermissible transactions that were contained previously in the preamble of the Final Rule, 62 FR 46444–46445, are now included in § 344.2(f)(3)(i)–(v).

SUBPART A—GENERAL INFORMATION—Continued

Interim rule CFR sec.	Jul. 1, 1999 CFR sec.	Summary of change
344.2(g)	344.4(a), 344.8	We consolidated the payment instructions that you must use when subscribing for SLGS securities. Formerly, full payment by 3:00 p.m., Eastern time, was requested but not required, to ensure that settlement of the securities occurred on the issue date. We now compel full payment by 4:00 p.m., Eastern time, on the issue date. For convenience, we added a reference to Public Debt's American Bankers Association (ABA) Routing Number.
344.2(h)(2)	344.1(i) (2), 344.3(b)(3) (iv), 344.7(b).	Where settlement occurs after the proposed issue date, Treasury may determine that settlement is acceptable on an exception basis. If so, DSI will waive the six-month penalty and the issuer will be charged a late payment assessment. To avoid confusion, we eliminated the reference to "late payment fees." We clarified that the late payment assessment consists of accrued interest and a \$100 administrative charge per subscription. This is not a substantive change.
344.2(j)	344.2(c)(2)	Since the payment method in §344.2(j) governs all payments that we make under this part, we placed it under the general provisions section. We will make payments by ACH unless operational considerations require alternate payment procedures. Previously, redemptions before maturity were made by Fedwire.
344.2(k)	344.3(a), (b)(1), (b)(3), (c), 344.5(a) (2), 344.7(a), 344.9(b), 344.11(b).	We consolidated references to DSI's address and fax number into one paragraph. Only non-Internet customers submit paper SLGS securities transactions to DSI's business address. Unlike Internet customers who automatically receive an electronic confirmation of receipt, under this new paragraph Non-Internet customers will not receive a confirmation of receipt for transactions unless requested.
344.2(l)	344.1(h)	During a debt limit contingency, we may change or suspend the terms and conditions of the offering, including provisions relating to redemptions. Used in this context, "redemptions" is not intended to refer to matured securities which under §344.2(j) we are obligated to pay the principal amount and interest due. We clarified that only "early" redemptions and not payment on redeemed, matured securities are affected during a debt limit contingency.
344.2(m) (1)–(2)	344.3(b)(3) (iv), 344.7(b)	We consolidated in §344.2(m) the references to Treasury's right to reject untimely changes in subscriptions. We amended §344.2(m)(1) to add a new provision giving Treasury the right to reject any SLGSafe SM Application. In §344.2(m)(2), we clarified that the right to reject transaction requests includes electronic and paper submissions.
344.2(n)	344.1(g), (i)(2), 344.3(b)(3) (iv), 344.7(b).	We added a new paragraph that allows Treasury to waive the provisions of this part. Previously, this authority was incorporated into this part by referencing 31 CFR 306.126, "Waiver of Regulations." This is not a substantive change.

SLGSafeSM

Interim rule CFR sec.	Summary of change
344.3(a)	We added a new section describing SLGSafe SM which allows transactions to be processed over the Internet.
344.3(b)	This new paragraph provides that SLGSafe SM access will be available after we approve your SLGSafe SM Application.
344.3(c)	This new paragraph provides that you can find special terms and conditions relating to SLGSafe SM in the SLGSafe SM Application, SLGSafe SM User Acknowledgment, Public Debt's Certificate Practice Statement, and the SLGSafe SM Internet User's Guide.
344.3(d)	This new paragraph informs that there are five roles that can apply for SLGSafe SM access: owner, trustee, receiving depository financial institution, subscriber, and viewer.
344.3(e)	This new paragraph specifies that your role with regard to each SLGS security determines what functions you can perform in SLGSafe SM . The User's Guide contains a description of each role and its capabilities.

SLGSafeSM—Continued

Interim rule CFR sec.	Summary of change
344.3(f)	Before performing any functions, you must apply for access to SLGSafe SM by following the steps in this new paragraph.
344.3(g)	This new paragraph explains that the Secretary has the sole discretion to approve SLGSafe SM Applications. After your SLGSafe SM Application is approved, the users that you authorized on the SLGSafe SM Application to submit transactions on your behalf will receive a digital certificate and an authorization code. Upon approval of the application, your existing portfolio of securities will be accessed through SLGSafe SM .
344.3(h)	All authorized users must agree to the conditions of use in this new paragraph.
344.3(i)	This new paragraph explains that Internet customers submit transactions to the designated Internet address. Internet customers will receive automatic confirmations of SLGSafe SM transactions. The electronic confirmation shows the date and time that the electronic message you sent was processed by Public Debt's Application server.

SUBPART B—TIME DEPOSIT SECURITIES

Interim rule CFR sec.	Jul. 1, 1999 CFR sec.	Summary of change
344.4(b)(2)	344.2(b)	We added a new sentence in § 344.4(b)(2) on the applicability of the SLGS rate table to SLGSafe SM subscriptions. Under § 344.3(i), we explain that Public Debt's Application server determines when we receive all electronic messages sent via the Internet. If you are an Internet customer, you can verify that you locked in a particular SLGS rate by reviewing the automatic confirmation notice. It shows the date and time Public Debt's Application server received your electronic message.
344.4(b)(3) (i)-(ii)	344.2(b) (1), (b)(2)	The applicable SLGS rate table is available either on the Internet or by telephoning DSI. We deleted the reference to posting the rate table on Commerce Department's Economic Bulletin Board. We've discontinued providing the rate table on an automated fax.
344.4(c)	344.2(c)(1)	We clarified that the first interest payment date must be at least thirty days but less than or equal to one year from the issue date. This is not a substantive change.
344.5(a)	344.3(b) (1), (b)(3), 344.3(c)	For non-Internet customers, we eliminated the requirement that a faxed initial subscription, amendment or final subscription be followed by a mailed original subscription or amendment.
344.5(b)(2)	344.3(b)(1)	We named the electronic and paper Treasury forms used to send initial time deposit subscriptions.
344.5(c)(1)	344.3(c)	We named the electronic and paper time deposit Treasury forms used to send final subscriptions. We eliminated the requirement that a final subscription state the title of the designated official(s) authorized to request early redemption.
344.5(c)(2) (vi)	344.3(c)	Although the prohibition against payment of a final subscription with proceeds of early redeemed SLGS securities subscribed on or before December 27, 1976, remains, the requirement that a subscriber submit a statement about the proceeds in the final time deposit subscription is removed.
344.5(c)(3)	We added a new provision to clarify that changes to final subscriptions are allowed before issuance of the SLGS securities. Changes to final subscriptions are made in the same manner as changes to initial subscriptions under § 344.5(b)(4)(i)-(iv). This is not a substantive change.
	344.3(b)(2)	We eliminated this paragraph as repetitious because the provisions set out in § 344.2(e), dealing with the authority of the subscriber to act on behalf of the issuer, and in § 344.2(h), relating to the penalty for failure to complete a subscription, are located in the general provisions section of this part which applies to initial and final subscriptions.

