(3) *Legacy Treasury Direct®*. We discharge our payment obligations when we make payment to a depository institution for credit to the account specified by the owner of the security, or when we make payment according to the instructions of the security's owner or the owner's legal representative.

[69 FR 45202, July 28, 2004, as amended at 70 FR 57441, Sept. 30, 2005; 78 FR 46430, July 31, 2013]

§ 356.31 How does the STRIPS program work?

(a) *General*. Notes or bonds (other than Treasury floating rate notes) may be "stripped"—divided into separate principal and interest components. These components must be maintained in the commercial book-entry system. Stripping is done at the option of the holder, and may occur at any time from issuance until maturity. We provide the CUSIP numbers and payment dates for the principal and interest components in auction announcements and on our Web site at *http://www.treasurydirect.gov*.

(b) *Treasury non-indexed securities (notes and bonds other than Treasury inflation-protected securities or Treasury floating rate notes)*—(1) *Minimum par amounts required for STRIPS*. The minimum par amount of a non-indexed security that may be stripped is $100. Any par amount to be stripped above $100 must be in a multiple of $100.

(2) *Principal components*. Principal components stripped from non-indexed securities are maintained in accounts, and transferred, at their par amount. They have a CUSIP number that is different from the CUSIP number of the fully constituted (unstripped) security.

(3) *Interest components*. Interest components stripped from non-indexed securities have the following features:

(i) They are maintained in accounts, and transferred, at their original payment value, which is derived by multiplying the semiannual interest rate and the par amount;

(ii) Their interest payment date becomes the maturity date for the component;

(iii) All interest components with the same maturity date have the same CUSIP number, regardless of the underlying security from which the interest payments were stripped, and therefore are fungible (interchangeable).

(iv) the CUSIP numbers of interest components are different from the CUSIP numbers of principal components and fully constituted securities, even if they have the same maturity date, and therefore are not fungible.

(c) *Treasury inflation-protected securities*—(1) *Minimum par amounts required for STRIPS*. The minimum par amount of an inflation-protected security that may be stripped is $100. Any par amount to be stripped above $100 must be in a multiple of $100.

(2) *Principal components*. Principal components stripped from inflation-protected securities are maintained in accounts, and transferred, at their par amount. At maturity, the holder will receive the inflation-adjusted principal or the par amount, whichever is greater. (See § 356.30.) A principal component has a CUSIP number that is different from the CUSIP number of the fully constituted (unstripped) security.

(3) *Interest components*—(i) *Adjusted value*. Interest components stripped from inflation-protected securities are maintained in accounts, and transferred, at their adjusted value. This value is derived by multiplying the semiannual interest rate by the par amount and then multiplying this value by: 100 divided by the Reference CPI of the original issue date. (The dated date is used instead of the original issue date when the dates are different.) See appendix B, section IV of this part for an example of how to do this calculation.

(ii) *CUSIP numbers*. When an interest payment is stripped from an inflation-protected security, the interest payment date becomes the maturity date for the component. All interest components with the same maturity date have the same CUSIP number, regardless of the underlying security from which the interest payments were stripped. Such interest components are fungible (interchangeable). The CUSIP numbers of interest components are different from the CUSIP numbers of principal components and fully constituted securities, even if they have the same maturity date.

(iii) *Payment at maturity.* At maturity, the payment to the holder will be derived by multiplying the adjusted value of the interest component by the Reference CPI of the maturity date, divided by 100. See appendix B, section IV of this part for an example of how to do this calculation.

(iv) *Rebasing of the CPI.* If the CPI is rebased to a different time base reference period (See appendix D.), the adjusted values of all outstanding inflation-protected interest components will be converted to adjusted values based on the new base reference period. At that time, we will publish information that describes how this conversion will occur. After rebasing, any interest components created from a security that was issued during a prior base reference period will be issued with adjusted values calculated using reference CPIs under the most-recent base reference period.

(d) *Reconstituting a security.* Stripped interest and principal components may be reconstituted, that is, put back together into their fully constituted form. A principal component and all related unmatured interest components, in the appropriate minimum or multiple amounts or adjusted values, must be submitted together for reconstitution. Because inflation-protected interest components are different from non-indexed interest components, they are not interchangeable for reconstitution purposes.

(e) *Applicable regulations.* Subparts A, B, and D of part 357 of this chapter govern notes and bonds stripped into their STRIPS components, unless we state differently in this part.

[69 FR 45202, July 28, 2004, as amended at 73 FR 14939, Mar. 20, 2008; 74 FR 26086, June 1, 2009; 78 FR 46428 and 46430, July 31, 2013]

§ 356.32 What tax rules apply?

(a) *General.* Securities issued under this part are subject to all applicable taxes imposed under the Internal Revenue Code of 1986, or its successor. Under section 3124 of title 31, United States Code, the securities are exempt from taxation by a State or political subdivision of a State, except for State estate or inheritance taxes and other exceptions as provided in that section.

(b) *Treasury inflation-protected securities.* Special federal income tax rules for inflation-protected securities, including stripped inflation-protected principal and interest components, are set forth in Internal Revenue Service regulations.

(c) *Treasury floating rate notes.* Special federal income tax rules for floating rate notes are set forth in Internal Revenue Service regulations.

[69 FR 45202, July 28, 2004, as amended at 78 FR 46430, July 31, 2013]

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

(a) We have the discretion to:

(1) Accept, reject, or refuse to recognize any bids submitted in an auction;

(2) Award more or less than the amount of securities specified in the auction announcement;

(3) Waive any provision of this part for any bidder or submitter; and

(4) Change the terms and conditions of an auction.

(b) Our decisions under this part are final. We will provide a public notice if we change any auction provision, term, or condition.

(c) We reserve the right to modify the terms and conditions of new securities and to depart from the customary pattern of securities offerings at any time.

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

(a) *General.* If a person or entity fails to comply with any of the auction rules in this part, we will consider the circumstances and take what we deem to be appropriate action. This could include barring the person or entity from participating in future auctions under this part. We also may refer the matter to an appropriate regulatory agency.

(b) *Liquidated damages.* If you fail to pay for awarded securities in a timely manner, we may require you to pay liquidated damages of up to one percent of the par amount of securities we awarded to you. Our use of this liquidated damages remedy does not preclude us from using any other appropriate remedy.