DEPARTMENT OF THE TREASURY

Fiscal Service

31 CFR Part 344

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

Regulations Governing United States Treasury Certificates of Indebtedness, Treasury Notes, and Treasury Bonds—State and Local Government Series

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

ACTION: Proposed rule.

SUMMARY: The Department of the Treasury hereby publishes a proposed rule governing United States Treasury Certificates of Indebtedness, Notes, and Bonds of the State and Local Government Series (SLGS). These securities are available for purchase by issuers of state and local government bonds described in section 103 of the Internal Revenue Code for proceeds (or amounts treated as proceeds) which are subject to yield restrictions or arbitrage rebate requirements of the Income Tax regulations under sections 103, 148, 149 and 150 of the Internal Revenue Code (tax regulations). This document proposes changes to make the SLGS securities program more flexible.

DATES: Comments must be received on or before August 26, 1996.

ADDRESSES: Copies of this proposed rule have also been made available for downloading from the Bureau of the Public Debt home page at the following address:

http://www.ustreas.gov:treasury/bureaus/pubdebt/pubdebt.html

Comments should be sent to: Division of Special Investments, Bureau of the Public Debt, Department of the Treasury, 200 3rd St., P.O. Box 396, Parkersburg, WV 26101–0396. Comments received will be available for public inspection and downloading on the Internet and for inspection and copying at the Treasury Department Library, FOIA Collection, Room 5030, Main Treasury Building, 1500 Pennsylvania Avenue NW, Washington, D.C. 20220. Persons wishing to visit the library should call 202–622–0990 for an appointment. Comments may also be sent through the Internet to Fred Pyatt, Director, or Howard Stevens, Supervisory Program Analyst, Division of Special Investments at fpyatt@bpd.treas.gov or hstevens@bpd.treas.gov. When sending comments by Internet, please provide your full name and mailing address.

FOR FURTHER INFORMATION CONTACT: Fred Pyatt, Director, or Howard Stevens, Supervisory Program Analyst, Division of Special Investments, at 304–480–7752 or Ed Gronseth, Deputy Chief Counsel, or Jim Kramer-Wilt, Attorney/Adviser, Office of the Chief Counsel, at 304–480–5190.

SUPPLEMENTARY INFORMATION:

I. Background.

The Department of the Treasury, Bureau of the Public Debt, is attempting to make the SLGS securities program more attractive and flexible for State and local government issuers of debt obligations that are subject to the arbitrage and rebate rules of the Internal Revenue Code. It is the Department's intent to do so in a manner consistent with tax policy objectives and in a manner that is cost effective.

In recent years, market participants have advised the Department that aspects of the existing SLGS securities regulations impose burdens that are not needed or cost effective. On April 30, 1996, the Department published an Advanced Notice of Proposed Rulemaking, noting several changes the Department was considering in order to make the SLGS securities program more flexible. The changes under consideration were to: (1) Eliminate the ‘‘all or nothing’’ certification, (2) provide for subscriptions and redemptions in increments of less than $100 above the $1,000 minimum, (3) reduce the minimum maturity for zero interest certificates of indebtedness, (4) reduce the time for advance notice between subscription and issue date for time deposit and special zero interest SLGS securities, (5) make SLGS securities pricing more consistent with open market Treasury securities, (6) permit SLGS securities to be purchased with funds subject to rebate as well as yield restriction, (7) revise the demand deposit program, (8) change the formula for determining the redemption value of SLGS securities, including eliminating the restriction against premium redemption, (9) permit zero interest time deposit SLGS securities to be redeemed without penalty; and lastly, (10) permit the purchase of SLGS securities with the proceeds of previously redeemed SLGS securities or with open market Treasury securities.

There were eight letters received commenting on the Advanced Notice of Proposed Rulemaking (ANPR). In general, the comments were in favor of the ten items contained in the ANPR. Several comments suggested specific parameters for some of the ten items while others suggested the Treasury Department consider changes not contained in the ANPR. Following is a summary of the issues addressed in the comments and an explanation of the action taken with respect to each comment.

Proposal No. 1—The Department proposed the elimination of the ‘‘all or nothing’’ certification which requires all yield restricted investments be invested either all in SLGS securities or all in open market Treasury securities. All comments were strongly in favor of the elimination of the ‘‘all or nothing’’ certification. The Department has included this proposal in the proposed rule.

Proposal No. 2—The Department proposed to allow subscriptions for time deposit SLGS securities in increments of less than $100 above the $1,000 minimum investment and to permit partial redemptions in increments of less than $100, so long as an account balance is at least $1,000 after partial redemption. Most comments were in favor of these items. One comment stated there would be an increased administrative burden on agent banks and on the Department. The Department has determined to make these changes which would result in a more flexible program. Please refer to the comment on the elimination of the special zero interest securities following Proposal No. 10.