SUBPART B—TIME DEPOSIT SECURITIES—Continued

Interim rule CFR sec.	Jul. 1, 1999 CFR sec.	Summary of change
344.6(a)(1)	344.5(a)(1)	A 15-day zero percent certificate of indebtedness is ineligible for early redemption. You may redeem a zero percent certificate of indebtedness with a maturity of 16 to 29 days no earlier than fifteen days after the issue date (instead of fifteen days before the scheduled maturity date as formerly required).
344.6(b)	344.5(a)(1)	Partial redemptions of time deposit SLGS securities previously accepted in any amount can now only be requested in whole dollar increments. The requirement that a security balance of less than \$1,000 must be redeemed in total has not changed.
344.6(c)	344.5(a)(2)	We clarified that notices of early redemption of time deposit SLGS securities must be submitted electronically or in paper form. We deleted the requirement that the official providing notice be named on the final subscription form. However, the requirement that notice be provided by an authorized official remains.
344.6(e)(2)	344.5(a)(4) (ii)	We amended the next to last sentence in §344.6(e)(2) pertaining to the applicable interest rate that applies when redemption is requested on a date less than thirty days before the original maturity date. For greater accuracy, this sentence is amended to reflect that the rate is that of a one month security as listed on the SLGS rate table issued on the day redemption is requested (and not the rate shown for a security with a maturity of thirty days as formerly stated.) Also, for certificates of indebtedness subscribed from September 1, 1989, through October 27, 1996, we deleted the instructions for determining the market charge since all certificates of indebtedness issued during this time frame have matured.
344.6(g)(1)	344.5(a)(6) (i)	Since certificates of indebtedness and notes subscribed for on or before December 27, 1976, have matured, we deleted the instructions for calculating the adjusted interest rate for these securities.

SUBPART C—DEMAND DEPOSIT SECURITIES

Interim rule CFR sec.	Jul. 1, 1999 CFR sec.	Summary of change
344.8(b)(1)	344.7(a)	We named the electronic and paper Treasury forms used to send demand deposit subscriptions.
344.8(b)(3), 344.9(c)	344.7(b)	Changes to subscriptions and notices of redemption are now due at DSI by 3:00 p.m., Eastern time instead of 1:00 p.m., Eastern time.
344.9(c)	344.9(b)	We named the electronic and paper Treasury forms used to make a notice of redemption of demand deposit SLGS securities. We deleted the requirement that the official providing notice be named on the final subscription form. However, the requirement that notice be provided by an authorized official remains. For consistency with the cancellation provision at §344.6(c) for time deposit and special zero interest securities, we added a requirement that notices of redemption for demand deposit securities cannot be canceled.

SUBPART D—SPECIAL ZERO INTEREST SECURITIES

Interim rule CFR sec.	Jul. 1, 1999 CFR sec.	Summary of change
344.6(a), 344.11	344.5(a)(1), 344.11(a)	Section 344.11 corrects an internal inconsistency between former 31 CFR 344.5(a)(1) and 344.11(a). To determine how long a special zero interest note must be held, §344.11 now refers to §344.6(a). Section 344.6(a)(3) provides that a note can be redeemed at the owner's option no earlier than 30 days (instead of one year as stated in former §344.11(a)) after the issue date.

APPENDICES TO PART 344

Interim rule CFR sec.	Jul. 1, 1999 CFR sec.	Summary of change
Appendix A	Appendix A	The text of Appendix A provides early redemption market charge formulas and examples for subscriptions from December 28, 1976, through October 27, 1996. We corrected the heading of Appendix A by deleting the former reference to September 1, 1989, and inserting December 28, 1976.
Appendices A, B	Appendices A, B	We corrected a typographical error by substituting "a _n " with "a _n " in section (a) of Appendices A and B.

IV. Procedural Requirements

A. Executive Order 12866

This interim rule is not a significant regulatory action as defined in Executive Order 12866, dated September 30, 1993, and is not a major rule under 5 U.S.C. 804. Therefore, an assessment of anticipated benefits, costs, and regulatory alternatives is not required.

B. Regulatory Flexibility Act

This interim rule relates to matters of public contract and procedures for United States securities. The notice and public procedures requirements of the Administrative Procedure Act, 5 U.S.C. 553(a)(2), are inapplicable. Since a notice of proposed rulemaking is not required, the provisions of the Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.*, do not apply.

C. Paperwork Reduction Act

This interim rule does not alter the collection of information previously reviewed and approved by the Office of Management and Budget, under the requirements of the Paperwork Reduction Act, 44 U.S.C. 3507, under control number 1535-0091.

D. Determination to Issue an Interim Rule

Because this interim rule relates to matters of public contract and procedures for United States securities, a Notice of Proposed Rulemaking (NPRM) is not required by 5 U.S.C. 553. In addition, we find under 5 U.S.C. 553(b)(B) that there is good cause why a NPRM is unnecessary and contrary to the public interest. First, the electronic subscription feature was announced in a Proposed Rule published in the **Federal Register** 61 FR 39228, 39230, Jul. 26, 1996. Second, the SLGSafeSM database system requires us to perform

research on existing SLGS securities portfolios to prepare the data for use in SLGSafeSM. Therefore, the Secretary will prioritize the approval of SLGSafeSM Applications and the enrollment of customers based on this operational need. Third, this interim rule includes an opportunity for written comments. We would also like to take the opportunity provided by the interim rule to request comments specifically on whether the interim rule is written in plain language.

We find under 5 U.S.C. 553(d)(3) good cause for making the interim rule effective immediately because of our plan to enroll customers by staggering the approval of SLGSafeSM Applications in order to meet our goal of having 100% SLGSafeSM transactions by September 2002. Furthermore, it will not require an increase in cost or administrative burden. Lastly, it will allow us to provide improved services to our customers. After reviewing public comments, we will issue a final rule.

List of Subjects in 31 CFR Part 344

Bonds, Government securities, Securities.

For the reasons set forth in the preamble, we revise 31 CFR part 344 to read as follows:

PART 344—U.S. TREASURY SECURITIES—STATE AND LOCAL GOVERNMENT SERIES

Subpart A—General Information

- Sec.
- 344.0 What does this part cover?
- 344.1 What special terms do I need to know to understand this part?
- 344.2 What general provisions apply to SLGS securities?
- SLGSafeSM
- 344.3 What special provisions apply to SLGSafeSM Internet transactions?

Subpart B—Time Deposit Securities

- 344.4 What are Time Deposit securities?
- 344.5 How do I subscribe for Time Deposit securities?
- 344.6 How do I redeem a Time Deposit security before maturity?

Subpart C—Demand Deposit Securities

- 344.7 What are Demand Deposit securities?
- 344.8 How do I subscribe for Demand Deposit securities?
- 344.9 How do I redeem a Demand Deposit security?

Subpart D—Special Zero Interest Securities

- 344.10 What are Special Zero Interest securities?
- 344.11 How do I redeem a Special Zero Interest security before maturity?

Appendix A to Part 344—Early Redemption Market Charge Formulas and Examples for Subscriptions From December 28, 1976, Through October 27, 1996

Appendix B to Part 344—Formula for Determining Redemption Value for Securities Subscribed for and Early-Redeemed On or After October 28, 1996

Authority: 26 U.S.C. 141 note; 31 U.S.C. 3102.

Subpart A—General Information

§ 344.0 What does this part cover?

(a) *What is the purpose of the SLGS securities offering?* The Secretary of the Treasury (the Secretary) offers for sale State and Local Government Series (SLGS) securities to provide issuers of tax exempt securities with investments from any amounts that:

- (1) Constitute gross proceeds of an issue; or
- (2) Assist in complying with applicable provisions of the Internal Revenue Code relating to the tax exemption.

