PART 344—REGULATIONS GOVERNING UNITED STATES TREASURY CERTIFICATES OF INDEBTEDNESS, TREASURY NOTES, AND TREASURY BONDS—STATE AND LOCAL GOVERNMENT SERIES

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

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Subpart A—General Information

§ 344.0 Offering of securities.

(a) In order to provide issuers of tax exempt securities with investments from any amounts that constitute gross proceeds of an issue or any other amounts which assist an issuer of tax-exempt bonds in complying with applicable provisions of the Internal Revenue Code relating to such tax exemption, the Secretary of the Treasury offers for sale the following State and Local Government Series securities:

(1) Time deposit securities:

(i) United States Treasury Certificates of Indebtedness,

(ii) United States Treasury Notes, and

(iii) United States Treasury Bonds.

(2) Demand deposit securities—United States Treasury Certificates of Indebtedness.

(b) As appropriate, the definitions of terms used in part 344 are those found in the relevant portions of the Internal Revenue Code and the tax regulations. The term ''government body'' refers to issuers of state or local government bonds described in section 103 of the Internal Revenue Code.

(c) The securities in paragraph (a) of this section are issued in a minimum amount of $1,000, or in any larger amount, in increments of not less than $1.00 for time deposit securities and in any increments over the $1,000 minimum for demand deposit securities.

(d) This offering continues until terminated by the Secretary of the Treasury.

§ 344.1 General provisions.

(a) *Regulations.* United States Treasury securities—State and Local Government Series shall be subject to the general regulations with respect to United States securities, which are set forth in the Department of the Treasury Circular No. 300 (31 CFR part 306), to the extent applicable. Copies of the circular can be obtained from the Bureau of the Public Debt, Division of Special Investments—Room 309, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102–0396.

(b) *Issuance.* The securities are issued in book-entry form on the books of the Department of the Treasury, Bureau of the Public Debt, Parkersburg, WV. Transfer of securities by sale, exchange, assignment, pledge, or otherwise is not permitted.

(c) *Transfers.* 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.

(d) *Fiscal agents.* Selected Federal Reserve Banks and Branches, as fiscal agents of the United States, can be designated to perform such services requested of them by the Secretary of the Treasury in connection with the purchase of, transactions involving, and redemption of, the securities.

(e) *Authority of subscriber.* Where a commercial bank submits an initial or final subscription on behalf of a government body, it must certify it is acting under the latter's specific authorization. Ordinarily, evidence of such authority is not required. Subscriptions submitted by an agent, other than a commercial bank, must be accompanied by evidence of the agent's authority to act. Such evidence must describe the nature and scope of the agent's authorization, must specify the legal authority under which the agent was designated, and must relate by its terms to the investment action undertaken. Subscriptions unsupported by such evidence are not acceptable.

(f) *Impermissible transactions.* It is impermissible to subscribe for SLGS securities for deposit in a defeasance escrow or 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 other securities, if any, already in such escrow or fund, plus the amount of other securities the government body 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. 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 prior to the date of issue of the SLGS securities shall not be included in such computation. An adjustment in the subscription amount in accordance with 31 CFR 344.3(b)(3)(ii) will not in and of itself make the transaction impermissible.

(g) *Reservations.* Transaction requests, including requests for subscription and redemption, are not acceptable if unsigned, inappropriately completed, or not timely submitted. Any of these actions shall be final. The authority of the Secretary to waive regulations under 31 CFR 306.126 applies to part 344. The Secretary of the Treasury reserves the right:

(1) To reject any application for the purchase of securities under this offering;

(2) To refuse to issue any such securities in any case or any class(es) of cases; and

(3) To revoke the issuance of any security, and to declare the subscriber ineligible thereafter to subscribe for securities under this offering if the Secretary deems such action in the public interest and if any security is issued on the basis of an improper certification, other misrepresentations (other than as the result of an inadvertent error) or in an impermissible transaction as set forth in § 344.1(f).