One comment suggested the Department reduce the $1,000 minimum investment now required. The Department has determined that $1,000 is a reasonable minimum amount in light of the nature of the SLGS securities program and is not including this suggestion in the proposed rule.

Proposal No. 3—The Department proposed to reduce the minimum maturity for zero interest time deposit certificates of indebtedness. All comments were in favor of this item and the Department is proposing a reduction from thirty to fifteen days for zero interest time deposit securities. One comment urged the Department to make all SLGS securities available in any maturity. The Department has determined that pricing interest bearing SLGS securities of less than thirty days maturity is not feasible, given the volatility of the market. The Department has also decided not to reduce the minimum maturity of zero interest SLGS securities to fewer than fifteen days due to operational constraints. Please refer to the comment on the elimination of special zero interest securities following Proposal No. 10.

Proposal No. 4—The Department proposed to reduce the time between the date of subscription and the date of issue for time deposit SLGS securities. All comments were in favor of this item.

One comment suggested that the time be reduced to no longer than five business days. Accordingly, the Department is proposing a minimum notification of five days for subscriptions of $10 million or less and a minimum notification of seven days for subscriptions of over $10 million.

Proposal No. 5—The Department proposed a reduction of the twelve and one-half basis points differential between SLGS securities rates and rates of similar Treasury securities in the open market. All comments were in favor of this item except one that recommended it remain unchanged. There were specific suggestions on the basis point differential ranging from zero to five. The Department is proposing the basis point differential be reduced to five basis points.

Proposal No. 6—The Department proposed investors be able to purchase SLGS securities with funds subject to rebate as well as yield restrictions. All comments were in favor of this item. The Department will include this item in the proposed rule. Other comments suggested:

(a) Replace all eliminated certifications with a gross proceeds certification under Section 1.148–1(b) of the Income Tax regulations.

(b) Allow all gross proceeds to be invested in SLGS securities.

(c) Offer an instrument similar to a Guaranteed Investment Contract and provide for automatic reinvestment of SLGS securities.

With respect to (a) and (b) above, the Department is proposing to remove all certifications from these regulations, including a gross proceeds certification. The Department believes that the nature and general scope of the program as described in Section 344.0(a) limits investment in SLGS securities to gross proceeds of tax-exempt bonds.

With respect to (c), the Department believes that other changes being proposed to improve the SLGS program will address issuers' concerns about reinvestment risks. In addition, under this proposed rule, for example, an issuer would be able to make reinvestments and to invest interest payments at the current rate, provided it follows the revised notice requirements. Please refer to Proposal No. 10. The Department has determined not to offer products similar to Guaranteed Investment Contracts under the proposed rule.

Proposal No. 7—The Department proposed revising the SLGS Demand Deposit program by adjusting the rate formula and by eliminating certifications that are duplicative of current tax regulations or could be better administered through the tax regulations. One comment suggested the program be eliminated altogether. This program is congressionally mandated, however, and the Department is therefore proposing to make it more attractive and easier to use. Specifically, the Department is proposing to eliminate the certifications and to reduce the Treasury administrative cost in the rate formula. Also, the Department is proposing to remove the $35 million dollar cap on investments in the Demand Deposit program.

In order to facilitate the administration of the Demand Deposit program under the flexible rules proposed, for subscriptions of more than $10 million, Public Debt must receive the required notice between the date of subscription and date of issue in no less than seven days, rather than the present required notice period of three days. Receipt of notice by Public Debt between date of subscription and date of issue for subscriptions of less than $10 million would be increased to five days.

Proposal No. 8—The Department proposed to change the formula for determining the redemption value of SLGS securities in a manner which could result in a premium for the subscriber in cases where the Treasury borrowing rate is lower than the stated interest rate of the SLGS security. All comments were in favor of this change. The Department is proposing to change the formula in a manner that could result in a premium upon redemption. There were five specific suggestions on this item:

(a) The new redemption formula should be made available for SLGS securities issued prior to September 1, 1989. The Department has considered the suggestion and has decided not to change formulas that apply to previously purchased SLGS securities.

(b) Change the current irrevocability of an early redemption notice to one where a six-month early redemption penalty results. The Department has determined that a six-month penalty would not be an adequate deterrent to the revocation of an early redemption notice. An issuer should not be harmed by the retention of this penalty as it would be able to roll over its investments.

(c) Reduce the minimum holding period for time deposit notes and bonds, before allowing an early redemption, from one year to thirty days or less. The Department is adopting this suggestion and proposes to permit thirty days as a minimum period for holding time deposit notes and bonds.