(b) *What types of SLGS securities are governed by this part?* This part governs the following SLGS securities:

SLGS securities	United States Treasury certificates of indebtedness	United States Treasury notes	United States Treasury bonds
(1) Time Deposit	X	X	X

SLGS securities	United States Treasury certificates of indebtedness	United States Treasury notes	United States Treasury bonds
(2) Demand Deposit	X
(3) Special Zero Interest (Discontinued offering on October 28, 1996)	X	X

(c) *In what denominations are SLGS securities issued?* SLGS securities are issued in the following denominations:

- (1) *Time deposit securities*—a minimum amount of \$1,000, or in any larger whole dollar amount; and
- (2) *Demand deposit securities*—a minimum amount of \$1,000, or in any larger amount, in any increment.
- (d) *For how long is the offering in effect?* The offering continues until terminated by the Secretary.

§ 344.1 What special terms do I need to know to understand this part?

As appropriate, the definitions of terms used in this part are those found in the relevant portions of the Internal Revenue Code and the Income tax regulations.

Business Day(s) means Federal business day(s).

Current Treasury borrowing rate means the prevailing market rate, as determined by Treasury, for a Treasury security with the specified period to maturity.

Day(s) means calendar day(s).

Issuer refers to the Government body that issues State or local government bonds described in section 103 of the Internal Revenue Code.

Public Debt's website refers to <<http://www.publicdebt.treas.gov/spe/spe.htm>>.

SLGS rate means the current Treasury borrowing rate on the day we receive your subscription, less 5 basis points, as released daily by Treasury in a SLGS rate table.

SLGS rate table means a compilation of SLGS rates available for a given day.

“We,” “us,” or “the Secretary” refers to the Secretary and the Secretary’s delegates at the Department of the Treasury (Treasury), Bureau of the Public Debt (Public Debt), and Division of Special Investments (DSI). The term also extends to any fiscal or financial agent acting on behalf of the United States when designated to act by the Secretary or the Secretary’s delegates.

§ 344.2 What general provisions apply to SLGS securities?

(a) *What other regulations apply to SLGS securities?* SLGS securities are subject to:

- (1) The electronic transactions and funds transfers provisions for United

States securities, part 370 of this subchapter, “Electronic Transactions and Funds Transfers Related to U.S. Securities”, and

(2) The Appendix to subpart E to part 306 of this subchapter, for rules regarding computation of interest.

(b) *Where are SLGS securities held?* SLGS securities are issued in book-entry form on the books of the Department of the Treasury, Bureau of the Public Debt, Division of Special Investments, Parkersburg, WV.

(c) *Besides DSI, do any other entities administer SLGS securities?* The Secretary may designate selected Federal Reserve Banks and Branches, as fiscal agents of the United States, to perform services relating to SLGS securities.

(d) *Can SLGS securities be transferred?* No. SLGS securities held in an account of any one type, *i.e.*, time deposit, demand deposit, or special zero interest, cannot be transferred within that account, or to an account of any other type. Transfer of securities by sale, exchange, assignment, pledge, or otherwise is not permitted.

(e) *How does a bank or other agent certify its authority?* When a commercial bank or other agent submits an initial or final subscription on behalf of the issuer, it certifies that it is acting under the issuer’s specific authorization. Ordinarily, evidence of such authority is not required.

(f) *What transactions are not permitted?* The following is a nonexclusive list of impermissible transactions:

(1) It is impermissible to subscribe for SLGS securities for deposit in a defeasance escrow of fund if at any time between the close of business on the date of subscription and the close of business on the date of issue, the amount of SLGS securities subscribed for, plus the amount of any other securities already in such escrow or fund, plus the amount of other securities the issuer has acquired, or has the right to acquire for deposit in an escrow or fund, exceeds the total amount of securities needed to fund such escrow or fund.

(2) For paragraph (f)(1) of this section, do not include in the computation any securities held in the escrow or fund

that are not subject to an agreement conditioned on changes in the interest rate on open market Treasury securities on or before the issue date of the SLGS securities. An adjustment in the subscription amount under § 344.5(b)(4)(ii) will not in and of itself make the transaction impermissible.

(3) The following examples illustrate certain permissible and impermissible practices:

(i) In order to fund an escrow for an advance refunding, the issuer simultaneously enters into a purchase contract for open market securities and subscribes for SLGS securities, such that either purchase is sufficient to pay the cash flows on the outstanding bonds to be refunded but together, the purchases are greatly in excess of the amount necessary to pay the cash flows. The issuer plans that, if interest rates decline during the period between the date of subscribing for SLGS securities and the requested date of issuance of SLGS securities, the issuer will enter into an offsetting agreement to sell the open market securities and use the bond proceeds to purchase SLGS securities to fund the escrow. If, however, interest rates do not decline in that period, the issuer plans to use the bond proceeds to purchase the open market securities to fund the escrow and cancel the SLGS securities subscription. This arrangement in effect allows the SLGS program to provide a cost-free option to the issuer. This transaction is prohibited.

(ii) The existing escrow for an advance refunding contains open market securities which produce a negative arbitrage. In order to reduce or eliminate this negative arbitrage, the issuer subscribes for SLGS securities at a yield higher than the yield on the existing escrow, but less than the permitted yield. At the same time, the issuer agrees to sell the open market securities in the existing escrow to a third party and use the proceeds to purchase SLGS securities if interest rates decline between the date of subscribing for SLGS securities and the requested date of issuance of SLGS securities. The issuer and the third party further agree that if interest rates increase during this period, the issuer will cancel the SLGS securities

subscription. This arrangement in effect allows the SLGS program to provide a cost-free option to the issuer. This transaction is prohibited.

(iii) Under the same facts as in paragraph (f)(3)(ii) of this section, except that in this case, the agreement entered into by the issuer with a third party to sell the open market securities in order to obtain funds to purchase SLGS securities is not conditioned upon changes in interest rates on Treasury securities. No option is created. This transaction is permissible.

(iv) The issuer subscribes for SLGS securities fifteen days before the settlement date of its bonds at the maximum rates on such day, but the resulting yield in the escrow is less than the permitted yield. The rates on the SLGS securities rise over the next few days, and, within the time periods permitted for cancellation of a subscription under § 344.5(b)(1) and § 344.8(b)(2), the issuer cancels the earlier subscription and resubscribes at the higher rates. This transaction is permissible.

(v) The issuer holds a portfolio of open market securities in an account that produces negative arbitrage. In order to reduce or eliminate this negative arbitrage, the issuer subscribes for SLGS securities for purchase in sixty days. At the same time, the issuer sells an option to purchase the portfolio of open market securities. If interest rates increase, the holder of the option will not exercise its option and the issuer will cancel the SLGS securities subscription. On the other hand, if interest rates decline, the option holder will exercise the option and the issuer will use the proceeds to purchase SLGS securities. This arrangement uses the SLGS program to provide the issuer with a cost-free option. This transaction is prohibited.

(g) *When and how do I pay for SLGS securities?* You must submit full payment for each subscription to DSI by 4:00 p.m., Eastern time, on the issue date. Submit payments by the Fedwire funds transfer system with credit directed to the Treasury's General Account. For these transactions, Public Debt's ABA Routing Number is 051036476.

(h) *What happens if I do not settle on a subscription?* The penalty imposed for failure to make settlement on a subscription that you submit but do not timely cancel will be to render you ineligible to subscribe for SLGS securities for six months, beginning on the date the subscription is withdrawn or the proposed issue date, whichever occurs first.

(1) *Upon whom is the penalty imposed?* If you are the issuer, the penalty is imposed on you unless you provide the Taxpayer Identification Number of the conduit borrower that is the actual party failing to make settlement of a subscription. If you provide the Taxpayer Identification Number for the conduit borrower, the six-month penalty will be imposed on the conduit borrower.

