

## § 356.0

356.24 Will I be notified directly of my awards and, if I am submitting bids for others, do I have to provide confirmations?

356.25 How does the settlement process work?

### Subpart D—Miscellaneous Provisions

356.30 When does the Treasury pay principal and interest on securities?

356.31 How does the STRIPS program work?

356.32 What tax rules apply?

356.33 Does the Treasury have any discretion in the auction process?

356.34 What could happen if someone does not fully comply with the auction rules or fails to pay for securities?

356.35 Who approved the information collections?

APPENDIX A TO PART 356—BIDDER CATEGORIES  
APPENDIX B TO PART 356—FORMULAS AND TABLES

APPENDIX C TO PART 356—INVESTMENT CONSIDERATIONS

APPENDIX D TO PART 356—DESCRIPTION OF THE CONSUMER PRICE INDEX

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### Subpart A—General Information

#### § 356.0 What authority does the Treasury have to sell and issue securities?

Chapter 31 of Title 31 of the United States Code authorizes the Secretary of the Treasury to issue United States obligations, and to offer them for sale with the terms and conditions that the Secretary prescribes.

#### § 356.1 To which securities does this circular apply?

The provisions in this part, including the appendices, and each individual auction announcement govern the sale and issuance of marketable Treasury securities issued on or after March 1, 1993. This part also governs all securities eligible for the STRIPS (Separate Trading of Registered Interest and Principal of Securities) Program (See § 356.31.). In addition, these provisions and the auction announcements govern any other types of securities we may issue under this part.

## 31 CFR Ch. II (7–1–10 Edition)

#### § 356.2 What definitions do I need to know to understand this part?

*Accrued interest* means an amount that bidders must pay to us for interest income as part of the settlement amount. Accrued interest compensates us up front for interest that bidders will be paid but did not earn because it is attributable to a period of time prior to the issue date. (See appendix B, section I, paragraph C of this part for additional explanation and examples.)

*Adjusted value* means, for an interest component stripped from an inflation-protected security, an amount derived by:

(1) Multiplying the semiannual interest rate by the par amount, and then

(2) Multiplying this value by: 100 divided by the Reference CPI of the original issue date (or dated date, when the dated date is different from the original issue date). (See appendix B, section IV of this part for an example of how to calculate the adjusted value.)

*Auction* means a bidding process by which we sell marketable Treasury securities to the public.

*Autocharge agreement* means an agreement in a format acceptable to Treasury between a submitter or clearing corporation and a depository institution that authorizes us to:

(1) Deliver awarded securities to the book-entry securities account of a designated depository institution in the commercial book-entry system, and

(2) Charge a funds account of a designated depository institution for the settlement amount of the securities.

*Bid* means an offer to purchase a stated par amount of securities, either competitively or noncompetitively, in an auction.

*Bid-to-cover ratio* means the total par amount of securities bid for in an auction divided by the total par amount of securities awarded. It excludes bids by, and awards to, the Federal Reserve for its own account.

*Bidder*, as further defined in appendix A, means a person or an entity that offers to purchase Treasury securities in an auction either directly or through a depository institution or dealer. We may consider two or more persons or entities to be one bidder based on their relationship or their actions in participating in an auction. We consider a

controlled account to be a bidder when an investment adviser bids in the name of the controlled account (See §356.15.).

*Bidder Identification Number* means a number we assign to each institutional submitter and to certain other bidders. We assign such numbers either to identify certain bidders or to grant separate bidder status to different parts of the same corporate or partnership structure.

*Book-entry security* means a security that is issued and maintained as an accounting entry or electronic record in either the commercial book-entry system or in one of Treasury's two direct-hold systems—TreasuryDirect® or Legacy Treasury Direct. (See §356.4.)

*Business day* means any day on which the Federal Reserve Banks are open for business.

*Call* means the redemption of a security prior to maturity under the terms specified in its auction announcement.

*Certificate of indebtedness* means a one-day non-interest-bearing security that may be held in TreasuryDirect and that automatically matures and is rolled over each day until its owner requests that it be redeemed.