(d) In redemption calculations, take into consideration the maximum interest rate that an issuer could have subscribed for, instead of the actual rate on the outstanding security. The purpose of the redemption formula is to make the Department whole. This suggestion would be inconsistent with this purpose. In addition, issuers would have the flexibility to mix zero interest SLGS securities with either open market securities or with SLGS securities bearing the maximum rate. This should eliminate the problems commenters have cited. For these reasons, the Department is not incorporating this suggestion into the new formula.

(e) Address the issue of whether a premium constitutes proceeds and how the premium should be treated for yield purposes. The issue identified in this suggestion is more appropriately determined under Section 148 of the tax regulations.

Proposal No. 9—The Department proposed to allow zero interest time deposit SLGS securities to be redeemed early at par. All comments were in favor of this item. The Department has included this item in the proposed rule for zero interest time deposit SLGS securities.

Proposal No. 10—The Department proposed to permit the purchase of SLGS securities with the proceeds of previously redeemed SLGS securities or open market Treasury securities. All comments were in favor of this item. The Department is proposing to permit the purchase of SLGS securities with proceeds of previously redeemed SLGS securities or open market Treasury securities.

Discontinuing the Issuance of Special Zero Interest Securities

The Department is proposing to discontinue the issuance of special zero interest securities. Special zero interest securities were instituted to allow issuers to blend special zero interest securities with above-yield open market investments in instances where proceeds became subject to yield restrictions at some date after the issuance of the bonds. The current regulations provide that special zero interest securities may be redeemed without penalty as a further accommodation to the types of situations where this program could be used.

Under the proposed rule, zero interest bearing time deposit securities would now be made available for purposes of rebate compliance, could be in the same escrow as open market investments, and could be redeemed early without penalty.

In addition, the tax regulations provide issuers with the ability to make ''yield reduction payments'' for certain yield-restricted investments that are invested over the yield on the bonds. Yield reduction payment provisions cover virtually all instances when an issuer would use special zero interest securities, greatly reducing the need for this program.

Therefore, there seems to be no reason to continue the issuance of special zero interest securities. The provisions for redemption of these securities would remain to govern the issues of special zero interest securities still outstanding.

Additional Comments

Other comments received, not pertaining to the ten items in the ANPR, suggested the Department make further changes to the SLGS securities program as follows:

(a) Issue zero coupon deep discount bills, notes and bonds for which the issuer could specify the maturity date. Interest on these securities would accrue and be paid at maturity. The Department is revising its SLGS computer system which currently is not capable of handling such securities. The Department is not including this suggestion in the proposed rule at this time, but will reconsider this suggestion in the future when its revised computer system is implemented. Until then, there should be little inconvenience because purchasers can satisfy their requirements by purchasing deep discount zero coupon securities in the open market.

(b) Replace the penalty for revocation of the issuance of a SLGS security under Section 344.1(f)(3) (a six-month prohibition against subscribing for SLGS securities) with a monetary penalty. The Department has determined the six-month penalty is an adequate deterrent for non-settlement of a SLGS subscription and is not including this suggestion in the proposed rule.

(c) Offer to bid and supply a portfolio of open market Treasury securities in circumstances where SLGS securities are not a viable investment alternative. The Department has determined that with all the changes proposed, SLGS securities are a viable investment. The Department is not including this suggestion in the proposed rule.

(d) Amend Section 344.3(b)(3) to permit the acceleration, as well as the postponement of, the delivery dates of SLGS securities within administratively acceptable time limits. The Department has determined this suggestion has been sufficiently addressed in Proposal No. 4.

(e) Revise the procedures to be followed when the sale of SLGS securities is suspended due to a debt ceiling limit and include an automatic waiver under Section 344.4 of all penalties for cancellation of a subscription. Due to varying circumstances in the event of a debt ceiling limit, the Department needs flexibility to deal with the various issues that arise during periods when sales are suspended due to debt ceiling limitations and has decided not to incorporate this suggestion in the proposed rule. Treasury, however, has never failed to deliver SLGS securities for subscriptions already accepted due to debt ceiling limitations.

(f) Make current SLGS securities interest rates, SLGS securities regulations and historical SLGS securities rates available on the Internet, or some other ''free'' resource, rather than on the Commerce Department's Economic Bulletin Board. The Department is currently exploring the dissemination of such information by electronic means and will address this issue in the future. In the meantime these rates are now provided free by phone or fax by the Division of Special Investments, Bureau of the Public Debt, by calling its automated fax at (304) 480–7548 or by calling (304) 480–7752.

(g) Permit the filing of electronic subscriptions. The Department is considering the electronic filing of subscriptions as a part of its computer system redesign now in progress. This suggestion will be addressed in a subsequent regulation.