(h) *Debt limit contingency.* The Department of the Treasury reserves the right to change or suspend the terms and conditions of this offering, including provisions relating to subscriptions for, and issuance of, securities, interest payments, redemptions, and rollovers, as well as notices relating hereto, 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. Announcement of such changes shall be provided by such means as the Secretary deems appropriate.

(i) *Noncompliance.* The penalty imposed on any government body which fails to make settlement on a subscription once submitted and not canceled timely shall be to render the government body ineligible thereafter to subscribe for securities under any offering in part 344 for a period of six months, beginning on the date the subscription is withdrawn or the proposed issue date, whichever occurs first.

(1) The penalty is imposed on the government body unless the government body provides the Tax Identification Number of a conduit borrower that is the actual party failing to make settlement of a subscription. If this number is provided for a conduit borrower, the conduit borrower shall be the entity on which the six-month penalty is imposed.

(2) The Division of Special Investments can determine to waive the six-month penalty, pursuant to the provisions governing the waiver of regulations set forth under 31 CFR 306.126. Where settlement occurs after the proposed issue date and the Division of

Special Investments determines, pursuant to 31 CFR 306.126, that settlement is acceptable on an exception basis, the six-month penalty will be waived and the government body shall be subject to a late payment assessment. The late payment assessment will equal the amount of interest that will have accrued on the securities from the proposed issue date to the date of settlement, as well as an administrative fee of $100 per subscription. Assessments of late payment fees and administrative fees under part 344 are due on demand.

(j) *General redemption provisions.* A security can not be called for redemption by the Secretary of the Treasury prior to maturity. Upon the maturity of a security, the Department will make payment of the principal amount and interest due to the owner thereof. A security scheduled for maturity on a non-business day will be redeemed on the next business day.

(k) *Business or calendar days.* Unless otherwise noted, any reference herein to days refers to calendar days.

[61 FR 55693, Oct. 28, 1996, as amended at 62 FR 46445, Sept. 3, 1997]

Subpart B—Time Deposit Securities

§ 344.2 Description of securities.

(a) *Terms*—(1) *Certificates.* The certificates are issued with maturity periods fixed by the government body, from thirty days up to and including one year, or for any intervening period; provided, for certificates that bear no interest, the maturity period can be fixed by the government body from fifteen days up to and including one year or for any intervening period.

(2) *Notes.* The notes are issued with maturity periods fixed by the government body, from one year and one day up to and including ten years, or for any intervening period.

(3) *Bonds.* The bonds are issued with maturity periods fixed by the government body, from ten years and one day up to and including forty years, or for any intervening period; provided that for any subscription for a bond exceeding 30 years, the maximum available rate shall be the rate on a 30-year bond.

(b) *Interest rate.* Each security shall bear such rate of interest the government body designates, but the rate shall not exceed the maximum interest rate. The applicable maximum interest rates for each day shall equal rates shown in a SLGS securities rate table, which is released by the Department to the public by 10:00 a.m., Eastern time, each business day. If the Department finds that due to circumstances beyond its control the rates are not available to the public by 10:00 a.m., Eastern time, on any given business day, the applicable interest for the last preceding business day shall apply. The applicable rate table for any subscription is the one in effect on the date the initial subscription is faxed, postmarked or carrier date stamped. The rates specified in the tables are five basis points below the then current estimated Treasury borrowing rate for a Treasury security of comparable maturity. These rates can be obtained:

(1) In the Commerce Department's Economic Bulletin Board;

(2) By contacting the Division of Special Investment's automated fax at (304) 480–7548;

(3) By calling the Division of Special Investments at (304) 480–7752; or

(4) On the Internet at ftp://ftp.publicdebt.treas.gov/secrate.txt

(c) *Payment.* (1) Interest computation and payment dates. Interest on a certificate 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 government body specifies the first interest payment date, which must occur any time between thirty days and one year of the date of issue, and the final interest payment date must coincide with the maturity date of the security. Interest for other than a full semi-annual interest period is computed on the basis of a 365-day or 366-day year (for certificates) 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 chapter for rules regarding computation of interest.