(2) *What occurs if Treasury exercises the option to waive the penalty?* If you settle after the proposed issue date and we determine that settlement is acceptable on an exception basis, we will waive under § 344.2(n) the six-month penalty under paragraph (h) of this section. You shall be charged a late payment assessment. The late payment assessment equals the amount of interest that would have accrued on the SLGS securities from the proposed issue date to the date of settlement plus an administrative fee of \$100 per subscription. Late payment assessments are due on demand.

(i) *What happens at redemption?* Treasury cannot call a security for redemption before maturity. Upon the maturity of a security, we will pay the owner the principal amount and interest due. A security scheduled for maturity on a non-business day will be redeemed on the next business day.

(j) *How will I receive payment?* We will make payment by the Automated Clearing House (ACH) method for the owner's account at a financial institution as designated by the owner. We may use substitute payment procedures, instead of ACH, if we consider it to be necessary. Any such action is final.

(k) *If I am not an Internet customer, how do I submit transactions to DSI?* Non-Internet customers may submit transactions by fax at (304) 480-6818, or by carrier service, U.S. Postal Service (certified or registered mail), or other means, to the Bureau of the Public Debt, Division of Special Investments, 200 3rd St., P.O. Box 396, Parkersburg, WV 26106-0396. Unless requested, DSI will not send a confirmation of receipt to non-Internet customers.

(l) *Will the offering be changed during a debt limit contingency?* We reserve the right to change or suspend the terms and conditions of the offering, including provisions relating to subscriptions for, and issuance of, SLGS securities, interest payments, early redemptions, rollovers, and notices, at any time the Secretary determines that the issuance of obligations sufficient to conduct the orderly financing operations of the United States cannot be made without exceeding the statutory debt limit. We

will announce such changes by any means the Secretary deems appropriate.

(m) *What transaction requests are unacceptable?* A decision to reject an unacceptable transaction request is in our sole discretion and is final.

Although we may waive the right to reject transactions under § 344.2(n), Treasury reserves the right:

(1) To reject any SLGSafeSM Application for Internet Access;

(2) To reject any electronic or paper transaction request (including requests for subscription and redemption, and changes to subscriptions) that is unsigned, inappropriately completed, or untimely submitted;

(3) To refuse to issue any SLGS securities in any case or class of cases; and

(4) To revoke the issuance of any SLGS securities and to declare the subscriber ineligible thereafter to subscribe for securities under the offering if the Secretary deems that such action is in the public interest and any security is issued on the basis of an improper certification or other misrepresentation (other than as the result of an inadvertent error) or there is an impermissible transaction under § 344.2(f).

(n) *Are there any situations in which Treasury may waive these regulations?* We reserve the right, at our discretion, to waive or modify any provision of these regulations in any case or class of cases. We may do so if such action is not inconsistent with law and will not subject the United States to substantial expense or liability.

SLGSafeSM

§ 344.3 What special provisions apply to SLGSafeSM Internet transactions?

(a) *What is SLGSafeSM?* SLGSafeSM is a secure Internet site on the World Wide Web through which you can submit SLGS securities transactions. SLGSafeSM Internet transactions constitute electronic messages under 31 CFR part 370.

(b) *When can I subscribe using SLGSafeSM?* You will be able to submit SLGSafeSM transactions to DSI after we approve your SLGSafeSM Application under § 344.3(g).

(c) *What special terms and conditions apply to SLGSafeSM?* The following terms and conditions, which may change from time to time, apply to SLGSafeSM transactions and are downloadable from Public Debt's website:

(1) SLGSafeSM Application for Internet Access and SLGSafeSM User Acknowledgment;

(2) Public Debt's Certificate Practice Statement; and

(3) SLGSafeSM Internet User's Guide.
 (d) *Who can apply for SLGSafeSM access?* There are five roles in SLGSafeSM: owner, trustee, receiving depository financial institution, subscriber, and viewer. If you are an owner of SLGS securities or act as a trustee, receiving depository financial institution or subscriber, you can apply to DSI for authorization to send electronic messages through SLGSafeSM. If you are an owner or trustee, you can authorize your SLGS securities holdings to be accessed by any other viewer who applies for SLGSafeSM access.

(e) *What SLGSafeSM functions can I perform in each role?* The role that you play in SLGSafeSM shall determine the functions that you will be allowed to perform. An explanation of the roles and functions is outlined in the SLGSafeSM Internet User's Guide.

(f) *How do I apply for access to SLGSafeSM?* You must apply for SLGSafeSM access before performing any Internet functions. To apply for SLGSafeSM Internet access, you must:

(1) Submit to DSI a completed Treasury form, PD F 4144-5, SLGSafeSM Application for Internet Access;

(2) Appoint a SLGSafeSM Access Administrator and a backup administrator who certify that the information on the SLGSafeSM Application is accurate;

(3) Ensure only authorized users are reflected on the SLGSafeSM Application; and

(4) Await our written approval of your SLGSafeSM Application before you, or anyone acting on your behalf, uses an electronic connection to access any of

our services or to send any electronic messages.

(g) *How is my SLGSafeSM Application approved?* The Secretary has the sole discretion to determine the priority of approval of SLGSafeSM Applications. Upon receipt of your SLGSafeSM Application, we will review your SLGSafeSM Application and send to you either an approval or rejection notice. If we approve your SLGSafeSM Application, we will:

(1) Issue a digital certificate with an associated authorization code to each user you authorize on your approved application; and

(2) Provide access to your existing portfolio of SLGS securities, if any, to enable you to access the SLGS securities through SLGSafeSM.

(h) *What are the conditions of SLGSafeSM use?* If you are designated as an authorized user on a SLGSafeSM Application that we've approved, you must:

(1) Sign, and send to DSI, a User Acknowledgment regarding the use of the digital certificate and authorization code;

(2) Have and maintain the compatibility of your computer(s) and associated equipment and software so that you can send electronic messages and permit us to send an automatic confirmation receipt of each transaction, and any other information, to you on a timely basis throughout the day;

(3) Assume the sole responsibility and the entire risk of use and operation of your electronic connection;

(4) Agree that we may act on any electronic message that we authenticate as yours under Public Debt's Certificate

Practice Statement, and any other Certificate Policy that Treasury may issue, to the same extent as if we had received a written instruction bearing the signature of your duly authorized officer;

(5) Submit electronic messages exclusively through SLGSafeSM unless you:

(i) Are unable to do so; and

(ii) Notify us before submitting transactions by other means; and

(6) Agree to submit transactions by other means if we notify you that problems with hardware, software or data transmission delays, or any other reason, prevent our sending or receiving electronic messages.

(i) *If I am an Internet customer, how do I submit transactions using SLGSafeSM to DSI?* Internet customers must submit transactions to DSI through the SLGSafeSM Internet site at Public Debt's website. If your electronic message is accepted, we will send automatically an electronic confirmation to you. You can use the confirmation notice to verify the date and time that Public Debt's Application server received the electronic message that you submitted.

Subpart B—Time Deposit Securities

§ 344.4 What are Time Deposit securities?

Time deposit securities are issued as certificates of indebtedness, notes and bonds.

(a) *What are the terms of maturity?* The issuer must fix the maturity periods for time deposit securities, which are issued as follows:

Time deposit securities	Maturity range	
	From	Up to and including
Certificates of Indebtedness that bear no interest	15 days	1 year.
Certificates of Indebtedness	30 days	1 year.
Notes	1 year and 1 day	10 years.
Bonds	10 years and 1 day	40 years; provided that for any subscription for a bond exceeding 30 years, the maximum available rate must be the rate on a 30-year bond.

(b) *How are SLGS rates determined?* For each security, the issuer shall designate an interest rate that does not exceed the maximum interest rate shown in the daily SLGS rate table as defined in § 344.1.