(h) Clarify who is to be listed as the ''beneficial owner'' for purposes of 31 CFR Part 306. The proposed rule clarifies that for purposes of this Section, the ''beneficial owner'' in Sections 344.0(b) and 344.3(b)(1), whose Tax Identification Number is used, is the state or local government entity, not the trustee or conduit borrower. The six-month penalty for cancellation would therefore be applied to the state or local government entity.

(i) Modify the initial subscription requirements to require certain identifying characteristics of the source of proceeds to be invested so that in the event of a failure to settle, only those subscriptions for the same proceeds are precluded, rather than the Department ''blacklisting'' any subscription submitted under that Taxpayer Identification Number. The Department has determined that monitoring such proceeds would not be administratively feasible and that a six-month penalty is an adequate deterrent appropriately applied at the issuer level. The Department is therefore not including this suggestion in the proposed rule.

(j) Make SLGS securities transferrable. The Department has considered the general issue of transferability and does not intend to change the prohibition against transfer now found in Section 344.1(b). To the extent this suggestion of transferability refers to the transfer of an account, such as a reserve fund investment, by an issuer from one bond issue to another bond issue of that subscriber under the same Taxpayer Identification Number, or between accounts of different security types, i.e., demand deposit to time deposit (as now prohibited by Section 344.1(c)), or from one trustee to another, the clarification of the beneficial owner should address the concern of the commenter. The Department however invites further comments on this suggestion.

(k) Permit an issuer to notify the Bureau of the Public Debt that it is pricing a transaction for which it intends to invest in SLGS securities and thereby lock in the day's SLGS securities rate for a period of up to three days. The Department has determined Proposal No. 4 sufficiently addresses this suggestion. Subscribers for $10 million or less must give at least five days notice and subscribers for more than $10 million must give seven days notice.

(l) Eliminate the 10-year maximum maturity on special zero interest SLGS securities and eliminate any restrictions on their use, thereby making it the only zero yielding SLGS security. The Department has proposed to discontinue the issuance of special zero interest SLGS securities. Please refer to the expanded comment on this issue following Proposal No. 10.

(m) Permit an issuer to restructure its SLGS portfolio by exchanging purchased SLGS securities for ones with similar cash flows. The Department has determined the proposal to allow easing of the early redemption rules for SLGS securities and the rollovers of investments in SLGS securities with previously redeemed SLGS securities would increase an issuer's flexibility in restructuring its portfolio. The Department is not including this suggestion in the proposed rule.

(n) Allow the forward purchase of SLGS securities more than the currently permitted sixty days in Section 344.4. The Department has determined the flexibility provided in this proposed rule is sufficient. The Department has determined the benefit to the market is insufficient to overcome the administrative burden on the Department of maintaining subscription requests for a lengthy period and is not including this suggestion in the proposed rule.

(o) Pay issuers the redemption value of matured SLGS securities by 1:00 p.m. on the date of maturity. The Department makes ACH payments available to the Federal Reserve Banks in time for posting at the commercial banks at the opening of the business day on the date of maturity. As the suggestion of a 1:00 p.m. payment on maturity date is now being met by the Department, it will not be included in the proposed rule.

(p) The final comment raised several issues related to the yield restriction and rebate rules as they apply to pooled loan programs. The Department believes the changes to the SLGS program in the proposed regulations would assist issuers of pooled loan bonds. Other suggestions would be more appropriately dealt with in the tax regulations.

As a result of these comments and decisions within the Treasury Department, this is being published in proposed form to give market participants an additional comment period.

II. Section By Section Summary

Subpart A—General Information

Provisions included in the general information section apply to time deposit and demand deposit State and Local Government Series securities. Proposed changes from the 1995 regulations are as follows:

Subpart A—General Information

(1) Section 344.0(b)—This section would be changed to redefine the term ''government body'' to make it clear SLGS securities are issued only to state and local governments and not to conduit borrowers.

(2) Section 344.0(d)—A new section would be added to indicate that time deposit SLGS securities would be issued in a minimum amount of $1,000, or in any increments of not less than $1.00. Demand Deposit securities could be issued in any increment over the $1,000 minimum.

(3) Section 344.1(a)—This section would be changed to note that copies of the circular may be obtained from the Division of Special Investments.

(4) Section 344.1(h)—A new section would be added on noncompliance which applies to all subparts and the present noncompliance section in each subpart would be deleted. This section also clarified that late payment fees and administrative fees are due on demand.