(2) *Method of payment.* Payment can be made by the Automated Clearing House method (ACH) for the owner's account at a financial institution designated by the owner. Redemptions prior to maturity are paid by Fedwire. To the extent applicable, provisions of

§ 357.26 on ''Payments'', set forth in 31 CFR part 357 and provisions of 31 CFR part 370, shall govern ACH payments made under this offering. The Department of the Treasury can employ alternate payment procedures, instead of ACH, in any case, or class of cases where operational considerations necessitate such action.

§ 344.3 Subscription for purchase.

(a) *Subscription requirements.* Subscriptions for purchase of securities under this offering must be submitted to the Division of Special Investments, Bureau of the Public Debt, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102–0396. Initial and final subscriptions can be submitted by fax at (304) 480–6818, by mail, or by other carrier. All subscriptions submitted by mail, whether initial or final, should be sent by certified or registered mail.

(b) *Initial subscriptions.* (1) An initial subscription, either on a designated Treasury form or in letter form, stating the principal amount to be invested and the issue date, must be received by Public Debt 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, but in no event will subscriptions be received more than 60 days prior to issue date. Subscriptions can be sent by fax on (304) 480–6818, carrier service, U.S. Postal Service or other means. If the subscription is faxed, the original document must be received by Public Debt no later than the issue date. Initial subscriptions of $10 million or less can be canceled without penalty by the subscriber prior to the fifth day before issue date. If the fifth day before issue date is a non-business day, the cancellation must occur on the preceding business day. Subscriptions of more than $10 million can be canceled without penalty by the subscriber prior to the seventh day before issue date. For example, if securities totaling $10 million or less are to be issued on March 16, the initial subscription must be received by Public Debt no later than March 11. If securities totaling more than $10 million are to be issued on March 16, the initial subscription must be received by Public Debt no later than March 9. A subscriber can lock in the SLGS rate for the day it submits its subscription by sending a fax to the Division of Special Investments on or before the five/seven day notice period. A subscriber can also lock in the SLGS rate on the date of the postmark of a mailed subscription, provided the subscription is received on or before the five/seven day notice period. It is the responsibility of the sender of a faxed subscription to confirm its receipt. If the initial subscription is in letter form, it must contain the Tax Identification Number of the government body or it is unacceptable. It should read substantially as follows:

To: Bureau of the Public Debt

Pursuant to the provisions of Department of the Treasury Circular, Public Debt Series No. 3–72, current revision, the undersigned hereby subscribes for United States Treasury Time Deposit Securities—State and Local Government Series, issued as entries on the books of the Bureau of the Public Debt, Department of the Treasury, in the total amount and with the issue date shown below, which date is at least five/seven days after the date of this subscription:

Principal Amount

$ ____________________

Issue Date

The undersigned agrees the final subscription and payment will be submitted on or before the issue date.

(Tax I.D. Number of state or local government body eligible to purchase State and Local Government Series securities)

(Name of state or local government body eligible to purchase State and Local Government Series securities)

(Date) ____________________

By ____________________

(Signature and Title)

(2) The provisions set out in paragraph (e) of § 344.1, dealing with the authority of the subscriber to act on behalf of a government body, and in § 344.1(h), relating to the failure to complete a subscription, apply to initial and to final subscriptions.