(1) *When is the SLGS rate table released?* We release the SLGS rate table to the public by 10:00 a.m., Eastern

time, each business day. If we find that due to circumstances beyond our control the SLGS rate table is not available at that time on any given business day, the SLGS rate table for the preceding business day applies.

(2) *How do I lock in a SLGS rate?* The applicable daily SLGS rate table for a non-Internet subscription is the one in

effect on the date the initial subscription is faxed, postmarked, or carrier date stamped. The applicable daily SLGS rate table for a SLGSafeSM Internet initial subscription is the one in effect on the date shown on Public Debt's Application server.

(3) *Where can I find the SLGS rate table?* The SLGS rate table can be obtained:

- (i) On the Internet at Public Debt's website; or
- (ii) By calling DSI at (304) 480-7752.
- (c) *How are interest computation and payment dates determined?* Interest on a certificate of indebtedness is computed on an annual basis and is paid at maturity with the principal. Interest on a note or bond is paid semi-annually. The issuer specifies the first interest payment date, which must be at least thirty days and less than or equal to one year, from the date of issue. The

final interest payment date must coincide with the maturity date of the security. Interest for other than a full interest period is computed on the basis of a 365-day or 366-day year (for certificates of indebtedness) and on the basis of the exact number of days in the half-year (for notes and bonds). See the Appendix to subpart E of part 306 of this subchapter for rules regarding computation of interest.

§ 344.5 How do I subscribe for Time Deposit securities?

(a) *Where do I submit transactions?* All subscriptions for purchase,

cancellation requests, changes to initial or final subscriptions and notices of redemption must be sent to DSI.

(b) *What requirements apply to initial subscriptions?*

(1) *When is my initial subscription or cancellation due in DSI?* The subscriber must fix the issue date of each security in the initial subscription. The issue date must be a business day. The issue date cannot be more than sixty days after the date DSI receives the initial subscription. To determine when you must send an initial subscription or cancellation request, follow this table:

If:	Then:
(i) The subscription is for:	DSI must receive an initial subscription (or you can cancel it without penalty):
(A) \$10 million or less, or	at least 5 days before the issue date of the subscription.
(B) Over \$10 million	at least 7 days before the issue date of the subscription.
(ii) The 5th or 7th day before the issue date is a non-business day.	DSI must receive the cancellation request on the preceding business day.
(iii) DSI receives an initial subscription more than 60 days before the issue date.	DSI will not accept an initial subscription.

Example to paragraph (b)(1): If SLGS securities totaling \$10 million or less will be issued on March 16th, DSI must receive the initial subscription no later than March 11th. If SLGS securities totaling more than \$10 million will be issued on March 16th, DSI must receive the initial subscription no later than March 9th.

(2) *What form is used to submit an initial subscription?* An initial subscription must be submitted on an electronic or paper Treasury form, PD F 4144, "Subscription for Purchase and Issue of U.S. Treasury Securities State and Local Government Series Time Deposit."

(3) *Can I submit a letter instead of an initial subscription form?* Yes. If you do not have an initial subscription form under paragraph (b)(2) of this section, then submit a letter to DSI that contains the following information:

- (i) The total principal amount;
- (ii) The issue date;
- (iii) The name and the Taxpayer Identification Number of issuer eligible to purchase SLGS securities;
- (iv) The date; and
- (v) The signature and title of an official authorized to purchase SLGS securities.

(4) *How do I change an initial subscription?* You can change an initial subscription on or before the issue date, but not later than 3:00 p.m., Eastern time, on the issue date. Changes to an

initial subscription are acceptable with the following exceptions:

(i) You cannot change the issue date to require issuance earlier than the issue date originally specified. The issue date can be changed up to seven days after the original issue date. If you make such a change, you should notify DSI as soon as possible, but no later than 3:00 p.m., Eastern time, one business day before the original issue date;

(ii) You may change the aggregate principal amount specified in the initial subscription up to \$10 million or ten percent, whichever is greater;

(iii) You can change an interest rate provided it does not exceed the maximum interest rate in the SLGS rate table that was in effect for a security of comparable maturity on the date the initial subscription was submitted (unless the issuer obtains a higher rate by canceling and resubscribing in compliance with this section); and

(iv) If you submit an untimely change, Treasury, in its sole discretion, can accept the change on an exception basis under § 344.2(n). Whether we accept the change before or after the issue date, the amended information will be applied to the securities. The six-month penalty will be imposed under § 344.2(h). If Treasury waives the six-month penalty, you will be charged a late payment assessment under § 344.2(h)(2).

(5) *When is an initial subscription not required?* No initial subscription is required when a final subscription is received at least five days before the issue date for subscriptions of \$10 million or less and at least seven days before the issue date for subscriptions of over \$10 million. Such final subscription is treated as the initial subscription for purposes of determining the applicable SLGS rate table under § 344.4(b).

(c) *What requirements apply to final subscriptions?*

(1) *What form is used to submit a final subscription?* You must submit an electronic or paper Treasury form, PD F 4144 "Subscription for Purchase and Issue of U.S. Treasury Securities State and Local Government Series Time Deposit," as a final subscription.

(2) *What information must be contained on the final subscription?* The final subscription must:

- (i) be dated and signed by an official authorized to make the purchase;
- (ii) include the Taxpayer Identification Number of the issuer;
- (iii) be accompanied with a copy of the initial subscription (or if a SLG SafeSM subscription, the Treasury case number) where applicable;
- (iv) separately itemize securities by the various maturities, interest rates, and first interest payment dates (in the case of notes and bonds);

(v) not be more than \$10 million or ten percent, whichever is greater, above or below the aggregate principal amount specified in the initial subscription; and
 (vi) not be paid with proceeds that are derived, directly or indirectly, from the redemption before maturity of SLGS securities subscribed for on or before December 27, 1976.

(3) *How do I change a final subscription?* You can change a final subscription on or before the issue date in the same fashion as you change an initial subscription under § 344.5(b)(4)(i)-(iv).
 (4) *When must I send a final subscription?* DSI must receive a final subscription on or before the issue date,

but not later than 3:00 p.m., Eastern time, on the issue date.

§ 344.6 How do I redeem a Time Deposit security before maturity?

(a) *What is the minimum time a security must be held?* To determine how long you must hold a security, follow this table:

If the security is . . .	then, at the owner's option, the security can be redeemed no earlier than . . .
(1) A zero percent certificate of indebtedness of 16 to 29 days	15 days after the issue date.
(2) A certificate of indebtedness of 30 days or more	25 days after the issue date.
(3) A note or bond	30 days after the issue date.

(b) *Can I request partial redemption of a security balance?* You may request partial redemptions in any whole dollar amount; however, a security balance of less than \$1,000 must be redeemed in total.

(c) *Do I have to submit a notice of early redemption?* Yes. An official authorized to redeem the securities before maturity must submit an electronic or paper notice of redemption. The notice must show the Taxpayer Identification Number of the issuer, the Treasury case number, the security number and the dollar amount of the securities to be redeemed. DSI must receive the notice no less than 10 days and no more than 60 days before the requested redemption date. You cannot cancel the notice.

(d) *How do I calculate the amount of redemption proceeds for subscriptions on or after October 28, 1996?* For securities subscribed for on or after October 28, 1996, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* If a security is redeemed before maturity on a date other than a scheduled interest payment date, Treasury pays interest for the fractional interest period since the last interest payment date.