(5) Section 344.1(i)—Another general section would be added, titled General Redemption Provisions, stating a security may not be called for redemption by the Secretary of the Treasury prior to maturity. If a security is scheduled for redemption on a non-business day, it would be redeemed on the next business day. This section would apply to all subparts and duplications of this section that exist in the present regulations would be deleted.

(6) Section 344.1(j)—A new section would be added to clarify that any reference to days refers to calendar days, unless otherwise noted.

Subpart B—Time Deposit Securities

(1) Section 344.2(a)(1)—The reference to the $1,000 minimum would be deleted as it would be covered in 344.0(d). Section 344.0(d) would also state that increments above the minimum amount could be purchased for not less than $1.00 for time deposit securities. The minimum maturity period for zero percent certificates of indebtedness would be reduced from thirty days to fifteen days.

(2) Section 344.2(a)(2)—The reference to the $1,000 minimum amount and the $100 increment above this amount would be deleted as it would be covered in the new general section, 344.0(d).

(3) Section 344.2(a)(3)—The reference to the $1,000 minimum amount and the increment above this amount would be deleted as it would be covered in a new general section, 344.0(d).

(4) Section 344.2(b)—The last sentence of this section would state the rates specified in the tables are five basis points below the then current estimated Treasury borrowing rate for a security of comparable maturity. Section 344.2(c)(2) would clarify that the Department may employ alternative methods of payment other than by ACH.

(5) Section 344.2(c)(2)—This section would be amended to provide for payment of redemptions prior to maturity by Fedwire.

(6) Section 344.3(b)(1)—This section would be amended to indicate that subscriptions must be received by Public Debt at least five days prior to issue date for subscriptions of $10 million or less and seven days for subscriptions of more than $10 million. Subscriptions of $10 million or less could be canceled without penalty up to five days before the date of issuance. Subscriptions of more than $10 million could be canceled without penalty up to seven days before the date of issuance.

This section would also note that a subscription sent in letter form would not be accepted unless it provided the Tax Identification Number of the government body.

In the example of an initial subscription in letter form, the words ''or other entity'' have been deleted to emphasize that the proper Tax Identification Number to insert is that of the state or local government owner, not that of a trustee bank or a conduit borrower.

(7) Section 344.3(b)(4)—This section would be revised to read that no initial subscription would be 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.

(8) Section 344.3(c)—This section would be amended to eliminate all certifications other than (3), which is being revised. The ''all or nothing'' rule of the certification in (1) Is being eliminated to facilitate the use of the time deposit securities for investment of proceeds that are subject to arbitrage rebate. This change in the proposed regulations should alleviate some of the need to calculate rebate if funds can be invested at the bond yield for a longer term. In general, to the extent that the certifications were a result of concerns about abuse of the tax regulations and the SLGS program, the Department has determined that the yield restriction and rebate rules are more appropriately enforced under the tax regulations. (In cases of abuse of the tax regulations which also involve SLGS securities, these enforcement efforts may be supplemented by the Secretary's authority under section 344.1(f) to revoke subscriptions.) The certification in (3) would be revised to apply only to SLGS securities purchased prior to December 27, 1976. Certifications in (4) would be eliminated because of certain prior changes to the SLGS securities regulations (such as the change to daily SLGS securities rates), and because of proposed changes to the early redemption penalties under section 344.5, contained in these proposed regulations. Additionally, the word ''beneficial owner'' is being changed to ''government body'' to make it clear that the proper Tax Identification Number to be used is that of the government entity.

(9) Section 344.4 General.—This section would be amended to state that the issue date of a subscription may not exceed by more than sixty days the date the subscription was received by Public Debt.

(10) Section 344.4(b)—This section would be eliminated as it is now covered in the general provisions applicable to all SLGS securities, 344.0(h).

(11) Section 344.5(a)—This section would be eliminated as it would be covered in the general provisions applicable to all SLGS securities, 344.0(i).

(12) Section 344.5(a)(2)—The word ''subscriber'' is being changed to ''government body'' to make it clear that

the proper Tax Identification Number to be used is that of the government entity.

(13) Section 344.5(b)(1)—This section would be amended to provide that zero interest certificates may be redeemed before maturity at the owner's option no earlier than fifteen days before maturity for certificates of fifteen to twenty-nine days duration and no earlier than thirty days after the issue date in the case of a note or bond.

(14) Section 344.5(b)(2)—This section would be amended to change the word ''subscriber'' to ''state or local government body owner'' in the 3rd sentence of this section. This section would further be amended to read that notice of redemption must be received by Public Debt no less than ten days before the requested redemption date, rather than the current fifteen-day requirement.

(15) Section 344.5(b)(3)—This would be a new section which provides for the calculation of redemption proceeds for SLGS securities purchased on or after the effective date of the final rule. This section would change the formula for determining the early redemption value of SLGS securities to one where the remaining interest and principal payments are discounted by the current Treasury borrowing rate for the remaining term to maturity of the security being redeemed.