(3) An initial subscription can be amended on or before the issue date, but no later than 3:00 p.m., Eastern time, on the issue date. Notification can be faxed to the Bureau of the Public Debt at (304) 480–6818 provided the

request is clearly identified as an amendment and is immediately followed by the submission, by mail or other carrier, of written notification. Amendments to initial subscriptions are acceptable with the following exceptions:

(i) The issue date can not be changed to require issuance earlier than the issue date originally specified. The issue date can be changed up to 7 days after the original issue date. If such a change is made, notification should be provided to the Bureau of the Public Debt as soon as possible, but no later than 3:00 p.m., Eastern time, one business day before the originally specified issue date;

(ii) The aggregate amount can not be changed by more than the greater of $10 million or ten percent above or below the aggregate principal amount specified in the initial subscription;

(iii) An interest rate cannot be changed to a rate that exceeds the maximum interest rate in the 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 the provisions of § 344.3(b)(1);

(iv) Where an amendment is not submitted timely, the Division of Special Investments can determine, pursuant to the provisions governing waiver of regulations set forth under 31 CFR 306.126, that such an amendment is acceptable on an exception basis. Where an amendment is determined acceptable on an exception basis, the amended information shall be used as the basis for issuing the securities, and an administrative fee of $100 per subscription will be assessed. This administrative fee is due on demand as provided for in § 344.1(h). The Secretary reserves the right to reject amendments which are not submitted timely.

(4) No initial subscription is required where 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 interest rate table (see § 344.2(b)), and can be amended on or before the issue date, subject to the exceptions in paragraph (b)(3) of this section.

(c) *Final subscriptions.* A final subscription must be received by the Bureau of the Public Debt on or before the issue date, but no later than 3:00 p.m., Eastern time, on the issue date. The final subscription can be faxed to the Bureau of the Public Debt at (304) 480–6818, provided the fax is properly identified as a final subscription and is immediately followed by the submission of the original subscription form by mail or other carrier. The final subscription must be for a total principal amount that is no more than the greater of either $10 million or ten percent above or below the aggregate principal amount specified in the initial subscription. The final subscription, dated and signed by an official authorized to make the purchase and showing the Taxpayer Identification Number of the government body, must be accompanied by a copy of the initial subscription, where applicable. The various maturities, interest rates, and interest payment dates (in the case of notes and bonds), must be specified in the final subscription, as well as the title(s) of the designated official(s) authorized to request early redemption. Final subscriptions submitted for certificates, notes and bonds must separately itemize securities of each maturity and each interest rate. The final subscription must contain a statement by the subscriber that none of the proceeds submitted in payment is derived (directly or indirectly) from the redemption before maturity of other securities of the State and Local Government Series subscribed for on or before December 27, 1976.

[61 FR 55693, Oct. 28, 1996, as amended at 62 FR 46446, Sept. 3, 1997]

§ 344.4 Issue date and payment.

(a) *General.* The subscriber shall fix the issue date of each security in the initial subscription. The issue date must be a business day and can not exceed by more than sixty days the date the initial subscription is received by Public Debt. Full payment for each subscription must be submitted by the Fedwire funds transfer system with credit directed to the Treasury's General Account. Full payment should be submitted by 3:00 p.m., Eastern time, to ensure that settlement of the securities occurs on the date of issue.

(b) [Reserved]

§ 344.5 Redemption.

(a) *Redemption before maturity*—(1) *In general.* A security can be redeemed at the owner's option no earlier than twenty-five days after the issue date in the case of a certificate of thirty days or more, no earlier than fifteen days before the scheduled maturity for zero interest certificates of fifteen to twenty-nine days maturity, and no earlier than thirty days after the issue date in the case of a note or bond. Partial redemptions can be requested in any amount; however, an account balance of less than $1,000 will be redeemed in total.

(2) *Notice.* Notice of redemption prior to maturity must be submitted, either on a designated Treasury form or by letter, by the official(s) authorized to redeem the securities, as shown on the final subscription form, to the Division of Special Investments, Bureau of the Public Debt, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102–0396. The notice must be received by Public Debt no less than ten days before the requested redemption date, but no more than sixty days before the requested redemption date. The notice must show the account number, the maturities of the securities to be redeemed, and the Tax Identification Number of the government body. A notice of redemption prior to maturity can not be canceled.