(2) *Redemption value.* The remaining interest and principal payments are discounted by the current Treasury borrowing rate for the remaining term to maturity of the security redeemed. This may result in a premium or discount to the issuer depending on whether the current Treasury borrowing rate is unchanged, lower, or higher than the stated interest rate of the early-redemmed SLGS securities. There is no market charge for the redemption of zero interest time deposit SLGS securities subscribed for on or after October 28, 1996. Redemption proceeds in the case of a zero-interest security are

a return of the principal invested. The formulas for calculating the redemption value under this paragraph, including examples of the determination of premiums and discounts, are set forth in Appendix B of this part.

(e) *How do I calculate the amount of redemption proceeds for subscriptions from September 1, 1989, through October 27, 1996?* For securities subscribed for from September 1, 1989, through October 27, 1996, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* If a security is redeemed before maturity on a date other than a scheduled interest payment date, Treasury pays interest for the fractional interest period since the last interest payment date.

(2) *Market charge.* An amount shall be deducted from the redemption proceeds if the current Treasury borrowing rate for the remaining period to original maturity exceeds the rate of interest originally fixed for such security. The amount shall be the present value of the future increased borrowing cost to the Treasury. The annual increased borrowing cost for each interest period is determined by multiplying the principal by the difference between the two rates. For notes and bonds, the increased borrowing cost for each remaining interest period to original maturity is determined by dividing the annual cost by two. Present value is determined by using the current Treasury borrowing rate as the discount factor. When you request a redemption date that is less than thirty days before the original maturity date, we will apply the rate of a one month security as listed on the SLGS rate table issued on the day you make a redemption request. The market charge under this paragraph can be computed by using the formulas in Appendix A of this part.

(f) *How do I calculate the amount of redemption proceeds for subscriptions from December 28, 1976, through August 31, 1989?* For securities subscribed for from December 28, 1976, through August 31, 1989, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* Interest for the entire period the security was outstanding shall be recalculated if the original interest rate of the security is higher than the interest rate that would have been set at the time of the initial subscription had the term of the security been for the shorter period. If this results in an overpayment of interest, we will deduct from the redemption proceeds the aggregate amount of such overpayments, plus interest, compounded semi-annually thereon, from the date of each overpayment to the date of redemption. The rate used in calculating the interest on the overpayment will be one-eighth of one percent above the maximum rate that would have applied to the initial subscription had the term of the security been for the shorter period. If a note or bond is redeemed before maturity on a date other than a scheduled interest payment date, no interest is paid for the fractional interest period since the last interest payment date.

(2) *Market charge.* An amount shall be deducted from the redemption proceeds in all cases where the current Treasury borrowing rate for the remaining period to original maturity of the security prematurely redeemed exceeds the rate of interest originally fixed for such security. You can compute the market charge under this paragraph by using the formulas in Appendix A of this part.

(g) *How do I calculate the amount of redemption proceeds for subscriptions on or before December 27, 1976?* For bonds subscribed for on or before December 27, 1976, the amount of the

redemption proceeds is calculated as follows.

(1) *Interest.* The interest for the entire period the bond was outstanding shall be re-calculated if the original interest rate at which the bond was issued is higher than an adjusted interest rate reflecting both the shorter period during which the bond was actually outstanding and a penalty. The adjusted interest rate is the Treasury rate which would have been in effect on the date of issue for a marketable Treasury bond maturing on the semi-annual maturity period before redemption reduced by a penalty which must be the lesser of:

(i) One-eighth of one percent times the number of months from the date of issuance to original maturity, divided by

the number of full months elapsed from the date of issue to redemption; or
(ii) One-fourth of one percent.

(2) *Deduction.* We will deduct from the redemption proceeds, if necessary, any overpayment of interest resulting from previous payments made at a higher rate based on the original longer period to maturity.

Subpart C—Demand Deposit Securities

§ 344.7 What are Demand Deposit securities?

Demand deposit securities are one-day certificates of indebtedness that are automatically rolled over each day until you request redemption.

(a) *How is a Demand Deposit account established?* Each demand deposit

subscription will establish a unique account.

(b) *How are interest rates determined?* Each security shall bear a variable rate of interest based on an adjustment of the average yield for three-month Treasury bills at the most recent auction. A new rate is effective on the first business day following the regular auction of three-month Treasury bills and is shown in the SLGS rate table. Interest is accrued and added to the principal daily. Interest is computed on the balance of the principal, plus interest accrued through the preceding day.

(1) *How is the interest rate calculated?*

(i) First, you calculate the annualized effective demand deposit rate in decimals, designated "I" in Equation 1, as follows:

$$I = \left[\left(\frac{100}{P} \right)^{Y/DTM} - 1 \right] \times (1 - MTR) - TAC$$

(Equation 1)

WHERE:	
I =	Annualized effective demand deposit rate in decimals.
P =	Average auction price for the most recently auctioned 13-week Treasury bill, per hundred, to three decimals.
Y =	365 (if the year following issue date does not contain a leap year day) and 366 (if the year following issue date does contain a leap year day).
DTM =	The number of days from date of issue to maturity for the most recently auctioned 13-week Treasury bill.
MTR =	Estimated marginal tax rate, in decimals, of purchasers of tax-exempt bonds.
TAC =	Treasury administrative costs, in decimals.

(ii) Then, you calculate the daily factor for the demand deposit rate as follows:

$$DDR = (1 + I)^{1/Y} - 1$$

(Equation 2)

(2) *Where can I find additional information?* Information on the estimated average marginal tax rate and costs for administering demand deposit SLGS securities, both to be determined

by Treasury from time to time, will be published in the **Federal Register**.

(c) *What happens to demand deposit securities during a Debt Limit Contingency?* At any time the Secretary determines that issuance of obligations sufficient to conduct the orderly financing operations of the United States cannot be made without exceeding the statutory debt limit, we will invest any unredeemed demand deposit securities in special ninety-day

certificates of indebtedness. Funds invested in the ninety-day certificates of indebtedness earn simple interest equal to the daily factor in effect at the time demand deposit security issuance is suspended, multiplied by the number of days outstanding. When regular Treasury borrowing operations resume, the ninety-day certificates of indebtedness, at the owner's option, are:

(1) Payable at maturity;

(2) Redeemable before maturity, provided funds are available for redemption; or

(3) Reinvested in demand deposit securities.

§ 344.8 How do I subscribe for Demand Deposit securities?

(a) *Where do I submit transactions?* All subscriptions for purchase,

cancellation requests, changes to subscriptions and notices of redemption must be sent to DSI.

(b) *What requirements apply to subscriptions?*

(1) *What form is used to submit a subscription?* You must submit an electronic or paper Treasury form, PD F 5237, "Subscription for Purchase of U.S.

Treasury Securities State and Local Government Series One-Day Certificate of Indebtedness Demand Deposit."

(2) *When is my subscription or cancellation request due in DSI?* To determine when you must send a subscription or cancellation request, follow this table:

If:	Then:
(i) The subscription is for:	DSI must receive a subscription (or you can cancel it without penalty):
(A) \$10 million or less, or	at least 5 days before the issue date of the subscription.
(B) Over \$10 million	at least 7 days before the issue date of the subscription.
(ii) The 5th or 7th day before the issue date is a non-business day * * *.	DSI must receive the cancellation request on the preceding business day.
(iii) DSI receives a subscription more than 60 days before the issue date * * *.	DSI will not accept a subscription.

(3) *How do I change a subscription?* You can change the principal amount to be invested without penalty on or before the issue date, but no later than 3:00 p.m., Eastern time, on the issue date. If you submit an untimely change, § 344.5(b)(4)(iv) applies.