This would result in a premium in cases where the Treasury borrowing rate is lower than the stated interest rate of the SLGS securities. This section would further refer to Appendix B at the end of Part 344 for the calculation of the formula.

This section would also read that there would be no market charge for zero interest time deposit securities. The redemption proceeds for a zero interest security would therefore be a return of the principal invested.

Subpart C—Demand Deposit Securities

(1) Section 344.5(a)—This section would be revised to delete the reference to a $1,000 minimum investment as this would be covered in the new general section, 344.0(d).

(2) Section 344.6(b)(2)(i)—The Department intends to publish a Federal Register notice when the SLGS securities regulations are finalized providing the marginal tax rate and the Treasury Administrative Cost (TAC) to be used in the demand deposit program. A reduction in the TAC similar to the reduction to five basis points is contemplated in the differential between time deposit SLGS security rates and rates on similar Treasury securities in the open market.

(3) Section 344.7(a)—This section would be amended by stating that subscriptions for $10 million or less must be received by Public Debt at least five days prior to the date of issue and would require that subscriptions over $10 million be received by Public Debt at least seven days prior to the date of issue.

(4) Section 344.7(c)(1)—This section would be removed since under the proposed rule, the $35 million cap on issues of demand deposit securities would be eliminated.

(5) Section 344.7 (c)(2) through (c)(5)—These certifications would be eliminated because they can be administered more effectively under the tax regulations of Section 148 of the Internal Revenue Code. The tax regulations would be amended to reflect the transfer of these certifications (to the extent not already covered by the tax regulations).

(6) Section 344.8(b)—This section would be eliminated as it would be covered in the general section applicable to all SLGS securities, 344.1(h).

(7) Section 344.9(a)—This section will be amended to provide for redemption payments by Fedwire.

(8) Section 344.9(b)—This section would be amended to state that notice of redemptions for subscriptions of more than $10 million must be received at least three business days prior to the scheduled date of redemption. Redemption notice for subscriptions of $10 million or less would remain unchanged at one business day.

(9) Section 344.9(c)—This section will be eliminated as the rules regarding expenditure of proceeds are covered by the tax regulations.

Subpart D—Special Zero Interest Securities

(1) Section 344.10—This section would be amended to add that the Department has discontinued the issuance of this type of security as of the effective date of the final rule. The proposed amendment to the time deposit security subpart, which would permit investment for rebate and yield restriction purposes, would eliminate the need for a separate Special Zero Interest Program. Under the proposed revisions, the following sections of this Subpart would apply only to special zero interest securities issued before the effective date of the final rule. Subpart B, governing time deposit securities, would be changed in a manner that permits time deposit zero interest securities to be redeemed without penalty. Investors that hold special zero interest securities issued prior to the effective date of the final rule would be able to redeem these securities without penalty.

(2) Section 344.11—This section would be eliminated.

(3) Section 344.12—This section would be eliminated.

(4) Section 344.13—This section would now become Section 344.11 and remain in effect for the special zero interest accounts now outstanding. The minimum holding period for redeeming a note after issue date would be changed from one year to thirty days. The word ''subscriber'' will be changed to ''government body'' to clarify that the proper Tax Identification Number to be used is that of the government entity. Redemption notices must be received by Public Debt within the proscribed limits.

Appendix A to Part 344—There would be a clarifying statement that these formulas apply to SLGS securities issued before the effective date of the final rule.

Appendix B to Part 344—There would be a new formula in this section for determining the redemption value for all early redeemed time deposit SLGS securities. This formula would reflect the change that the remaining interest and principal payments are discounted by the Treasury borrowing rate for the remaining term to maturity of the security being redeemed. This would result in a premium in cases where the Treasury borrowing rate is lower than the stated interest rate of the SLGS security.

Procedural Requirements

It has been determined this proposed rule is not a significant regulatory action as defined in Executive Order 12866. Therefore, an assessment of anticipated benefits, costs and regulatory alternatives is not required.

Although this rule is being issued to secure the benefit of public comment, the rule relates to matters of public contract, as well as the borrowing power and fiscal authority of the United States. The notice and public procedures requirements of the Administrative Procedure Act are inapplicable, pursuant to 5 U.S.C. 553(a)(2). As no notice of proposed rulemaking was required, the provisions of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) do not apply.

The proposed rule does not alter the collection of information previously reviewed and approved by the Office of Management and Budget, in accordance with the requirements of the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1535–0091. The principal purpose of the proposed rule is to make the SLGS securities program more attractive and flexible for investors. The revision would not impose a new collection of information requirement.