(3) *Redemption proceeds—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:

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

(ii) *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 results in a premium or discount to the government body, depending on whether the current Treasury borrowing rate is lower or higher than the stated interest rate of the early-redeemed SLGS security. This does not apply to SLGS securities subscribed for before October 28, 1996. The term "current Treasury borrowing rate" means the applicable rate shown in the table of maximum interest rates payable on United States Treasury securities—State and Local Government Series—for the day the request for early redemption is received by Public Debt, plus five basis points. There is no market charge for the redemption of zero interest time deposit 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 section, including examples of the determination of premiums and discounts are set forth in Appendix B of this part.

(4) *Redemption proceeds—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:

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

(ii) *Market charge.* An amount shall be deducted from the redemption proceeds in all cases where the current borrowing rate of the Department of the Treasury for the remaining period to original maturity of the security prematurely redeemed 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. For certificates, the increased borrowing cost for the remaining period to original maturity is determined by multiplying the annual cost by the number of days remaining until original maturity divided by the number of days in the calendar year. Present value shall be determined by using the current Treasury borrowing rate as the discount factor. The term ''current Treasury borrowing rate'' is determined in section 344.5(a)(3)(ii). Where redemption is requested on a date less than thirty days before the original maturity date, such applicable rate is the rate shown for a security with a maturity of thirty days. The market charge for bonds, notes, and certificates of indebtedness can be computed by use of the formulas in Appendix A to this part.

(5) *Redemption proceeds—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:

(i) *Interest.* Interest for the entire period the security was outstanding shall be recalculated on the basis of the lesser of the original interest rate at which the security was issued, or the interest rate that would have been set at the time of the initial subscription had the term for 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.

(ii) *Overpayment of interest.* If there have been overpayments of interest, as determined under paragraph (a)(5)(i) of this section, there shall be deducted 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 interest rate used used in calculating the interest on the overpayment shall 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.

(iii) *Market charge.* An amount shall be deducted from the redemption proceeds in all cases where the current borrowing rate of the Department of the Treasury for the remaining period to original maturity of the security prematurely redeemed exceeds the rate of interest originally fixed for such security. The amount shall be calculated using the formula in paragraph (a)(3)(ii) of this section.

(6) *Redemption proceeds—Subscriptions on or before December 27, 1976.* For securities subscribed for on or before December 27, 1976, the amount of the redemption proceeds is calculated as follows.

(i) The interest for the entire period the security was outstanding shall be re-calculated on the basis of the lesser of the original interest rate at which the security was issued, or an adjusted interest rate reflecting both the shorter period during which the security was actually outstanding and a penalty. The adjusted interest rate is the Treasury rate which would have been in effect on the date of issuance for a marketable Treasury certificate, note, or bond maturing on the quarterly maturity date prior to redemption (in the case of certificates), or on the semi-annual maturity period prior to redemption (in the case of notes and bonds), reduced in either case by a penalty which shall be the lesser of:

(A) 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

(B) One-fourth of one percent.

(ii) There shall be deducted 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.

(b) [Reserved]

Subpart C—Demand Deposit Securities

§ 344.6 Description of securities.

(a) *Terms.* The securities are one-day certificates of indebtedness. Each subscription is established as a unique account. Securities are automatically rolled over each day unless redemption is requested.

(b) *Interest rate.* (1) 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, available to the public on such business day. Interest is accrued and added to principal daily. Interest is computed on the balance of the principal, plus interest accrued through the preceding day.

(2)(i) The annualized effective demand deposit rate in decimals, designated ''I'' in Equation 1 is calculated as:

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

(Equation 1)

where

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 it 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) The daily factor for the demand deposit rate is then calculated as follows:

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

(Equation 2)

(3) Information on the estimated average marginal tax rate and costs for administering the demand deposit State and Local Government Series securities program, both to be determined by Treasury from time to time, will be published in the FEDERAL REGISTER.