(4) *What information must be contained on the subscription?* The subscription must:
 (i) Be dated and signed by an official authorized to make the purchase;
 (ii) Include the Taxpayer Identification Number of the issuer; and
 (iii) Specify the principal amount to be invested and the issue date.

§ 344.9 How do I redeem a Demand Deposit security?

To redeem a demand deposit security, follow this section.

(a) *When must I notify DSI to redeem a security?* To determine when you must notify us, follow this table:

A security can be redeemed at the owner's option, if DSI receives a request for redemption not less than	for redemptions of * * *
(1) 1 business day before the requested redemption date	\$10 million or less.
(2) 3 business days before the requested redemption date	more than \$10 million.

(b) *Can I request partial redemption of a security balance?* You may request partial redemptions in any amount. If your account balance is less than \$1,000, it must be redeemed in total.

(c) *Do I have to submit a notice of redemption?* Yes. An official authorized to redeem the securities must submit an electronic or paper Treasury form PD F 5238, "Request for Redemption of U.S. Treasury Securities State and Local Government Series One-Day Certificate of Indebtedness Demand Deposit." The notice must show the Taxpayer Identification Number of the issuer, the Treasury case number, the security number and the dollar amount of the securities to be redeemed. DSI must

receive the notice by 3:00 p.m., Eastern time on the required day. You cannot cancel the notice.

Subpart D—Special Zero Interest Securities

§ 344.10 What are Special Zero Interest securities?

Special zero interest securities were issued as certificates of indebtedness and notes. Provisions of subpart B of this part (Time Deposit Securities) apply except as specified in subpart D of this part. Special zero interest securities were discontinued on October 28, 1996. The only zero interest securities available after October 28, 1996, are zero

interest time deposit securities that are subject to subpart B of this part.

§ 344.11 How do I redeem a Special Zero Interest Security before maturity?

Follow the provisions of § 344.6(a)–(g) except that no market charge or penalty will apply when you redeem a special zero interest security before maturity.

Appendix A to Part 344—Early Redemption Market Charge Formulas and Examples for Subscriptions From December 28, 1976, Through October 27, 1996

(a) The amount of the market charge for bonds and notes subscribed for before October 28, 1996 can be determined by the following formula:

$$M = \frac{\left(\frac{b}{2}\right) \times \left(\frac{r}{s}\right) + \left(\frac{b}{2}\right) a_{n\uparrow}}{1 + \left(\frac{r}{s}\right) \times \left(\frac{i}{2}\right)}$$

(Equation 1)

WHERE:	
M =	Market charge
b =	Increased annual borrowing cost (i.e., principal multiplied by the excess of the current borrowing rate for the period from redemption to original maturity of note or bond over the rate for the security)
r =	Number of days from redemption date to next interest payment date
s =	Number of days in current semi-annual period
i =	Treasury borrowing rate over the remaining term to maturity, based on semi-annual interest payments and expressed in decimals
n =	Number of remaining full semi-annual periods from the redemption date to the original maturity date, except that if the redemption date is on an interest payment date, n will be one less than the number of full semi-annual periods remaining to maturity
v ⁿ =	1/(1 + i/2) ⁿ = present value of 1 due at the end of n periods (Equation 2)
a _n ↑ =	(1 - v ⁿ)/(i/2) = v + v ² + v ³ + ... + v ⁿ = present value of 1 per period for n periods (Equation 3)

(b) The application of this formula can be illustrated by the following example:

(1) Assume that a \$600,000 note is issued on July 1, 1985, to mature on July 1, 1995. Interest is payable at a rate of 8% on January 1 and July 1.

(2) Assume that the note is redeemed on February 1, 1989, and that the current borrowing rate for Treasury at that time for the remaining period of 6 years and 150 days is 11%.

(3) The increased annual borrowing cost is \$18,000. (\$600,000)x(11%-8%)

(4) The market charge is computed as follows:

$$M = \frac{(\$18,000/2) \times (150/181) + (\$18,000/2) a_n}{1 + (150/181) (.11/2)}$$

(Equation 4)

$$M = \frac{(\$7,458.56) + (\$9,000) a_n}{1.045580111}$$

(Equation 5)

$$M = \frac{(\$7,458.56) + (\$9,000) \times \left[\frac{1 - \frac{1}{(1+.11/2)^{12}}}{(.11/2)} \right]}{1.045580111}$$

(Equation 6)

$$M = \frac{(\$7,458.56) + (\$9,000) (8.618517849)}{1.045580111}$$

(Equation 7)

$$M = \frac{(\$7,458.56) + (\$77,566.66)}{1.045580111}$$

(Equation 8)

$$M = \$81,318.71$$

(Equation 9)

(c) The amount of the market charge for certificates of indebtedness subscribed for before October 28, 1996 can be determined by the following formula:

$$M = \frac{(b) \left(\frac{r}{s}\right)}{1 + \frac{r}{s} (i)}$$

(Equation 10)

WHERE:	
M =	Market charge
b =	Increased borrowing cost for full period
r =	Number of days from redemption date to original maturity date
s =	Number of days in current annual period (365 or 366)
i =	Current borrowing rate expressed in decimals (discount factor)

(d) The application of this formula can be illustrated by the following example:

(1) Assume that a \$50,000 certificate of indebtedness is issued on March 1, 1987, to mature on November 1, 1987. Interest is payable at a rate of 10%.

(2) Assume that the certificate of indebtedness is redeemed on July 1, 1987, and that the current borrowing cost to Treasury for the 123-day period from July 1, 1987, to November 1, 1987, is 11.8%.

(3) The increased annual borrowing cost is \$900. (\$50,000) x (11.8%-10%)

(4) The market charge is computed as follows:

$$M = \frac{\$900 \left(\frac{123}{365}\right)}{1 + \left(\frac{123}{365}\right) (.118)} =$$

(Equation 11)

$$\frac{\$303.29}{1.039764384} =$$

(Equation 12)

\$291.69

(Equation 13)

Appendix B to Part 344—Formula for Determining Redemption Value for Securities Subscribed for and Early-Redeemed On or After October 28, 1996

(a) This formula results in a premium or discount to the issuer depending on whether the current Treasury borrowing rate at the time of early redemption is lower or higher than the stated interest rate of the early-redeemed SLGS security. The total redemption value for bonds and notes can be determined by the following two steps. First, calculate accrued interest payable in accordance with § 344.6(d)(1) using the following formula:

$$AI = \left| \frac{(s-r)}{s} \right| \times \left(\frac{C}{2} \right)$$

(Equation 14)

Second, calculate the redemption value per § 344.6(d)(2) using the following formula:

$$RV = \frac{\left(\frac{C}{2}\right) + \left(\frac{C}{2}\right) a_{n|} + F(v^n)}{1 + \left(\frac{r}{s}\right) \times \left(\frac{i}{2}\right)} - AI$$

(Equation 15)

WHERE:	
RV =	Redemption value
F =	Face amount redeemed
AI =	Accrued interest = [(s-r)/s] x (C/2)
r =	Number of days from redemption date to next interest payment date
s =	Number of days in current semi-annual period
i =	Treasury borrowing rate over the remaining term to maturity, based on semi-annual interest payments and expressed in decimals
C =	The regular annual interest
n =	Number of remaining full semi-annual periods from the redemption date to the original maturity date, except that, if the redemption date is an interest payment date, n will be one less than the number of full semi-annual periods remaining to maturity
v ⁿ =	1/(1 + i/2) ⁿ = present value of 1 due at the end of n periods
a _n =	(1 - v ⁿ)/(i/2) = v + v ² + v ³ + ... + v ⁿ = present value of 1 per period for n periods

(b) The application of this formula can be illustrated by the following examples:

(1) The first example is for a redemption at a premium.