List of Subjects in 31 CFR Part 344

Bonds, Government securities, Securities.

Dated: July 22, 1996.

Gerald Murphy,

Fiscal Assistant Secretary.

For the reasons set forth in the preamble, part 344 of title 31 of the Code of Federal Regulations is proposed to be revised to read as follows:

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

Subpart A—General Information

Sec.
344.0 Offering of securities.
344.1 General provisions.

Subpart B—Time Deposit Securities

344.2 Description of securities.
344.3 Subscription for purchase.
344.4 Issue date and payment.
344.5 Redemption.

Subpart C—Demand Deposit Securities

344.6 Description of securities.
344.7 Subscription for purchase.
344.8 Issue date and payment.
344.9 Redemption.

Subpart D—Special Zero Interest Securities

344.10 General.
344.11 Redemption.

Appendix A to Part 344—Early Redemption Market Charge Formulas and Examples for Subscription from September 1, 1989, through [date of publication of final rule]

Appendix B to Part 344—Formula for Determining Redemption Value for Securities Purchased and Early-Redeemed After [date of publication of final rule]

Authority: 26 U.S.C. 141 note; 31 U.S.C. 3102 *et seq.*,

Subpart A—General Information

§ 344.0 Offering of securities.

(a) In order to provide issuers of tax exempt securities with investments which allow them to comply with yield restriction and arbitrage rebate provisions of the Internal Revenue Code, 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 will be 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 above the stated minimum.

(d) This offering will continue 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 may 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, or a Federal Reserve Bank or Branch.

(b) *Issuance.* The securities will be 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, may not 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, may be designated to perform such services as may be 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 will not be 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 being undertaken. Subscriptions unsupported by such evidence will not be accepted.

(f) *Reservations.* Transaction requests, including requests for subscription and redemption, will not be accepted 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:

(i) Any security is issued on the basis of an improper certification or other misrepresentation by the subscriber (other than as the result of an inadvertent error),

(ii) The issuance of any security is in conjunction with a violation of the tax regulations, as determined by the Internal Revenue Service or

(iii) The Secretary deems such action to be in the public interest.

(g) *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 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.

(h) *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. The Division of Special Investments may 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 would 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.

(i) *General redemption provisions.* A security may 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 redemption on a non-business day will be redeemed on the next business day.

(j) Unless otherwise noted, any reference herein to days refers to calendar days.

Subpart B—Time Deposit Securities

§ 344.2 Description of securities.

(a) *Terms.* (1) Certificates will be 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 may be fixed by the government body from fifteen days up to and including one year or for any intervening period.

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

(b) *Interest rate.* Each security shall bear such rate of interest as the government body shall designate, 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 will be 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 will not be 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 received at Public Debt. Subscriptions received on a non-business day will be subject to those interest rates which are in effect for the next business day. 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 and may be found by investors in the Commerce Department's Economic Bulletin Board or may be obtained from the Division of Special Investment's automated fax at (304)480–7548 or by calling (304) 480–7752.

(c) *Payment.* (1) *Interest computation and payment dates.* Interest on a certificate will be computed on an annual basis and will be paid at maturity with the principal. Interest on a note or bond will be paid semi-annually. The government body will specify 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 appendix to subpart E of Part 306 of this chapter for rules regarding computation of interest.

(2) *Method of payment.* Payment may 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 will be paid by Fedwire. To the extent applicable, provisions of § 357.26 on "Payments," as 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 may 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 may 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 may be sent by facsimile transfer (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 may be canceled without penalty by the subscriber prior to the close of business on the fifth day before issue date. If the fifth day before issue date falls on a non-business day, the cancellation must occur on the preceding business day. Subscriptions of more than $10 million may be canceled without penalty by the subscriber prior to the close of business of 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. If the initial subscription is in letter form, it must contain the Tax Identification Number of the government body or it will not be accepted. 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, to be 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, as well as final, subscriptions.

(3) An initial subscription may be amended on or before the issue date, but no later than 3:00 p.m., Eastern time, on the issue date. Notification may 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 may not be changed to require issuance earlier than the issue date originally specified or to require issuance more than seven days later than originally specified. If such 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 may not be changed by more than the ten percent limitation set out in paragraph (c) of this section;

(iii) An interest rate may not 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; and

(iv) Where an amendment is not submitted timely, the Division of Special Investments may 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 to be 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 will be 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 over $10 million. Such final subscription will be treated as the initial subscription for purposes of determining the applicable interest rate table (see § 344.2(b)), and may 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 may 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 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 purchased on or before December 27, 1976.

§ 344.4 Issue date and payment.