(c) *Payment.* Interest earned on the securities is added to the principal and is reinvested daily until redemption. 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, the Department will invest any unredeemed demand deposit securities in special ninety-day certificates of indebtedness. These ninety-day certificates are payable at maturity, but redeemable before maturity, provided funds are available for redemption, or reinvested in demand deposit securities when regular Treasury borrowing operations resume, both at the owner's option. 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.

§ 344.7 Subscription for purchase.

(a) *Subscription requirements.* Subscriptions for purchase of securities under this offering must be submitted to the Division of Special Investments, Bureau of the Public Debt, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102–0396. Subscriptions must be submitted on a designated Treasury form, must specify the principal amount invested and the issue date, and must be signed by an official authorized to make the purchase. The Bureau of the Public Debt must receive the subscription 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 more than $10 million. Subscriptions for $10 million or less can be canceled without penalty up to five days prior to the issue date. Subscriptions for more than $10 million can be canceled without penalty up to seven days prior to the issue date. The subscription can be submitted by fax at (304) 480–6818, by certified or registered mail, or by other carrier. If faxed, the original subscription form must be received by the Division of Special Investments by 3:00 p.m., Eastern time, on the issue date. Public Debt will not accept subscriptions for demand deposit securities more than 60 days prior to the issue date.

(b) *Amending subscriptions.* The principal amount to be invested can be changed without penalty on or before the issue date, but no later than 1:00 p.m. Eastern time, on the issue date. The request must be clearly identified as an amendment and must be followed immediately by the submission, by mail or other carrier, of written notification. Where an amendment is not submitted timely, the Division of Special Investments can determine, pursuant to the provisions governing waiver of regulations set forth under 31 CFR 306.126, that such an amendment is acceptable on an exception basis. Where an amendment is determined acceptable on an exception basis, the amended information shall be used as the basis for issuing the securities, and an administrative fee of $100 per subscription is then assessed. This administrative fee is due on demand as provided for in §344.1(h). The Secretary reserves the right to reject amendments which are not submitted timely.

§344.8 Issue date and payment.

The subscriber shall fix the issue date on the subscription at least five days after receipt of the subscription by the Division of Special Investments for subscriptions of $10 million or less and seven days after receipt of the subscription by the Division of Special Investments for subscriptions of more than $10 million. Full payment for each subscription must be submitted by the Fedwire funds transfer system with credit directed to the Treasury's General Account. Full payment should be received by the Division of Special Investments by 3:00 p.m., Eastern time, to ensure that settlement on the securities occurs on the issue date.

§344.9 Redemption.

(a) *General.* A security can be redeemed at the owner's option, provided a request for redemption is received not less than one business day prior to the requested redemption date for redemptions of $10 million or less and received not less than three business days for redemptions of more than $10 million. Partial redemptions can be requested in any amount; however, an account balance of less than $1,000 is redeemed in total. Payment is made by Fedwire.

(b) *Notice.* Notice of redemption must be submitted, either on a designated Treasury form or by letter, by the official(s) authorized to redeem the securities, as shown on the subscription form, to the Division of Special Investments, Bureau of the Public Debt, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102–0396. The notice can be submitted by fax to the Bureau of the Public Debt at (304) 480–6818, by mail, or by other carrier. The notice must show the account number and the Tax Identification Number of the government body. The notice of redemption must be received at the Bureau of the Public Debt by 1:00 p.m., Eastern time on the required day.

Subpart D—Special Zero Interest Securities

§344.10 General.

Provisions of subpart B of this part (Time Deposit Securities) apply except as specified in subpart D of this part. Special zero interest securities can not be subscribed for after October 28, 1996. All zero interest securities subscribed for after October 28, 1996 will be zero interest time deposit securities, subject to the rules of subpart B of this part.

§344.11 Redemption.

(a) *Before maturity.* Provisions of §344.5(a) apply. In general, a security can be redeemed at the owner's option no earlier than twenty-five days after the issue date in the case of a certificate and one year after the issue date in the case of a note. No market charge or penalty shall apply in the case of the redemption of a special zero interest security before maturity.