*Clearing corporation* means a clearing agency as defined in section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(23)). A clearing corporation must be registered with the Securities and Exchange Commission under section 17A of the Securities Exchange Act of 1934 and its rules.

*Competitive bid* means a bid to purchase a stated par amount of securities at a specified yield or discount rate.

*Consumer Price Index (CPI)* means the monthly non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the Department of Labor. We use the CPI as the basis for adjusting the principal amounts of inflation-protected securities. (See appendix D.)

*Corpus* means the principal component of a security that has been stripped of its interest components.

*CUSIP number* means the unique identifying number assigned to each separate security issue and each separate STRIPS component. CUSIP numbers are provided by the CUSIP Service Bureau of Standard & Poor's Corporation.

CUSIP is an acronym for Committee on Uniform Securities Identification Procedures.

*Customer* means a bidder that directs a depository institution or dealer to submit or forward a bid for a specific amount of securities in a specific auction on the bidder's behalf. Only depository institutions and dealers may submit bids for customers directly to us, or forward them to another depository institution or dealer.

*Dated date* means the date from which interest accrues for notes and bonds. The dated date and issue date are usually the same. In those cases where interest begins accruing prior to the issue date, however, the dated date will be prior to the issue date. An example is when the dated date is a Saturday and the issue date is the following Monday.

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

*Delivery and payment agreement* means a written agreement between a clearing corporation and a submitter, acknowledged by a Federal Reserve Bank, regarding securities awarded to the submitter for its own account. It authorizes us to deliver such securities to, and accept payment from, a depository institution acting on behalf of the clearing corporation under an acknowledged autocharge agreement.

*Depository institution* means:

(1) An entity described in Section 19(b)(1)(A), excluding subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)).

(2) Any agency or branch of a foreign bank as defined by the International Banking Act of 1978, as amended (12 U.S.C. 3101).

*Discount* means the difference between par and the price of the security, when the price is less than par. (See appendix B for formulas and examples.)

*Discount amount* means the discount divided by 100 and multiplied by the par amount. (See appendix B for formulas and examples.)

*Discount rate* means a rate of return, on an annual basis, on bills held until

they mature. The discount rate is expressed in percentage terms and based on a 360-day year. It is also referred to as the “bank discount rate.” (See appendix B for formulas and examples.)

*Funds account* means a cash account maintained by a depository institution at a Federal Reserve Bank.

*Index* means the Consumer Price Index.

*Index ratio* means, for an inflation-protected security, the Reference CPI of a particular date divided by the Reference CPI of the original issue date. (When the dated date is different from the original issue date, the denominator of the index ratio is the Reference CPI of the dated date rather than that of the original issue date.)

*Inflation-adjusted principal* means, for an inflation-protected security, the value of the security derived by multiplying the par amount by the applicable index ratio as described in appendix B, section I, paragraph B.

*Interest rate* means the annual percentage rate of interest paid on the par amount (or the inflation-adjusted principal) of a specific issue of notes or bonds. (See appendix B for methods and examples of interest calculations on notes and bonds.)

*Intermediary* means a depository institution or dealer that forwards bids for customers to another depository institution or dealer. An intermediary does not submit bids directly to us.

*Issue date* means the date specified in the auction announcement on which we issue a security as an obligation of the United States. Interest normally begins to accrue on a security’s issue date.

*Legacy Treasury Direct* means a non-Internet-based book-entry system maintained by Treasury for purchasing and holding marketable Treasury securities directly with Treasury. (See 31 CFR part 357.)

*Marketable security* means a security that may be bought, sold and transferred in the secondary market.

*Maturity date* means the date on which a security becomes due and payable, and ceases to earn interest. The maturity date is specified in the auction announcement.

*Minimum to bid* means the smallest amount of a security that may be bid

for in an auction as stated in the auction announcement.

*Multiple to bid* means the smallest additional amount of a security that may be bid for in an auction as stated in the auction announcement.

*Multiple-price auction* means an auction in which each successful competitive bidder pays the price equivalent to the yield or rate that it bid.

*Noncompetitive bid* means, for a single-price auction, a bid to purchase a stated par amount of securities at the highest yield or discount rate awarded to competitive bidders. For a multiple-price auction, a noncompetitive bid means a bid to purchase securities at the weighted average yield or discount rate of awards to competitive bidders.