The subscriber shall fix the issue date of each security in the initial subscription. The issue date must be a business day and may not exceed by more than sixty days the date the initial subscription was 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 on the securities occurs on the date of issue.

§ 344.5 Redemption.

(a) *Redemption before maturity*—(1) *In general.* A security may 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 duration, and no earlier than thirty days after the issue date in the case of a note or bond. Partial redemptions may 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 may be submitted by fax to the Bureau of the Public Debt at (304) 480–6818, by mail or by other carrier. 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 may not be canceled.

(3) *Redemption proceeds—Subscriptions on or after [date of publication of final rule].* For securities subscribed for on or after [date of publication of final rule], 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 will be 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 being redeemed. This does not apply to SLGS securities purchased before [date of publication of final rule]. The term ''current Treasury borrowing rate'' is determined in accordance with § 344.2(b). The formulas for calculating the redemption value under this section are set forth in

Appendix B of this part. Redemption proceeds in the case of a zero-interest security are a return of the principal invested.

(4) *Redemption proceeds—Subscriptions from September 1, 1989, through* [date one day prior to publication date of final rule]. For securities subscribed for from September 1, 1989, through [date one day prior to publication date of final rule], 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 will be 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'' 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 ⅛ of 1 percentage point. Where redemption is requested as of 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 will be 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 (b)(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 to be 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 (b)(4)(ii) of this section.

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

(ii) The 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 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.

(iii) 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 defined as one-day certificates of indebtedness. Each subscription will be established as a unique account. Securities will be 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 will be effective on the first business day following the regular auction of three-month Treasury bills and will be shown in a SLGS securities rate table, available to the public on such business day. Interest will be accrued and added to principal daily. Interest will be computed on the balance of the principal, plus interest accrued through the immediately preceding day.

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

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

(Equation1)

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 short-term tax-exempt bonds.

TAC=Treasury administrative costs, in decimals.

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

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

(Equation 2)

(3) Information as to 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 will be added to the principal and will be 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 will be 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 will 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 to be 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 business days before the issue date for subscriptions of $10 million or less and at least seven business days before the issue date for subscriptions of more than $10 million. Subscriptions for more than $10 million can be canceled without penalty up to seven days prior to the issue date. Subscriptions for $10 million or less may be canceled without penalty up to five days prior to the issue date. The subscription may 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 may 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 may 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 to be 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.

§ 344.8 Issue date and payment.

The subscriber shall fix the issue date on the subscription, the issue date to be a business day at least five business days after receipt of the subscription by the Division of Special Investments for subscriptions of $10 million or less and seven business days after receipt of the subscription by the Division of Special Investments for subscriptions 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 may 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 may be requested in any amount; however, an account balance of less than $1,000 will be redeemed in total. Payment will be 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 may 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 will no longer be issued after [date of publication of final rule]. All zero interest securities issued after [date of publication of final rule] are zero interest time deposit securities, subject to the rules of subpart B of this part.

§ 344.11 Redemption.

(a) *General.* Provisions of § 344.5(a) apply.

(b) *Before maturity.* (1) *In general.* A security may be redeemed at the owner's option no earlier than twenty-five days after the issue date in the case of a certificate and thirty days 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.

(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 may 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 fifteen 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 Change Formulas and Examples for subscriptions from September 1, 1989, through [date of publication of final rule]

A. The amount of the market charge for bonds and notes issued before (date of publication of final rule) can be determined by the following formula:

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

(Equation 1)

where:

M=Market charge

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

$$v^n = 1/(1 + i/2)^n = \text{present value of 1 due at the end of n periods}$$

(Equation 2)

$$a_{\overline{n}|} = \left(1 - v^n\right)/(i/2) = v + v^2 + v^3 + \ldots + v^n = \text{present value of 1 per period for n periods}$$

(Equation 3)

B. The application of this formula may 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:

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

(Equation 4)

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

(Equation 5)

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

(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)

$$\text{M} = \$81{,}318.71$$

(Equation 9)

C. The amount of the market charge for certificates issued before [date of publication of final rule] can be determined through use of the following formula:

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

(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 may 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 Purchased and Early-Redeemed After [date of publication of final rule]

The total redemption value for bonds and notes 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:

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

(Equation 14)

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

$$RV = \frac{\left(\frac{C}{2}\right) + \left(\frac{C}{2}\right) a_{\overline{n}|} + 100v^n}{1+\left(\frac{r}{s}\right)\times\left(\frac{i}{2}\right)} - AI$$

(Equation 15)

where:

RV=Redemption value per \$100 principal

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 per \$100 principal

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

$a_n=(1 - v^n)/(i/2)=v + v^2 + v^3 + \ldots + v^n$=present value of 1 per period for n periods

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