(b) *Notice.* Notice of redemption prior to maturity must be submitted, either on a designated Treasury form or by letter, by the official(s) authorized to redeem the securities, as shown on the final subscription form, to the Division of Special Investments, Bureau of the Public Debt, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102–0396. The notice can be submitted by fax to the Bureau of the Public Debt at (304) 480–6818, by mail, or by other carrier. The notice must show the account number, the maturities of the securities to be redeemed, and the Tax Identification Number of the government body. The notice must be received by Public Debt no less than ten days before the requested redemption date, but no more than sixty days before the requested redemption date. A notice of redemption prior to maturity cannot be canceled.

APPENDIX A TO PART 344—EARLY REDEMPTION MARKET CHARGE FORMULAS AND EXAMPLES FOR SUBSCRIPTIONS FROM SEPTEMBER 1, 1989, 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:

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

(Equation 1)

where:

M=Market charge

b=increased annual borrowing cost (i.e., principal multiplied by the excess 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)

$a_a = (1- v^n)/(i/2) = v + v^2 + v^3 + \ldots + v^n$ = 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)×(11% −8%)

(4) The market charge is computed as follows:

$$M = \frac{(\$18,000/2)\ x\ (150/181) + (\$18,000/2)a_{\overline{n}|}}{1 + (150/181)(.11/2)}$$

(Equation 4)

$$M = \frac{(\$7,458.56) + (\$9,000)a_{\overline{n}|}}{1.045580111}$$

(Equation 5)

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

(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 subscribed for before October 28, 1996 can be determined through use of 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 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 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) × (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

This results in a premium or discount to the government body, 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.

A. The total redemption value for bonds and notes can be determined by the following two steps:

First, accrued interest payable in accordance with §344.5(a)(3)(i) is calculated using the following formula:

$$AI = \left[\frac{(s-r)}{s}\right] x \left(\frac{C}{2}\right)$$

(Equation 14)

and secondly, the redemption value per Section 344.5(a)(3)(ii) is calculated using the following equation:

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

(Equation 15)

where
RV=Redemption value
F=Face amount redeemed
AI=Accrued interest=[(s − r)/s]×(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
$a_{\overline{n}|}=(1- v^n)/(i/2)=v + v^2 + v^3 + \ldots + v^n$ = present value of 1 per period for n periods

B. The application of this formula can be illustrated by the following examples:

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

(1) 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.

(2) 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%.

(3) The redemption value is computed as follows:

First, the accrued interest payable is calculated as:

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

(Equation 16)

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

(Equation 17)

$$AI = \$20,349.73$$

(Equation 18)

Then, the redemption value is calculated as:

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

(Equation 19)

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

(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)

(ii) 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%:

(1) 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.

(2) 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%.

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

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

(Equation 26)

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

(Equation 27)

$$AI = \$20,349.73$$

(Equation 28)

Then, the redemption value is calculated as:

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

(Equation 29)

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

(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 can be determined by the following two steps:

First, accrued interest payable in accordance with Section 344.5(a)(3)(i) is calculated using the following formula:

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

(Equation 36)

and secondly, the redemption value per Section 344.5(a)(3)(ii) is calculated using the following equation:

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

(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 to its maturity date

r=Number of days from redemption date to the certificate's maturity date

y=365, if the number of days in the year following issue of the certificate does not include a leap year day; 366, if the number of days following issue of the certificate 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.

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

(1) 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.

(2) 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%.

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

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

(Equation 38)

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

(Equation 39)

$$AI = \$5{,}136.99$$

(Equation 40)

Then, the redemption value is calculated as:

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

(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)

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

(1) 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.

(2) 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%.

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

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

(Equation 46)

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

(Equation 47)

$$AI = \$5{,}136.99$$

(Equation 48)

Then, the redemption value is calculated as:

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

(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)