*Offering amount* means the par amount of securities we are offering to the public for purchase in an auction, as specified in the auction announcement.

*Par* means a price of 100. (See appendix B.)

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

*Person* means a natural person.

*Premium* means the difference between par and the price of the security, when the price is greater than par.

*Premium amount* means the premium divided by 100 and multiplied by the par amount.

*Price* means the price of a security per 100 dollars of its stated value as calculated using the formulas in appendix B.

*Real yield* means, for an inflation-protected security, the yield based on the payment stream in constant dollars. In other words, the real yield is the yield in the absence of inflation.

*Reference CPI* (Ref CPI) means, for an inflation-protected security, the index number applicable to a given date. (See appendix B, section I, paragraph B.)

*Reopening* means the auction of an additional amount of an outstanding security.

*Security* means a Treasury bill, note, or bond, each as described in this part. Security also means any other obligation we issue that is subject to this part according to its auction announcement. Security includes an interest or principal component under the STRIPS

program, as well as a certificate of indebtedness in an investor's TreasuryDirect account.

*Settlement* means final and complete payment for securities awarded in an auction and delivery of those securities.

*Settlement amount* means the total of the par amount of securities awarded, less any discount amount or plus any premium amount, and plus any accrued interest. For inflation-protected securities, the settlement amount also includes any inflation adjustment when such securities are reopened or when the dated date is different from the issue date.

*Single-price auction* means an auction in which all successful bidders pay the same price regardless of the yields or rates they each bid.

*STRIPS* (Separate Trading of Registered Interest and Principal of Securities) means our program under which eligible securities are authorized to be separated into principal and interest components, and transferred separately. These components are maintained and transferred in the commercial book-entry system.

*Submitter* means a person or entity submitting bids directly to us for its own account, for customer accounts, or both. Only depository institutions and dealers are permitted to submit bids for customer accounts. We permit investment advisers to submit bids on behalf of controlled accounts.

*TINT* means an interest component from a stripped security.

*TreasuryDirect* means the book-entry, online system maintained by Treasury for purchasing and holding marketable Treasury securities, nonmarketable savings bonds, and certificates of indebtedness directly with Treasury. (See 31 CFR part 363.)

*We* (or "us") means the Secretary of the Treasury and his or her delegates, including the Department of the Treasury, Bureau of the Public Debt, and their representatives. The term also includes Federal Reserve Banks acting as fiscal agents of the United States.

*Weighted-average* means the average of the yields or discount rates at which we award securities to competitive bidders weighted by the par amount of se-

curities allotted at each yield or discount rate.

*Yield* means the annualized rate of return to maturity on a fixed-principal security. Yield is expressed as a percentage. For an inflation-protected security, yield means the real yield. Yield is also referred to as "yield to maturity." (See appendix B.)

*You* means a prospective bidder in an auction.

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### § 356.3 What is the role of the Federal Reserve Banks in this process?

The Treasury Department authorizes Federal Reserve Banks, as fiscal agents of the United States, to perform all activities necessary to carry out the provisions of this part, any auction announcements, and applicable regulations.

### § 356.4 What are the book-entry systems in which auctioned Treasury securities may be issued?

There are three book-entry securities systems—the commercial book-entry system, TreasuryDirect®, and legacy Treasury Direct®—into which we issue marketable Treasury securities. We maintain and transfer securities in these three book-entry systems at their par amount. Par amounts of Treasury inflation-protected securities do not include adjustments for inflation. Securities may be transferred from one system to the other, unless the securities are not eligible to be held in the receiving system. See Department of the Treasury Circular, Public Debt Series No. 2-86, as amended (part 357 of this chapter) and part 363 of this chapter.

(a) *The commercial book-entry system.* When depository institutions or dealers submit bids for Treasury securities in an auction, securities awarded as a result of those bids are generally held in the commercial book-entry system. Specifically, we maintain book-entry accounts in the National Book-Entry System® ("NBES") for Federal Reserve Banks, depository institutions, and other authorized entities, such as government and international agencies