(i) Assume that an \$800,000 2-year note is issued on December 10, 1996, to mature on

December 10, 1998. Interest is payable at a rate of 7% on June 10 and December 10.

(ii) Assume that the note is redeemed on October 21, 1997, and that the current borrowing rate for Treasury at that time for

the remaining period of 1 year and 50 days is 6.25%.

(iii) The redemption value is computed as follows. First, the accrued interest payable is calculated as:

$$AI = \left(\frac{183 - 50}{183} \right) \times \left(\frac{\$56,000}{2} \right)$$

(Equation 16)

$$AI = \left(\frac{133}{183} \right) \times \$28,000$$

(Equation 17)

$$AI = \$20,349.73$$

(Equation 18)

$$RV = \frac{\left(\frac{\$56,000}{2} \right) + \left(\frac{\$56,000}{2} \right) a_{n|} + \$800,000v^n}{1 + \left(\frac{50}{183} \right) \left(\frac{.0625}{2} \right)} - AI$$

(Equation 19)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{\$56,000}{2}\right) + \left(\frac{\$56,000}{2}\right) \left[\frac{1 - \left(\frac{1}{\left(1 + \frac{.0625}{2}\right)^2}\right)}{\left(\frac{.0625}{2}\right)} \right] + \$800,000 \left[\frac{1}{\left(1 + \frac{.0625}{2}\right)^2} \right]}{1 + \left(\frac{50}{183}\right) \times \left(\frac{.0625}{2}\right)} - AI$$

(Equation 20)

$$RV = \frac{\$28,000 + (\$28,000)(1.9100092) + (\$800,000)(0.94031221)}{1.008538251} - AI$$

(Equation 21)

$$RV = \frac{\$28,000 + \$53,480.26 + \$752,249.77}{1.008538251} - AI$$

(Equation 22)

$$RV = \frac{\$833,730.03}{1.008538251} - AI$$

(Equation 23)

$$RV = \$826,671.70 - \$20,349.73$$

(Equation 24)

$$RV = \$806,321.97$$

(Equation 25)

(2) The second example is for a redemption at a discount and it uses the same assumptions as the first example, except the current Treasury borrowing cost is assumed to be 8.00%:

(i) Assume that an \$800,000 2-year note is issued on December 10, 1996, to mature on December 10, 1998. Interest is payable at a rate of 7% on June 10 and December 10.

(ii) Assume that the note is redeemed on October 21, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 1 year and 50 days is 8.00%.

(iii) The redemption value is computed as follows.

First, the accrued interest payable is calculated as:

$$AI = \left(\frac{183 - 50}{183} \right) \times \left(\frac{\$56,000}{2} \right)$$

(Equation 26)

$$AI = \left(\frac{133}{183} \right) \times \$28,000$$

(Equation 27)

$$AI = \$20,349.73$$

(Equation 28)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{\$56,000}{2} \right) + \left(\frac{\$56,000}{2} \right) a_{n|} + \$800,000v^n}{1 + \left(\frac{50}{183} \right) \left(\frac{.0800}{2} \right)} - AI$$

(Equation 29)

$$RV = \frac{\left(\frac{\$56,000}{2}\right) + \left(\frac{\$56,000}{2}\right) \left[\frac{1 - \left(\frac{1}{\left(1 + \frac{.0800}{2}\right)^2}\right)}{\left(\frac{.0800}{2}\right)} \right] + \$800,000 \left[\frac{1}{\left(1 + \frac{.0800}{2}\right)^2} \right]}{1 + \left(\frac{50}{183}\right) \times \left(\frac{.0800}{2}\right)} - AI$$

(Equation 30)

$$RV = \frac{\$28,000 + (\$28,000)(1.8860947) + (\$800,000)(0.92455621)}{1.010928962} - AI$$

(Equation 31)

$$RV = \frac{\$28,000 + \$52,810.65 + \$739,644.97}{1.010928962} - AI$$

(Equation 32)

$$RV = \frac{\$820,455.62}{1.010928962} - AI$$

(Equation 33)

$$RV = \$811,585.83 - \$20,349.73$$

(Equation 34)

$$RV = \$791,236.10$$

(Equation 35)

(c) The total redemption value for certificates of indebtedness can be determined by the following two steps. First, calculate accrued interest payable in accordance with § 344.6(d)(1) using the following formula:

$$AI = \left[\frac{(d-r)}{Y} \right] \times C$$

(Equation 36)

Second, calculate the redemption value per § 344.6(d)(2) using the following equation:

$$RV = \frac{\left(\frac{d}{y}\right) \times (C) + F}{1 + \left(\frac{r}{y}\right) \times (i)} - AI$$

(Equation 37)

WHERE:	
RV =	Redemption value
F =	Face amount redeemed
AI =	Accrued interest = [(d-r)/y] x C
d =	Number of days from original issue of the certificate of indebtedness to its maturity date
r =	Number of days from redemption date to the certificate of indebtedness' maturity date
y =	365, if the number of days in the year following issue of the certificate of indebtedness does not include a leap year day; 366, if the number of days following issue of the certificate of indebtedness does include a leap year day
i =	Treasury borrowing rate over the remaining term to maturity, expressed in decimals
C =	The regular annual interest

(d) The application of this formula can be illustrated by the following examples.

(1) First, for a redemption at a premium:

(i) Assume that a \$300,000 security is issued on December 5, 1996, to mature in 151 days on May 5, 1997. Interest at a rate of 5% is payable at maturity.

(ii) Assume that the security is redeemed on April 9, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 26 days is 4.00%.

(iii) The redemption value is computed as follows.

First, the accrued interest payable is calculated as:

$$AI = \left(\frac{151-26}{365}\right) \times \$15,000$$

(Equation 38)

$$AI = \left(\frac{125}{365}\right) \times \$15,000$$

(Equation 39)

$$AI = \$5,136.99$$

(Equation 40)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{151}{365}\right) \times \$15,000 + \$300,000}{1 + \left(\frac{26}{365}\right)(.0400)} - AI$$

(Equation 41)

$$RV = \frac{\$6,205.48 + \$300,000}{1.002849315} - AI$$

(Equation 42)

$$RV = \frac{\$306,205.48}{1.002849315} - AI$$

(Equation 43)

$$RV = \$305,335.48 - \$5,136.99$$

(Equation 44)

$$RV = \$300,198.49$$

(Equation 45)

(2) Secondly, for a redemption at a discount:

(i) Assume that a \$300,000 security is issued on December 5, 1996, to mature in 151 days on May 5, 1997. Interest at a rate of 5% is payable at maturity.

(ii) Assume that the security is redeemed on April 9, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 26 days is 6.25%.

(iii) The redemption value is computed as follows.

First, the accrued interest payable is calculated as:

$$AI = \left(\frac{151 - 26}{365} \right) \times \$15,000$$

(Equation 46)

$$AI = \left(\frac{125}{365} \right) \times \$15,000$$

(Equation 47)

$$AI = \$5,136.99$$

(Equation 48)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{151}{365}\right) \times \$15,000 + \$300,000}{1 + \left(\frac{26}{365}\right)(.0625)} - AI$$

(Equation 49)

$$RV = \frac{\$6,205.48 + \$300,000}{1.004452055} - AI$$

(Equation 50)

$$RV = \frac{\$306,205.48}{1.004452055} - AI$$

(Equation 51)

$$RV = \$304,848.28 - \$5,136.99$$

(Equation 52)

$$RV = \$299,711.29$$

(Equation 53)

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Donald V. Hammond,

Fiscal Assistant Secretary.

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